US Market Wrap

19th January 2024: S&P 500 closes at record high led by Tech gains after a strong UoM survey

- **SNAPSHOT**: Equities up, Treasuries flattened, Crude down, Dollar flat.
- **REAR VIEW**: Strong prelim UoM headline, while inflation expectations fall; Atlanta Fed GDPnow Q4 tracker unchanged at 2.4%; Dismal UK Retail Sales; Goolsbee, Daly and Bostic speak ahead of blackout; SAVE sees Q4 revenue at top end of guidance range; Europe to block AMZN-IRBT deal; Strong TRV earnings; PPG next quarter profit view light.
- **WEEK AHEAD**: Highlights include BoJ, ECB, BoC, PBoC, PMIs, US GDP & PCE. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing PBoC, BoJ, BoC, ECB; Reviewing ECB Minutes. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON] UAL; [TUES] GE, JNJ, RTX, PG, VZ, LMT, NFLX, TXN, ISRG; [WED] ASML, ELV, T, ABT, LRCX, TSLA, IBM, NOW; [THURS] BX, CMCSA, NEE, UNP, TMUS, INTC, V; [FRI] AXP. To download the full estimates, please click here.

MARKET WRAP

Stocks saw gains throughout the session to see the S&P 500 hit a fresh record high with Technology names doing a lot of the heavy lifting. The yield curve flattened with front-end yields rising ahead of supply next week. The highlight of the session was the UoM survey which saw a huge surge in consumer sentiment with jumps in both current conditions and expectations, while the inflation expectations dipped. The Dollar was flat, however, and failed to benefit from the strong data with DXY trading in a narrow range while AUD and CAD outperformed thanks to their cyclical nature. Oil prices settled in the red, however, despite the winter freeze in the US and heightened Middle East tensions. Highlights next week include BoJ, ECB and US PCE and GDP metrics with the data to be eyed to help gauge Fed expectations. Note, money markets briefly priced in less than a 50% probability of a cut in March today with Daly the latest to push back on near-term rate cuts but Bostic repeated he is open to changing his rate cut timing outlook depending on the data.

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GOOLSBEE (non-voter, dove), in a CNBC interview, said that what will enable the Fed "to become less restrictive" is if it has "clear evidence" that it is "on the path to get to the 2% inflation target." However, the Chicago Fed President declined to get into specifics on when and how much the Fed can be expected to cut. When asked how quickly he'll feel confident to start cutting rates, he said he doesn't like "tying his hands", but he did clarify we still have "weeks" of data. He also said in the interview, "The only thing I will say is what matters in my mind is the real restrictiveness, so the rate minus what's happening with inflation, so I think I agree with the premise that as inflation comes down, that opens the door for a reduction in restrictiveness." On the inflation progress, Goolsbee said the main thing in the short to medium term is the Fed needs to see more progress on housing inflation, "and we've seen some and we have indicators from market rents that we will see more but that's where we're focused."

DALY (2024 voter), speaking for the first time since Dec. 18th, said the Fed does not have inflation down to 2% yet and there is a lot of work left to do. On rates, Daly further added it is premature to think rate cuts are around the corner and it is far too early to declare victory. Further on the inflation footing, Daly said they need to get inflation on a consistent trajectory to 2% and require further evidence to feel confident to adjust the policy rate. However, the San Fran President noted any early signs that the labour market could falter, could also trigger a policy adjustment.

EXISTING HOME SALES: Existing home sales fell 1.0% M/M in December to 3.78mln, beneath the expected unchanged print of 3.82mln. Existing sales on a Y/Y basis dropped 6.2% while the median sales price rose 4.4% Y/Y to USD 382,600, the sixth consecutive month of Y/Y price increases. The inventory of unsold existing homes slumped 11.5% from the previous month to 1mln, or the equivalent of 3.2 months' supply at the current monthly sales pace. The NAR Chief Economist stated "The latest month's sales look to be the bottom before inevitably turning higher in the new year," adding that "Mortgage rates are meaningfully lower compared to just two months ago, and more inventory is expected to appear on the market in upcoming months."

UOM: The preliminary UoM consumer sentiment survey for January saw the headline jump to 78.8, well above the expected 70.0 and the prior 69.7. Internally, current conditions and forward-looking expectations rose to 83.3 (prev. 73.3) and 75.9 (prev. 67.4), respectively. On the inflation footing, 1yr ahead expectations fell to 2.9% from 3.1%, the lowest since December 2020, while the longer-term 5-10yr gauge dipped to 2.8% from 2.9%. On the release, Pantheon Macroeconomics said, "The key number, in the survey is the expectations index, because it has been a decent guide to growth in real consumption spending. If the rise in the January expectations index, to 75.9 from 67.4, is sustained through Q1, it will be consistent with another strong real consumption print, following the likely rise of around 2.5% in Q4."

