BNY MELLON

iFlow WEEK AHEAD

March 24, 2024

Spring

"From the end spring new beginnings." - Pliny the Elder
"The ground is cold, mud and snow squelches under foot, but how cheerful, gentle and inviting everything is!" – Anton Chekhov

Summary:
Spring Ahead in play as the UK and Europe shift clocks on March 31, Easter holidays are celebrated and as the seasonal forces are in play for markets as April usually lifts risk assets. This is the last week of time for the markets to rethink the mild winter. The actual equinox this week was delivered with cold weather, hot central bank decisions and with markets rushing to get ahead of the first quarter 2024 noise in rebalancing. We live in a time of hope and faith that soft landings for most of the world will be delivered after the FOMC meeting held onto three rate cuts as their central projection. The push of other central banker towards easing matters as well with the Swiss National Bank easing and the language shift of the Bank of England both clear that doves rather than hawks fly high in Spring. There is plenty of risk to consider ahead with economic data focused on inflation still over any growth stories. There is also the Easter Holiday illiquidity and solemnity to consider. We may soon shift into good news being bad trading despite the seasonality overlayed with the fears that markets have bet on an early Spring already and so require more than just good news to be great. Our new iFlow factor centrality index suggests we should be cautious on asset allocation pressures, worried about US shares being too exuberant and watching credit spreads as they have yet to react to the usual pain of high for longer policy.

Key Themes:

- **Geopolitics and the domestic agenda balance out risks.** The tragedy of an ISIS terror attack in Moscow killing over 130 people and burning a theater puts Russia into a day of mourning and gives Putin a domestic rallying point for "false flag" action against Ukraine in the war there. But the domestic security concerns and hit to public morale will matter. The US President Biden passage of $1.2trn in a budget that funds the US until September brings a domestic spending tailwind for the economy in an election year, but it is balanced by the risk of rival Trump becoming the" victim" of the courts as New York considers on Monday the confiscation of property to cover his nearly $0.5bn obligations from civil lawsuits. In China, the ongoing property market troubles are downplayed along with local government debt, which left Premier Li admitting overall demand is "still insufficient" leaving open further stimulus hopes. Risk of larger conflicts between the US/Russia/China and others are constrained by domestic concerns and leave many investors waiting out policy prescriptions rather than chasing momentum. The surprise result is less not more volatility from conflicts in Israel and Ukraine.
- **No landing talk drives everything rally**. The 1Q growth globally was better, need for less cuts from the FOMC clear – and with rest of the world on course for mid-year easing. The FOMC dot-plot last week keeps open June rate cut possibilities, but it lifted the growth and core inflation outlooks. The oddity of stocks and bonds and commodities all rallying together follows the last week with future economic data, speeches from central bankers and ongoing politics all key to this theme continuing.
- **TARA fights TINA**. The new asset allocation mantra of "There are reasonable alternatives" to "there is no alternative" to stocks will be tested this week ahead as markets see the first quarter rebalancing. The roll of fixed income in offsetting risks from equity volatility has been in play and clearly shows up in our iFlow correlation of stock to bond flows with a negative correlation over -0.8% - this means ignoring bonds in a portfolio will be risky if there are downside surprises ahead. On the other hand, valuations are confused with FOMC cuts and other cuts globally priced for rest of year in rates vs. growth expectations rising with 7% rest of year earnings outlook. Risk premium between earnings and the 10-year bond yield is negative for the first time since 2002.
- **BOJ hike was nothing and won't reverse the JPY weakness**. While markets see the BOJ getting to 0.25% rates in Japan, most see that is insufficient and immaterially to driving JPY gains over the year given the real-rate differential, levels of JGB to UST and other bonds and the political weakness of the government. The shift in views on JPY from analysts restarts talk of 160 and higher JPY. The fulcrum of surprise for the BOJ rests with their

balance sheet and JGB buying, with risks still to markets that they are offsides on the Japan recovery and reflation. Taiwan rate hike last week adds to views of APAC divergence to rest of world, linked to risks that China recovery muddles through and adds to inflation and growth risks. The focus may shift from JPY to JGBs in the week ahead post Tokyo CPI.

