NATIXIS INVESTMENT MANAGERS

Marketing Communication

MARKET REVIEW

Global Market Strategy, NIM Solutions

January 2024

Macroeconomic developments

Once again, US economic growth surprised on the upside with its GDP growing by an annualized 3.3% QoQ in Q4.23 compared to an expected 2.0%. This significant increase in activity was again driven by domestic demand, household, and public consumption, and to a lesser extent by investment. The carryover for 2024 now stands at 1.3%, leading the IMF to significantly revise its growth forecasts from 0.6% to 2.1% for 2024. Moreover, the labour market defied consensus expectations for a continued stabilization with 595,000 job creations over the last 2 months and a significantly higher-than-expected increase in average hourly wages (+0.6% vs. +0.3% anticipated), showcasing that the labour market remains a substantial support to the US economy.

Meanwhile, the preliminary estimate of GDP growth in the eurozone for Q4 2023 reveals zero activity growth after a Q3 2023 at -0.1%, reflecting the sluggishness prevailing in the eurozone for several quarters. However, this anaemic growth masks significant heterogeneity among the countries in the region. While Portugal, Spain, and Italy showed growth, Germany saw its GDP contract in the last quarter. German economic growth has been suffering for several quarters from slowing global trade, weak demand in China, and a decrease in automobile sales. Despite the easing of energy prices, they remain higher compared to the pre-Covid period due to the lack of Russian gas. This weighs on the competitiveness of the German economy, with exports to non-EU countries dropping by 10% in volume over a year. In France and Italy, domestic demand negatively contributes to GDP but is offset by growth in net exports. Reflecting the disparities in growth, the European Commission's survey again shows the divergence between Germany and its neighbours. For instance, the Economic Sentiment Indicator published by the European Commission dropped by 2 points in Germany but increased by 1.4 points in France and Spain in January. And, despite witnessing a rebound in January, eurozone manufacturing PMIs remain in contraction territory.

On the monetary policy front, the ECB remained cautious at its first policy meeting in 2024, with Lagarde reiterating several times that future monetary decisions will depend on future data, particularly on wage developments and business margin behaviours. The ECB expects wage growth to be absorbed by business margins rather than transmitted to the final consumer, which would entail another inflation wave.

Jerome Powell also showed caution regarding the timing of rate cuts during the first FOMC press conference of 2024. However, he delivered an encouraging speech on the state and trajectory of the American economy, stating that he had "confidence in inflation converging toward its target" and that it would be important to cut rates "neither too late nor too little," lest it weigh too heavily on the US economy. Despite displaying optimism, the Fed retains flexibility regarding the timing of rate cuts. On the back of Powell’s more hawkish tone and the stronger-than-expected rate of job creation, the rates market has repriced expectations for a first rate cut from March to May.

