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Global Economic & Market Review
Fourth Quarter 2023

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Highlights

- For the most part, economic output amongst the world's developed economies was positive in the fourth quarter, but concerns regarding a slowdown continue to persist. The International Monetary Fund expects 2023 global growth to come in at 3.0%.
- Developed market central banks shifted to a more cautious stance as inflation rates subsided. While headline inflation continues to cool in many instances, overall inflation continued to surpass central bank targets.
- While economic growth recovered in China, concerns remain about the economy, particularly the property sector. Investors continue to shift capital to other regions of Asia including India, which remains one of the fastest growing emerging economies.
- Most developed equity indices posted positive returns in the fourth quarter as declining inflation drove gains across most sectors. Lower market yields resulted in gains in most sectors of the bond markets.
- In the commodities market, precious metals including gold, silver and copper bounced while oil prices declined as global economic uncertainty continued.

CFAL Global Economic & Market Review Q4-2023

United States

Major US markets ended the fourth quarter on a postive note as several factors led to improved investor sentiment through the close of the quarter. Positive third quarter economic data combined with resilient corporate earnings and declining inflation rates all drove a rapid shift in investor confidence after stocks teetered during October. The NASDAQ, S&P 500 and Dow Jones Industrial Average jumped +13.56%, +11.24% and +12.48% respectively during the quarter. The Fed opted to leave rates unchanged following its December policy meeting, with expectations remaining that the central bank will keep rates at high levels for a prolonged period. Not surprisingly, bond yields decreased sharply, sparking rallies in bond prices and providing relief to conservative fixed income investors. This allowed most major bond indices to end the year with positive results.US high yield issues gained +7.06%, US corporates bounced +7.91% and US Treasuries 1 – 10 years gained +3.87%. Despite falling inflation, the US Federal Reserve maintained a relatively hawkish stance. However, it is largely consensus amongst markets that rates have peaked and will eventually be reduced should inflation continue to subside. The Fed's benchmark interest rate remains in the range of 5.25 – 5.50% although inflation remains above the 2% target. The Consumer Price Index rose at an annual pace of +3.1% in November with expectations of a slight increase to +3.3% in December, justifying our expectations of rates remaining higher for a bit longer. The US economy grew by a stronger than expected 4.9% in Q3-2023 from the previous year, with projections for growth to also increase by 4.9% in the fourth quarter. The economy remains resilient despite the Fed's tightening of monetary policy as unemployment levels continue to defy expectations at 3.7%.

Europe

Eurozone equities ended the fourth quarter on a positive note even as growth remained slow. The Stoxx Europe 600 Index gained +6.39% in Q4-2023 to close out the year with a +12.73% return. The euro area reported a -0.1% contraction in GDP quarter over quarter in the third quarter with expectations of a slight recovery of 0.2% in the fourth quarter. Poland (+1.4%) saw the largest expansion while Ireland (-1.8%) reported the biggest contraction. Notably, amongst the largest economies, both France and Germany experienced contractions of -0.1%, while Spain and Italy saw expansions of +0.3% and +0.1% respectively. Overall euro area growth was +0.1% year over year. Despite the slow growth, a positive sign came from household consumption which rose +0.3% after contracting for three consecutive quarters. Government spending also remains a strong contributor, growing +0.3% during the quarter. In manufacturing the purchasing managers' index, which is regarded as the benchmark business activity survey for the region, came in at 44.4, ahead of expectations of 44.2. However, the sector remains troubled as readings below 50 indicate economic contraction. While inflation levels remain elevated, the Eurozone saw its annual inflation rate decrease to 2.4% from 2.9% the previous month. Core inflation, which excludes energy and food, also declined to 3.6% from 4.2%. The European Central Bank has shifted from an aggressive stance earlier in the year to a more cautious tone, acknowledging downside risk for economic growth and already subsiding inflation. Its key policy rate remains at a 22-year high of 4%. Similarly, the UK continued to grapple with stubbornly high inflation at +4.2%, a welcomed reduction from higher rates in early 2023. The key policy rate was unchanged at 5.25% during the quarter and like the other central banks, the Bank of England is not expected to raise rates. The economy remains challenged like many euro area economies during Q3-2023, the UK saw minor growth of 0.2% quarter over quarter or 0.6% year over year. UK stocks posted a relatively small gain of +1.65% in Q4-2023, bringing the FTSE 100 to an annual gain of +3.78%.

