Monthly Macro

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What were the biggest drivers of markets in January?

- After rallying at the end of 2023 amid excitement about the Federal Reserve's (Fed) dovish policy 'pivot', bond markets experienced a subdued start to 2024, as investors scaled back their expectations for interest rate cuts this year.
- Following the Federal Open Market Committee's (FOMC) January meeting, Fed Chair Jerome Powell poured cold water on the idea of a cut in March, saying it was unlikely the committee would have the confidence to start the cutting process then.
- He stated the Fed was looking for evidence that inflation was sustainably heading towards the 2% target. However, data showed that US inflation reaccelerated in December, with both headline and core inflation prints higher than forecast. With inflation proving 'stickier' than expected, policymakers may face challenges in implementing all the rate cuts that are currently anticipated by the market.
- Against this backdrop, developed market sovereign debt retreated: 10-year US Treasury and German bund yields rose slightly (yields and prices move in opposite directions). Emerging market government bonds also declined. In contrast, the global corporate bond and high yield bond indices registered modest gains.
- It was perhaps not surprising given the speed and extent of government bond rallies in the last two months of 2023 to see a retracement in January, irrespective of the data that was released.
- As it was, policy makers in the US and Europe were keen to push back against market expectations for imminent interest rate cuts, US jobs data remained strong, and the inflation picture was mixed. The result was upward pressure on yields across most global fixed income assets.
- In contrast to the positive shorter term correlation between bonds and equities that was evident for much of last year, major equities were generally resilient in the face of rising bond yields.
- Equity performance was again relatively differentiated at a sector and regional level. Most notable was the weakness in China and related markets, where actions to stimulate the economy were viewed as insufficient. Japanese stocks were strong, again supported by weakness in the value of the Yen.
- The US dollar was strong against most major currencies, reflecting the shift in rate expectations and relative economic strength.

What will you be looking out for in February?

- The chances of a rate cut in March have receded dramatically but with five cuts priced in by December the market is still very much expecting relief from the current tight monetary conditions.
- Although the US economy appears to showing resilience for now, and inflation has been coming down, the issue of high absolute price levels following recent rises is weighing on US consumer sentiment and could be a major factor in the forthcoming presidential election.
- The environment of recent months has been supportive for most investors and pricing suggests that many expect this to continue.
- Any renewed sense that the world is entering a more sustained 'higher for longer' regime could therefore prompt more extreme volatility, as would any challenge to the apparent comfort in developed market growth.
- Despite lots of talk about geopolitical and election risks in the year ahead, markets also seem relatively sanguine about these risks given prevailing valuations on most assets.

Key dates for the month ahead:

13 Feb: US inflation data **26 Feb:** Japan inflation data **1 March :** Eurozone inflation data **7 March :** European Central Bank rate decision

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