

## DECEMBER 2023 – MONTHLY MARKET REVIEW

Market Performance%	DEC 23	YTD*
S&P500	+3.91%	+26.26%
NASDAQ	+5.03%	+44.70%
DAX	+2.16%	+20.31%
Nikkei	+0.21%	+30.90%
Hang Seng	+1.43%	-10.46%
MSCI EM	+4.40%	+10.12%

\*Local Returns-to-date calculated as of month end

### Macro Developments

#### United States: stable economy and hawkish FED

November saw a strong uptick in consumer activity, with MoM core retail sales up by 0.4% and industrial production rising by 0.2%. The surprise decline in the unemployment rate to 3.7% and the low level of fresh claims for unemployment were clear indicators of a tight labour market. In 4Q, real-time GDP estimates continued their quarterly pattern of 0.6%. While core inflation stayed at 4% in November, overall inflation dropped to 3.1% YoY. FED maintained its interest rate range at 5.25-5.50% for the third straight meeting, however Powell suggested that rates may be lowered in 2024.

#### Europe: inconsistent results, declining inflation, and central banks on pause

October saw a weakening of Eurozone activity, with retail sales at +0.1% remaining steady and industrial production down by 0.7% MoM. The UK's GDP shrank by 0.3% in October, resulting in a quarterly revision of the GDP for the 3Q to -0.1%. On the other hand, monthly growth in underlying retail sales was 1.3% in November. December saw variations in PMI indices as well: the UK expanded quicker (51.7) and the Eurozone continued to decrease (47.0). November saw an unexpected decline in UK inflation, with core inflation coming in at 5.1% and total inflation dropping to 3.9% YoY. The BoE (5.25%), the Swiss National Bank (1.75%), and the ECB (4%) all maintained their official interest rates.

#### ROW: Bank of Japan stability; deflation (again); China's economic tenacity

With a 10.1% increase in retail sales and a 6.6% YoY gain in industrial production, China's economic activity improved in November. While services grew (50.4), the manufacturing sector was still in contraction (49.0) according to the timely NBS PMI indices for December. Deflation continued in November, with core inflation staying steady at 0.6% and the total rate dropping to -0.5% YoY, mostly due to a drop in food costs. Beijing declared that, for the upcoming year, industrial policy will be the top economic priority, surpassing even domestic demand. The industrial and services sectors in Japan appeared to be doing better in the 4Q, according to the Tankan survey on business conditions. In November, core and general inflation fell to 3.8% and 2.8%, respectively. Despite rumors that negative interest rates may soon come to an end, the BoJ persisted with its monetary policy.

#### Market Impact

Global stock markets hit a record high for the year, and as the year came to a finish, there was more participation in the market. Meanwhile, the yield on ten-year government bonds fell, ending 2023 at or below the initial level. While Brent crude oil prices fell by 7.0% and European wholesale natural gas prices plummeted by 23%, gold saw a 1.3% rise.

#### Our Expectations

The FED is likely to wait for a decline in inflation data before determining the timing and extent of any potential cuts. Markets have already anticipated these developments and may continue to adjust in the near term. While the labour market remains robust, there is a gradual easing, coupled with improved inflation trends. These factors collectively support a measured shift towards a less restrictive central bank policy in 2024.

**This Economic Outlook report was prepared by the Aris PrimePartners Asset Management Investment team.**

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