



CIO expects rates to come down in 2024, supporting both equity and bond markets; the speed of recent gains is likely to moderate. (UBS)

Markets pricing in good news on inflation and rates

13 February 2024, 4:14 pm CET, written by UBS Editorial Team

The S&P 500 ended Monday at its highest level in 20 months, leaving the index up more than 20% for the first time in 2023. The US Treasury market has also been holding onto recent gains.

The yield on the 10-year Treasury edged lower on Monday to 4.2%, down from a 16-year high struck in late October.

Behind the positive sentiment is the expectation of continued good news on inflation that would allow central banks to bring rates lower swiftly in the new year. The extent of this enthusiasm will be put to the test this week with the release of the US consumer price index (CPI) for November, along with policy decisions from both the Federal Reserve and the European Central Bank.

We continue to expect a benign macroeconomic outlook heading into 2024. But with so much good news already priced in, there is a risk that even modest disappointments could lead to market volatility.

Investors will be looking for further good news on US inflation to offset recent concerns over the continued strength of the labor market. Confidence had started to build that employment conditions were easing gradually, removing a major impediment to Fed rate cuts for 2024. This optimism was dented by data on Friday pointing to more robust job creation than had been expected in November, while unemployment fell back to 3.7% from 3.9%.

So, investors will be hoping for reassurance from today's inflation data that price pressures are easing sufficiently to justify decisive Fed rate cuts next year. The consensus forecast is for headline annual inflation to slow to 3.1% for November, from 3.2% in the prior month and a peak of 9.1% in June 2022. Economists expect the core rate, excluding food and energy, to hold steady at an annual 4% while the monthly rate accelerates slightly to 0.3% from 0.2%. Any positive

surprises will likely provide support for the recent rally in both bonds and stocks. Equally, markets could be sensitive to an outcome that is above these projections.

The Fed's policy meeting on Wednesday comes against a backdrop of ambitious market assumptions about the pace of easing next year. Earlier in the month, markets were pointing to around five 25-basis-point cuts over the course of 2024, starting early in the new year. Such expectations have been scaled back in the wake of the November employment report. However, markets are still implying around four rate cuts, with a roughly 50/50 chance of the process getting under way by the March meeting. That looks too optimistic, in our view, setting the market up for a potential disappointment based on the Fed meeting. Aside from the tone of Fed commentary, the key focus is likely to be the dot plot, which charts the rate expectations of top officials.

The ECB could also seek to push back against market expectations for the speed of rate cuts at its meeting on Thursday. As with the Fed, investors are bracing for a roughly 50% chance of a rate cut as early as March—with between 100 and 125 basis points of easing for the year overall. Although this is down from a peak of around 150 basis points over the year, this still looks excessive to us, and we are projecting 75 basis points of cuts. President Christine Lagarde could take the meeting this week as an opportunity to reinforce her inflation-fighting credentials by adopting a more hawkish tone. In addition, if business activity survey readings, released later this week, are stronger than expected, this could cause the market to further scale back expectations for lower borrowing costs in 2024.

So, while we expect rates to come down in 2024, supporting both equity and bond markets, the speed of recent gains is likely to moderate. In particular, we now only see modest upside for global and US equities. With economic growth set to slow, quality stocks are likely to outperform in our view. We remain most preferred on quality bonds, and we expect the yield on the 10-year US Treasury to end 2024 at 3.5% compared to around 4.2% at present.

Main contributors - Solita Marcelli, Mark Haefele, Dean Turner, Christopher Swann, Vincent Heaney, Matthew Carter, Jon Gordon

Read the original report : [Markets pricing in good news on inflation and rates, 12 December 2023.](#)

Disclaimer

This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. This document and the information contained herein are provided solely **for your information** and UBS marketing purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.

Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document's accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS.** Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof.

All pictures or images ("images") herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.

Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

Additional Disclaimer relevant to Credit Suisse Wealth Management

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse to any registration or licensing requirement within such jurisdiction. Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can opt out from receiving these materials at any time by informing your Relationship Manager.

Except as otherwise specified herein and/or depending on the local Credit Suisse entity from which you are receiving this report, this report is distributed by Credit Suisse AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Credit Suisse AG is a UBS Group company.

Please visit [<https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html>] to read the full legal disclaimer applicable to this material.

© UBS 2024. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.