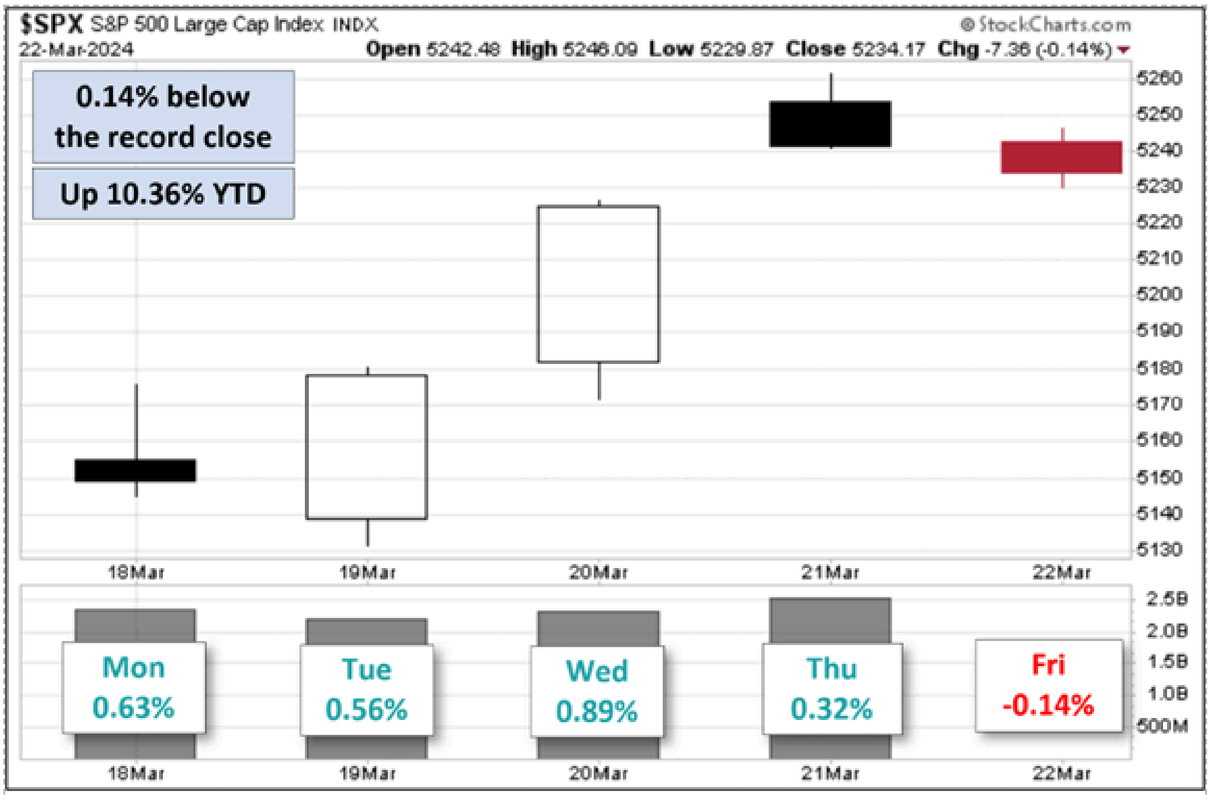
What are we watching: US Core PCE, consumer confidence, US and UK GDP, Japan Tokyo CPI, Riksbank

- **Economic Releases**: US durable goods, consumer confidence, US and UK GDP, Japan jobs and industrial production, Flash CPI in Spain, Italy and France, EU economic barometer, US core PCE and personal spending/income.
- **Central Banks**: Three central bank decisions in the week ahead with Hungary MNB Tuesday, Sweden Riksbank Wednesday and South Africa SARB also Wednesday. For Frontier Markets – Tuesday brings the Nigeria central bank expected to hike rate 1% to 23.75% given the inflation surge to 31.7%. Meeting minutes from BOJ and Brazil Copom minutes and inflation report along with speakers from ECB, FED, BOE, BOC, RBNZ will all be watched. Fed Chair Powell speaks Friday as well.
- **Issuance**: Month-end, quarter end rebalancing has modest demand for duration. The **US:** Treasury sells Monday $73bn in 3M and $70bn 6M bills, $66bn in 2Y notes; Tuesday sells $70bn in 42-day CMB, $67bn 5-year notes; $28bn in 2Y FRN; Wednesday sells $43bn in 7-year notes. Also, TBD size 4M bills and Thursday 1M and 2M bills. **In the EU**: Tuesday Netherlands Tuesday sells E2bn of 5Y bonds, Poland sells 5Y and 10Y bonds, Wednesday Sweden sells SEK3.5bn of 10Y, Italy sells E4-5bn 10Y, Germany sells E2.5bn 7Y and E3bn of 5Y. **In the UK**: Monday sells GBP3bn of 4Y bonds.
- **Earnings**: China big banks report – with focus on Monday, China Merchants; BVD the EV maker reports Wednesday, US Walgreens reports Thursday,

What changed last week:

- **In Equities, US shares had their best week of the year** – with DJIA up 1.97%, S&P500 up 2.29% and Nasdaq up 2.85%. The S&P500 is up 10.36% year to date and has set a new record closing high 20 times so far this year. In other bourses, the China markets suffered with Hong Kong Hang Seng off 1.32% and CSI 300 off 0.70% while the UK FTSE rose 2.63% led by BOE dovish shift from 2 MPC hawks. The best performer was Japan Nikkei up 5.36% even as the BOJ raised rates but kept JGB buying near Y6trn for April. Second best was Spain's IBEX up 3.26%.

