

## FEBRUARY 2024



### Market Data

World Stock Market Indices  
 data as of 01/31/2024

	Change (12/31/2023)	%CHG
<b>S&amp;P 500</b>	<b>4,845.65</b>	<b>75.82</b> <b>1.59%</b>
<b>NASDAQ</b>	<b>15,164.01</b>	<b>152.66</b> <b>1.02%</b>
<b>DOW JONES</b>	<b>38,150.30</b>	<b>460.76</b> <b>1.22%</b>
<b>FTSE(UK)</b>	<b>7,630.57</b>	<b>(102.67)</b> <b>(1.33%)</b>
<b>DAX (Germany)</b>	<b>16,903.76</b>	<b>152.12</b> <b>0.91%</b>
<b>Hang Seng (Hong Kong)</b>	<b>15,485.07</b>	<b>(1,562.32)</b> <b>(9.16%)</b>
<b>Nikkei (Japan)</b>	<b>36,286.71</b>	<b>2,822.54</b> <b>8.43%</b>

Source: Bloomberg. Please see descriptions of indices on Page 2.

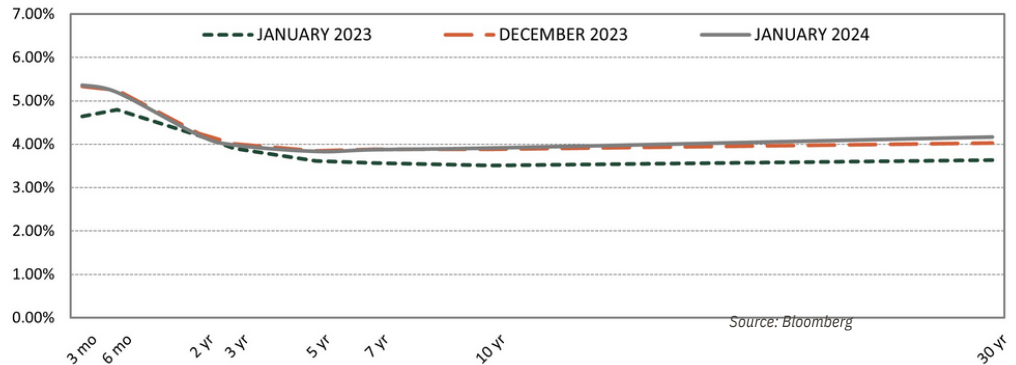
### Market Summary

Recent economic data indicates above-trend growth driven by a rise in consumer spending and a healthy US job market. While inflationary trends are subsiding, core levels remain above the Federal Reserve's (Fed) 2% target. Given the cumulative effects of restrictive monetary policy and tighter financial conditions, we anticipate gradual economic softening, prompting the Fed to ease monetary policy in 2024.

At the January meeting, the Federal Open Market Committee (FOMC) unanimously voted to maintain the Federal Funds rate within the target range of 5.25% - 5.50%. Fed Chair Powell suggested that the federal funds rate is at or near its peak, but discounted market expectations of a rate cut in March. We anticipate the FOMC will ease monetary policy by cutting the federal funds rate in mid-2024 as inflation and economic growth moderate.

Bond investors weighed the benefits of improving inflation reports against the impact of strong GDP, consumer spending, and employment data on the likely pace of future rate cuts by the Fed. Following the Federal Reserve's meeting on January 31st, Chair Powell confirmed that while inflation was moving in the right direction, the Fed was unlikely to reduce rates at the next meeting in March. Consequently, US Treasury yields showed mixed movements: short-term yields decreased slightly while longer-term yields rose. Specifically, the 2-year Treasury yield declined by 4 basis points to 4.21%, the 5-year Treasury yield dropped by 1 basis point to 3.84%, and the 10-year Treasury yield increased by 3 basis points to 3.91%.

### Treasury Yields Were Mixed in January, With Yields Falling on The Short End While Longer-Term Rates Increased



At the end of January, the 2-year Treasury yield decreased by 1 basis point, while the 10-Year Treasury yield dropped by 40 basis points compared to the previous year. The inversion between the 2-year and 10-year Treasury yields narrowed to -30 basis points by the end of January, down from -37 basis points in December. Notably, the average historical spread between these yields since 2003 is approximately +130 basis points. Additionally, the inversion between 3-month and 10-year Treasuries remained unchanged at -146 basis points in January compared to December. It is important to note that this inversion is likely to persist until the Federal Reserve begins to cut rates, a probability that has increased in recent months.

