A late-week rally overcomes Fed dread.

The economy

- Major U.S. stock indexes moved higher during the week ending January 19. A late-week rally, led by the technology sector, boosted the overall market, and offset investors' concerns regarding an unexpected change in tone from a Federal Reserve (Fed) governor regarding monetary policy.
- On Tuesday, in a speech at the Brookings Institution, a Washington, D.C.-based public policy organization, Fed Governor Christopher Waller cautioned that the central bank most likely will not begin to cut the federal-funds rate in the near future. Waller commented, "Time will tell whether inflation can be sustained on its recent path and allow us to conclude that we have achieved the FOMC's [Federal Open Market Committee] price-stability goal…The data we have received the last few months is allowing the Committee to consider cutting the policy rate in 2024. However, concerns about the sustainability of these data trends requires changes in the path of policy to be carefully calibrated and not rushed." Acknowledging the ongoing strength in the U.S. economy, Waller said, "When the time is right to begin lowering rates, I believe it can and should be lowered methodically and carefully. In many previous cycles, which began after shocks to the economy either threatened or caused a recession, the FOMC cut rates reactively and did so quickly and often by large amounts. This cycle, however, with economic activity and labor markets in good shape and inflation coming down gradually to 2 percent, I see no reason to move as quickly or cut as rapidly as in the past."
- The financial markets appear to be optimistic that the Fed will pivot to rate cuts ahead of Waller's estimated timeline. At the end of this week, CME's FedWatch Tool, which provides a gauge of the markets' expectations of potential changes to the federal-funds target rate while assessing potential Fed monetary policy actions at FOMC meetings, implied a 97% chance that the FOMC will maintain the federal-funds rate in a range of 5.25% to 5.50% following its meeting on January 30-31. However, the FedWatch Tool projects that there is a 48% probability that the central bank will reduce its benchmark rate by 25 basis points (0.25%) following its meeting in March—with a 51% prospect that the Fed will leave the federal-funds rate unchanged.
- The U.S. labor market remains resilient. The U.S. Department of Labor reported that, during the week ending January 13, initial unemployment insurance claims, a barometer of the health of the labor market, fell by 16,000 to 187,000—the lowest level since September 24, 2022. The total represented a notable decrease from the 200,000 claims filed a year earlier. Furthermore, the four-week moving average of initial claims dipped 4,750 week-over-week to 203,250, and was down 2,750 from the four-week average of 206,000 for the same period in 2023.
- U.S. consumers continue to open their wallets. The Census Bureau reported that U.S. retail and food services sales—a gauge of consumer spending, which comprises more than two-thirds of the nation's gross domestic product (GDP)—rose 0.6% in December, and climbed 5.6% over the previous 12-month period. Core sales, which exclude motor vehicles and parts, and gasoline stations, were up 0.6% for the month and 5.8% year-over-year. Food services and drinking places, health and personal care stores, and electronics and appliance stores posted double-digit sales gains versus the same period in 2022. Conversely, sales for furniture and home furnishing stores, as well as building material and garden equipment and supplies dealers, recorded the most significant year-over-year declines in December.

Stocks

- Global equities lost ground for the week. Developed markets fared better than emerging markets.
- U.S. equities posted positive returns during the week. Information technology and communication services were the top-performing sectors, while utilities and energy lagged. Growth stocks led value, while large caps outperformed small caps.

Bonds

- The 10-year U.S. Treasury note yield increased to 4.13% during the week.
- Global bond markets declined for the week.
- High-yield bonds led the markets, followed by corporate bonds and government bonds.

The Numbers as of January 19, 2024	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	-1.1%	-1.4%	14.3%	717.0
MSCI EAFE ($)	-2.5%	-2.9%	4.9%	2171.1
MSCI Emerging Mkts ($)	-3.5%	-6.1%	-6.5%	961.3
US & Canadian Equities				
Dow Jones Industrials ($)	0.7%	0.5%	14.6%	37863.8
S&P 500 ($)	1.2%	1.5%	24.1%	4839.8
NASDAQ ($)	2.3%	2.0%	41.1%	15311.0
S&P/ TSX Composite (C$)	-0.4%	-0.2%	2.8%	20906.5
UK & European Equities				
FTSE All-Share (£)	-2.1%	-3.6%	-3.7%	4079.9
MSCI Europe ex UK (€)	-0.7%	-1.1%	5.7%	1666.7
Asian Equities				
Topix (¥)	0.6%	6.1%	31.0%	2510.0
Hong Kong Hang Seng ($)	-5.8%	-10.2%	-29.3%	15308.7
MSCI Asia Pac. Ex-Japan ($)	-3.7%	-6.8%	-9.6%	492.8
Latin American Equities				
MSCI EMF Latin America ($)	-4.2%	-6.4%	9.9%	2491.3
Mexican Bolsa (peso)	-0.4%	-3.4%	3.8%	55409.8
Brazilian Bovespa (real)	-2.6%	-4.9%	13.0%	127637.9
Commodities ($)				
West Texas Intermediate Spot	1.0%	2.5%	-8.6%	73.4
Gold Spot Price	-0.7%	-1.8%	5.7%	2029.1
Global Bond Indices ($)				
Bloomberg Global Aggregate ($)	-1.5%	-2.5%	-0.7%	459.5
JPMorgan Emerging Mkt Bond	-1.0%	-1.9%	4.6%	832.3
10-Year Yield Change (basis points*)				
US Treasury	18	25	73	4.13%
UK Gilt	14	40	65	3.93%
German Bund	16	32	28	2.34%
Japan Govt Bond	6	5	23	0.67%
Canada Govt Bond	27	38	75	3.49%
Currency Returns**				
US$ per euro	-0.5%	-1.3%	0.6%	1.089
Yen per US$	2.2%	5.0%	15.3%	148.10
US$ per £	-0.4%	-0.2%	2.5%	1.270
C$ per US$	0.2%	1.4%	-0.3%	1.343

Source: Bloomberg. Equity-index returns are price only, others are total returns.

*100 basis points = 1 percentage point.

**Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

Important information

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