



BROOKS MACDONALD

Chief Investment Office

Weekly Market Commentary

For professional advisers only



In Summary

- The bond market rally continued in earnest last week with US 2-year Treasury yields falling dramatically.
- The US Federal Reserve (Fed) is now in its pre-meeting communication blackout, but final comments from the Fed Chair helped Friday's rally.
- This week the focus is on the unemployment data with the number of new jobs expected to receive a boost from returning strikers.

The dovish pivot continued last week with bonds pricing in an increasing chance of US interest rate cuts. The 2-year Treasury yield fell by an impressive 0.4% last week alone. The market is now pricing in 134bps of interest rate cuts in the US by the end of next year. Equities were also buoyed by the pivot narrative, with the US and Europe posting solid gains.

One of the major drivers of last Friday's bond moves were comments from Fed Chair Powell. Powell did say that the US central bank was ready to raise interest rates further if the inflation picture warranted, but also added that monetary policy in his view was 'well into restrictive territory.' This latter comment was enough to revitalise the bond rally, after a retreat on Thursday, as investors assess that we have reached peak US policy and shift their focus to when rates will fall. We have now entered the Fed blackout window so markets will need to start responding to economic data rather than Fed speakers.

Chief among these data sets is the US employment report on Friday. Ahead of that reading we will receive the JOLTS report (which assesses hires and quits rates) and the weekly initial jobless claims. Economists expect the Nonfarm payrolls to have increased by 175k in November, a slightly faster pace than the underwhelming October numbers. The unemployment rate is expected to stay static at 3.9%. One of the factors boosting the headline nonfarm numbers will be the return of c. 30,000 striking auto workers so some of the climb, versus October, may be artificial. Economists are expecting to see further evidence of slowing job creation but for the hiring and quits rate to remain low, keeping labour markets tight.

The US labour market has shown some signs of slowing in the last few months however with the JOLTS data pointing to layoffs near historical lows, the impact on consumer spending and demand may be quite muted short term. Investors expect weakening jobs growth to quickly filter into demand and therefore inflation, however if employers are reticent about laying workers off due to the recent memory of the very tight jobs market in 2021 and 2022, this transmission mechanism may be slower this time around.

Economic indicators (week beginning 27 November 2023)

Day	Data Release	Consensus	Prior	Actual
Monday	United States New Home Sales Oct	723k	759k	679k
Tuesday	United States Conf. Board Consumer Confidence Nov	101.0	102.6	102.0
	Australia Retail Sales MoM Oct	0.1%	0.9%	-0.2%
Wednesday	Japan Industrial Production MoM Oct P	0.8%	0.5%	1.0%
	Italy Manufacturing Confidence Nov	96.0	96.0	96.6
	United States GDP Annualized QoQ 3Q S	5.0%	4.9%	5.2%
	Germany CPI YoY Nov P	3.5%	3.8%	3.2%
	Germany CPI MoM Nov P	-0.1%	0.0%	-0.4%
	United States MBA Mortgage Applications 45597	--	3.0%	0.3%
	Italy Consumer Confidence Index Nov	102.0	101.6	103.6
	United Kingdom Mortgage Approvals Oct	45.8k	43.3k	47.4k
	United States Wholesale Inventories MoM Oct P	--	0.2%	-0.2%
Thursday	United States Initial Jobless Claims 45962	220k	209k	218k
	Japan Jobless Rate Oct	2.6%	2.6%	2.5%
	Italy CPI EU Harmonized YoY Nov P	1.1%	1.8%	0.7%
	France CPI YoY Nov P	3.7%	4.0%	3.4%
	China Manufacturing PMI Nov	49.8	49.5	49.4
	Italy CPI EU Harmonized MoM Nov P	-0.1%	0.2%	-0.4%
	Japan Job-To-Applicant Ratio Oct	1.29	1.29	1.30
	Canada Quarterly GDP Annualized 3Q	0.1%	-0.2%	-1.1%
	United States Personal Income Oct	0.2%	0.3%	0.2%
	United States Personal Spending Oct	0.2%	0.7%	0.2%
	Japan Capital Spending YoY 3Q	3.4%	4.5%	3.4%
	Germany Unemployment Change (000's) Nov	20.0k	30.0k	22.0k
	Canada GDP MoM Sep	0.0%	0.0%	0.1%
	France GDP QoQ 3Q F	0.10%	0.10%	-0.1%
	United States MNI Chicago PMI Nov	46.0	44.0	55.8
Friday	France HCOB France Manufacturing PMI Nov F	42.6	42.6	42.9
	United States ISM Manufacturing Nov	47.7	46.7	46.7
	Canada Unemployment Rate Nov	5.8%	5.7%	5.8%
	China Caixin China PMI Mfg Nov	49.5	49.5	50.7
	Japan Jibun Bank Japan PMI Mfg Nov F	--	48.1	48.3
	Italy HCOB Italy Manufacturing PMI Nov	45.1	44.9	44.4
	Germany HCOB Germany Manufacturing PMI Nov F	42.3	42.3	42.6
	United Kingdom S&P Global/CIPS UK Manufacturing PMI Nov F	46.7	46.7	47.2
	Canada S&P Global Canada Manufacturing PMI Nov	--	48.6	47.7
	United States S&P Global US Manufacturing PMI Nov F	--	49.4	49.4
	Australia Building Approvals MoM Oct	14%	-4.6%	7.5%
	United Kingdom Nationwide House PX MoM Nov	-0.4%	0.9%	0.2%
	United Kingdom Nationwide House Px NSA YoY Nov	-2.3%	-3.3%	-2.0%
	Canada Net Change in Employment Nov	15.0k	17.5k	24.9k
	Italy GDP WDA QoQ 3Q F	0.0%	0.0%	0.1%
	Italy GDP WDA YoY 3Q F	0.0%	0.0%	0.1%