Market reaction

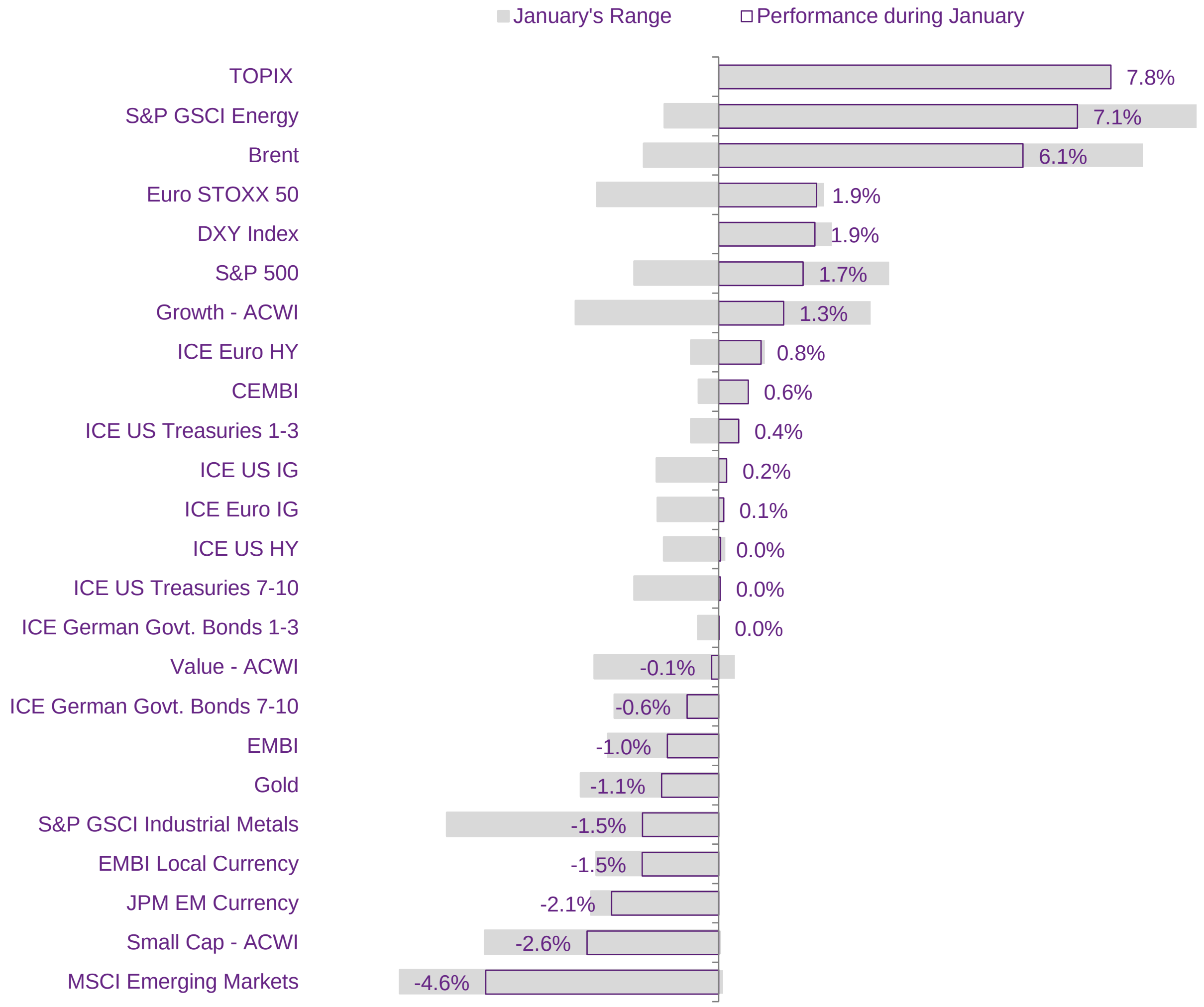
The measures of implied volatility, such as the VIX and the MOVE, remained contained, signalling no uptick in stress at the beginning of the year. The TOPIX recorded the best equity performance with an 8% increase. After a hesitant start in January, US equity markets appreciated in the latter part of the month, driven by large-cap stocks and earnings. Despite an encouraging end to 2023, US small caps lost ground, declining by 4% for the month. In the eurozone, the Euro Stoxx 50 modestly advanced with a 2% gain since the beginning of the year. The Chinese market lagged, experiencing more than a 6% loss as the real estate crisis, the deflationary pressures, and the lack of government support to restore confidence continue to weigh on the economy.

Government bond yields increased throughout the month, surpassing 2.3% on the Bund and nearing 4.2% on the US T-Note, before easing following communications from central bankers on both sides of the Atlantic. Credit spreads of US High Yield widened significantly (+21bps) concurrently with the troubles of a regional bank in the US, which announced significant losses related to commercial real estate loans. Finally, oil prices advanced by more than 6% at the beginning of the year as tensions in the Red Sea led to a more than 40% reduction in the volume of trade passing through the Suez Canal.

