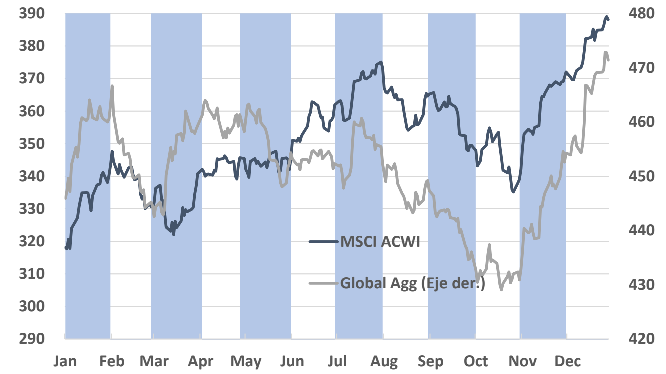
The market bets on soft landing

December confirmed November's sentiment. Inflation continued to decelerate and economic data showed the economy cooling, but still in good shape. Stocks closed the best quarter of the year, recovering from the previous weak quarter, and the 10-year rate fell 45 basis points to end the year where it began. Global equities, as measured by the MSCI ACWI, rose 4.8%, while the Global Aggregate bond index rose 4.2%.

December was another great month for the markets

MSCI ACWI (global equities) vs. Bloomberg Global Agg (bonds)



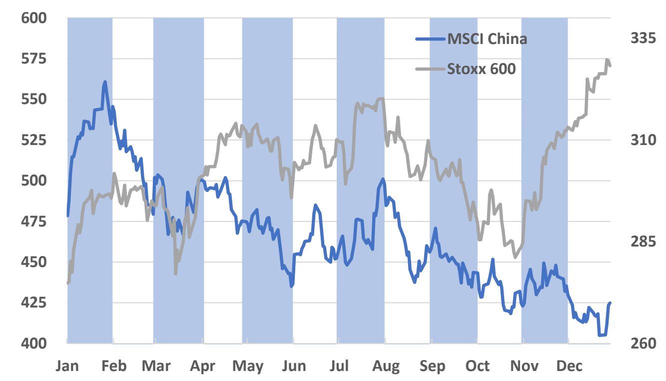
Source: Bloomberg

Economic indicators in the US supported the prospect of a soft landing. Inflation moderated, and the annualized rate for the last 6 months, as measured by the consumer spending price index (PCE) stood at 1.9%, within the target range set by the Federal Reserve (Fed). Although the Fed confirmed the pause in rate hikes as expected, it surprised by projecting three rate cuts by 2024. This led the market to anticipate even more cuts, estimating seven across the eight meetings next year, up from the four expected at the beginning of the month.

As in the United States, Europe maintained last month's trend. However, the slowdown in inflation is compounded by a weakening of economic activity that appears to be entering recession. As a result, the market now speculates seven rate cuts in 2024, three more than anticipated at the beginning of the month, after the European Central Bank (ECB) decided to keep interest rates unchanged at its last monthly meeting. This decision boosted stocks, which advanced 5% in December in dollar terms.

Once again, Europe followed, but China was left behind

MSCI China (Chinese stocks) vs. Stoxx 600 (European stocks)



Source: Bloomberg

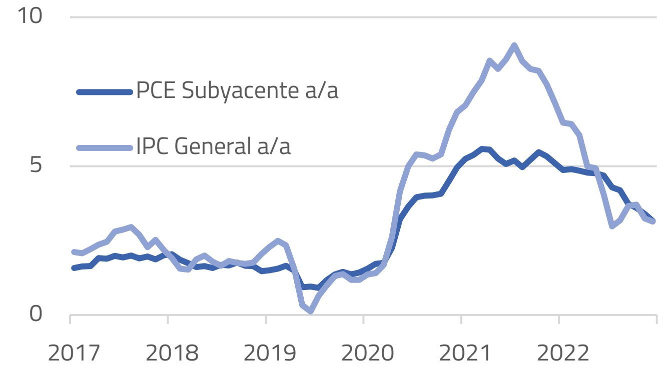
China, the only equity market with negative returns in 2023, continued in December. Disappointing November inflation slipped back into deflationary territory, marking the first time this year that year-on-year inflation has declined for two consecutive months. Foreign investment flows have recorded five consecutive months of negative performance through December, and equities, as measured by the MSCI China, fell back by 5% on the month. Despite optimistic growth projections by the Chinese government for the coming year, economic realities present challenges, and a surprise new regulation on online gambling negatively impacted major technology stocks.

