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4.6%
2024 Median Fed Funds Rate

The Fed's 'Dot Plot' estimated a median Feds fund rate for 2024, from the current 5.25-5.50%.

53.8%
YTD return

US tech equity index was the outright winner. A huge return given market expectations at the start of 2023.

25
January 2024

Key Date: The ECB interest rate decision. Market expectations is for the ECB to be the first major central bank to cut interest rates.

December 2023

Market Spotlight

Around the world

- The Fed, ECB and BoE held rates throughout December, as expected. However contrary to market expectations the Fed signalled a peak in rates and indicated 50–100 bps of rate cuts in 2024.
- Disinflation continued across all regions with a large surprise in the UK where inflation fell far more than expected in the December release to a low of 3.9%, a huge downside surprise to what was expected (4.4%).
- Speculation in Japan that the BoJ is stepping closer to removing negative interest rate policy led to a strong rally in the Yen through the month. While the BoJ did not elect to change policy, markets are currently implying that the BoJ will move out of negative rates in Q1 2024.
- Chinese macro data was weak, but there were positive signals in Tier 1 cities. House sales and a larger-than-expected stimulus on December 15th from the PBoC, provided CNY 800 billion in one-year loans. Despite these positives, the economy is expected to face ongoing challenges.
- Eurozone headline CPI inflation declined to 2.4% YoY from the previous month's 2.9%. The swift movement toward the ECB's 2% target heightened expectations of forthcoming easing measures from the ECB in the early months of 2024.
- Approximately 1.5% of global copper supply was taken offline when Panama's government officially requested closure of First Quantum's Cobre mine following political pressure around environmental concerns. As a result, copper is expected to fall into a supply deficit in 2024.

Market snapshot

Markets broadly continued their rally that began in late-October, following the peak in government bond yields for this cycle. The NASDAQ took the charge, propelled by the continued fall in US treasury yields (increase in prices) with the 10-year falling below 4%. The positivity wave spread across equity markets, pushing stocks higher in tandem with bonds. Commodity prices continued to struggle, as they were driven lower by a fall in oil. Brent crude dipped below $77 a barrel as growth concerns continued to weigh on the market.

Performance of global asset classes

	1 Month	YTD
Global High Yield Bonds	-0.5%	6.7%
Global Corporate Bonds	-1.0%	3.5%
Commodities	-1.2%	-6.0%
Global Government Bonds	-1.4%	0.7%
US Tech	-1.5%	42.0%
US Equities	-1.6%	18.7%
Japanese Equities	-1.6%	26.5%
Precious Metals	-2.1%	1.8%
UK Equities	-2.5%	3.0%
World Equities	-2.8%	14.8%
European Equities	-3.0%	13.1%
Emerging Market Equities	-6.2%	4.6%
Chinese Equities	-6.2%	-2.7%

Source: Bloomberg, Returns are in local currency, as at 31 December 2023.

What is the data telling us?

The gap between manufacturing and services PMI widened this month. Global services increased to 51.6, showing stronger expansion and the highest reading since July 2023, whereas manufacturing decreased to 49.0. The service PMI has continued to expand, while manufacturing PMI remains tepid. This suggests the services sector may drive the global economy in the next few months.

The manufacturing sector remains in a deceleration phase. Cyclical regions like emerging markets and sectors such as commodities are unlikely to outperform, unless there is an acceleration in the manufacturing sector. A resurgence in manufacturing is also essential for a sustainable recovery in the dollar.