Sources: Bloomberg & NIM Solutions. Data as of January 31, 2024

Cross Asset Total Performance in Local Currency

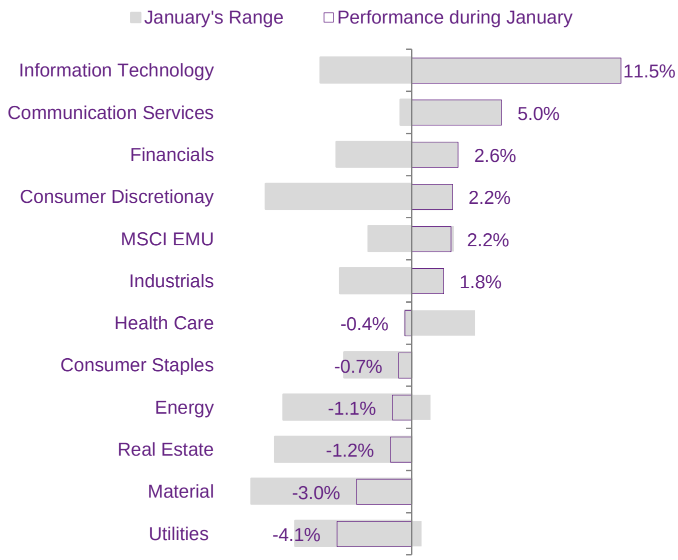
Past performance information presented is not indicative of future performance.



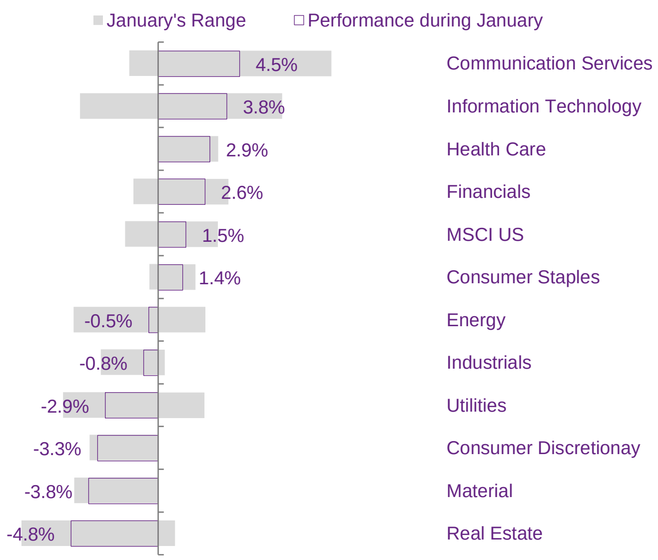
Sector Total Performance in Local Currency

Past performance information presented is not indicative of future performance.

MSCI EMU



MSCI US

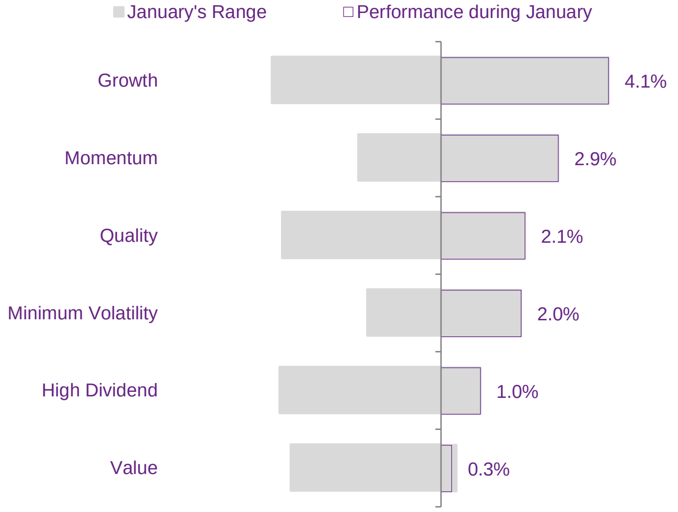


Source: Bloomberg & NIM Solutions. Data as of January 31, 2024.