All signs point to soft landing

December economic data pointed to a soft landing. Inflation and the economy slowed, although there are still no signs of recession. On the inflation side, consumer spending (PCE) posted a 2.6% YoY increase in November, down from 3% in October and 2.8% expected. The underlying version, which excludes energy and food, also showed a surprising 3.2%. In the same vein, the Consumer Price Index (CPI) fell slightly to 3.1% YoY from 3.2% in October. As did producer prices, an indicator that usually anticipates prices for consumers, which rose only 0.9% YoY, down from 1.3% in October and from the 1% expected, due to the drop in energy prices.

Inflation slows down

Core PCE inflation y/y (%), headline CPI inflation y/y (%)

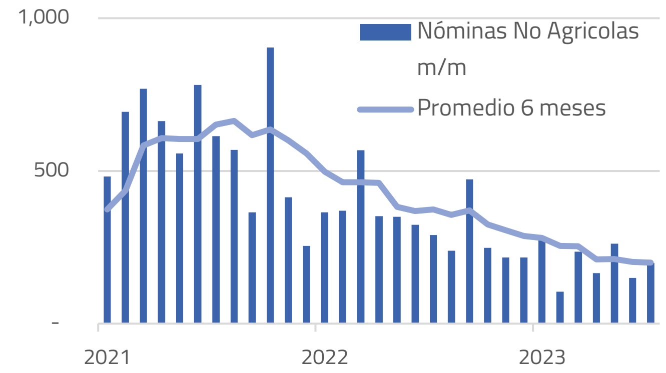


Source: Bloomberg

In addition, according to the University of Michigan's December survey, consumer inflation expectations in the coming year declined to 3.1%, down from 4.5% in November. These anchored inflation expectations facilitate monetary policy management.

Labor market remains strong

Monthly nonfarm payrolls



Source: Bloomberg

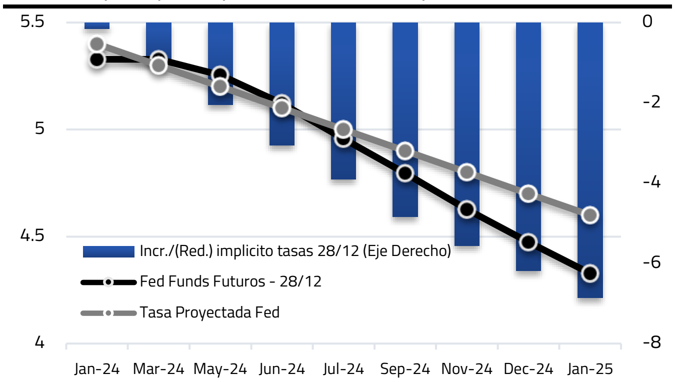
Economic growth remains healthy. Although the labor market showed a slowdown in November, there are no signs of recession. In that month, the non-farm sector generated 199 thousand jobs, exceeding analysts' estimates of 185 thousand, although it was below the 240 thousand average of the last twelve months. In addition, 35 thousand jobs were adjusted downward from the previous two months. The unemployment rate decreased to 3.7%, down from 3.9% in October and at historically low levels. This shows an economy with a good capacity to create jobs, sustaining the consumer's purchasing power. The latter was confirmed through retail sales, which experienced strong growth of 4.1% year-on-year in November, and personal spending, which grew for the ninth consecutive month.

In addition, November's wage growth exceeded expectations by registering an increase of 0.4% m/m, doubling October's figure. This consumer and wage strength suggests that inflationary pressures could persist into 2024.

