Monthly Market Commentary
January 2024
Global market performance diverges amid volatility.

- Despite periods of volatility, developed equity markets finished in positive territory—led by the U.S., with Canada a notable laggard—in January 2024, as investors' optimism about the global economy offset concerns regarding geopolitical tensions in the Middle East and Ukraine. Meanwhile, emerging markets recorded negative returns for the month.
- Global fixed-income assets lost ground for the month. U.S. Treasury yields moved modestly higher for all maturities greater than one year (bond prices move inversely to yields).
- SEI believes that the recent upbeat views regarding the U.S. economic and market outlook for this year have been overly optimistic. While stock indexes fared notably well in 2023, it is important to note that many widely followed indexes are capitalization-weighted and, therefore, the largest stocks—in particularly in the U.S.—have a disproportionate effect on performance.

Economic Backdrop

Despite periods of volatility, developed equity markets finished in positive territory—led by the U.S., with Canada a notable laggard—in January 2024, as investors' optimism about the global economy offset concerns regarding geopolitical tensions in the Middle East and Ukraine. Meanwhile, emerging markets recorded negative returns for the month. North America led the major developed markets in January due to strong performance in the U.S., which offset a downturn in Canada. The Pacific ex Japan region was the primary market laggard due mainly to weakness in Hong Kong and Singapore. Europe was the top-performing region within emerging markets for the month, led by strength in Greece and Hungary. Conversely, Chinese stocks posted the most notable losses among emerging markets in January.

Global fixed-income assets, as represented by the Bloomberg Global Aggregate Bond Index, declined 1.4% in January. High-yield bonds saw flat performance for the month, but led the U.S. fixed-income market; corporate bonds and U.S. Treasury securities recorded modest losses. Treasury yields moved somewhat higher for all maturities greater than one year. Yields on 2-, 3-, 5- and 10-year Treasury notes increased 0.04%, 0.04%, 0.07% and 0.11%, respectively, over the month. The spread between 10- and 2-year notes narrowed from -0.35% to –0.28% in January, and the yield curve remained inverted.

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 January 30-31, 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."

On the geopolitical front, the U.S. and U.K. (with support from Australia, Bahrain, Canada, and the Netherlands) conducted airstrikes on several targets in Yemen in the early morning of January 23 (local time in Yemen). The military action was in response to Houthi rebel attacks on commercial shipping in the Red Sea off the coast of Yemen. The Houthi movement is an Iran-backed militant group that seized Sanaa, Yemen's capital, in 2014. The group has attacked U.S. military bases in Iraq and Syria, as well as numerous commercial ships in the Red Sea, forcing international shipping companies to reroute their vessels around the Cape of Good Hope in South Africa, putting upward pressure on freight costs. In late January, an Iran-backed militia group conducted a drone attack at a U.S. military base in Jordan, killing three U.S. troops. President Joe Biden indicated that the U.S. would retaliate for the attack.

Global commodity prices, as measured by the Bloomberg Commodity Total Return Index, moved modestly higher in January. The West Texas Intermediate and Brent crude oil prices initially spiked in response to the military action in Yemen before retreating, ending the month with gains of 5.9% and 4.6%, respectively. Oil prices also benefited from energy firms' larger-than-expected draws of crude oil from storage. The New York Mercantile Exchange (NYMEX) natural gas price fell 9.8% in January amid declining demand due to above-average winter temperatures in the U.S.

The gold spot price fluctuated, falling amid the rise in U.S. Treasury yields (the gold price typically moves inversely to bond yields) for most of the month before rallying during the last week of January in response to relatively strong U.S. economic data and declining Treasury yields. The gold price ended the month with a modest loss of 0.2%. The 5.2% decrease in wheat prices during the month was attributable to relatively weaker demand for exports from the U.S.

Central Banks

- As was widely expected, the Bank of Canada (BoC) held its overnight interest rate steady at 5.00% and continued its policy of quantitative tightening following its January 24 meeting. The BoC Governing Council noted that the global economy slowed, but remained stronger than expected with the U.S. being surprisingly resilient, while inflation continued to moderate. The Governing Council still believes inflation will continue to ease and reach BoC targets by 2025. The next BoC meeting is scheduled for March 6.

- During a news conference following the FOMC's meeting on January 31, 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 its meeting on January 31, the Bank of England (BOE) left the Bank Rate unchanged at a 15-year high of 5.25%. However, the rate decision was not unanimous; two of the nine BOE Monetary Policy Committee (MPC) members supported a 25-basis point increase, while another member voted for a *reduction* of 25 basis points. In its announcement of the rate decision, the BOE commented, "The Committee judges that the risks around its modal CPI (Consumer Prices Index) inflation projection are skewed to the upside over the first half of the forecast period, stemming from geopolitical factors. It now judges that the risks from domestic price and wage pressures are more evenly balanced, meaning that, unlike in previous forecasts, there is no difference between the MPC's modal and mean projections at the two and three-year horizons."

- The European Central Bank (ECB) left its benchmark interest rate unchanged at 4.50% following its meeting on January 25. In a statement announcing the rate decision, the ECB's Governing Council stated, "Aside from an energy-related upward base effect on headline inflation, the declining trend in underlying inflation has continued, and the past interest rate increases keep being transmitted forcefully into financing conditions. Tight financing conditions are dampening demand, and this is helping to push down inflation." The central bank also reiterated its goal of ensuring that "inflation returns to its 2% medium-term target in a timely manner. Based on its current assessment, the Governing Council considers that the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to this goal."

