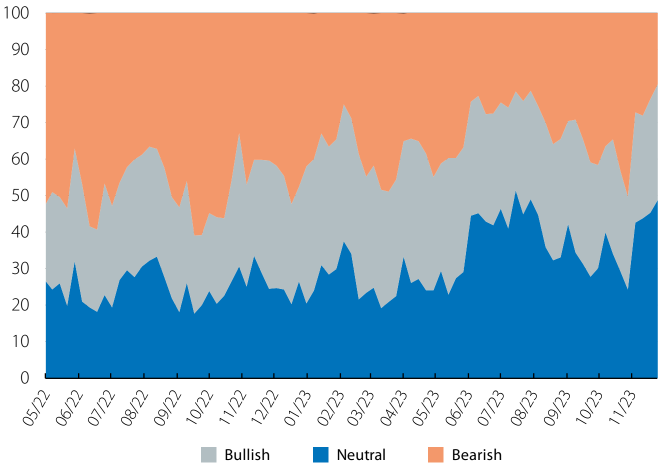
Expectations of a soft landing lead to a rally in the markets

Rapid shift in market sentiment in November. From August to October, the tone in financial markets was dominated by the restrictive monetary policy, persistently above-target inflation, and expectations of rates remaining «higher for longer», which collectively weighed down the stock markets and drove up sovereign yields. But in the face of new economic data pointing to a soft landing in the major economies, the narrative in the markets changed course in November. This was thus a month in which investors showed a risk-on tone, prompting gains in the stock markets, declines in sovereign debt yields and, finally, favouring a weakening of the dollar against its main counterparts.

The central banks stop raising rates and the markets speculate on the first rate cuts. At their October meetings, the major central banks opted to hit the pause button and kept interest rates unchanged, following two years of steady rate hikes in what has been one of the most aggressive cycles of monetary policy tightening in recent decades. The markets have interpreted this pause as the end of the hiking cycle and the current levels as the peak rates on both sides of the Atlantic, a view which we share here at CaixaBank Research. However, several members of the major central banks stressed numerous times during the month that there is still a long way to go to reach the inflation target, emphasising that their strategy now involves keeping monetary policy in restrictive territory for some time to come. Indeed, formally, the central banks' communications still keep the door open to further potential rate rises if required. Yet despite these messages, in November the markets ratcheted up their expectations of rate cuts in 2024, driven by the cooling of economic activity indicators and the decline in the latest inflation data. Specifically, in the case of the Fed, at the end of November investors brought forward their expectations regarding the first rate cut to March 2024 and projected cumulative cuts of –115 bps in the year as a whole (in October they pointed to June for the first rate cut and to cumulative cuts of 65 bps). As for the ECB, the implicit market rates reflected expectations that the first rate cut would be brought forward to March (previously, April), with anticipated cumulative declines of 120 bps in 2024 (previously, 85 bps).

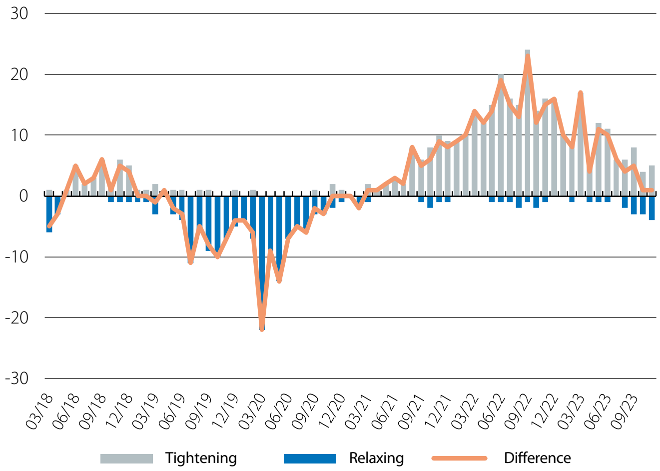
Sovereign bond yields record their worst month in years. These expectations of a pivot in monetary policy occurring sooner rather than later in 2024 translated into a significant rally in sovereign debt. 10-year sovereign rates amassed declines of over 60 bps in the US and of almost 40 bps in Germany, marking the biggest movements since 2011 in the case of the US and since 2021 for Germany, thereby undoing a large part of the increases registered during the second half of the year. Euro area periphery economies saw their risk premiums narrow, as they experienced even sharper declines than the core economies, boosted by Italy whose sovereign debt rating was confirmed by Moddy's and Fitch. Short-term yields also experienced declines, albeit more limited than those

