

Chief Investment Office

Weekly Market Commentary

For professional advisers only



In Summary

- In the US, higher-than-anticipated rises in the Consumer Price Index (CPI) and Producer Price Index (PPI) have challenged the expected trend of disinflation, prompting a re-evaluation of the US Federal Reserve's (Fed's) monetary policy approach.
- Market dynamics shifted as the S&P 500's five-week streak of gains came to a halt with a minor weekly decrease, while small-cap stocks outperformed large-caps.
- Despite a softer inflation rate and signs of economic slowdown in the UK, the Bank of England (BoE) remains steadfast in its commitment to combat inflation.

In the US, the narrative of disinflation was challenged by higher-than-anticipated CPI and PPI figures. Last week, concerns about persistent inflation were reignited following a significant CPI increase on Tuesday and an unexpected rise in producer prices by the end of the week. As a result, the core Personal Consumption Expenditures (PCE) inflation for January is projected to be among the highest since early 2023, reflecting a hotter-than-expected inflationary environment. This has led to a recalibration of expectations regarding the Fed's policy direction, with the market reassessing the likelihood of a Fed pivot. As a result, investors have moderated their expectations for rate cuts by the Fed, with the forecasted reductions by December now only 90 basis points, a notable departure from the 168 basis points anticipated in mid-January.

This shift in sentiment drove the 10-year Treasury yields up to 4.28%, marking the highest close since late-November. Despite the upward pressure on rates, equity markets displayed resilience. The S&P 500 dipped by 0.42% for the week, with a 0.48% fall on Friday halting a five-week run of gains. Technology stocks, in particular, lagged behind, with the NASDAQ dropping by 1.34% over the week and the so-called 'Magnificent 7' tech giants down by 1.50%. The Russell 2000 Index, however, bucked the trend, gaining 1.13% over the week.

Turning to the UK, the January CPI report revealed a softer inflation rate than expected, yet economic growth also showed signs of contraction. BoE officials have recently expressed a continued commitment to combating inflation, despite the UK entering a technical recession last year. While there has been some easing in wage pressures, labour market conditions remain tight. Governor Andrew Bailey has emphasised the importance of forward-looking data, such as Purchasing Managers' Index (PMIs) and sentiment indicators, in guiding policy decisions. Despite criticisms of underestimating inflationary pressures, the BoE is cautious about easing policy too soon. The market's current rate outlook anticipates the first cut to come in between June and August, but a continued undershoot in headline inflation and wage growth could prompt calls for an earlier easing, potentially as soon as May, if macroeconomic projections are favourable.

Economic indicators (week beginning 12 February 2024)

