

Chief Investment Office

Weekly Market Commentary

For professional advisers only



In Summary

- The Santa Claus rally is underway after the Federal Reserve allows the market's interest rate pivot to continue
- Despite pushback from some Federal Reserve speakers, markets expect the first US cut during Q1 2024
- Meanwhile, the Bank of Japan may only now exit its negative interest rate policy this week

After the Federal Reserve endorsed the market's dovish pivot of US interest rate policy, risk appetite received a significant boost. By the end of the week, the US bond market implied 141bps of interest rate cuts by the end of 2024 and an over three-quarter chance that the first cut would take place by March. Bonds rallied against this backdrop with both the 2-year and 10-year yields down c. 0.3% on the week, this marks the best week for US Treasuries since the extreme market volatility of March 2020. Equities also performed strongly with the US leading the way with a seventh consecutive weekly advance.

Despite the Fed meeting sounding relatively dovish, Fed speakers on Friday were keen to push back against the growing consensus around a Q1 2024 first cut. President Williams said that the Fed 'aren't really talking about rate cuts' yet and that March felt 'premature.' President Bostic struck a similar tone, saying that he wasn't 'really feeling that this is an imminent thing.' Bostic suggested that the Fed may only start cutting interest rates from Q3, offering a counterweight to the strong bond market rally of last week. By the end of Friday the market had reduced the quantum of cuts expected in 2024 by 8bps.

The central bank focus will continue this week even as we approach the Christmas period. There has been much speculation as to whether the Bank of Japan's negative interest rate policy would be ending at this meeting, with the market apportioning a rough 50:50 chance of that outcome. Reports have suggested that the Bank of Japan may hold off an announcement this week but strongly signal the move as 'live' for January's meeting.

Whether the policy comes to an end at this meeting or next meeting is an aside to the remarkable fact that the US has gone through a full rate hiking cycle but that the disinflationary forces in Japan have been so powerful that only now is a positive interest rate on the cards.

Economic indicators (week beginning 11 December 2023)

Day	Data Release	Consensus	Prior	Actual
Monday	Japan PPI YoY Nov	0.1%	0.8%	0.3%
	Australia Westpac Consumer Conf SA MoM Dec	--	-2.6%	2.7%
Tuesday	United States CPI MoM Nov	0.0%	0.0%	0.1%
	Germany ZEW Survey Expectations Dec	8.0	9.8	12.8
	United States CPI YoY Nov	3.1%	3.2%	3.1%
	Germany ZEW Survey Current Situation Dec	-76.0	-79.8	-77.1
	United Kingdom Jobless Claims Change Nov	--	17.8k	16.0k
	Japan Tankan Large Mfg Index 4Q	10	9	12
	Japan Tankan Large All Industry Capex 4Q	12.7%	13.6%	13.5%
	Japan Tankan Large Mfg Outlook 4Q	9	10	8
	United Kingdom Claimant Count Rate Nov	--	4.0%	4.0%
Japan Tankan Large Non-Mfg Index 4Q	27	27	30	
Wednesday	United States FOMC Rate Decision (Upper Bound) 41609	5.50%	5.50%	5.50%
	United Kingdom Manufacturing Production MoM Oct	0.0%	0.1%	-1.1%
	United States PPI Final Demand MoM Nov	0.0%	-0.5%	0.0%
Thursday	Japan Industrial Production MoM Oct F	--	1.0%	1.3%
	United Kingdom Bank of England Bank Rate 41974	5.25%	5.25%	5.25%
	United States Initial Jobless Claims 40148	221k	220k	202k
	Australia Unemployment Rate Nov	3.8%	3.7%	3.9%
	Australia Employment Change Nov	11.5k	55.0k	61.5k
	United States Retail Sales Advance MoM Nov	-0.1%	-0.1%	0.3%
	Australia Participation Rate Nov	66.9%	67.0%	67.2%
Friday	France HCOB France Manufacturing PMI Dec P	43.3	42.9	42.0
	Italy CPI EU Harmonized YoY Nov F	0.7%	0.7%	0.6%
	France CPI YoY Nov F	3.4%	3.4%	3.5%
	France HCOB France Services PMI Dec P	46.0	45.4	44.3
	Japan Core Machine Orders MoM Oct	-0.4%	1.4%	0.7%
	United Kingdom Industrial Production MoM Oct	-0.1%	0.0%	-0.8%
	United States MBA Mortgage Applications 39783	--	2.8%	7.4%
	Japan Jibun Bank Japan PMI Mfg Dec P	--	48.3	47.7
	Germany HCOB Germany Manufacturing PMI Dec P	43.2	42.6	43.1
	United Kingdom S&P Global/CIPS UK Manufacturing PMI Dec P	47.5	47.2	46.4
	United States S&P Global US Manufacturing PMI Dec P	49.3	49.4	48.2
	France HCOB France Composite PMI Dec P	45.0	44.6	43.7
	China Industrial Production YoY Nov	5.7%	4.6%	6.6%
	United States Industrial Production MoM Nov	0.3%	-0.6%	24.0%
	Japan Tertiary Industry Index MoM Oct	0.1%	-1.0%	-0.8%
	China Retail Sales YoY Nov	12.5%	7.6%	10.1%
China Money Supply M2 YoY Nov	10.0%	10.3%	10.0%	
United States Empire Manufacturing Dec	2.0	9.1	-14.5	
Canada Housing Starts Nov	260.0k	274.7k	212.6k	

