

## US Inflation data supports the "Goldilocks" narrative; Equities end with narrow advance as investors adjust rate cut expectations; US Dollar continues to strengthen; commodities pressured by geopolitical tensions.

### Economic Update

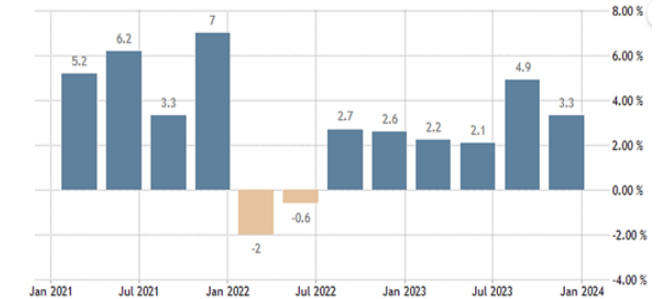
**Economy:** The case for a US soft landing strengthens, as the economy enters 2024 from a position of strength.

**US:** In Q4-2023, the economy expanded an annualized 3.3% (*consensus: 2.0%; previous: 4.9%*), as consumers and businesses continued to spend – suppressing expectations of a recession.

In December, the PCE index was unchanged at 2.6% y-o-y (*consensus: 2.6%; previous: 2.6%*), holding at February 2021-lows, and showing that inflation, while still elevated, is making progress lower – possibly giving the Fed a green light to start cutting rates.

Core-PCE – the Fed’s preferred inflation gauge – eased more-than-expected to 2.9% y-o-y (*consensus: 3.0%; previous: 3.2%*), marking the lowest reading since February 2021.

### US Q4 GDP growth beats forecasts.



### Market Update

**Equities:** US stocks end higher after economic data; Eurozone stocks close at 23-year high.

**US:** The **S&P 500** rose (+1.1% w-o-w to 4,891), as investors weighed the latest corporate results and economic data. American Express soared 7.1% after the company said it expects revenue in 2024 to increase 9% to 11%. Capital One Financial rose 4.6% following its upbeat fourth quarter revenue.

**Eurozone:** Equity markets rallied the highest in 23 years (**Eurostoxx 50**, +4.2% w-o-w, to 4,635), on encouraging corporate results after French luxury giant, which has the Eurozone’s largest market cap, closed 12.7% higher after reporting a 10% rise in Q4 sales.

**Fixed Income:** US 10-year treasury yield holds under 1-month high.

**Global fixed incomes** rose (**BAML Global**, +0.1% to 265.2), and UST yields rose (+1bps, to 4.16%), as markets continued to assess the latest data for hints on the timing and extent of rate cuts that the Fed may deliver this year.

**FX:** USD edges higher after PCE report; Euro weakens to 1-1/2-month low.

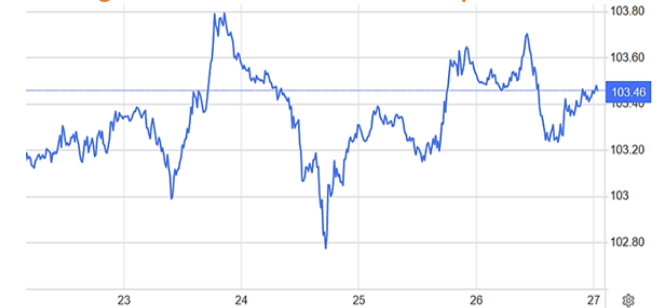
The **DXY index** strengthened (+0.1%, to 103.433), after the annual core-PCE slowed more than expected and personal spending topped forecasts, adding to further evidence of a soft-landing scenario – with the biggest selling activity against the EUR, the GBP, and AUD.

The **EUR/USD** was lower (-0.4%, to 1.085), reaching the lowest level since mid-December, amid general USD strength driven by robust US GDP data and mixed signals from ECB President Lagarde.

**Commodities:** Brent rises to 8-week high – driven by Chinese stimulus, and Middle East supply concerns.

**Oil prices** were higher (Brent, +6.4% w-o-w, to 83.6 USD/b), attributed to positive US economic growth, indications of Chinese stimulus boosting demand expectations, and support from Middle East supply concerns.

### DXY higher w-o-w after PCE inflation report.



### CME FEDWATCH TOOL – TOTAL PROBABILITIES

MEETING DATE	DAYS TO MEETING	EASE	NO CHANGE	HIKE
31/1/2024	3	3.10 %	96.90 %	0.00 %
20/3/2024	52	47.67 %	52.33 %	0.00 %
1/5/2024	94	88.07 %	11.93 %	0.00 %
12/6/2024	136	99.52 %	0.48 %	0.00 %
31/7/2024	185	99.94 %	0.06 %	0.00 %
18/9/2024	234	99.99 %	0.01 %	0.00 %
7/11/2024	284	100.00 %	0.00 %	0.00 %
18/12/2024	325	100.00 %	0.00 %	0.00 %

### Week Ahead

In the US eyes will be on the Federal Reserve's interest rate decision, Non-Farm Payrolls, wage metrics, and the unemployment rate. The earnings season will enter its third week, featuring reports from giants such as Microsoft, Alphabet, AMD, Mastercard, Apple, Amazon, Merck, and ExxonMobil. Globally, market focus will shift to Bank of England's monetary policy decision and Q4 GDP growth rates for the Eurozone. Additionally, inflation figures from the Eurozone, and Australia will be closely watched. Finally, manufacturing PMIs from China, and Canada and jobless rates for Japan, and the EZ.