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Global Markets Weekly Update

Manufacturing picks up for first time in months in China and U.S.

Highlighted Regions

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U.S.

Inflation disappoints on the upside in U.S. and on the downside in China

The major equity benchmarks retreated for the week amid heightened fears of conflict in the Middle East and some signs of persistent inflation pressures that pushed long-term Treasury yields higher. Large-caps held up better than small-caps, with the Russell 2000 Index suffering its biggest daily decline in almost

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two months on Wednesday and falling back into negative territory for the year to date. Growth stocks also fared better than value shares, which were weighed down by interest rate-sensitive sectors, such as real estate investment trusts (REITs), regional banks, housing, and utilities.

The primary factor weighing on sentiment appeared to be Wednesday morning's release of the Labor Department's consumer price index (CPI) data, which showed headline prices rising by 0.36% in March, right in line with February's increase, in contrast with consensus hopes for a small decline from the month-earlier pace. A rebound in the price of medical services (from -0.1% in February to +0.6% in March) was partly to blame, as was a continuing sharp rise in transportation services costs, which rose 10.7% over the preceding 12 months—fed largely by increases in the cost of car insurance. Overall inflation rose 3.5% over the preceding 12 months, its biggest gain since September.

Supercore inflation hits highest level in almost a year

More concerning may have been a material increase in so-called supercore inflation, which tracks services prices excluding energy and housing costs, which policymakers have acknowledged are a lagging indicator of overall inflation trends. Supercore inflation jumped 0.7% in March and 4.8% over the past 12 months, substantially higher than expectations and its biggest increase in 10 months.

In the wake of the report, futures markets began pricing in roughly a 20% chance of a rate cut at the Federal Reserve's June policy meeting versus roughly 50% before its release. The week was a busy one for commentary from central bank officials—with 11 scheduled to speak, according to T. Rowe Price traders—and they seemed to confirm a change in their perspective following the CPI release. In particular, Richmond Fed chief Thomas Barkin said that the latest data did not increase his confidence in disinflation, and Boston Fed President Susan Collins said that the recent data argue against an imminent need to cut rates.

Thursday's release of producer price inflation data seemed to help calm inflation fears and help equity markets recoup a portion of their losses. Producer prices rose 0.2% in March, a tick below expectations and well under February's 0.6% increase. Input goods prices fell 0.1%, continuing a recent pattern of goods deflation that had been interrupted by a 1.2% surge in April.

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Reports of possible imminent strike on Israel send investors flocking to oil and U.S. dollar

Stocks pulled back sharply to end the week, however, in the wake of reports that Iran was preparing to directly attack facilities on Israeli soil for the first time. Oil prices rose on the news, along with the U.S. dollar, which is typically viewed as a “safe haven” in times of international turmoil. Meanwhile, the CBOE Volatility Index (VIX), Wall Street’s so-called fear gauge, spiked to its highest level since November.

The consumer inflation data helped drive the yield on the benchmark 10-year U.S. Treasury note to its highest intraday level since November before Treasuries rallied on Friday as investors sought out U.S. dollar-based assets. (Bond prices and yields move in opposite directions.) Our traders noted a cautious tone in the tax-exempt municipal bond market as investors were expected to liquidate some holdings ahead of the April 15 tax deadline. Both investment-grade and high yield corporate bonds wavered following the CPI report, but issuance appeared to be met with continued healthy demand.

Index	Friday's Close	Week's Change	% Change
DJIA	37,983.24	-920.80	0.78%
S&P 500	5,123.41	-80.93	7.41%
Nasdaq Composite	16,175.09	-73.43	7.75%
S&P MidCap 400	2,899.72	-89.44	4.25%
Russell 2000	2,003.17	-60.30	-1.18%

This chart is for illustrative purposes only and does not represent the performance of any specific security. ***Past performance cannot guarantee future results.***

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Source of data: Reuters, obtained through Yahoo! Finance and Bloomberg. Closing data as of 4 p.m. ET. The Dow Jones Industrial Average, the Standard & Poor's 500 Stock Index of blue chip stocks, the Standard & Poor's MidCap 400 Index, and the Russell 2000 Index are unmanaged indexes representing various segments of the U.S. equity markets by market capitalization. The Nasdaq Composite is an unmanaged index representing the companies traded on the Nasdaq stock exchange and the National Market System. Frank Russell Company (Russell) is the source and owner of the Russell index data contained or reflected in these materials and all trademarks and copyrights related thereto. Russell® is a registered trademark of Russell. Russell is not responsible for the formatting or configuration of these materials or for any inaccuracy in T. Rowe Price's presentation thereof.

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Europe

In local currency terms, the pan-European STOXX Europe 600 Index ended 0.26% lower. Major stock indexes also fell. Germany's DAX lost 1.35%, France's CAC 40 Index declined 0.63%, and Italy's FTSE MIB slid 0.73%. However, the UK's FTSE 100 Index bucked the downtrend, gaining 1.07%. The British pound's weakness relative to the U.S. dollar helped support the index, which includes many multinationals that generate meaningful overseas revenue.

After trending lower early in the week, yields on French, German, and Italian government bonds jumped on news that U.S. inflation had accelerated faster than expected in March. Yields subsequently pulled back from these highs as the European Central Bank (ECB) held key rates steady but hinted strongly that it might lower them soon. UK bond yields rose, lifted in part by hawkish comments from Bank of England policymaker Megan Greene, who warned that "rate cuts should still be a way off."

