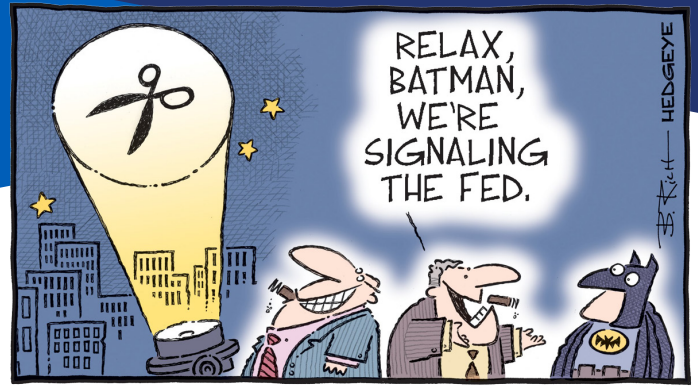


# 12-Month Market Review

(as at December 31, 2023)



## Fed Pivot Drives Markets Onwards

### Latest Developments

- **Shift in Strategy:** The U.S. Federal Reserve's December meeting signaled a change in their policy stance. Not only did they refrain from increasing interest rates, but they suggested a far more relaxed monetary policy than the aggressive rate hikes of the past year. This change in attitude is known as the "Fed Pivot".
- **Global Market Returns:** Although rate cuts over the short term are not certain, global markets were buoyed greatly by the prospect of lower interest rates in 2024. Rate cuts result in lower borrowing costs for companies and consumers, potentially spurring economic growth and investment. For the year, the MSCI World Index rose by 22%, the S&P 500 by 26%, and the NASDAQ Composite surged by 45%, the latter boosted by interest in AI technologies.
- **Inflation Moderates:** U.S. consumer prices increased by 3.4% year-on-year as of December, a substantial decrease from the 9.1% rise in the 12 months to June 2022. Similarly, Eurozone and UK inflation rates have also moderated to 2.9% and 4.0% respectively - influencing global market expectations for potential rate cuts. When inflation moderates, it not only helps in maintaining the purchasing power of consumers but also motivates central banks to potentially lower interest rates, making borrowing cheaper.
- **Steady Jobs Data:** The job market remains robust, with the addition of 216,000 jobs in December, maintaining a steady unemployment rate at 3.7%. Hourly wages also rose by 4.1% year-over-year.

### What this Means

- **Central Banks' Success:** The restrictive monetary policy of western central banks has been effective in combating inflation over the last 18 months. Favorable inflation readings in early 2024 are vital for gauging the Fed's capacity to reduce rates in the spring, signaling the potential of a so-called soft-landing for the economy - an outlook that's grown more likely thanks to recent core inflation trends. Whether this happens, however, is clearly reliant on the data over the coming months.
- **Cautious Market Optimism:** Upon hearing the news of a policy change, markets immediately anticipated six potential rate cuts in 2024, though officials at the Fed cautioned against premature optimism, indicating a possible delay in rate reductions, and suggested around three cuts in 2024, rather than six. The focus of the Fed is on achieving a sustainable inflation rate, considering factors like global supply chains, geopolitical events, and economic stability.