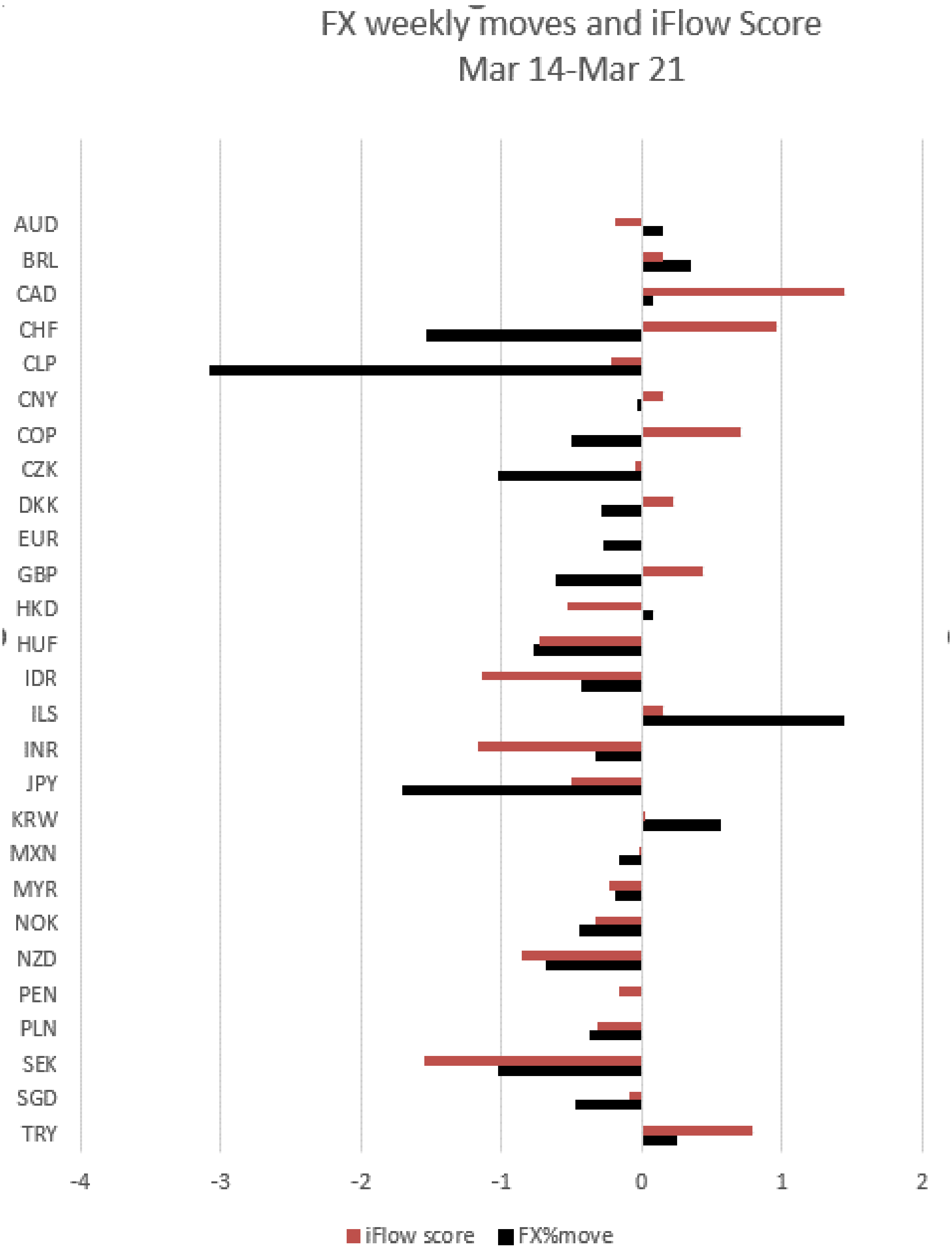
US equity markets set new record highs and have best week yet



Source: Bloomberg, BNY Mellon

- **In FX, the USD rallied 1% on the index** as the 13 other central bank decisions dominated a Fed on hold – with SNB surprising with a rate cut, sending CHF lower, ECB speaker were dovish keeping EUR under pressure, BOE was dovish in its hold, sending GBP lower, Turkey was up on 5% surprise TCMB hike, TWD was steady after CBC surprised with hike, MXN was steady as Banxico cut mostly as expected, BRL steady as COPOM suggested slowing speed of future easing after 50bps ease. The iFlow FX flow mostly matched the market with Australia one exception and GBP the other.

