

What happened last week:

- Dovish central bank policy meetings resulted in fresh S&P 500 all-time highs.
- Market leadership in the U.S.'s large-cap growth extended last week, and the long momentum trade resumed dominance.
- Japanese equities led despite the Bank of Japan's (BOJ) historic exit from negative interest rate policy on a lack of hawkish guidance.

What we're watching this week

- Light, holiday-shortened trading week on the catalyst front.
- Fed Chair Powell will have an opportunity to clarify the Fed's monetary policy messaging; on the data front, the Fed's preferred inflation gauge will be released on Friday (markets are closed, however).
- Quarter-end rebalancing flows could see outflows from equities and into bonds; within the equity market, we could see some reversion in year-to-date laggards.

Market Perspectives

- Momentum trades roared back to life last week as global central banks waxed dovishly, and NVIDIA's AI conference provided further fodder for the AI trade. Lower core bond yields and tightening credit spreads propelled the S&P 500 to fresh all-time highs, led by the AI-adjacent large-cap growth theme. While non-U.S. shares generally lagged last week, the Japanese market outperformed despite a hawkish move from the Bank of Japan. Delivering the first rate hike in 17 years, the market bid up Japanese equities, honing in on the lack of hawkish guidance from the central bank. Dovish guidance from the Fed and a surprise cut from the Swiss National Bank also contributed positively to risk sentiment.
- The holiday-shortened week is light on catalysts to move markets, but quarterly rebalance flows in what has been another high dispersion and overall positive quarter for equity markets would not surprise us. The constellation of evidence does not support a durable change in market trends in our view, but positioning in equities, and especially large-cap growth and quality names, is very extended. The first quarter earnings season and the direction of 10-year U.S. Treasury yields are the key signposts to watch.
- As mentioned earlier, this week is light for market watchers. On the monetary policy front, Chair Powell has a chance to correct any misunderstandings at his talk on Friday, although the markets will be closed. Christopher Waller, an important member of the FOMC board, will speak on Wednesday. Friday's release of the Fed's preferred inflation gauge, the Personal Consumption Expenditures index, will impact Fed messaging (and rate pricing). Lastly, quarter-end rebalancing may drive some flows out of stocks, especially the year-to-date winners, and into bonds this week. So far this year, global stocks are up 8%, while the S&P is up 10%; core bonds are down about 1%.

CPI = Consumer Price Index, PPI = Producer Price Index, PMI = Purchasing Managers' Index, PCE = Personal Consumption Expenditures Price Index.

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