

Equities

Stocks pushed to a fresh all-time high on Fri as investors were focused less on rising rates and more on the positive economic data that drove them. Easing financial and liquidity conditions continue to buoy equities – bank reserves held at the Fed rose to their highest since April 2022 despite ongoing quantitative tightening (QT). Earnings for regional banks mostly showed large profit declines as pressures from rates, downsizing, and regulatory fees mount. TSMC's strong results and guidance drove a massive rally in semiconductor stocks, which were up 8.44%.

Fixed income

Markets finally started walking back euphoric rate cut expectations last week, causing rates to drift higher across the curve. Expectations of a March rate cut had been almost fully baked into futures prices, but by the end of the week had eased to about 50/50 (which we still think is too optimistic). The 2-year yield rose 24 bps to 4.38%, and the 10-year yield ended the week up 18 bps at 4.12%, a 5-week high. The back-up in yields has predictably hit traditional fixed income, and the Bloomberg Agg fell -1.10% last week. High yield has fared better as yields of almost 8% helped offset a small widening in spreads.

Commodities

Oil prices rose alongside risk assets over the second half of the week as data showed U.S. demand is still robust. Ongoing tensions in the middle east have yet to materially affect prices, although the Brent-WTI spread has widened. Gold fell -1.09% as rates rose and investors opted for riskier assets.

Economic overview

Retail sales data in December were stronger than expected, joining the chorus of data that show the economy is on solid footing. Retail sales rose 0.6% in December (Cons 0.4%) and the "control" group that aligns with the GDP data surged 0.8% m/m (Cons 0.2%). Q4 GDP data is due this week, with a consensus of 2% but we see upside risk. Univ of Michigan consumer sentiment unexpectedly surged to 78.8 in January, the highest since June 2021. Initial jobless claims also delivered a positive surprise, dropping to 187,000, the lowest since Sept 2022. The only weak spot in the data? You guessed it: Housing. The existing home sales slump continued in Dec to a fresh cycle low of 3.78 mln homes.

Equities (price index)		MTD	QTD	YTD	2023
S&P 500	4,839.81	1.47%	1.47%	1.47%	24.23%
DJIA	37,863.80	0.46%	0.46%	0.46%	13.70%
NASDAQ	15,310.97	2.00%	2.00%	2.00%	43.42%
Russell 2000	1,944.39	-4.08%	-4.08%	-4.08%	15.09%
MSCI World	3,175.36	0.20%	0.20%	0.20%	21.77%
MSCI Europe	1,952.29	-3.37%	-3.37%	-3.37%	16.68%
MSCI EAFE	2,179.25	-2.54%	-2.54%	-2.54%	15.03%
MSCI Asia	163.78	-3.31%	-3.31%	-3.31%	8.76%
MSCI EM	970.91	-5.16%	-5.16%	-5.16%	7.04%
VIX	13.30	0.85	0.85	0.85	(9.22)

Fixed income (total return index)		MTD	QTD	YTD	2023
Barclays U.S. Agg	2,131.96	-1.39%	-1.39%	-1.39%	5.53%
Inv. grade bonds	3,179.36	-1.29%	-1.29%	-1.29%	8.52%
High yield bonds	2,463.18	-0.68%	-0.68%	-0.68%	13.45%
Leveraged Loans	3,746.79	0.50%	0.50%	0.50%	13.32%

Alternatives (total return index)		MTD	QTD	YTD	2023
FTSE NAREIT	23,216.53	-2.96%	-2.96%	-2.96%	11.36%
REIT Index					
GS Commodity Index	538.83	0.59%	0.59%	0.59%	-12.20%
Alerian MLP Index	1,882.08	-0.23%	-0.23%	-0.23%	26.56%