Source: Bloomberg, data accessed 4 December 2023.

Economic indicators (week beginning 4 December 2023)

Day	Data Release	Consensus	Prior
Monday	Japan Tokyo CPI Ex-Fresh Food YoY Nov	2.4%	2.7%
	United States Durable Goods Orders Oct F	-5.4%	-5.4%
	United States Factory Orders Oct	-3.0%	2.8%
	Australia Melbourne Institute Inflation MoM Nov	--	-0.1%
Tuesday	Australia RBA Cash Rate Target 38687	4.35%	4.35%
	France HCOB France Services PMI Nov F	45.3	45.3
Wednesday	Canada Bank of Canada Rate Decision 39052	5.0%	5.0%
	Australia GDP SA QoQ 3Q	0.4%	0.4%
	United States ADP Employment Change Nov	120k	113k
	Australia GDP YoY 3Q	1.8%	2.1%
	Germany Factory Orders MoM Oct	0.1%	0.2%
	United States Trade Balance Oct	-\$64.2b	-\$61.5b
Thursday	United States Initial Jobless Claims 37591	222k	218k
	Japan GDP SA QoQ 3Q F	-0.5%	-0.5%
	Japan GDP Annualized SA QoQ 3Q F	-2.0%	-2.1%
	Japan BoP Current Account Balance Oct	¥1689.3b	¥2723.6b
	Italy Industrial Production MoM Oct	-0.4%	0.0%
	Japan GDP Deflator YoY 3Q F	5.1%	5.1%
	China Trade Balance Nov	\$55.30b	\$56.53b
	United States Wholesale Inventories MoM Oct F	-0.2%	-0.2%
	China Exports YoY Nov	-0.9%	-6.4%
Friday	United States Change in Nonfarm Payrolls Nov	180k	150k
	United States U. of Mich. Sentiment Dec P	62.0	61.3
	Germany CPI YoY Nov F	3.2%	3.2%
	Germany CPI MoM Nov F	-0.4%	-0.4%
	United States MBA Mortgage Applications 37226	--	0.3%
	United States Unemployment Rate Nov	3.9%	3.9%
	Germany Industrial Production SA MoM Oct	0.1%	-1.4%
	France HCOB France Composite PMI Nov F	44.5	44.5
	France Industrial Production MoM Oct	0.2%	-0.5%
	Australia Trade Balance Oct	A\$7500m	A\$6786m

Source: Bloomberg, data accessed 4 December 2023.

Asset market performance

Index	Value	As at Friday close		YTD	
		CR	TR	CR	TR
MSCI UK GBP	2159	0.50%	0.53%	0.68%	4.77%
MSCI USA USD	4381	0.96%	1.00%	20.35%	21.64%
MSCI Europe ex UK EUR	186	1.25%	1.25%	11.57%	14.12%
MSCI AC Asia ex JPN USD	503	-0.10%	-0.09%	-0.53%	1.94%
MSCI Japan JPY	1461	-0.50%	-0.50%	27.01%	29.56%
MSCI Emerging Markets USD	982	0.18%	0.20%	2.69%	5.17%
Barclays Sterling Gilts GBP	221		0.99%		-2.00%
GOLD USD	2072	3.57%		13.61%	
WTI Oil USD	74	-1.95%		-7.71%	
MSCI PIMFA Income		0.62%	0.66%	3.16%	5.48%
MSCI PIMFA Balanced		0.60%	0.63%	4.22%	6.50%
MSCI PIMFA Growth		0.56%	0.59%	5.74%	7.97%

Source: Bloomberg, MSCI; please see important information, data accessed 4 December 2023.

YTD denotes year to date, TR denotes total return and CR denotes capital return.



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