ECB points to June rate cut

The ECB left its key deposit rate at a record high of 4.0%, as expected, but said that if an updated inflation assessment, which is due in June, "were to increase its confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction." Asked if the strong U.S. inflation data would affect the policy path, she replied that the ECB was "data-dependent, not Fed-dependent" and that U.S. and eurozone inflation were "not the same."

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UK economy grows for two months in a row

UK gross domestic product (GDP) in February expanded 0.1% sequentially, thanks to a rebound in manufacturing output. The Office of National Statistics also revised January GDP growth 0.3% from 0.2%, suggesting the economy exited recession. In the three months through February, gross domestic product expanded 0.2%.

Eurozone confidence rises; German output up again

Investor confidence in the eurozone rose in April to its highest level in more than two years, according to an index compiled by Sentix. The economic expectations barometer turned modestly positive for the first time since Russia invaded Ukraine.

In Germany, industrial production in February rose 2.1% sequentially, the second consecutive month of strong gains, due to increased construction output. However, in the three months through February, production was 0.5% lower than in the previous period.

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Japan

Japan's stock markets gained over the week, with the Nikkei 225 Index up 1.4% and the broader TOPIX rising 2.1%. As the Japanese yen hovered close to a 34-year low, investors' focus was on whether the country's authorities would step in to support the currency.

Following a hot U.S. inflation print and subsequent rise in U.S. Treasury yields, the 10-year Japanese government bond yield rose to 0.84%, from 0.77% at the end of the previous week. It briefly touched its highest level since November 2023 during the week.

Yen breaches key level, but no intervention yet by authorities

The yen weakened from the high-JPY 151 range against the U.S. dollar level to beyond the 152 level that many investors have come to regard as the point at which Japanese authorities could be expected to intervene in the foreign

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exchange markets to prop up the currency. No such intervention was forthcoming during the week, although finance ministry authorities stated that they were looking at the factors behind the currency moves and that they would act on excessive yen weakness.

Bank of Japan rules out responding to yen weakness with rate hike

Bank of Japan (BoJ) Governor Kazuo Ueda, in turn, ruled out responding to a weak yen with a rate hike. He emphasized that the central bank would not change its monetary policy directly in response to exchange rate moves. The BoJ recently ended its negative interest rate policy and unwound its program of yield curve control, in response to signs that prices were rising in tandem with wages, a stated precondition for monetary policy tightening. Market expectations now appear to have converged around two further rate hikes within a one-year period.

It is worth noting that Japan's monetary policy remains among the most accommodative in the world, and expectations are that financial conditions will also remain accommodative for the time being. A combination of historic weakness in the yen and accommodative monetary policy provide a favorable backdrop for Japan's stock indexes, where many of the largest constituents are exporters deriving a sizable share of their earnings from overseas.

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China

Chinese stocks retreated as weak inflation data underscored the lackluster demand hanging over China's economy. The Shanghai Composite Index declined 1.62%, while the blue chip CSI 300 gave up 2.58%. In Hong Kong, the benchmark Hang Seng Index ended nearly flat from last week after apprehensions about the flagging recovery pared earlier gains.

China's consumer price index rose a below-consensus 0.1% in March from a year earlier, down from February's 0.7% rise, as food costs retreated following a brief increase during the Lunar New Year holiday in February. Core inflation rose by 0.6% but was weaker than February's 1.2% increase. Meanwhile, the producer price index fell 2.8% from a year ago, marking its 18th month of declines and accelerating from February's 2.7% drop.

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Trade data fall more than expected

China's exports and imports fell in March and reversed gains from the first two months of the year. Exports shrank a worse-than-expected 7.5% in March from a year ago compared with a 7.1% rise in the January to February period. Meanwhile, imports dipped 1.9%, down from 3.5% growth in the first two months of the year. The latest results dealt a setback to China's reliance on external demand to bolster its economy and added pressure on Beijing to ramp up stimulus measures as it tries to achieve its 5% annual growth target set at the National People's Congress in March.

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Other Key Markets

Poland

Disinflation trend likely to continue, but central bank rate cuts unlikely this year

Inflation in Poland has been surprising to the downside for several months, and that trend continued in March. The Polish government recently reported that inflation in March was measured at a year-over-year rate of 1.9%, which was lower than the 2.8% year-over-year rate in February and below consensus expectations of about 2.3%.

T. Rowe Price credit analyst Ivan Morozov believes that headline inflation likely reached a trough in March because, starting in April, the value-added tax (VAT) is being restored on some food products—which will push inflation higher. However, he expects that core inflation, which slowed to a 4.6% year-over-year rate in March, should continue falling. Despite this, central bank officials have maintained a cautious stance and have not given any indication that they plan to reduce interest rates this year.

While Morozov believes that the disinflation trend seems poised to continue, he notes that Polish economic growth is weak in a historical context, though it is slowly recovering. He also notes that "real" (inflation-adjusted) wage growth has turned positive due to falling inflation and that 12% year-over-year nominal wage

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growth—driven by a substantial minimum wage increase this year—is supporting a recovery in consumption. In addition, he believes both retail sales and industrial production data are demonstrating some signs of improvement.

Czech Republic

Falling inflation could enable central bank to cut rates further

The Czech government recently reported that month-over-month inflation in March slipped to 0.1% from 0.3% in February. Also, year-over-year inflation in March was 2.0%, which matched the year-over-year rate in February and was marginally below expectations.

According to T. Rowe Price credit analyst Ivan Morozov, the 2.0% inflation rate in March matches the central bank's inflation target and is notably below policymakers' 2.9% estimate for the month. He believes that this could give the central bank—which began reducing interest rates in December—room to reduce rates further.

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