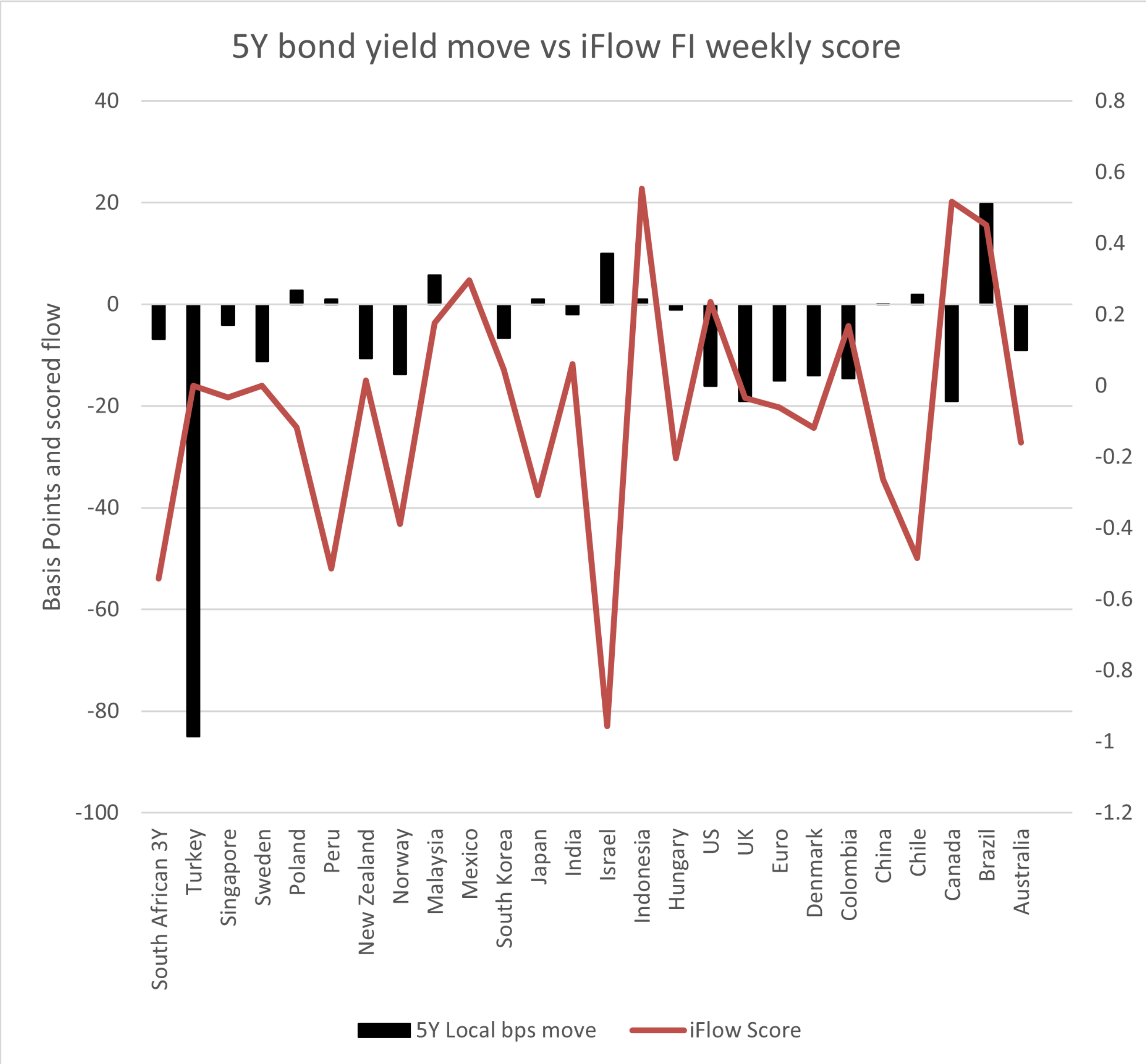
FX see USD continue to rebound



Source: Bloomberg, iFlow, BNY Mellon

- **In Fixed Income, US bonds rallied with curve bull steepening**, as the FOMC confirmed dot-plot for 3 cuts this year, Chair Powell press conference tilted dovish. Outside the US, the UK gilts moved on BOE opening door to easing with 10Y off 16bps to 4.09%, while China was rallied 2bps to 3.315% as the PBOC left the 1Y and 5Y LPR unchanged. For iFlow biggest notable difference was in MXN local and dollar bond flows, and Israel.

US Bond	High	Low	Current	% from Low	1W change
30Y	5.35	0.99	4.38	3.39	-0.05
20Y	5.44	0.87	4.47	3.6	-0.08
10Y	5.26	0.52	4.2	3.68	-0.11
5Y	5.18	0.19	4.18	3.99	-0.15
2Y	5.22	0.09	4.59	4.5	-0.14
3M	5.63	0	5.32	5.32	-0.04
FFR	5.41	0.04	5.32	5.28	0.00
The Yields and Fed Funds Rate data from January 2007					