These auspicious data led the Federal Reserve, at its last meeting of the year, to confirm market expectations regarding the end of interest rate hikes. Moreover, the Fed surprised with quarterly economic projections that represented a significant change from those announced in September. The most notable change was the projection of three 25-point rate cuts by 2024, two more than previously expected, marking the first downward revision in more than two years.

Market discounts more cuts than the FED

Probability of upside, pause or cut of 25 bp at 12/28/2024



Source: Bloomberg

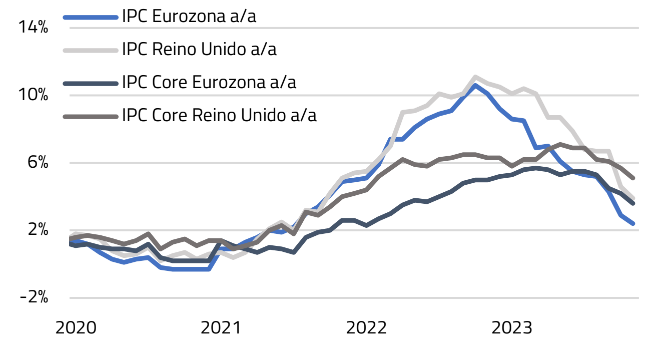
During the press conference, Powell added that the Fed should cut rates "well before" inflation reaches the 2% annual target. The market, anticipating these statements, expects more than six rate cuts in eight meetings next year. As a result, 10-year bond yields fell to 3.88%, the same level as at the beginning of the year and pushed stocks to their all-time highs again.

Europe: inflation falls, so does the economy

In contrast to the US, inflation in Europe and the UK slowed in November, but the economy shows signs of a possible recession. In the Eurozone, Consumer Prices (CPI) rose 2.4% YoY in November, well down from the all-time high of 10.6% in October 2022. Similarly, in the UK, November CPI rose 3.9% YoY, down from 4.6% in October. Despite these data, the European Central Bank (ECB) maintains a cautious tone in its statements, not ruling out an inflationary rebound in 2024, mainly due to geopolitical tensions that could threaten the supply chain.

Inflation once again confirms its deceleration

Headline and core CPI YoY in Europe and the UK

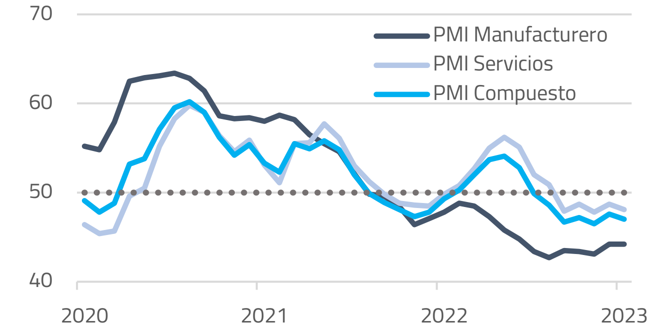


Source: Bloomberg

Economic activity continues to fail to rebound. First, despite some rebound in November's Purchasing Managers' Indices (PMI), December's PMI fell again, both in the services sector (48.1) and in manufacturing (44.2), both at contractionary levels. Second, although consumer confidence improved more than expected in December, it remains depressed relative to long-term averages. Third, the consensus among analysts suggests a decline in Gross Domestic Product (GDP) of 0.1% in the fourth quarter of 2023, weaker than the zero growth previously forecast, with a modest 0.1% increase expected in the first quarter of 2024. Despite these economic challenges, the euro rose 1.3% on the month to US$1.11 per EUR, the highest level since late July. In addition, German 10-year bond yields fell 45 basis points in December, to the lowest level since September 2022, while stocks posted a 5.1% increase in dollar terms.