US: market sentiment
(%)



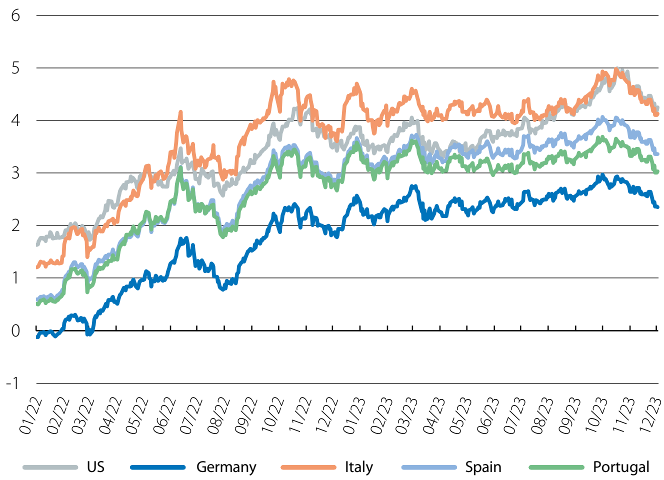
Note: *Percentage of respondents to the American Association of Individual Investors survey regarding their sentiment: optimistic (bullish), neutral or pessimistic (bearish).*
Source: *CaixaBank Research, based on data from Bloomberg.*

Central banks that change rates
(Number)



Note: *Sample of 35 central banks, comprising 11 from advanced economies and 24 from emerging economies.*
Source: *CaixaBank Research, based on data from Bloomberg.*

10-year sovereign debt yields
(%)



Source: *CaixaBank Research, based on data from Bloomberg.*

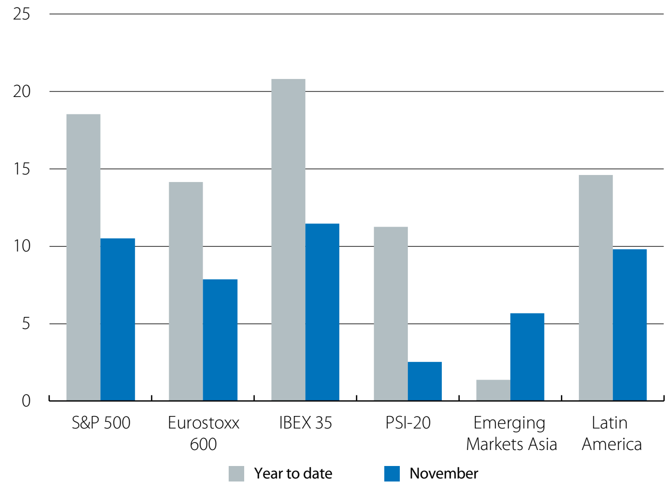
in the longer sections of the curve (e.g. of around 40 bps and 20 bps in the case of 2-year sovereign rates in the US and Germany, respectively), meaning that the sovereign yield curves maintain their inverted slopes.

Volatility falls to a low in the equity market. The higher risk appetite favoured a decline in volatility (in the case of the S&P 500, bringing it down to the lows of January 2020) and an improvement in the performance of the stock market in November. The main indices thus posted their best month so far this year, with gains of almost 8% in the Eurostoxx 50 and of around 10% in the S&P 500. In Europe, the IBEX 35 performed particularly well, reaching its highest level this year following five weeks of consecutive gains (its best streak since the end of March). Significant gains were also recorded in emerging markets, with the MSCI EM index up just over 7%, mainly due to rallies in the Latin American indices (with Argentina leading the charge after Javier Milei's presidential victory). In contrast, the Chinese stock markets closed almost flat, given the lack of momentum in its economy and the persistent difficulties of the real estate sector.

