

Central Banks signal rate cuts coming – but not soon; US Equities end with narrow advance as investors adjust rate cut expectations; US Dollar strength continues, while oil prices pick back up.

Economic Update

Economy: US retail sales rise more than expected; Eurozone business activity declines.

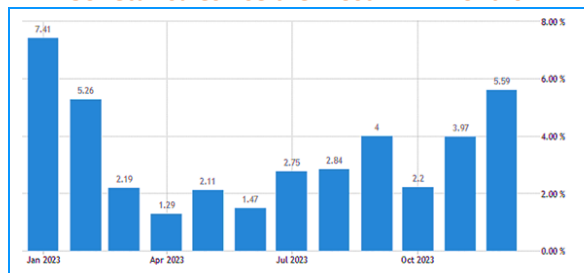
US: In December, retail sales soared 0.6% m-o-m (*consensus: 0.4%; previous: 0.3%*), marking the biggest increase in three months, led by sales of autos (1.2%). On a y-o-y basis, retail sales jumped by 5.6% (*consensus: 4.0%; previous: 4.0%*) the biggest increase in eleven months.

Considering full 2023, unadjusted retail sales increased 3.2%.

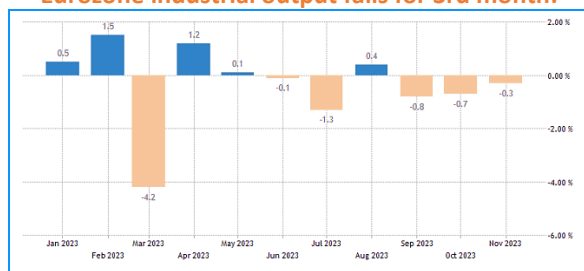
Eurozone: In November, industrial production declined by 0.3% m-o-m (*consensus: -0.3%; previous: -0.7%*), marking the third consecutive period of contraction, as output decreased for durable consumer goods (*actual: -2.0%; p: 0.1%*), capital goods (*actual: -0.8%; previous: -1.1%*), and intermediate goods (*actual: -0.6%; previous: -0.7%*).

On a yearly basis, industrial activity shrank by 6.8%, exceeding the expected 5.9% fall, and extending the current sequence of contraction to a ninth consecutive month.

US retail sales rise the most in 11 months.



Eurozone industrial output falls for 3rd month.



Market Update

Equities: US stocks push higher; Eurozone equities pull back.

US: The S&P 500 rose (+1.2% w-o-w to 4,840), as information technology stocks outperformed, helped by a rally in semiconductor shares. Artificial intelligence (AI) chip giant NVIDIA was particularly strong, as was rival Advanced Micro Devices (AMD). Markets were closed Monday in observance of the Martin Luther King, Jr., holiday.

Eurozone: Equity markets failed to maintain early gains and closed marginally lower (Eurostoxx 50, -0.7% w-o-w, to 4,449), remaining under pressure from hawkish remarks made by policymakers from key central banks. Losses were dominated by luxury brands in Paris and industrial heavyweights traded in Frankfurt, with LVMH and Hermes dropping 0.6%, and setting the pace for the former while Mercedes, Volkswagen, and Airbus lost close to 1%.

Fixed Income: US 10-year treasury yield hits 1-month high.

Global fixed incomes pulled back (BAML Global, -1.0% to 265.0), and UST yields rose (+20bps, to 4.15%), its highest in over a month, driven by strong economic data, which reduced the likelihood of immediate interest rate cuts by the Fed.

FX: USD edges higher on hawkish Fed comments; Euro ends week lower.

The **DXY index** strengthened (+0.9%, to 103.288), as strong US data and hawkish messaging from FOMC officials tempered expectations of an interest rate cut in March.

The **EUR/USD** was lower (-0.5%, to 1.090), hovering around its weakest level since mid-December, amidst a backdrop of general strength in USD, and as investors processed a series of hawkish remarks from ECB officials.

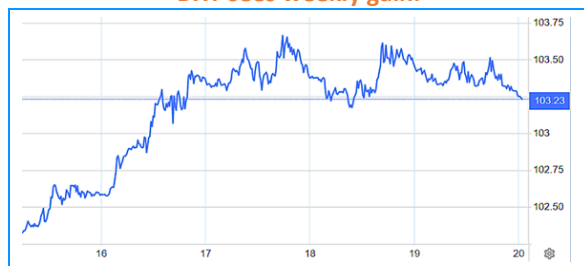
Commodities: Oil supported improved demand, and Middle East tensions.

Oil prices were higher (Brent, +0.3% w-o-w, to 78.6 USD/b), supported by escalating tensions in the Middle East and an optimistic outlook for global oil demand, as OPEC also maintained its forecast of 2.25m bpd demand growth in 2024, with a strong expectation of 1.85m bpd growth in 2025.

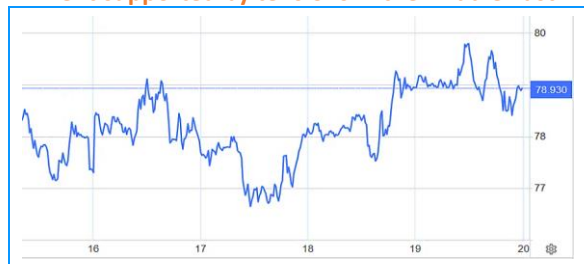
US S&P500 hits new highs.



DXY sees weekly gain.



Brent supported by tensions in the Middle East.



Week Ahead

It will be an important week in the US, with investors closely monitoring the advance estimate of Q4 GDP growth rate, PCE Price Indexes, and personal income and spending. The earnings season is set to enter full swing, featuring reports from major industry players like Microsoft, Tesla, Visa, J&J, P&G, Netflix, Intel, T-Mobile, Verizon, Abbott, IBM and Amex. On the global stage, interest rate decisions will be made in the Eurozone, Japan, Canada, and Turkey.