Source: Bloomberg, iFlow, BNY Mellon

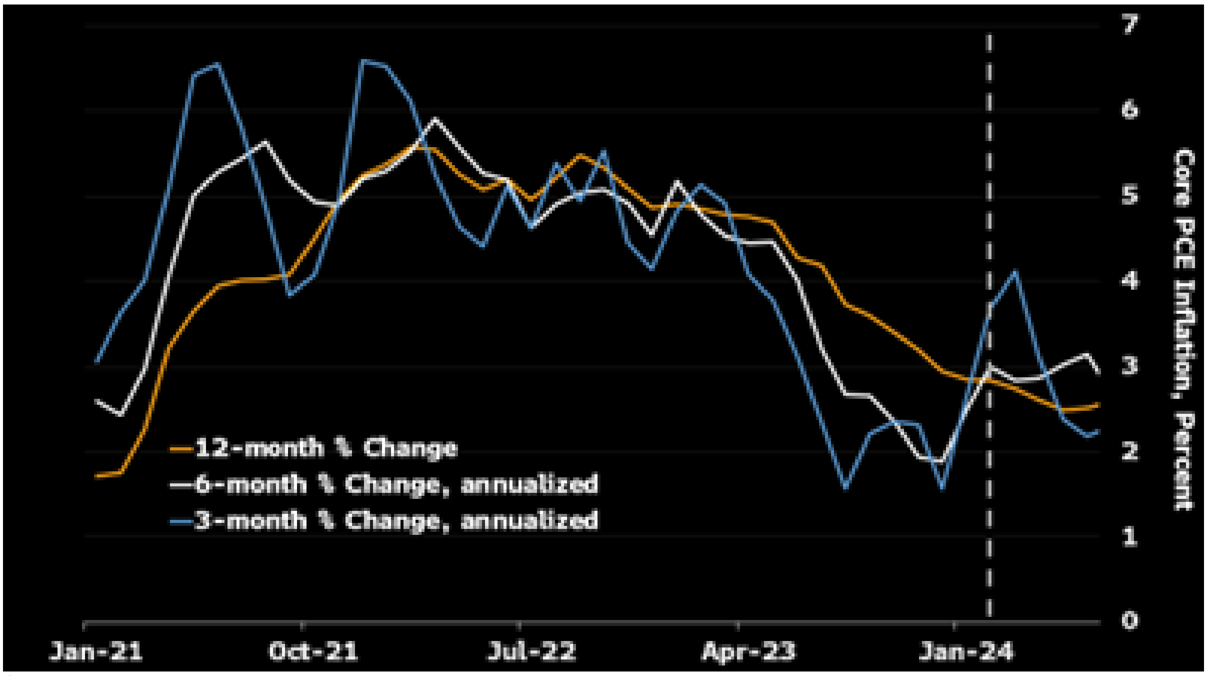
News Agenda and Weekly Themes – US Core PCE, Japan Tokyo CPI, Riksbank, Equities and IPOs.

This week, the focal point in the United States will revolve around the PCE Prices, alongside reports on personal income and spending and speeches by several Fed officials including Chair Powell drawing significant investor attention. Other key data points include durable goods orders, the final Q4 GDP growth reading, CB consumer confidence, corporate profits, and housing market indicators such as new and pending home sales. Internationally, the spotlight will shine on preliminary March inflation readings from Spain, France, Italy, and Poland, as well as interest rate decisions from Sweden and South Africa. In Germany, market watchers will be keen on updates regarding GFK consumer confidence, retail sales, and the unemployment rate. It will be a busy week in Japan with BoJ Summary of Opinions, unemployment rate, industrial production, retail sales, and housing starts. Finally, Canada will release its February GDP growth estimates.

1.

US Core PCE and the FOMC June cut risks – The FOMC summary of economy projections upgraded its view on inflation risks for the year - projecting that the PCE index excluding food and energy would rise at a 2.6% annual rate by year-end, compared with 2.4% in its December projections. It also lifted 2024 economic growth estimates from 1.4% to 2.1%. The implications for the week ahead are that the core PCE (Friday March 29) will be important to the June rate cut hopes. However, the Chair Powell testimony made clear that the Fed would be looking through temporary moves up and stick to a bigger picture on all the data. How Chair Powell reacts to the data Friday will be key. The February Personal Consumption Expenditures Price index is expected to show a 0.4% monthly increase up from the 0.3% m/m gain in January.

PCE core price index will be key event risk Friday.



