



## CIO OFFICE MORNING MARKET WRAP

19 December 2024

US equities experienced a sharp selloff yesterday following the Fed's decision to cut rates by 25bps, bringing the benchmark range to 4.25%-4.5%. The MSCI World Index fell -2.6% driven by a -2.9% slump of the S&P 500, its worst Fed decision day performance since 2001, and the Nasdaq 100 declined -3.6%, with tech stocks leading the retreat. Tesla plummeted -8.3%, reversing recent gains and dragging down the consumer discretionary sector, which fell -4.7%, the largest decline among major sectors. The 10-year Treasury yield rose 10 basis points to 4.50%, reflecting heightened expectations for tighter financial conditions ahead. The dollar gained +0.9%, hitting its highest level since November 2022. Fed Chair Powell stressed the importance of achieving further progress toward the 2% inflation target before considering additional rate cuts. Updated projections showed the Fed now anticipates only two rate cuts in 2025, down from earlier forecasts, which disappointed markets hoping for more aggressive easing. The outlook was further clouded by concerns about potential tariff policies under the Trump administration, which could exacerbate inflationary pressures.

In Europe, the MSCI Europe Index fell -2.6%. Renault and Canal+ bucked the trend, gaining +6.4% and +9.9% on strong corporate developments. However, broader losses were driven by weakness in basic resources and consumer discretionary stocks. UK inflation rose to 2.6% in November, an eight-month high driven by higher motor fuel and clothing costs, reducing the likelihood of a BOE rate cut. Markets now anticipate only two cuts in 2025, as persistent inflationary pressures, including 5% services inflation, fuel stagflation concerns. UK gilt yields climbed three basis points to 4.56% after the inflation data, while Germany's 10-year bond yield increased to 2.25%. The euro weakened -1.2% to \$1.0368, while the British pound dropped -1.0%.

Earlier yesterday, Asian equity markets were mixed. The MSCI China Index rose +0.8%, supported by a rebound in Chinese stocks following regulatory guidelines aimed at boosting market value for state-owned enterprises. Japan's TOPIX fell -0.3%, with caution prevailing ahead of the BOJ's policy decision. Gains in automakers such as Nissan and Honda, lifted by merger speculation, provided limited support.

Brent crude oil edged up +0.3% to \$73.4 per barrel while gold dropped -2.3% to \$2,585 per ounce, hurt by the stronger dollar and rising yields. Bitcoin fell sharply, losing 5.2% to \$100,886 as risk assets sold off broadly.

### Markets this morning:

Today morning, Asia echoed the US selloff, with regional indices falling as much as -1.5% across Japan, Australia, South Korea, and China. The Hang Seng Index in Hong Kong dropped -1.0%, while the Shanghai Composite slid -0.7%. The BOJ left rates unchanged at 0.25%, with Governor Ueda stating that there is no immediate need for a hike given manageable inflation levels and political considerations. However, a dissenting vote within the board favoring a hike to 0.5% has heightened expectations for potential policy adjustments as early as January. The Japanese yen hovered near 155 per dollar in response. Australian bond yields rose nine basis points, while the South Korean won weakened to a 15-year low.

### Upcoming Key events/data:

Looking ahead, markets will focus on a series of critical data points, including US GDP revisions, personal income and spending, and the PCE inflation index. The BOE is set to announce their monetary decision today. Tomorrow, data on Eurozone consumer confidence and China's loan prime rate updates are set to be released.

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