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 2+ TICKS LOWER AT 111-04

Treasuries bear-flattened ahead of next week's 2s, 5s, and 7s supply and amid surging consumer confidence. At settlement, 2s +5.1bps at 4.408%, 3s +3.4bps at 4.180%, 5s +2.1bps at 4.070%, 7s +1.1bps at 4.119%, 10s +0.2bps at 4.146%, 20s -1.4bps at 4.481%, 30s -1.7bps at 4.355%.

INFLATION BREAKEVENS: 5yr BEI +0.4bps at 2.305%, 10yr BEI -0.6bps at 2.337%, 30yr BEI +1.0bps at 2.351%.

THE DAY: Treasuries extended lower into the APAC handover for the Friday session after Thursday's hot retail sales figures, where T-Notes found support at 111-01 in the wake of the Japanese CPI figures (Dec), which saw core Y/Y nudging lower to 3.7% from 3.8%, as expected, while the headline fell to 2.6% from 2.8%, above the expected 2.5% (Prev. 2.8%). Meanwhile, the BoJ conducted its scheduled bond-buying operations, capping the downside in govvies later in the APAC session. T-Notes stretched to a new low of 111-00 at the London handover, with an 11k ZF/3.5k ZB block steepener weighing, before recovering with Gilts after a much deeper fall than expected in the December UK retail sales (-3.2% vs exp. -0.5%).

T-Notes have marked session highs of 111-09+ at the NY handover, with the long end sustaining a bid out of Europe while the front end lagged, flattening the curve. The weakness in the front end was sustained through the NY morning, eventually weighing out the curve, with Fed's Goolsbee (nv, dove) on CNBC failing to give specifics on when the Fed would cut (albeit his economic/inflation commentary was dovish). T-Notes hit session lows of 110-26 after the Uni of Michigan preliminary consumer sentiment survey surged higher, that's despite the 1yr inflation expectations hitting its lowest (2.9%) since December 2020. A long-end bounce into the European close capped further losses in T-Notes, although the front end went on to make new lows later in the session. Note, into settlement Treasuries continued to pare off worst levels, albeit on thin headline newsflow although money markets did briefly assign under a 50% probability of a March rate cut.

Participants are now looking towards next week's 2s, 5s, and 7s supply, with PCE on Friday the data highlight (expectations are soft). The highlights next week globally: [Mon] PBoC; [Tues] BoJ, NZ CPI; [Weds] BoC, UK & EZ Flash PMIs; [Thurs] ECB, Tokyo CPI.

NEXT WEEK'S AUCTIONS: US to sell USD 60bln of 2yr notes on Tuesday, USD 61bln of 5yr notes and USD 28bln of 2yr FRNs both on Wednesday, followed by USD 41bln of 7yr notes on Thursday; all to settle on Jan 31st. Globally, the EU is expected to come in with some long-end taps early next week, UK 30yr syndication on Monday, Germany 3yr and 30yr green auctions on Tuesday, UK 4yr and German 15yr auctions on Wednesday, followed by a Japanese 40yr auction on Thursday. For EGB issuance alone, IFR notes scheduled fixed supply is set to drop dramatically to next week to c. EUR 15bln from EUR 46.9bln this week.

FED PRICING: March implied cut probability had nudged lower to 52% from 58% on Thursday, significantly down W/W from the 86% last Friday. 2024 cut pricing as a whole has fallen to 133bps from 141bps on Thursday, also significantly down from 157bps priced after Waller on Tuesday and 170bps after PPI last Friday.

STIRS:

- SR3H4 -3.0bps at 94.865, M4 -7.0bps at 95.270, U4 -8.5bps at 95.665, Z4 -8.5bps at 96.015, H5 -7.5bps at 96.295, M5 -6.0bps at 96.485, U5 -5.0bps at 96.580, Z5 -3.5bps at 96.610, H6 -3.0bps at 96.590, H7 -1.0bps at 96.485, H8 +0.0bps at 96.355.
- SOFR falls to 5.31% as of Jan 18th (prev. 5.32%), volumes fall to USD 1.746tln from 1.764tln.
- NY Fed RRP Op demand at USD 625bln (prev. 618bln) across 79 bidders (prev. 81).
- EFFR unchanged at 5.33% as of Jan 18th, volumes fall to USD 87bln from 88bln.

CRUDE

WTI (H4) SETTLED USD 0.70 LOWER AT 73.25/BBL; BRENT (H4) SETTLED USD 0.54 LOWER AT 78.56/BBL

The crude complex was lower on Friday, but settled the week in firmer territory amid heightened Middle East tensions. Nonetheless, oil-specific newsflow was light to end the week as WTI and Brent chopped between USD 72.99-74.63/bbl and 78.32-79.73/bbl, respectively, with noting obvious driving price action. Despite saying this, traders continue to monitor US supply given the current deep freeze hitting the Gulf coast - North Dakota oil output is estimated to be down 350-400k BPD and it may take one month to return to normal production, while Bloomberg said the winter freeze is keeping 15% of the gulf coast crude capacity shuttered. Elsewhere, in the weekly Baker Hughes rig count, oil fell 2 to 497, nat gas rose 3 to 120, leaving the total up 1 to 620. Looking ahead, participants will continue to monitor the geopolitical risk in the Middle East and Red Sea on top of next week's major risk events in the form of ECB, BoJ, US GDP & PCE, amongst others.