Source: Bloomberg, data accessed 18 December 2023.



Economic indicators (week beginning 18 December 2023)

Day	Data Release	Consensus	Prior
Monday	Germany IFO Business Climate Dec	87.7	87.3
Tuesday	Eurozone CPI YoY Nov F	2.4%	2.4%
	Eurozone CPI MoM Nov F	-0.5%	-0.5%
	Japan BOJ Policy Balance Rate 43800	-0.1%	-0.1%
Wednesday	United Kingdom CPI YoY Nov	4.3%	4.6%
	United Kingdom CPI MoM Nov	0.1%	0.0%
	United Kingdom CPI Core YoY Nov	5.6%	5.7%
	United States Conf. Board Consumer Confidence Dec	104	102
	United States MBA Mortgage Applications 42339	--	7.4%
Thursday	United States Initial Jobless Claims 42705	215k	202k
	United States GDP Annualized QoQ 3Q T	5.2%	5.2%
	Japan Natl CPI YoY Nov	2.8%	3.3%
	United States Leading Index Nov	-0.5%	-0.8%
Friday	Italy Manufacturing Confidence Dec	97	96.6
	United Kingdom GDP QoQ 3Q F	0.0%	0.0%
	United Kingdom GDP YoY 3Q F	0.6%	0.6%
	United States U. of Mich. Sentiment Dec F	69.4	69.4
	United States Durable Goods Orders Nov P	2.2%	-5.4%
	United States New Home Sales Nov	688k	679k
	United States Housing Starts Nov	1360k	1372k
	United States Existing Home Sales Nov	3.77m	3.79m
	Italy Consumer Confidence Index Dec	104	103.6
	United States Personal Income Nov	0.4%	0.2%
	United States Personal Spending Nov	0.3%	0.2%
	United Kingdom Retail Sales Inc Auto Fuel MoM Nov	0.4%	-0.3%
	Germany IFO Expectations Dec	85.6	85.2
United Kingdom Retail Sales Inc Auto Fuel YoY Nov	-1.3%	-2.7%	

Source: Bloomberg, data accessed 18 December 2023.



Asset market performance

Index	Value	As at Friday close		YTD	
		CR	TR	CR	TR
MSCI UK GBP	2169	0.26%	0.29%	1.19%	5.34%
MSCI USA USD	4505	2.60%	2.63%	23.75%	25.12%
MSCI Europe ex UK EUR	191	1.05%	1.05%	14.56%	17.22%
MSCI AC Asia ex JPN USD	516	3.00%	3.04%	2.05%	4.63%
MSCI Japan JPY	1430	0.46%	0.46%	24.29%	26.78%
MSCI Emerging Markets USD	1001	2.65%	2.69%	4.65%	7.23%
Barclays Sterling Gilts GBP	231		3.00%		2.38%
GOLD USD	2020	0.75%		10.72%	
WTI Oil USD	71	0.28%		-11.00%	
MSCI PIMFA Income		1.39%	1.42%	5.31%	7.75%
MSCI PIMFA Balanced		1.33%	1.36%	6.34%	8.73%
MSCI PIMFA Growth		1.16%	1.18%	7.68%	10.00%

Source: Bloomberg, MSCI; please see important information, data accessed 18 December 2023.

YTD denotes year to date, TR denotes total return and CR denotes capital return.



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