Source: Bloomberg, BNY Mellon

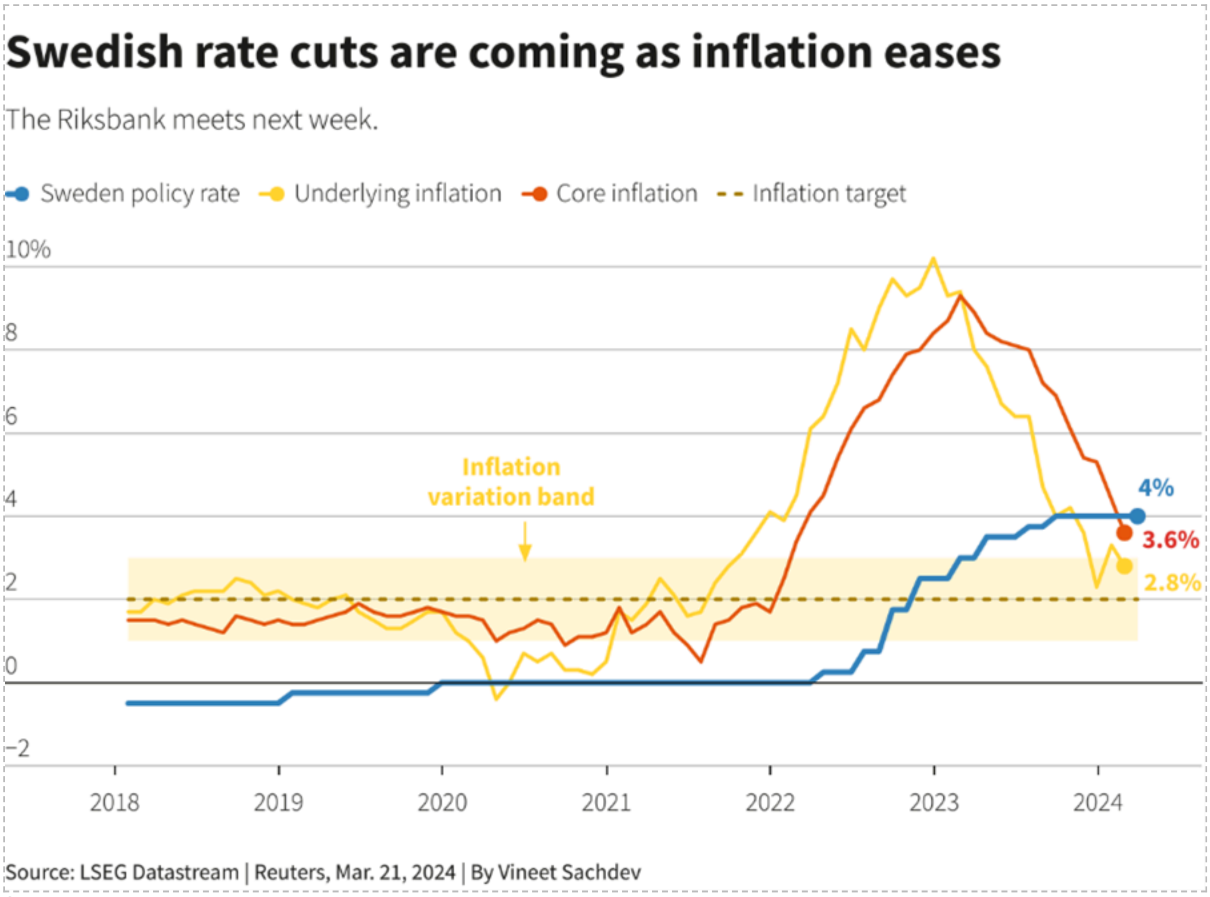
2. Japan Tokyo CPI and the BOJ transition to normal policy. The BOJ action last week will meet another test this week with the Friday, March 29 release of Tokyo March core CPI expected to slow to 2.4% from 2.5% y/y – for the central bank, July and September rate hikes are penciled in by the market as the risks for higher than 0.25% policy play out against the data. JPY weakness and the role of the government risk of intervention is another point, along with the negative correlation balance of JPY to equities. Markets seem too sanguine about the ability of the central bank in handling any data surprises or other economic shocks ahead.

Source: Bloomberg, BNY Mellon

3. Sweden Riksbank and the second to cut risk? Sweden's central bank, the world's oldest, is expected to keep its key rate unchanged on Wednesday, March 27. But it could announce that a cut, the first since it began tightening policy in spring

2022, is nearing. This is now a live meeting risks given the surprise cut from the Swiss National Bank. Headline inflation has slowed to near the Riksbank's 2% target and growth has ground to a halt as households and businesses struggle with rates at over 15 year-highs. In February, the central bank said rates had peaked and that it could even start to ease policy in the first half of 2024. The SEK weakness is still a concern and the comparison to NOK remains something for the central bank to consider.