TREASURY YIELDS	Trend (▲/▼)	01/31/2024	12/31/2023	Change
3-Month	▲	5.37	5.34	0.02
2-Year	▼	4.21	4.25	-0.04
3-Year	▼	3.98	4.01	-0.03
5-Year	▼	3.84	3.85	-0.01
7-Year	▼	3.88	3.88	-0.01
10-Year	▲	3.91	3.88	0.03
30-Year	▲	4.17	4.03	0.14

Source: Bloomberg

# BOND MARKET REVIEW

## Credit Spreads Tightened in January

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	5.38	5.44	(0.06)
2-year A corporate note	4.68	4.71	(0.03)
5-year A corporate note	4.52	4.44	0.08
5-year Agency note	3.94	3.96	(0.02)

Source: Bloomberg

Data as of 01/31/2024

## Crude Oil Prices Increased in Tandem With Increasing Tensions in The Middle East

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(62.20) \$B In DEC 23	(58.66) \$B In NOV 23	(71.39) \$B In DEC 22
Gross Domestic Product	3.30% DEC 23	2.10% SEP 23	2.60% DEC 22
Unemployment Rate	3.70% JAN 24	3.80% DEC 23	3.40% JAN 23
Prime Rate	8.50% JAN 24	8.50% DEC 23	7.50% JAN 23
Refinitiv/CoreCommodity CRB Index	272.41 JAN 24	263.83 DEC 23	278.09 JAN 23
Oil (West Texas Int.)	\$75.85 JAN 24	\$71.65 DEC 23	\$78.87 JAN 23
Consumer Price Index (y/o/y)	3.10% JAN 24	3.70% DEC 23	6.40% JAN 23
Producer Price Index (y/o/y)	(1.10%) JAN 24	2.10% DEC 23	8.80% JAN 23
Euro/Dollar	1.08 JAN 24	1.10 DEC 23	1.09 JAN 23

Source: Bloomberg

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## Economic Roundup

### Consumer Prices

Consumer prices surged more than anticipated in January, with the headline CPI rising by 0.3 percent for the month. On a year-over-year basis, the CPI climbed by 3.1 percent, a slight decline from December's 3.4 percent. Excluding food and energy, the CPI saw a 0.4 percent increase for the month, following a 0.3 percent rise in December, while the 12-month rate remained stable at 3.9 percent, slightly surpassing the consensus of 3.7 percent. In December, the Personal Consumption Expenditures (PCE) Index saw a 0.2 percent increase in headline inflation month-over-month, rising by 2.6 percent year-over-year, consistent with November's figures. Core PCE, the Federal Reserve's preferred inflation gauge, also rose by 0.2 percent month-over-month, continuing its deceleration to 2.9 percent year-over-year in December from 3.2 percent in November. Despite the moderation in trend, inflation persists above the Fed's 2 percent target.

### Retail Sales

Retail and food services sales fell by 0.8 percent in January compared to December, significantly below the consensus forecast of a 0.1 percent decrease. Weakness in retail activity was widespread in January, although a few sectors managed to show modest gains. The main contributors to the decline in January retail sales were a 1.7 percent drop in motor vehicles and parts sales and a 1.7 percent decrease in sales at gasoline stations. Meanwhile, the Conference Board's Consumer Confidence Index surged to a two-year high of 114.8 in January, up from 108.0 in December, driven by heightened perceptions of current conditions and reduced pessimism about the future. This increase in confidence suggests expectations of slower inflation, anticipation of lower interest rates, and generally positive employment conditions. However, despite consumer resilience, concerns arise from diminishing excess savings, increasing credit card balances, and the resumption of student loan payments, which may pose potential headwinds to future economic growth.

### Labor Market

The U.S. economy added 353,000 jobs in January, vastly exceeding consensus expectations of 185,000, and upwardly revised 333,000 jobs in December. Leading sectors included professional and business services, health care, retail trade, and social assistance. The trajectory of job creation has increased, with the three-month moving average payrolls at 289,000 and the six-month moving average at 248,000. The unemployment rate remained unchanged at 3.7% for the third month, and the labor participation rate was unchanged at 62.5%, remaining below the pre-pandemic level of 63.3%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons rose to 7.2% from 7.1% last month. Average hourly earnings rose 4.5% year-over-year in January, increasing from an upwardly revised 4.3% gain last month. Employment remains strong by historical standards.

### Housing Starts

Housing Starts decreased month-over-month in December by 4.3% to an annual rate of 1.460 million units. Starts for single-family homes were down 8.6%, while multi-family homes rose 7.5%. Total starts of new homes are up 15.8% year-over-year. Although single family home starts decreased in December, the National Association of Home Builders Market Index increased faster than expectations due to lower mortgage rates providing a boost in confidence for homebuilders. According to Freddie Mac, average 30-year fixed rate mortgage rates declined to 6.63% as of February 1st. According to the Case-Shiller 20-City Home Price Index, housing prices rose 5.40% year-over-year in November, accelerating from a 4.88% year-over-year gain in October. Tight inventories and higher mortgage rates continue to impact affordability.

### World Stock Market Index Descriptions

S&P 500—The S&P 500 is a market value-weighted index of 500 large-capitalization stocks. The 500 companies included in the index capture approximately 80% of available US market capitalization. NASDAQ—The NASDAQ Composite Index is the market capitalization-weighted index of over 3,300 common stocks listed on the NASDAQ stock exchange. Dow Jones—The Dow Jones Industrial Average is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange and the NASDAQ. The Financial Times Stock Exchange Group (FTSE)—The FTSE is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. DAX—The Deutscher Aktienindex (DAX) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. Hang Seng—The Hang Seng Index is a freefloat-adjusted market-capitalization-weighted stock market index in Hong Kong. It is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of overall market performance in Hong Kong. Nikkei—Japan's Nikkei 225 Stock Average is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

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