Day	Data Release	Consensus	Prior	Actual
Monday	Japan PPI YoY Jan	0.1%	0.0%	0.2%
	Australia Westpac Consumer Conf SA MoM Feb	--	-1.3%	6.2%
Tuesday	United States CPI MoM Jan	0.2%	0.3%	0.3%
	Germany ZEW Survey Expectations Feb	175	15.2	19.9
	United States CPI YoY Jan	2.9%	3.4%	3.1%
	Germany ZEW Survey Current Situation Feb	-79.0	-77.3	-81.7
	United Kingdom Jobless Claims Change Jan	--	11.7k	14.1k
	United Kingdom ILO Unemployment Rate 3Mths Dec	4.0%	3.9%	3.8%
	United Kingdom Claimant Count Rate Jan	--	4.0%	4.0%
Wednesday	United Kingdom CPI YoY Jan	4.1%	4.0%	4.0%
	Japan GDP SA QoQ 4Q P	0.2%	-0.7%	-0.1%
	United Kingdom CPI MoM Jan	-0.3%	0.4%	-0.6%
	Japan GDP Annualized SA QoQ 4Q P	1.1%	-2.9%	-0.4%
	United Kingdom CPI Core YoY Jan	5.2%	5.1%	5.1%
	United States MBA Mortgage Applications 39845	--	3.7%	-2.3%
Thursday	Japan GDP Deflator YoY 4Q P	4.0%	5.3%	3.8%
	Japan Industrial Production MoM Dec F	--	1.8%	1.4%
	United States Initial Jobless Claims 40210	220k	218k	212k
	Australia Unemployment Rate Jan	4.0%	3.9%	4.1%
	United Kingdom GDP QoQ 4Q P	-0.1%	-0.1%	-0.3%
	Australia Employment Change Jan	25.0k	-65.1k	0.5k
	United Kingdom GDP YoY 4Q P	0.1%	0.3%	-0.2%
	United States Retail Sales Advance MoM Jan	-0.1%	0.6%	-0.8%
	United Kingdom Industrial Production MoM Dec	-0.1%	0.3%	0.6%
	United States Industrial Production MoM Jan	0.3%	0.1%	-0.1%
Friday	United Kingdom Manufacturing Production MoM Dec	-0.1%	0.4%	0.8%
	United States Empire Manufacturing Feb	-11.8	-43.7	-2.4
	France CPI YoY Jan F	3.1%	3.1%	3.1%
	United States U. of Mich. Sentiment Feb P	80.0	79.0	79.6
	United States Housing Starts Jan	1460k	1460k	1331k
	Japan Tertiary Industry Index MoM Dec	0.2%	-0.7%	0.7%
	United States PPI Final Demand MoM Jan	0.1%	-0.1%	0.3%
	United Kingdom Retail Sales Inc Auto Fuel MoM Jan	1.6%	-3.2%	3.4%
United Kingdom Retail Sales Inc Auto Fuel YoY Jan	-1.8%	-2.4%	0.7%	

Source: Bloomberg, data accessed 19 February 2024.



Economic indicators (week beginning 19 February 2024)

Day	Data Release	Consensus	Prior
Tuesday	Canada CPI YoY Jan	3.2%	3.4%
	Canada CPI NSA MoM Jan	0.4%	-0.3%
	United States Leading Index Jan	-0.3%	-0.1%
Wednesday	United States MBA Mortgage Applications 42401	--	-2.3%
Thursday	United States Initial Jobless Claims 42767	218k	212k
	France HCOB France Manufacturing PMI Feb P	43.5	43.1
	Italy CPI EU Harmonized YoY Jan F	0.9%	0.9%
	France HCOB France Services PMI Feb P	45.6	45.4
	Japan Jibun Bank Japan PMI Mfg Feb P	--	48.0
	Germany HCOB Germany Manufacturing PMI Feb P	46.0	45.5
	United Kingdom S&P Global UK Manufacturing PMI Feb P	47.5	47.0
	United States S&P Global US Manufacturing PMI Feb P	50.5	50.7
	France HCOB France Composite PMI Feb P	45.0	44.6
	United States Existing Home Sales Jan	3.97m	3.78m
Friday	Germany IFO Business Climate Feb	85.5	85.2
	Germany IFO Expectations Feb	84.0	83.5

Source: Bloomberg, data accessed 19 February 2024.



Asset market performance

Index	Value	As at Friday close		YTD	
		CR	TR	CR	TR
MSCI UK GBP	2212	1.90%	2.08%	-0.13%	0.10%
MSCI USA USD	4775	-0.40%	-0.36%	4.90%	5.04%
MSCI Europe ex UK EUR	198	1.28%	1.30%	3.18%	3.29%
MSCI AC Asia ex JPN USD	522	1.98%	2.00%	-1.28%	-1.23%
MSCI Japan JPY	1625	2.89%	2.90%	12.20%	12.21%
MSCI Emerging Markets USD	1016	2.08%	2.11%	-0.73%	-0.65%
Barclays Sterling Gilts GBP	223		-0.11%		-4.34%
GOLD USD	2014	-0.53%		-2.39%	
WTI Oil USD	79	3.06%		10.52%	
MSCI PIMFA Income		0.49%	0.55%	0.61%	0.85%
MSCI PIMFA Balanced		0.59%	0.65%	1.14%	1.35%
MSCI PIMFA Growth		0.75%	0.81%	2.33%	2.50%

Source: Bloomberg, MSCI; please see important information, data accessed 19 February 2024.

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



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