PMI indices still in contractionary territory

Eurozone manufacturing, services and composite PMIs



Source: Bloomberg

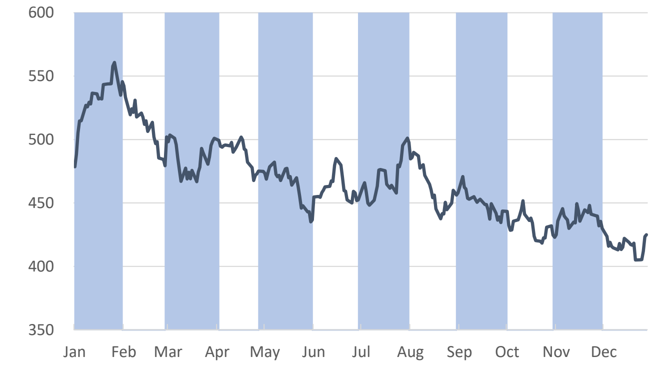
In the UK, updated GDP figures showed a 0.1% q/q decline during Q3, raising the possibility of a technical recession. However, December's purchasing managers' indices (PMI) indicated more robust activity, with the services index at 52.7 and the composite index at 51.7. Additionally, November retail sales posted 0.1% YoY growth, beating negative expectations.

China continues to disappoint

In December, once again, China conveyed frustration. Foreign investment flows recorded five negative months in a row through December, and stocks were the only ones to close the year with losses among the world's major stock exchanges. Although the Chinese government is optimistic about next year's growth, the economic reality presents challenges, marked by a lack of recovery in the real estate sector and surprise regulatory moves that affect investor sentiment.

China closes the year with losses

MSCI China

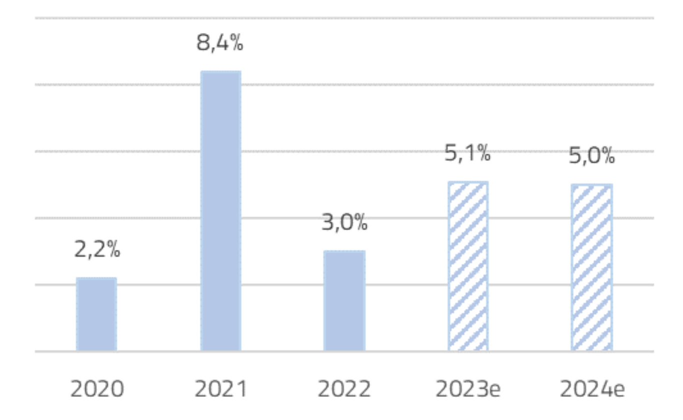


Source: Bloomberg

In mid-month, the Politburo, made up of China's top leaders, unveiled an ambitious 5% growth target for next year. In this announcement, they pledged to strengthen fiscal supports, with particular emphasis on economic progress. However, this target seems optimistic, given the still lack of investor and consumer confidence in China, and the still ongoing crisis in the real estate sector, not to mention that even demographics have already started to play against China. The state's constant meddling in more and more sectors is not helping either. Moreover, economic indicators reveal a mixed picture. Although the Purchasing Managers' Index (PMI) suggests some economic expansion, inflation is once again falling. In November, the services PMI, as measured by Caixin, reached 51.5 points, while the manufacturing sector registered 50.7 points, barely surpassing the 50-point expansion threshold. The 0.5% year-on-year drop in inflation in November, against expectations of 0.2%, underscores the difficulties in stimulating domestic demand, an essential element for sustained growth.

Chinese politburo expects 5% growth by 2024

Annual GDP growth



Source: World Bank; Politburó

In late December, the Chinese government implemented unexpected additional restrictions on online gaming, resulting in significant losses in technology stocks. These measures include limits on individual player spending and restrictions on content related to national security, generating concern among investors and evoking memories of regulatory actions implemented in the tech sector in 2021. Prominent companies such as Tencent, NetEase and Bilibili experienced a 15% drop in their shares as a result of these measures. Negative sentiment towards China has intensified this year, with 90% of the capital entering the stock market already withdrawn. Since its peak of 235 billion yuan ($33 billion) in August, net foreign investment in Chinese equities has declined by 87% to just 30.7 billion yuan.Despite this challenging outlook and the amount of negative news, the most optimistic thing that can be said about China, apart from the low valuations, is that there is widespread negative sentiment in the market, much like that experienced in October 2022 in the US, when the strong rebound in that market began. The most optimistic think that this could be the case for Chinese equities in 2024.

