Markets rally in January amid easing trade tensions and less hawkish Fed

- Unemployment rose to 3.9% in December from a 49-year low of 3.7% on a rising labor force.
- Wage growth picked up slightly to 3.2% in December, the third consecutive month above 3%.
- Business loan growth in December surged to 11.5%, the highest since July 2016.
- Business activity slumped in December amid mounting trade tensions and slower demand.
- Expectations for future rate hikes continued to decline amid softer growth and a more dovish Fed.
- Bond yields rose in January in tandem with a rebound in equities driven by improved market sentiment.

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Chart 1: Real GDP growth
- GDP growth decelerated to 3.4% in 3Q18 and is expected to slow for the second consecutive quarter in 4Q18 to 2.5%
- Source: U.S. Bureau of Economic Analysis

Chart 2: Unemployment rate
- Unemployment rose to 3.9% in December as a surge in payrolls did not offset higher labor participation.

Chart 3: Non-farm payrolls (new jobs)
- Non-farm payrolls rose 312,000 in December, far exceeding the 2018 average of 220,000, on job gains in the healthcare, food, and construction sectors.

Chart 4: Wage growth
- Wage growth picked up slightly to 3.2% in December, growing for the third month above 3%.
Core inflation was steady at 2.2% in December, while headline inflation dropped to a 16-month low of 1.9% on lower fuel prices.
Source: U.S. Bureau of Labor Statistics

C&I loan growth in December surged to 11.5%, the highest since July 2016 helped by looser corporate lending requirements.
Source: U.S. Board of Governors of the Federal Reserve System

Retail sales growth dipped slightly in November to 4.2% y/y, with December numbers delayed by the government shutdown.
Source: U.S. Census Bureau

Housing starts and home sales both rose in November, as hurricane Florence woes subsided.
Source: National Association of Realtors, U.S. Census Bureau

Manufacturing and non-manufacturing activity slumped in December amid mounting trade tensions and slower demand.
Source: Institute for Supply Management

The Federal Reserve target rate currently stands at 2.25-2.50%, and may remain unchanged through 2019.
Source: Thomson Reuters Eikon
Expectations for future rate hikes continued to decline amid concerns of softer future growth and a more dovish Fed.

Source: CME Group

Bond yields rose in January in tandem with the rebound in equities, and in line with partially improved market sentiment.

Source: Thomson Reuters Eikon

Stocks saw a strong rebound in January amid renewed investor confidence due to softer Fed policy and easing trade tensions.

Source: Thomson Reuters Eikon

The US dollar index gained in January amid good US economic conditions relative to other economies.

Source: Thomson Reuters Eikon