EQUITIES

CLOSES: SPX +1.23% at 4,839, NDX +1.95% at 17,313, DJIA +1.05% at 37,863, RUT +1.08% at 1,944.

SECTORS: Technology +2.35%, Financials +1.64%, Communication Services +1.63%, Consumer Discretionary +1.02%, Real Estate +0.96%, Industrials +0.61%, Energy +0.37%, Materials +0.10%, Health +0.06%, Utilities -0.12%, Consumer Staples -0.33%.

EUROPEAN CLOSES: DAX -0.07% at 16,555.13, FTSE 100 +0.03% at 7,461.43, CAC 40 -0.40% at 7,371.64, Euro Stoxx 50 -0.12% at 4,447.75, IBEX 35 -0.22% at 9,858.30, FTSE MIB -0.22% at 30,283.61, SMI -0.35% at 11,146.60.

STOCK SPECIFICS:

- **Spirit Airlines (SAVE)** +17%: Q4 revenue is expected to be at the high end of the initial guidance range, with adj. operating margin guidance for Q4 positively revised up by 450bps to negative 12-13%. Moreover, SAVE is looking to convince JBLU to appeal the judge’s decision blocking their merger.
- **Super Micro (SMCI)** +36%: Raised Q2 guidance citing strong markets and end customer demand for its rack-scale, AI and Total IT Solutions.
- **iRobot (IRBT)** -27%: European Commission plans to block Amazon's (AMZN) USD 1.7bln acquisition of iRobot, according to WSJ.
- **Wayfair (W)** +10%: Cutting its workforce by 1,650 employees (13% of global workforce) to deliver annualized cost savings of more than USD 280mln.
- **Huntsman (HUN)** flat: Lowered Q4 adj. EBITDA outlook.
- **Kaman (KAMN)** +101%: To be acquired by Arcline for USD 46/shr in cash. Note, KAMN closed Thursday at USD 22.43/shr.
- **Chegg (CHGG)** -2.2%: Downgraded at Goldman Sachs.

EARNINGS:

- **Travelers (TRV)** +6.5%: Q4 headline metrics topped Wall St. consensus.
- **PPG (PPG)** -2.5%: EPS and revenue beat, but Q1 profit guide was light.
- **State Street (STT)** +2%: Surpassed expectations on EPS, revenue, NII, and NIM alongside issuing a new USD 5bln share buyback programme. FY24 NII seen declining less than forecasted.
- **Comerica (CMA)** +0.6%: Mixed report. Revenue was light and sees FY24 NII falling 11%, not far from the expected, but it’s one of the largest drops of any bank.

US FX WRAP

The Dollar was flat on Friday with DXY trading between 103.26-54 alongside a flatter yield curve with the S&P 500 pushing on all-time highs. The data highlight was the prelim UoM consumer sentiment survey, which was very strong while inflation expectations dipped. The reaction was a choppy one with an initial dovish move seen on the inflation expectations but the hot sentiment eventually outweighed. Money markets now are pricing in a March cut with under a 50% probability ahead of the January Fed blackout period, in addition to US GDP (Thurs) and PCE (Fri) ahead of the FOMC's 31st Jan meeting.

The Euro was relatively flat vs. the Dollar, while the latest German Producer Prices data dipped more than expected. Attention turns to the ECB next week but looking ahead, JPMorgan expects the ECB to start cutting rates in June, against their prior forecast of September - Lagarde earlier in the week suggested that rate cuts could come by the Summer.

The Yen, also flat vs. the Buck on Friday but traded between a 147.85-148.80 range. The peaks in USD/JPY were seen in the European morning with Yen weakness seen throughout the Asia session despite Japan CPI data being broadly in line with expectations aside from the Y/Y headline which was slightly above, but still eased from the prior. Attention turns to the BoJ next week.

Cyclical currencies were mixed. NZD and GBP were flat vs. the Dollar with the latter softer vs. the Euro but AUD and CAD saw decent gains and were the G10 outperformers with the NOK. The upside in the CAD came despite weaker-than-expected November retail sales data with eyes on the BoC next week. GBP was subdued after dismal retail sales data with Cable dipping beneath 1.2700. The Aussie was underpinned by overnight gains in Iron ore while NZD was weighed on by a deeper contraction seen in the PMI data.

CNH saw gains in the US session accompanied by upside in China ADRs albeit on little news flow. Attention turns to the PBoC LPR next week which is likely to see rates left unchanged, in fitting with the MLF this week.

EMFX was mixed. BRL and COP were flat while MXN saw mild strength but CLP outperformed LatAm. ZAR was weaker along with the TRY but RUB was the outperforming currency despite weakness in crude prices. In CEE, PLN saw decent gains. Note, the Polish funds minister announced that the European Commission confirmed that Poland meets the last three conditions required to receive EUR 76bln in structural funds.