

Chief Investment Office

Weekly Market Commentary

For professional advisers only



In Summary

- Positive earnings results from Megacap technology names sent S&P500 to an all-time high
- US regional banks under pressure once again with New York Community Bancorp dramatically increasing loan-loss provisions
- March rate cut expectations fell from 50% to 22% following hawkish comments from the US Federal Reserve (Fed) and strong labour market data

Federal Reserve Chair Jerome Powell indicated that a March rate cut is not the most probable scenario, as the Federal Open Market Committee (FOMC) is unlikely to have sufficient confidence in the inflation outlook by that time. This stance was reinforced by a robust January US employment report, which contributed to a significant increase in Treasury yields on Friday, offsetting some of the earlier gains in the market. Powell's comments, along with the strong payroll data, have led to a reduction in expectations for a rate cut in 2024, with the market now anticipating around 115 basis points of cuts, down from approximately 140 basis points previously.

Despite labour market strength, the broader narrative for a Fed pivot remains supported by signs of disinflation. Powell also mentioned that the Fed does not need to see the labour market weaken significantly for the disinflation trend to persist. For stocks to move higher, historical patterns suggest that more data supporting recession avoidance is needed in conjunction with a Fed pivot. Bright spots in the recent data include non-farm payrolls, consumer confidence and Institute of Supply Management (ISM) new orders and production.

The Q4 earnings season has delivered positive surprises, with the rate of companies exceeding earnings expectations rising to about 75% from 69% at the end of the last week. Major tech firms have reported earnings that not only beat on revenue and profits for the December quarter but also showcased progress in artificial intelligence, cost control, productivity measures and reduced cloud optimisation challenges. Meanwhile, concerns about a spillover from regional banking issues appear to be limited. The situation with New York Community Bancorp (NYCB) is viewed as an isolated incident, and there is a growing optimism about the Fed's potential liquidity support for risk assets.

The upcoming Fed Senior Loan Officer's survey is set to provide valuable insights into the banking sector's lending practices. Despite a recent tightening in lending, economic activity has remained robust, potentially due to the high levels of savings and liquidity in the economy. However, this resilience may not last, making the survey's findings critical for evaluating whether banks are starting to relax their lending standards following some positive developments in the last quarter. The survey's results will be key in gauging the direction of economic growth and inflationary pressures, which are pivotal considerations for the Fed's future monetary policy direction.

Economic indicators (week beginning 29 January 2024)

Day	Data Release	Consensus	Prior	Actual
Monday	Japan Jobless Rate Dec	2.5%	2.5%	2.4%
	Japan Job-To-Applicant Ratio Dec	128.0%	128.0%	127.0%
Tuesday	Japan Industrial Production MoM Dec P	2.5%	-0.9%	1.8%
	United States Conf. Board Consumer Confidence Jan	114.0	110.7	114.8
	Australia Retail Sales MoM Dec	-1.7%	2.0%	-2.7%
	United Kingdom Mortgage Approvals Dec	53.0k	50.1k	50.5
	Italy GDP WDA QoQ 4Q P	0.0%	0.1%	0.2%
	France GDP QoQ 4Q P	0.1%	-0.1%	0.0%
	Italy GDP WDA YoY 4Q P	0.3%	0.1%	0.5%
Wednesday	United States FOMC Rate Decision (Upper Bound) 11324	5.50%	5.50%	5.50%
	France CPI YoY Jan P	3.2%	3.7%	3.1%
	China Manufacturing PMI Jan	49.3	49.0	49.2
	Germany CPI YoY Jan P	2.9%	3.7%	2.9%
	Australia CPI YoY 4Q	4.3%	5.4%	4.1%
	United States ADP Employment Change Jan	148k	164k	107k
	Australia CPI QoQ 4Q	0.8%	1.2%	0.6%
	Germany CPI MoM Jan P	0.1%	0.1%	0.2%
	United States MBA Mortgage Applications 46023	--	3.7%	-7.2%
	United Kingdom Nationwide House PX MoM Jan	0.1%	0.0%	0.7%
	United Kingdom Nationwide House Px NSA YoY Jan	-0.9%	-1.8%	-0.2%
	Germany Unemployment Change (000's) Jan	15.0k	5.0k	-2.0k
	Canada GDP MoM Nov	0.1%	0.0%	0.2%
United States MNI Chicago PMI Jan	48.0	46.9	46.0	
Thursday	United Kingdom Bank of England Bank Rate 36923	5.3%	5.3%	5.3%
	United States Initial Jobless Claims 46388	210k	214k	224k
	France HCOB France Manufacturing PMI Jan F	43.2	43.2	43.1
	United States ISM Manufacturing Jan	47.0	47.4	49.1
	Italy CPI EU Harmonized YoY Jan P	0.8%	0.5%	0.9%
	China Caixin China PMI Mfg Jan	50.8	50.8	50.8
	Japan Jibun Bank Japan PMI Mfg Jan F	--	48.0	48.0
	Italy HCOB Italy Manufacturing PMI Jan	47.0	45.3	48.5
	Germany HCOB Germany Manufacturing PMI Jan F	45.4	45.4	45.5
	United Kingdom S&P Global UK Manufacturing PMI Jan F	47.3	47.3	47.0
	Canada S&P Global Canada Manufacturing PMI Jan	46.5	45.4	48.3
	United States S&P Global US Manufacturing PMI Jan F	50.3	50.3	50.7
	Australia Building Approvals MoM Dec	0.5%	1.6%	-9.5%
Italy CPI EU Harmonized MoM Jan P	-1.2%	0.2%	-1.1%	
Friday	United States Change in Nonfarm Payrolls Jan	180k	216k	353k
	United States U. of Mich. Sentiment Jan F	79.0	78.8	79.0
	United States Durable Goods Orders Dec F	--	0.0%	0.0%
	United States Unemployment Rate Jan	3.8%	3.7%	3.7%
	France Industrial Production MoM Dec	0.1%	0.5%	1.1%
	United States Factory Orders Dec	0.2%	2.6%	0.2%

