WEEKLY MARKET UPDATE | FEBRUARY 2, 2024

Fed signals no early spring for rate cuts.

The economy

- Major U.S. equity market indexes gained ground during the week ending February 2, as investors shook off some less-than-encouraging comments from the Federal Reserve (Fed) regarding monetary policy. While Punxatawney Phil did not see his shadow on Groundhog Day, portending an early spring, the Fed implied that its timeline for interest-rate cuts will be later this year. Regarding the U.S. stock market, there was a selloff in the technology sector early in the week as several “Magnificent Seven” mega-cap tech companies’ quarterly results did not meet expectations. However, this was offset by a rally on Friday after two Magnificent Seven companies reported strong earnings.
- As widely anticipated, the Federal Open Market Committee (FOMC) maintained the federal-funds rate in a range of 5.25% to 5.50% following its meeting on Tuesday and Wednesday, but cited progress in slowing inflation. In a statement announcing the continuation of the pause in its rate-hiking cycle, the FOMC appeared open to interest-rate cuts later this year, noting that “the risks to achieving [the Fed’s] employment and inflation goals are moving into better balance.” However, the central bank cautioned that rate cuts are not imminent, as it “does not expect it will be appropriate to reduce the target [federal-funds] range until it has gained greater confidence that inflation is moving sustainably toward 2 percent…The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee’s goals.”
- During a news conference following the FOMC’s meeting, Fed Chair Jerome Powell said, “It will likely be appropriate to begin dialing back policy restraint at some point this year, but the economy has surprised forecasters in many ways since the pandemic and ongoing progress toward our 2% inflation objective is not assured.” When asked if the Fed has achieved a “soft landing” (in which growth and inflation slow but the economy does not enter a recession), Powell responded, “"We still have a ways to go. We’re encouraged by the progress, but we’re not declaring victory at this point.”
- Following the Fed’s comments, 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 an 81% chance that the FOMC will leave the federal-funds rate unchanged following its meeting on March 19-20. However, it projected a 61% probability that the central bank will reduce its benchmark rate by 25 basis points (0.25%) following its meeting on April 30-May 1.
- There was significant news during the week regarding the U.S. labor market. The Department of Labor reported that U.S. payrolls expanded by a greater-than-expected total of 353,000 in December, modestly higher than the 333,000 jobs added in December (revised upward from the government’s previous estimate of 216,000). The unemployment rate was unchanged at 3.7%. Employment in professional business and services, health care, and retail trade increased 74,000, 70,000, and 45,000, respectively, in January. Conversely, the mining, quarrying, and oil and gas extraction industry lost 5,000 jobs during the month. Average hourly earnings rose 0.6% and 4.5% in January and year-over-year, respectively. The 12-month increase was significantly larger than the 4.1% annual rise measured in December.
- U.S. consumers remain optimistic about the economy. The Conference Board’s Consumer Confidence Index® jumped 6.8 points to 114.81 in January—the highest level since December 2021. A reading above 100 signals a boost in consumer confidence regarding the future economic situation. The Expectations Index, an indicator of consumers’ short-term outlook for income, business, and labor market conditions, rose 1.9 points to 83.8 during the month. A reading above 80 suggests that consumers believe that there will not be a recession in the U.S. over the next 12 months. The Present Situation Index, which reflects consumers’ views of current conditions in the business and labor markets, climbed 14.1 points to 161.3 in January.

Stocks

- Global equities garnered positive returns for the week. Developed markets fared better than emerging markets.
- U.S. equities posted gains during the week. Consumer discretionary and consumer staples were the top-performing sectors, while energy and real estate lagged. Growth stocks led value, while large caps outperformed small caps.

Bonds

- The 10-year U.S. Treasury note yield decreased to 4.03% during the week.
- Global bond markets gained ground for the week.
- Government bonds led the markets, followed by corporate bonds and high-yield bonds.

The Numbers as of February 2, 2024	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	0.3%	1.2%	11.1%	735.7
MSCI EAFE ($)	0.4%	-0.2%	4.5%	2230.8
MSCI Emerging Mkts ($)	-0.3%	-4.1%	-6.1%	982.1
US & Canadian Equities				
Dow Jones Industrials ($)	1.4%	2.6%	13.5%	38654.4
S&P 500 ($)	1.4%	4.0%	18.6%	4958.6
NASDAQ ($)	1.1%	4.1%	28.1%	15629.0
S&P/ TSX Composite (C$)	-0.2%	0.6%	1.7%	21085.1
UK & European Equities				
FTSE All-Share (£)	-0.4%	-1.7%	-3.3%	4160.2
MSCI Europe ex UK (€)	-0.1%	1.6%	5.5%	1712.0
Asian Equities				
Topix (¥)	1.7%	7.3%	29.2%	2539.7
Hong Kong Hang Seng ($)	-2.6%	-8.9%	-29.3%	15533.6
MSCI Asia Pac. Ex-Japan ($)	-0.5%	-4.7%	-9.6%	503.9
Latin American Equities				
MSCI EMF Latin America ($)	0.5%	-3.7%	10.7%	2564.5
Mexican Bolsa (peso)	2.3%	1.3%	8.0%	58158.2
Brazilian Bovespa (real)	-1.2%	-5.0%	15.7%	127409.9
Commodities ($)				
West Texas Intermediate Spot	-5.4%	3.0%	-2.7%	73.8
Gold Spot Price	0.9%	-1.5%	6.4%	2035.3
Global Bond Indices ($)				
Bloomberg Global Aggregate ($)	1.2%	-1.2%	-0.2%	465.9
JPMorgan Emerging Mkt Bond	1.2%	-0.7%	4.5%	842.7
10-Year Yield Change (basis points*)				
US Treasury	-11	15	63	4.03%
UK Gilt	-5	38	91	3.91%
German Bund	-6	22	17	2.24%
Japan Govt Bond	-4	6	17	0.67%
Canada Govt Bond	-14	27	56	3.38%
Currency Returns**				
US$ per euro	-0.6%	-2.2%	-1.1%	1.079
Yen per US$	0.1%	5.2%	15.3%	148.31
US$ per £	-0.5%	-0.7%	3.4%	1.264
C$ per US$	0.1%	1.6%	1.1%	1.346

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

Index returns are for illustrative purposes only and do not represent actual investment performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

This material is provided by SEI Investments Management Corporation (SIMC) for educational purposes only and is not meant to be investment advice. The reader should consult with his/her financial advisor for more information. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results. There are risks involved with investing, including possible loss of principal. SIMC is a wholly-owned subsidiary of SEI Investments Company.