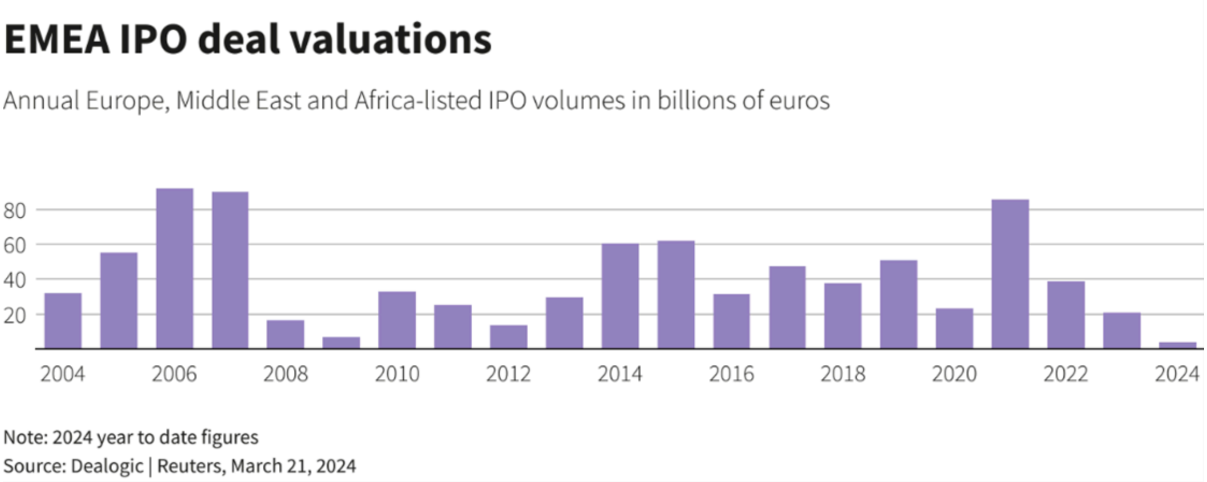
Riksbank likely to spell out easing path



Source: Reuters, BNY Mellon

4. Equity supply – IPOs and the balance of equity risk premium. The last week in the US saw the successful IPO of Reddit, while the week also brought 2 key European initial public offerings. The CVC's perfume retailer Douglas raised around E850 million ($922.93 million). It priced its shares at bottom of an indicated range. They plummeted more than 12% on their debut on Thursday. But skincare company Galderma (GALD.S), opens new tab priced its CHF2.3 billion ($2.56 billion) IPO at the top of an indicated price range and soared on its first day trading Friday. The good performance helps other companies follow suit, including CVC itself. That should help release pressure building on private equity firms needing to exit investments, return capital and deploy funds. This also will eventually even out asset demand and supply constraints.

IPOs vs M&A matter to how stocks trade



Source: JCER and JTUC, BNY Mellon

Economic Data and Events Calendar March 11-15:

Central Bank Decisions

- **Hungary MNB (Tuesday, March 26) –** A rate cuts is not in doubt in Hungary but there is variation over the extent of easing required. On balance, the market is looking for a 75bp, taking the base rate down to 8.25% and a repeat of the 100bp administered in February is also a tail risk. March data has been mixed, with Q4 GDP confirmed at flat, while industrial production should ongoing contraction. However, PMIs are backing in expansion territory and CPI remains at a robust 0.7%m/m. As the ECB shifts towards easing policy space will open up for MNB but CEE vigilance over real rates is necessary due to fiscal impulse.
- **Sweden Riksbank (Wednesday, March 27) –** After the Swiss National Bank's surprise cut we believe the Riksbank will be a strong candidate for an early shift as well. Like much of Europe, inflation will continue to surprise to the downside and CPI-F is now within touching distance of 2%, though core prints are still at relatively robust levels. We doubt the Riksbank will cut at this meeting but with the ECB moving before the summer, the Riksbank is likely to match the pace considering activity figures are extremely weak.
- **South Africa SARB (Wednesday, March 27) –** No changes is expected in South Africa in light of the recent pick-up in inflation figures. Both headline and core CPI strengthened by 1% or more on a sequential basis in February and with the Fed's path still relatively uncertain, SARB will need to maintain its own real rate buffer against the dollar. As Latin American economies continue to cut rates, 8.25% in South Africa is looking increasingly attractive. Meanwhile, domestic activity levels are mixed, with PMIs also starting to recover but retail sales showed a material annualised contraction for January.