Acciones Americanas	1M	YTD
DJIA	4,9%	16,2%
Nasdaq Composite	5,6%	44,6%
S&P 500	4,8%	26,6%
Russell 2000	12,2%	16,9%
Russell1000 Value	5,5%	11,5%
Russell 1000 Growth	4,4%	42,7%
Russell 1000	4,9%	26,5%

December was an excellent month for stocks, culminating an exceptional year. In the United States, value and small-cap stocks had a great month and outperformed large-cap and growth stocks. This reversed the trend of most of the year, in which the latter had the highest returns.

Mercados Desarrollados (USD)	1M	YTD
MSCI ACWI	4,8%	22,2%
MSCI ACWI ex-US	5,0%	15,6%
MSCI World	4,9%	23,8%
MSCI World ex-US	5,5%	17,9%
Japan: Nikkei 225	5,2%	21,7%
Stoxx Europe 600	5,1%	20,6%
Germany: DAX	4,7%	24,1%

Developed markets moved similarly to U.S. equities in December, given rising expectations of interest rate cuts. Dollar weakness further enhanced dollarized returns outside the United States.

Mercados Emergentes (USD)	1M	YTD
MSCI EM	3,8%	9,7%
China: Shanghai Comp.	-1,3%	-11,7%
Hong Kong: Hang Seng	0,2%	-10,6%
India: S&P BSE Sensex	8,1%	19,6%
Brazil: Bovespa	6,7%	32,9%
MSCI: México	8,7%	36,0%
Argentina: Merval	5,1%	55,1%
Chile: Santiago IPSA	5,4%	14,1%

Overall, emerging markets did not disappoint, although China was the main detractor from returns in the benchmark, accounting for about 25%. The low expectation of success of the country's government measures, coupled with a surprise new regulation for online gambling, ended up negatively impacting the Chinese market.

Bonos Tesoro USA	1M	YTD
US Treasury 2 Yr	(43)	(18)
US Treasury 5 Yr	(42)	(16)
US Treasury 10 Yr	(45)	0
US Treasury 30 Yr	(47)	7

Yields on the U.S. curve fell again in December, closing at midpoints below levels seen at the end of the previous year.

Índices Renta Fija (USD)	1M	YTD
US HY	3,7%	13,4%
US IG	3,8%	5,5%
US GLOBAL	3,8%	6,2%
GLOBAL HY	3,7%	13,5%
GLOBAL IG	4,2%	5,7%
EM HY	4,4%	13,1%
EM IG	4,1%	6,8%
EM Global	4,2%	9,1%

Falling interest rates boosted fixed income indices again. The U.S. high credit quality index recorded its second best month in more than 20 years, second only to its performance in November 2023. Meanwhile, the "high yield" index did not lag behind, also benefiting from the fall in rates and the lower perception of risk in the market.

Monedas	1M	YTD
DXY	-2,0%	-2,1%
Euro	1,4%	3,1%
Yen	5,1%	-7,0%
Libra	0,8%	5,4%
Yuan	0,5%	-2,8%
Real	1,3%	8,7%
MSCI Emerging Mkts Currency	1,3%	4,8%

The dollar continued to weaken as a result of the rate cut. The yen received a significant boost from a tapering of the Bank of Japan's rate control policy.

Commodities	1M	YTD
BBG Commodity Index	-2,7%	-7,9%
BBG Agriculture Index	-4,8%	-9,3%
Oil	-7,0%	-10,3%
Gas	-10,3%	-43,8%
Oro	1,3%	13,1%
Plata	-5,8%	-0,7%
Cobre	1,6%	2,1%
Soja	-3,7%	-14,9%
Trigo	10,1%	-20,7%
Maíz	2,1%	-30,5%
Algodón	2,0%	-2,8%
Ganado	1,6%	12,2%

Despite the weakening of the dollar, the main commodities closed the year with negative yields, except for gold, which lived up to its anti-dollar characteristics, being one of the main beneficiaries of the fall in interest rates.

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