The dollar loses appeal. The protagonist of the month in the foreign exchange market was the US dollar, which, in a context favourable to risky assets, lost its appeal as a safe-haven asset. Specifically, the dollar recorded its worst month of 2023, depreciating against its main counterparts and the DXY index falling 3%. The euro/dollar touched 1.10 dollars momentarily, hovering most of the time at around 1.09 dollars. The dollar even offered a respite to the heavily depreciated Japanese yen, which in the same month went from registering its lowest values in the last 30 years to recovering to the levels of September 2023, in a context marked by speculation about the end of the Bank of Japan's yield curve control policy (see the Focus «Japan: a change of course for monetary policy» in this same report).

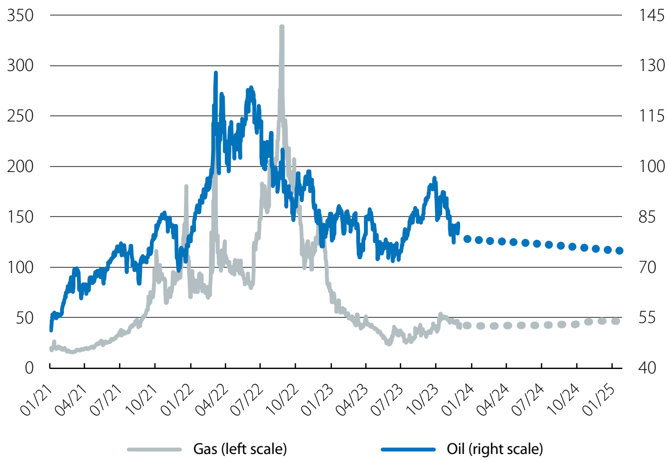
Oil looses steam with all eyes on OPEC and its allies. In the commodity markets, all attention focused on the OPEC and allies meeting held at the end of the month. Expectations around the meeting kept Brent prices within a contained range awaiting further announcements. As a result, the risk-on tone exhibited in other financial markets was not reflected in crude oil prices. As expected, member countries announced the extension of their production cuts to 1 million barrels a day (b/d), with additional voluntary cuts that could total 2 million b/d, effective between January and March 2024. The days before the meeting by numerous rumours about disagreements between African members and Saudi Arabia, which triggered some volatility in oil prices. The price of the barrel of Brent hovered well below the 90-dollar level at which it had ended October, to finally close at around 80 dollars/barrel in November. Prices were also affected by the growing nervousness about a slowdown in global demand, which is already apparent in the high levels of US inventories. On the other hand, the European benchmark for natural gas continued to decline, falling below 44 euros/MWh, in a context marked by high reserves for the time of year (around 95%) and a warmer-than-usual autumn.

International stock markets
Change (%)



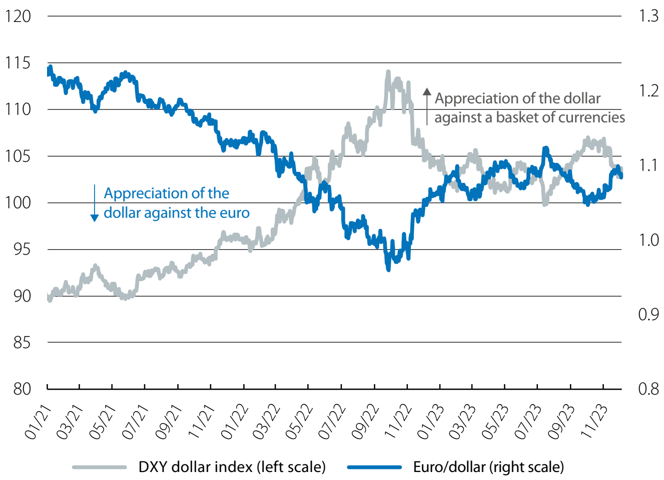
Source: *CaixaBank Research, based on data from Bloomberg.*

Oil and gas prices
(€/MWh) *$/barrel*



Notes: *TTF natural gas and Brent oil prices. The dots indicate the prices of oil and gas futures contracts for the months of January 2024 to April 2025.*
Source: *CaixaBank Research, based on data from Bloomberg.*

US: valuation of the dollar
Index *(Euro/dollar)*



Source: *CaixaBank Research, based on data from Bloomberg.*