

New year, new worries.



The economy

- U.S. equities began the new year on a down note. During the week ending January 5, the markets were hampered by investors' concerns about the Federal Reserve's (Fed) less-than-dovish comments in minutes of the central bank's meeting in mid-December. Dovish refers to the views of a monetary policy advisor (for example, a central bank) which has a positive view of inflation and its economic impact and thus tends to favor lower interest rates.
- According to minutes from the Fed's December 12-13 meeting, released this week, the Federal Open Market Committee (FOMC) members believed that there may be no need for further increases in the federal-funds rate, as there was progress in bringing inflation down to the central bank's 2% target. Nonetheless, the FOMC did not rule out further rate hikes if needed, as it is possible that "the economy could evolve in a manner that would make further increases in the target range appropriate." The FOMC participants also "pointed to the decline in inflation seen during 2023, noting the recent shift down in six-month inflation readings in particular, and to growing signs of demand and supply coming into better balance in product and labor markets as informing that view." The Fed's so-called dot plot of economic projections, released following the FOMC meeting in December, indicated a median federal-funds rate of 4.6% at the end of 2024, down from its previous estimate of 5.1% issued in September, signaling that the central bank could implement three 25-basis point (0.25%) rate cuts this year.
- There was significant news during the week regarding the U.S. labor market. The Department of Labor announced that U.S. payrolls expanded by a greater-than-expected total of 216,000 in December, up from the 173,000 jobs added in November. The unemployment rate was unchanged at 3.7%. Employment in the government, health care, and social assistance sectors increased 52,000, 38,000, and 21,000, respectively, in December. Conversely, the transportation and warehousing sector shed 23,000 jobs during the month. Additionally, the government revised the growth in payrolls for October and November downward by a total of 71,000. Average hourly earnings rose 0.4% for the month and 4.1% year-over-year. The 12-month increase was marginally higher than the 4.0% annual rise measured in November.
- According to the Department of Labor's Job Openings and Labor Turnover Survey (JOLTS), a gauge of the status of the U.S. labor market, job openings in the U.S. decreased by 62,000 (0.7%) to 8,790,000 in November (the most recent reporting period)—the lowest level since February 2021—and were down 18.2% from the 10,746,000 openings a year earlier. However, the total remained well above the pre-pandemic level of 6,995,000 openings in February 2020. There were significant month-over-month declines in open positions in the transportation, warehousing, and utilities sector, and the federal government, and an increase in job openings in wholesale trade. The job openings rate (calculated by dividing the number of job openings by the sum of the total number of employees and the number of job openings) dipped 0.2 percentage point to 3.4% in November, and notably lagged the 6.5% rate in November 2022. The relatively weaker labor market data could ease upward pressure on wages, further slowing inflation.
- The Institute for Supply Management's (ISM) Purchasing Managers Index (PMI) of manufacturing activity rose 0.7 percentage point to 47.4 in December. While the index signaled that the manufacturing sector contracted for the 12th time in the past 13 months, it is showing signs of strengthening; a PMI reading above 48.7 indicates expansion in manufacturing activity. Additionally, the ISM's Production Index posted a gain of 1.8 percentage points to 50.3 in December, denoting growth in the sector. While the Employment Index was up 2.3 percentage points to 48.1 during the month, it remained in contraction territory; a reading above 50.4 indicates expansion in employment).

Stocks

- Global equities were down for the week. Developed markets fared better than emerging markets.
- U.S. equities recorded negative returns during the week. Health care and utilities were the top-performing sectors, while information technology and consumer discretionary lagged. Value stocks led growth, while large caps outperformed small caps.

Bonds

- The 10-year U.S. Treasury note yield increased to 4.05% during the week.
- Global bond markets lost ground for the week.
- High-yield bonds led the markets, followed by corporate bonds and government bonds.

The Numbers as of January 5, 2024	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI (\$)	-1.8%	18.0%	17.9%	714.2
MSCI EAFE (\$)	-1.5%	13.3%	12.3%	2202.5
MSCI Emerging Mkts (\$)	-1.9%	5.0%	2.1%	1004.3
US & Canadian Equities				
Dow Jones Industrials (\$)	-0.6%	13.0%	13.8%	37466.1
S&P 500 (\$)	-1.5%	22.3%	23.3%	4697.2
NASDAQ (\$)	-3.2%	38.8%	40.9%	14524.1
S&P/ TSX Composite (C\$)	-0.1%	8.0%	7.3%	20937.6
UK & European Equities				
FTSE All-Share (£)	-0.8%	3.0%	0.4%	4196.4
MSCI Europe ex UK (€)	-0.3%	13.3%	9.0%	1678.7
Asian Equities				
Topix (¥)	1.1%	26.5%	28.1%	2393.5
Hong Kong Hang Seng (\$)	-3.0%	-16.4%	-21.5%	16535.3
MSCI Asia Pac. Ex-Japan (\$)	-2.2%	2.3%	-0.6%	517.4
Latin American Equities				
MSCI EMF Latin America (\$)	-3.3%	21.0%	22.2%	2576.2
Mexican Bolsa (peso)	-2.1%	15.9%	10.6%	56176.9
Brazilian Bovespa (real)	-1.7%	20.3%	22.6%	131969.7
Commodities (\$)				
West Texas Intermediate Spot	3.0%	-8.0%	0.2%	73.8
Gold Spot Price	-1.2%	12.0%	11.3%	2042.1
Global Bond Indices (\$)				
Bloomberg Global Aggregate (\$)	-1.4%	4.3%	4.0%	465.0
JPMorgan Emerging Mkt Bond	-1.7%	8.6%	8.3%	834.0
10-Year Yield Change (basis points*)				
US Treasury				
UK Gilt	17	17	33	4.05%
German Bund	26	12	24	3.79%
Japan Govt Bond	13	-41	-16	2.16%
Canada Govt Bond	0	19	18	0.61%
Currency Returns**	15	-4	8	3.26%
US\$ per euro				
Yen per US\$	-0.9%	2.2%	4.0%	1.094
US\$ per £	2.6%	10.4%	8.5%	144.73
C\$ per US\$	-0.1%	5.3%	6.8%	1.272

Source: Bloomberg. Equity-index returns are price only, others are total returns.

*100 basis points = 1 percentage point.

**Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

Important information

Index returns are for illustrative purposes only and do not represent actual investment performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

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