Source: Bloomberg, data accessed 5 February 2024.



Economic indicators (week beginning 5 February 2024)

Day	Data Release	Consensus	Prior
Monday	France HCOB France Services PMI Jan F	45.0	45.0
	France HCOB France Composite PMI Jan F	44.2	44.2
	Australia Trade Balance Dec	A\$10500m	A\$11437m
	Australia Melbourne Institute Inflation MoM Jan	--	1.0%
Tuesday	Australia RBA Cash Rate Target 38749	4.4%	4.4%
	Italy Manufacturing Confidence Jan	96.5	95.4
	Italy Consumer Confidence Index Jan	107.0	106.7
	Germany Factory Orders MoM Dec	-0.3%	0.3%
Wednesday	Japan BoP Current Account Balance Dec	¥1138.7b	¥1925.6b
	United States MBA Mortgage Applications 37288	--	-7.20%
	Germany Industrial Production SA MoM Dec	-0.5%	-0.7%
	United States Trade Balance Dec	-\$62.2b	-\$63.2b
Thursday	United States Initial Jobless Claims 37653	220k	224k
	China CPI YoY Jan	-0.6%	-0.3%
	China PPI YoY Jan	-2.6%	-2.7%
	United States Wholesale Inventories MoM Dec F	0.4%	0.4%
Friday	Germany CPI YoY Jan F	2.9%	2.9%
	Canada Unemployment Rate Jan	5.9%	5.8%
	Italy Industrial Production MoM Dec	0.9%	-1.5%
	Germany CPI MoM Jan F	0.2%	0.2%
	Canada Net Change in Employment Jan	15.0k	0.1k
	China Money Supply M2 YoY Jan	9.3%	9.7%

Source: Bloomberg, data accessed 5 February 2024.



Asset market performance

Index	Value	As at Friday close		YTD	
		CR	TR	CR	TR
MSCI UK GBP	2213	1.24%	1.18%	3.23%	7.55%
MSCI USA USD	4522	-3.00%	-3.05%	24.22%	25.66%
MSCI Europe ex UK EUR	192	-1.49%	-1.52%	14.80%	17.50%
MSCI AC Asia ex JPN USD	525	3.72%	3.69%	3.83%	6.58%
MSCI Japan JPY	1448	-5.72%	-5.72%	25.89%	28.56%
MSCI Emerging Markets USD	1016	3.18%	3.14%	6.27%	9.05%
Barclays Sterling Gilts GBP	231		2.86%		2.52%
GOLD USD	2059	2.00%		12.88%	
WTI Oil USD	70	-9.78%		-12.31%	
MSCI PIMFA Income		0.55%	0.44%	6.35%	8.89%
MSCI PIMFA Balanced		0.36%	0.27%	7.48%	9.98%
MSCI PIMFA Growth		-0.12%	-0.19%	9.04%	11.46%

Source: Bloomberg, MSCI; please see important information, data accessed 5 February 2024.

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



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