Key data/releases

Date	GMT	EDT	Country	Event	Period	Cons.	Prior
03/25/24	14:00	10:00	US	New Home Sales	Feb	675k	661k
03/26/24	12:00	08:00	BZ	IBGE Inflation IPCA-15 MoM	Mar	--	0.78%
03/26/24	12:30	08:30	US	Durable Goods Orders	Feb P	1.40%	-6.20%
03/26/24	***13:00***	***09:00***	***HU***	***Central Bank Rate Decision***	***Mar-26***	***8.25%***	***9.00%***
03/26/24	14:00	10:00	US	Conf. Board Consumer Confidence	Mar	107	106.7
03/27/24	***08:30***	***04:30***	***SW***	***Riksbank Policy Rate***	***Mar-27***	***4.00%***	***4.00%***
03/27/24	11:00	07:00	US	MBA Mortgage Applications	Mar-22	--	-1.60%
03/27/24	***12:00***	***08:00***	***SA***	***SARB Announce Interest Rate***	***Mar-27***	***8.25%***	***8.25%***
03/28/24	00:30	20:30*	AU	Retail Sales MoM	Feb	0.40%	1.10%
03/28/24	07:00	03:00	UK	GDP QoQ	4Q F	-0.30%	-0.30%
03/28/24	07:00	03:00	UK	GDP YoY	4Q F	-0.20%	-0.20%
03/28/24	08:00	04:00	CZ	GDP YoY	4Q F	-0.20%	-0.20%
03/28/24	12:00	08:00	SA	Trade Balance Rand	Feb	9.0b	-9.4b
03/28/24	12:30	08:30	US	GDP Annualized QoQ	4Q T	3.20%	3.20%
03/28/24	12:30	08:30	US	Initial Jobless Claims	Mar-23	--	210k
03/28/24	14:00	10:00	US	U. of Mich. Sentiment	Mar F	76.6	76.5
03/28/24	23:30	19:30	JN	Tokyo CPI Ex-Fresh Food YoY	Mar	2.40%	2.50%
03/28/24	23:30	19:30	JN	Jobless Rate	Feb	2.40%	2.40%
03/28/24	23:30	19:30	JN	Job-To-Applicant Ratio	Feb	1.27	1.27
03/28/24	23:50	19:50	JN	Industrial Production MoM	Feb P	1.30%	-6.70%
03/29/24	07:00	03:00	TU	Trade Balance	Feb	--	-6.23b
03/29/24	09:00	05:00	PD	CPI YoY	Mar P	2.30%	2.80%
03/29/24	12:30	08:30	US	Personal Income	Feb	0.40%	1.00%
03/29/24	12:30	08:30	US	Personal Spending	Feb	0.50%	0.20%

Key events

Date	GMT	EDT	Country	Event
03/24/24	23:50	19:50	JN	BOJ Minutes of Jan. Meeting
03/25/24	10:30	06:30	EC	ECB's Holzmann Speaks
03/25/24	12:25	08:25	US	Fed's Bostic Participates in Moderated Conversation
03/25/24	14:15	10:15	UK	BOE's Catherine Mann speaks
03/25/24	14:30	10:30	US	Fed's Cook Speaks on Dual Mandate
03/26/24	04:30	00:30	NZ	RBNZ's Conway Speaks About February MPS
03/26/24	12:15	08:15	CA	Bank of Canada Senior Deputy Governor Carolyn Rogers Speech
03/27/24	01:00	21:00*	JN	BOJ Board Tamura Speech in Aomori
03/27/24	09:00	05:00	EC	ECB's Cipollone Speaks
03/27/24	10:30	06:30	UK	Bank of England financial policy committee minutes
03/27/24	22:00	18:00	US	Fed's Waller Speaks on Economic Outlook
03/28/24	17:30	13:30	EC	ECB's Villeroy speaks
03/29/24	15:30	11:30	US	Fed's Powell Speaks in Moderated Discussion

Conclusions: Are markets set up for volatility?

The lack of passion in markets in the last quarter stands out. The only excitement has been in equities and driven on back of AI hopes for spurring growth through investment and productivity gains. The fixed income markets have seen the MOVE index in the US at year-lows while in FX we near historic lows for the G10 as even the BOJ and SNB surprises last week were insufficient to drive up any fear or greed. Markets are stuck with the expectation that cash will eventually be put to work but not in a rush.

Investors expect the Fed, the ECB, and the BoE to each deliver only 75 basis points of cuts by the end of this year, in three 25 basis point moves, tiny changes compared to rate hikes in 2022 when they sometimes increased rates by that much in a single day. The BOJ and CBC Taiwan have gone the other direction hiking rates but APAC is seen in a different cycle with recovery and inflation whereas the business cycle in the US, EU and UK is still about recession risks. Some emerging market economies, like Brazil, Mexico, Hungary, and the Czech Republic have all cut rates already, but financial markets take their cue from the major central banks, so their influence on financial instruments is oversized.

How markets game the risks of disappointment from central bankers and how the actual data in the week ahead prove out will matter to the way stocks and bonds trade together or separately. The rise of risk parity programs last week has been abnormal in the last decade and yet, the comparisons of the present to the halcyon early 2000-2007 years is in vogue. The role of fear in offsetting irrational exuberance hasn't been in play as it was in 2023 when a recession after the 1Q was a dominant fear and in that regard, this year is different. The rate cut expectations and timing highlight this point as well. The ability of G10 central bankers to diverge from the FOMC will be a key and rising theme for keeping animal spirits boisterous.

Rate decisions and elections will be key for Spring

Bank	Month for which markets price in over a 50% chance of move
Riksbank	May
European Central Bank	June
Fed	June
Bank of Canada	June
Bank of England	June
Reserve Bank of New Zealand	August
Reserve Bank of Australia	August
Norges Bank	September
Bank of Japan*	June

Note: *The BOJ hiked rates on March 19 and markets price a 40% chance of another hike in June
Source: LSEG Datastream | Reuters, March 21, 2024

Reuters Graphics

Source: Reuters, BNY Mellon

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