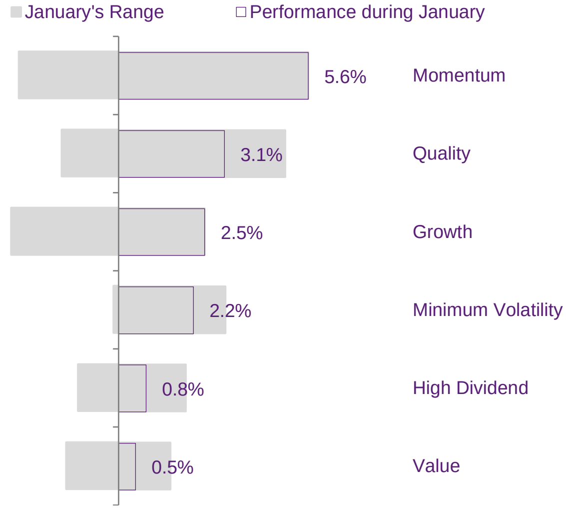
Style Total Performance in Local Currency

Past performance information presented is not indicative of future performance.

MSCI EMU



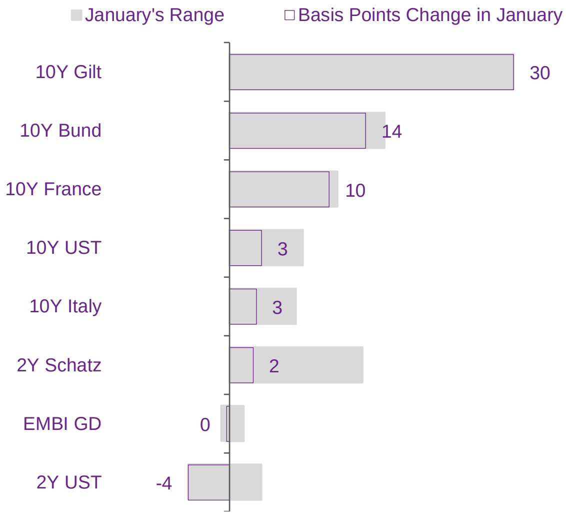
MSCI US



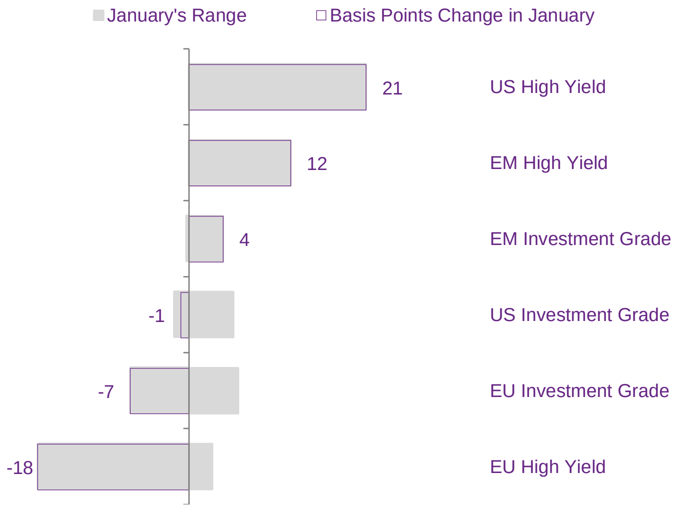
Net Yield Change

Past performance information presented is not indicative of future performance.

Bonds



Credit Spreads*



Credit spreads are OAS and correspond to Bloomberg indices

Source: Bloomberg & NIM Solutions. Data as of January 31, 2024.

Source: Bloomberg & NIM Solutions. Data as of January 31, 2024.