Purchasing Managers Index

Manufacturing PMI/ISM

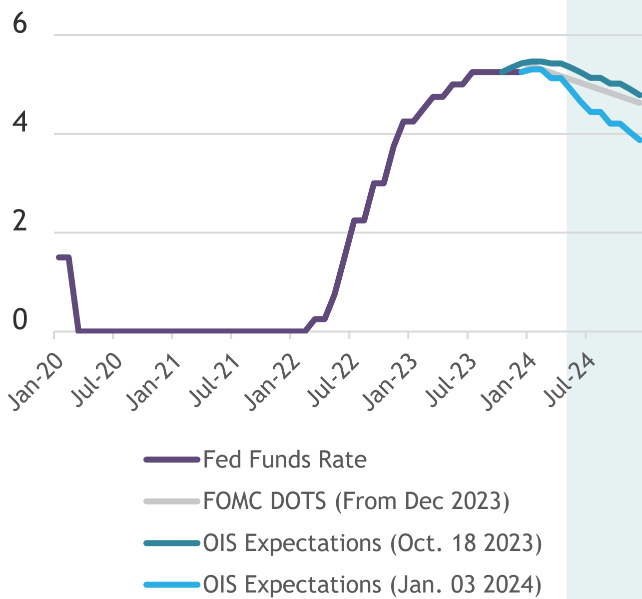
	2023											
	1	2	3	4	5	6	7	8	9	10	11	12
Global	49.1	49.9	49.6	49.6	49.6	48.8	48.7	49	49.1	48.8	49.3	49
US	47.4	47.7	46.3	47.1	46.9	46	46.4	47.6	49	46.7	46.7	47.4
EU	48.8	48.5	47.3	45.8	44.8	43.4	42.7	43.5	43.4	43.1	44.2	44.4
UK	47	49.3	47.9	47.8	47.1	46.5	45.3	43	44.3	44.8	47.2	46.2
China	49.2	51.6	50	49.5	50.9	50.5	49.2	51	50.6	49.5	50.7	50.8
Japan	48.9	47.7	49.2	49.5	50.6	49.8	49.6	49.6	48.5	48.7	48.3	47.7

Services PMI/ISM

	2023											
	1	2	3	4	5	6	7	8	9	10	11	12
Global	50.1	52.6	54.4	55.4	55.5	53.9	52.7	51.1	50.8	50.4	50.6	51.6
US	55.2	55.1	51.2	51.9	50.3	53.9	52.7	54.5	53.6	51.8	52.7	50.6
EU	50.8	52.7	55	56.2	55.1	52	50.9	47.9	48.7	47.8	48.7	48.8
UK	48.7	53.5	52.9	55.9	55.2	53.7	51.5	49.5	49.3	49.5	50.9	53.4
China	52.9	55	57.8	56.4	57.1	53.9	54.1	51.8	50.2	50.4	51.5	52.9
Japan	52.3	54	55	55.4	55.9	54	53.8	54.3	53.8	51.6	50.8	51.5

Source: JP Morgan, ISM Institute, HCOB, S&P Global/CIPS, Caixin, au Jibun Bank, from 1 January 2023 to 31 December 2023.

Will the Fed really cut 150 bps in 2024?



Source: Bloomberg. Data rebased.
As at 31 December 2023.

Chart of the month

Inflation has continued its fall through to the end of 2023, alongside weakening global growth, the market has increasingly priced in rate cuts to come from the Fed and other central banks in the coming year.

While the Fed expect to cut rates in 2024, we can see from the chart that the market has moved from expecting further rate hikes prior to cuts in October this year (teal line) to now pricing in 150 Bps of cuts at the start of January (turquoise line). While the Fed is more cautious than this (grey line), with core inflation still above 3% we fear that this may be slightly premature given the trend core inflation is still far above target.

Looking ahead

Looking into 2024, it seems a goldilocks scenario is increasingly being priced into markets. We see two scenarios for continued disinflation, both of which favour bonds: the first where disinflation is met with economic stability and the second where there is continued falling growth and thus a negative impact for corporate earnings being a vital determinant as to whether equities continue to perform well with bonds. A third outcome that is not being priced into markets in any respect is that inflation remains above target and the recent euphoria regarding lower interest rates and all of its implications are misplaced. This would likely lead to a more challenging period for equities and bonds into the coming year. In short, there is only one scenario which will continue to benefit both equities and bonds; there is certainly scope for downside risks if the market's high expectations for continued disinflation and resilient growth are not met.

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