# Monthly Macro

## January 2024


**Jim Leaviss**
CIO of Public Fixed Income

**Stuart Canning**
Fund Manager, Multi Asset


## What were the biggest drivers of markets in December?

- December was largely a continuation of November's moves, with sharp declines in developed market government bond yields prompting an 'everything rally.' It is a far cry from the 'higher for longer' debates that dominated only a few months ago.

- Do we know more about the prospects for the global economy than we did at the end of October? Perhaps with regards to near-term inflation pressures, which have continued to ease, but not with regards to any longer-term horizon. Instead, it is fair to say the dramatic changes in asset prices this year have been more about investor sentiment than changing economic facts.

- Forecasters have moved from overconfident predictions of inevitable recession, to 'higher for longer', to soft landing, and investors with short time horizons appear to have tried to chase these changing outlooks. The result has been excess volatility, false starts and overshoots.

- However, multi-asset investors who have been prepared to tolerate this volatility rather than second guess it, or have leant against the consensus at extremes, have generally been well rewarded in 2023.

- In December, most financial assets rallied, with the US dollar and oil being notable exceptions. The rebound in global bond markets continued. In the middle of October, the Bloomberg Global Aggregate Bond Index was down 4% year-to-date. It finished 2023 up around 6%, representing a 10% turnaround from October to the end of the year.

- The inflation picture has changed materially for the better. We have seen big downside misses in CPI numbers across the world, generally across both headline and core numbers. Inflation seems to be trending in the right direction towards target, with the commodities story, including food and energy, being positive for the inflation story.

- Notably, the dollar weakened significantly against major currencies in November and December as rate expectations collapsed.

- The year-end moves, particularly in bonds, were partly technically driven, due to low levels of liquidity and investors adjusting their duration positioning. Much of the rally was a result of market anticipation of rate cuts in 2024 off the back of the better inflation outlook.

## What will you be looking out for in January?

- This year has been another illustration of why single month time horizons are of little use and can be dangerous if we place too much attention on the issue of the day at the expense of all other uncertainties.

- We can expect market commentary to focus on the many elections in 2024. Brexit and Donald Trump in 2016, and Argentina last month, illustrated how political change can cause market volatility. This can be a source of opportunity if markets overreact.

- The Federal Reserve has been sceptical of investors' optimism about the scale of rate cuts. The big debate this year will be central banks versus the short end of the market. The market is currently pricing in six rate cuts, while the Federal Open Market Committee (FOMC) dot plot is anticipating three cuts.

- The other great debate is going to be around elections, with 2024 set to be the busiest election year in history. The markets will be paying attention to the results, with the US election in November being the centrepiece.

### Key dates for the month ahead:

**17 Jan**: China GDP growth rate, UK inflation **23 Jan:** BoJ rate decision **30 Jan:** EU GDP growth rate **31 Jan:** US Fed rate decision



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