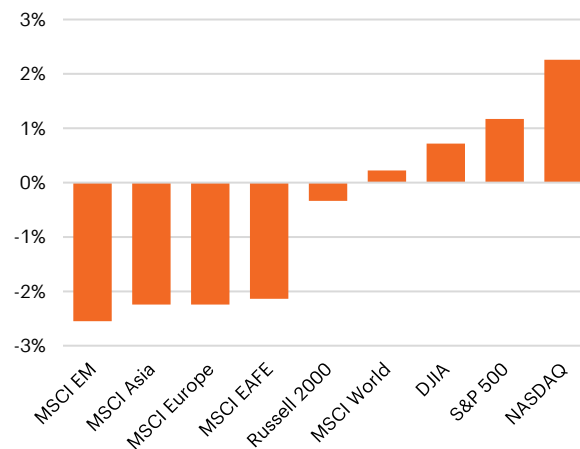
Commodities		MTD	QTD	YTD	2023
WTI Crude	\$73.41	2.46%	2.46%	2.46%	-10.73%
Brent Crude	\$78.56	1.97%	1.97%	1.97%	-10.32%
Natural Gas	\$2.52	0.20%	0.20%	0.20%	-43.82%
Gold	\$2,029	-2.05%	-2.05%	-2.05%	13.45%

Currency		MTD	QTD	YTD	2023
Dollar Index (DXY)	103.29	1.93%	1.93%	1.93%	-2.11%
USDCNY	7.19	1.32%	1.32%	1.32%	2.92%
Bitcoin	41,602	-2.13%	-2.13%	-2.13%	157.01%

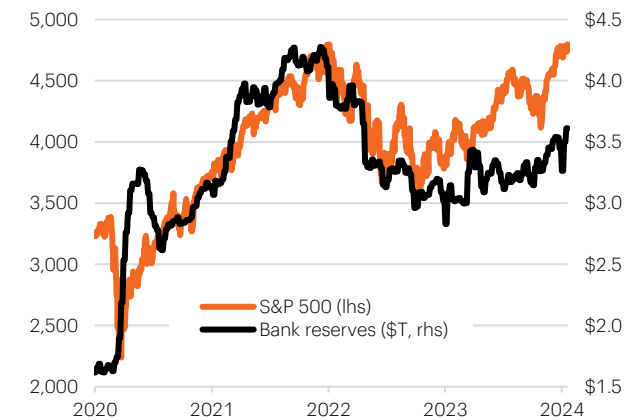
Spreads		MTD	QTD	YTD	2023
Inv. grade bonds	95 bps	-4 bps	-4 bps	-4 bps	-31 bps
High yield bonds	338 bps	15 bps	15 bps	15 bps	-146 bps
Leveraged loans	456 bps	-3 bps	-3 bps	-3 bps	-101 bps
Emerging markets	299 bps	2 bps	2 bps	2 bps	-42 bps

Interest rates		MTD	QTD	YTD	2023
Fed Funds Target	5.375%	5.375%	5.375%	5.375%	4.375%
SOFR	5.31%	-7 bps	-7 bps	-7 bps	108 bps
3-month LIBOR*	5.58%	-1 bps	-1 bps	-1 bps	83 bps
2-year Treasury	4.38%	13 bps	13 bps	13 bps	-18 bps
10-year Treasury	4.12%	24 bps	24 bps	24 bps	0 bps
30-year Treasury	4.33%	30 bps	30 bps	30 bps	7 bps
Barclays U.S. Agg	4.75%	22 bps	22 bps	22 bps	-15 bps
Inv. grade bonds	5.26%	20 bps	20 bps	20 bps	-36 bps
High yield bonds	7.89%	30 bps	30 bps	30 bps	-137 bps

Last week's equity returns



Liquidity helping to power equities higher



Sources: Bloomberg Finance, L.P., Federal Reserve, as of January 19, 2024.

Equities

S&P 500: Leading single benchmark of large-cap U.S. equities, representing approximately 500 of the largest U.S. companies. **Dow Jones Industrial Average:** Price-weighted measure of 30 U.S. blue-chip companies. **NASDAQ:** Stock market index of stocks listed on the NASDAQ. Index is heavily weighted toward technology companies. **Russell 2000:** Index measuring performance of approximately 2,000 small-cap U.S. equities. **MSCI World Index:** Broad global equity benchmark including both developed and emerging markets. **MSCI Europe Index:** Equity benchmark that measures the performance of large and mid-cap equities across 15 developed countries in Europe. **MSCI EAFE Index:** Equity benchmark that represents the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East. **MSCI Asia Index:** Equity benchmark that captures large and mid-cap representation across developed market countries and emerging market countries in Asia. **MSCI Emerging Markets Index:** Equity benchmark representing 24 developing or emerging market countries, representing 10% of world market cap. For more info on these MSCI indices, visit MSCI.com. **CBOE Volatility Index (VIX):** Key measure of market expectations of near-term volatility conveyed by S&P 500 stock option price.