Asia Pacific

The Shanghai SE Composite lost -4.36% in the fourth quarter as China's economic output remains below historical levels. The economy grew by a better than expected +4.9% year over year in the third quarter. Growth reflected a +3.1% increase in fixed asset investments but the property sector and its accompanying debt crisis remains a significant drag, tumbling 9.1% through the first three quarters of the year. While unemployment levels improved, youth unemployment (ages 16 – 24) remained stubbornly high, hitting a record 21.3% in June. Afterwhich, the government announced that it would no longer publish the statistic, but it is likely that youth unemployment remains elevated as college graduates struggle to find jobs. Unlike most western economies, the People's Bank of China remains stimulative, keeping its key policy rate at 2.65% since June. We expect officials to remain accommodative to offset any resulting weakness from the property sector. In contrast to Chinese stock markets, Japanese equities continued to outperform, with the Nikkei 225 index gaining +5.04% during the quarter for an annual gain of +28.24%. The index continues to hit record highs as investors applauded the Bank of Japan's ultralow interest rate policy. However, economic growth fell -0.5% in the third quarter as the economy continues to fluctuate between expansion and contraction. Both China and Japan have bucked inflation trends, with inflation levels below targets.

Emerging Markets

The MSCI Emerging Markets Index gained +7.45% in the fourth quarter, underperforming the MSCI World Index which gained +11.07% due to its heavy tilt to Chinese companies. Many EM countries continue to rebound in the post COVID recovery, even as global growth moderated, and interest rates remain elevated. Brazil saw minimal quarter over quarter GDP growth of 0.1% in Q3-2023 due to weakness in its agricultural sector. It is notable that the policy rate declined to 11.75% in December despite elevated inflation driven by strengthening of the U.S. dollar. Brazil's Ibovespa was up +15.12% during the quarter. South Africa experienced negative growth of 0.2% in the third quarter 2023, driven by weakness across the majority of its core sectors. The agriculture, forestry, and fishing sector (-9.6%) saw the largest decline while the manufacturing industry (-1.3%) also fell. . The economy remained stagnant in 2023 with expectations of a modest pickup in growth in 2024. In India, growth accelerated by 7.6% year over year in Q3-2023, exceeding expectations as the Indian economy remains extremely strong. India remains one of the fastest growing emerging economies and is projected to have a full year growth above 7%. Economists expect the key policy rate to remain at 6.5% over the next year as the government moves cautiously on inflation amidst the upcoming election.

Commodities

In the commodities market, increased geopolitical tension escalated by Gaza's attack on Israel and the latter's ensuing response led to a spike in precious metals as investors sough safe haven assets. During the quarter, Gold futures soared +12.10%, reaching a peak of $2,152 in December before retreating. Silver also gained +7.29% in Q4-2023 as declining interest rates boosted precious metals prices. Despite weak data out of China, copper prices remained resilient, gaining +3.33% during the quarter. However, weak economic data out of China combined with record U.S. oil production outweighed geopoltical concerns as oil prices declined -15.97%. Nonetheless, a decline in interest rates, a weaker U.S. dollar and geopolitical tensions provide a favorable backdrop for commodities in 2024.

Market Returns Q4-2023

	As at December 31, 2023			
	MTD	**QTD**	**YTD**	**1 year**
Equity Indices *(% local currency)*				
S & P 500	4.42	11.24	24.23	24.23
Dow Jones Industrial Average	4.84	12.48	13.70	13.70
NASDAQ	5.52	13.56	43.42	43.42
FTSE 100	3.75	1.65	3.78	3.78
Stoxx Europe 600	3.77	6.39	12.73	12.73
Shanghai SE Composite	-1.81	-4.36	-3.70	-3.70
Nikkei 225	-0.07	5.04	28.24	28.24
MSCI Emerging Markets	3.71	7.45	7.04	7.04
MSCI World	4.81	11.07	21.77	21.77
ICE BofA Bond Indices *(% local currency)*				
US Treasuries 1-10 years	2.01	3.87	4.18	4.18
US Corporates	4.03	7.91	8.39	8.39
US High Yield	3.67	7.06	13.44	13.44
UK Gilts 1-10 years	3.13	4.91	4.58	4.58
Euro Government	3.65	7.17	6.71	6.71
Global High Yield & Emerging Markets	3.92	8.24	13.74	13.74
Global Broad Market Index	4.31	8.17	5.55	5.55
Currencies vs. USD				
British Pound	0.85	4.36	5.36	5.36
Euro	1.39	4.41	3.12	3.12
Japanese Yen	-4.83	-5.58	7.57	7.57
Swiss Franc	-3.86	-8.07	-8.99	-8.99
Commodities *(% USD)*				
Gold	1.65	12.10	13.45	13.45
Silver	-4.77	7.29	0.19	0.19
Copper	1.04	3.33	2.27	2.27
WTI Crude Oil	-5.79	-15.97	-6.09	-6.09