- The Bank of Japan (BOJ) left its benchmark interest rate unchanged at -0.1% following its meeting in January. The central bank also maintained the upper yield limit of 1.0% for the 10-year Japanese Government Bond (JGB) that it had established in July 2023 as an "upper bound" rather than a stringent cap. In a statement announcing the monetary policy actions, the central bank noted, "With extremely high uncertainties surrounding economies and financial markets at home and abroad, the [BOJ] will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases."

Economic Data (unless otherwise noted, data sourced to Bloomberg)

- According to Statistics Canada, consumer prices (as measured by the change in the Consumer Price Index (CPI)) slid 0.3% in December, while the year-over-year increase accelerated modestly to 3.4%. Monthly and annual price changes diverged as gasoline prices have been weaker in recent months, but are now above year ago levels. Meanwhile, producer prices declined as the Industrial Product Price Index (IPPI) and Raw Materials Price Index (RMPI) fell 1.5% and 4.9%, respectively, in December. Year-over-year prices declined 2.7% and 7.9%, respectively, for the IPPI and RMPI. Lower energy prices fueled the declines in producer prices. Changes to prices for metals were fairly mixed, but the cost of nickel fell sharply. The Canadian economy added 37,000 jobs in January—this after little change in employment during the fourth quarter of 2023. The unemployment rate fell 0.1% to 5.7%, marking the first decline since December of 2022.

- The Department of Labor reported that the U.S. consumer-price index (CPI) rose by a higher-than-expected rate of 0.4% in December following a 0.1% uptick in November. The CPI advanced 3.4% year-over-year—up from the 3.1% annual rise in November. Housing and energy costs were the largest contributors to the month-over-month rise in the CPI, increasing 0.5% and 0.4%, respectively. Food prices were up 0.2% for the month and advanced 2.7% over the previous 12-month period. The 3.9% rolling 12-month rise in core inflation, as measured by the CPI for all items less food and energy, was the smallest annual increase since August 2021, and was marginally lower than the 4.0% year-over-year rise in November. Core inflation was up 0.3% in December, matching the increase during the previous month. According to the initial estimate from the Department of Commerce, U.S. gross domestic product (GDP) grew at an annualized rate of 3.3% in the fourth quarter of 2023, down from the 4.9% rise in the third quarter, but significantly exceeding expectations. The U.S. economy expanded by 2.5% for the 2023 calendar year, topping 2022's 1.9% annual gain, bolstered by increases in consumer spending—which comprises more than two-thirds of U.S. GDP—and nonresidential fixed investment (purchases of both nonresidential structures and equipment and software). The main contributors to GDP for the fourth quarter included consumer spending, exports, state and local government spending, and nonresidential fixed investment. The government attributed the lower economic growth rate in the fourth quarter relative to the previous three-month period primarily to slowdowns in private inventory investment (a measure of the changes in values of inventories from one time period to the next) and federal government spending.

- The Office for National Statistics (ONS) reported that consumer price inflation in the U.K., as measured by the Consumer Prices Index (CPI), rose 0.4% in December, following a decline of 0.2% in November. The CPI rose 4.0% year-over-year, up marginally from the 3.9% annual increase during the previous month. The largest contributors to the 12-month rise in inflation included alcohol and tobacco, as well as food and non-alcoholic beverages. These more than offset a decline in for housing and housing services costs. Core inflation, which excludes volatile food prices, rose at an annual rate of 5.1% in December, matching the year-over-year increase in November. According to the initial estimate of the ONS, U.K. GDP fell 0.2% over the three-month period ending November 30, 2023 (the most recent reporting period) compared to the previous three-month period ending August 31. However, GDP rose 0.2% year-over-year in December. Production output decreased 1.5% over the three-month period, hampered mainly by a notable slump in manufacturing. The services sector was flat relative to the previous three-month reporting period, as growth in human health and social work activities, and education was offset by weakness in information and communication, as well as arts, entertainment, and recreation. Output in the construction sector fell 0.6% during the period, attributable primarily to a significant downturn in new work, particularly private new housing.

- Eurostat pegged the inflation rate for the eurozone at 2.9% for the 12-month period ending in December, up from the 2.4% annual increase in November. Prices for food, alcohol and tobacco rose 6.1% year-over-year in December, but the pace of acceleration slowed from the 6.9% annual rate for the previous month. Costs for services and non-energy industrial goods were up 4.0% and 2.5%, respectively, year-over-year. Conversely, energy prices fell 6.7% over the previous 12 months following an 11.5% decline in November. Core inflation, which excludes volatile energy and food prices, rose at an annual rate of 3.4% in December, down 0.2 percentage point from the 3.6% year-over-year increase in November. According to Eurostat's preliminary estimate, eurozone GDP was flat in the fourth quarter of 2023, a slight uptick from the 0.1% decline in the third quarter, but increased 0.5% for the 2023 calendar year. The economies of Portugal and Spain were the strongest performers for the fourth quarter, expanding 0.8% and 0.6%, respectively. Conversely, Ireland's GDP fell 0.7% during the period.

Index Data (January 2024)

- The S&P/TSX Composite Index gained a modest 0.55%.
- The FTSE Canada Universe Bond Index fell 1.37%.
- The S&P 500 Index, which measures the performance of U.S. equities, rose 3.03%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, gained 1.92%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned -0.03% (currency hedged) and 1.34% (unhedged).
- The Chicago Board Options Exchange Volatility Index—a measure of implied volatility in the S&P 500 Index that is also known as the "fear index"—was moderately higher, as it moved from 12.45 to 14.35.
- The WTI Cushing crude oil price—a key indicator of movements in the oil market—climbed from US$71.65 to US$75.85 a barrel to end January.
- The Canadian dollar weakened to C$1.34 per U.S. dollar. The U.S. dollar was generally stronger against the world's other major currencies, ending January at US$1.09 versus the euro, US$1.27 against sterling, and at 146.18 yen.