Credit

Bloomberg Barclays U.S. Aggregate Bond Index: Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. **Bloomberg Barclays U.S. Corporate Index:** Measures the USD-denominated, investment-grade, fixed-rate bond market. **Bloomberg Barclays U.S. Corporate High Yield Index:** Measures the USD-denominated, high yield, fixed-rate bond market. **S&P/LSTA U.S. Leveraged Loan Index:** Market value-weighted index designed to measure the performance of the U.S. leveraged loan market.

Alternatives

FTSE NAREIT All Equity REITs Index: Free-float adjusted market cap-weighted index that includes all tax-qualified REITs listed in the NYSE, AMEX, and NASDAQ. **S&P GSCI:** First major investable commodity index. It is one of the most widely recognized benchmarks that is broad-based and production-weighted to represent the global commodity market beta. **Alerian MLP Index:** Leading gauge of energy MLPs, representing about 85% of total industry market cap. **HFRX Global Hedge Fund Index:** Index designed to be representative of the overall composition of the hedge fund universe, comprised of all eligible hedge fund strategies.

Commodities

Generic 1st Crude Oil (WTI Crude): Front-month West Texas Intermediate Crude Oil futures. **Generic 1st Brent Crude Oil (Brent Crude):** Front-month Brent Crude futures. **Generic 1st Natural Gas:** Front-month natural gas futures. **Generic 1st Gold, 100 oz:** Front-month gold (100 oz) futures.

Currency

Dollar Spot Index: Indicates the general international value of the USD by averaging the exchange rates between the USD and major world currencies. **USDCNY:** price of 1 USD in CNY (the Chinese renminbi, or yuan). **Bitcoin:** price of 1 Bitcoin in USD.

Spreads

Bloomberg Barclays U.S. Corporate Index: Measures the USD-denominated, investment grade, fixed-rate, taxable bond market. **Bloomberg Barclays U.S. Corporate High Yield Index:** Measures the USD-denominated, high yield, fixed-rate bond market. **Bloomberg S&P/LSTA U.S. Leveraged Loan Index:** Market value-weighted index designed to measure the performance of the U.S. leveraged loan market. **Barclays EM USD Aggregate Index:** Flagship hard currency emerging market debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign and corporate EM issuers.

Interest rates

Fed funds target: Target rate for the federal funds policy rate, set by the Federal Reserve each meeting. This rate is an “overnight rate,” i.e., it is the rate charged by depository institutions (banks) to each other for overnight loans. **SOFR:** Secured Overnight Financing Rate (SOFR) measures the cost of borrowing cash overnight collateralized by Treasuries. **ICE 3-Month London Interbank Offered Rate (LIBOR):** Average interest rate at which leading banks borrow funds of a sizable amount from other banks in the London market. LIBOR is the most widely used “benchmark” or reference rate for short-term interest rates. **Treasury rates:** Market yields for U.S. Treasury securities with maturities of 2, 10 and 30 years. **Bloomberg Barclays U.S. Aggregate Bond Index:** Broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. **Bloomberg Barclays U.S. Corporate Index:** Measures the USD-denominated, investment grade, fixed-rate, taxable bond market. **Bloomberg Barclays U.S. Corporate High Yield Index:** Measures the USD-denominated, high yield, fixed-rate bond market.

Sources: Bureau of Labor Statistics (BLS), Department of Labor, Bureau of Economic Analysis (BEA), International Monetary Fund (IMF), OECD, Federal Reserve, Institute for Supply Management (ISM), Mortgage Bankers Association (MBA), U.S. Census Bureau, Standard & Poor’s, Bank of America Merrill Lynch, Bloomberg, Macrobond.

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