NORTHERN TRUST
ASSET MANAGEMENT

WEEKLY MARKET UPDATE

June 13, 2022

Last Week Review

Global equities finish lower with late-week losses. Global equities declined 4.4% last week. It was a somewhat quiet week prior to equity headwinds after the European Central Bank (ECB) meeting and U.S. inflation data on Thursday and Friday, respectively (see below). Returns were weakest in the U.S. (-5.1%) and developed ex-U.S. markets (-4.6%), while emerging markets fared better (-0.8%). The U.S. yield curve flattened notably with the 2-year and 10-year Treasury yields up 41 and 22 basis points (bps) to 3.06% and 3.16%, respectively. Euro area interest rates also increased materially on the back of more hawkish ECB outlook. Credit spreads widened across investment grade (up 4 bps to 126 bps) and high yield (up 30 bps to 439 bps).

U.S. inflation tops expectations. Headline U.S. Consumer Price Index (CPI) pushed higher to 8.6% year-over-year (y/y) from 8.3% (expected: 8.2% y/y), marking a new recent high. Core CPI declined to 6.0% y/y from 6.2% (expected: 5.9% y/y). Markets reacted negatively with U.S. equities down 3.0% and investors pricing in an additional Federal Reserve rate hike in 2022. While food and energy were both key drivers in the headline figure, core inflation showed less signs of easing than expected. Housing was a key contributor to the month-over-month core reading while airfare rose 13% and used car prices increased as well. Moving forward, a less-robust overall growth outlook, higher interest rates and moderating wage pressures may help ease inflation. However, there is a wide degree of variability around the outlook.

European Central Bank signals sustained hikes. The ECB delivered a hawkish message at its policy meeting. It signaled a 25 bp hike in July (as expected) and opened the door to a higher than expected 50 bp hike in September if the medium-term inflation outlook persists or deteriorates. The statement pointed to gradual but sustained hikes after September. Also of note, the ECB announced an end to its large-scale asset purchases in July. The hawkish signals coincide with an upward move in ECB officials' inflation forecasts following record-high euro area inflation prints. While the central bank is poised to exit an era of negative rates, it remains sensitive to the considerable downside economic growth risks that the euro area is facing.

China equities respond to mixed factors. China exports (16.9% y/y) easily beat expectations (8.0% y/y), while imports (4.1% y/y) beat expectations to a lesser extent. Easing lockdowns support exports through lesser supply chain constraints. That said, China's Covid situation remains an economic constraint. Last week, parts of Shanghai returned to lockdown in response to a small level of new cases. On a positive note for China equities, its government has shown signs of easing its regulatory crackdown.

FINANCIAL MARKET SNAPSHOT

	Last	ΔW	ΔYTD
MSCI ACWI	620	-4.4%	-16.9%
S&P 500	3,901	-5.0%	-17.6%
MSCI Europe ($)	1,697	-5.5%	-17.0%
U.S. Dollar (DXY)	104.15	2.0%	8.9%
Gold ($/oz)	1,872	1.4%	2.3%
WTI Crude Oil ($/bbl)	120.67	1.5%	60.4%
10-year Treasury (%)	3.16	0.22	1.65
10-year German Bund (%)	1.51	0.24	1.70
U.S. Investment Grade OAS (%)	1.26	0.04	0.39
U.S. High Yield OAS (%)	4.39	0.30	1.55

ΔW = Weekly change, ΔYTD = Year-to-date change

LAST WEEK'S DATA

		Prior	Survey	Actual
W	MBA Mortgage Apps.	-2.3%	n.a.	-6.5%
W	Germany Ind. Prod. y/y	-3.1%	-2.4%	-2.2%
Th	China Imports y/y	0.0%	2.5%	4.1%
Th	China M2 Money Supply	10.5%	10.3%	11.1%
Th	China Exports y/y	3.9%	8.0%	16.9%
Th	China CPI y/y	2.1%	2.2%	2.1%
Th	Initial Jobless Claims	202k	206k	229k
F	U of Mich. Sentiment	58.4	58.5	50.2
F	CPI y/y	8.3%	8.2%	8.6%
F	CPI Core y/y	6.2%	5.9%	6.0%

Survey = Bloomberg consensus. U.S. data unless otherwise stated.

This Week Preview

War pressures linger. Financial market risk from the war in Europe has somewhat stabilized but remains elevated overall. Several knock-on effects should continue to be watched (ex. energy shortages). Any type of economic escalation remains a key risk.

Fed set to deliver another rate hike. The Fed is widely expected to raise rates by 50 bps on Wednesday. Markets are pricing in a 50 bp hike in July and are also now fully expecting a 50 bp September hike after last Friday's CPI data. The Fed has succeeded in resetting investor expectations for interest rates higher. Now, the question is if expectations are high enough to support an orderly fall in inflation. Investors anticipate the Fed funds rate to top out around 3.5% in 2023. The post-meeting press conference will likely offer further details on the Fed's latest thinking. Also, the Bank of England (Thursday) and the Bank of Japan (Friday) will announce policy decisions this week.

China balances risks. Investors will respond to a mix of domestic China economic data including retail sales and industrial production. Most datapoints are expected to remain relatively weak. China economic activity has picked up as lockdown measures have somewhat eased. Moreover, policy support has increased through greater fiscal and monetary support measures, and most recently some pullback in its regulatory crackdown. However, China still faces several headwinds – spanning Covid, a weak property market and fragile consumer demand – that investors will keep a close eye on.

THIS WEEK'S DATA

		Prior	Survey	Actual
M	Japan Ind. Prod. y/y	-4.8%	-3.6%	-
Tu	Germany CPI y/y	7.9%	7.9%	-
Tu	China Fixed Asset Inv. y/y	6.8%	6.1%	-
Tu	China Ind. Production y/y	-2.9%	-2.9%	-
Tu	China Retail Sales y/y	-11.1%	-7.1%	-
Tu	NFIB Small Bus. Optimism	93.2	93.0	-
W	Europe Ind. Prod. y/y	-0.8%	-1.1%	-
Th	Initial Jobless Claims	229k	215k	-
F	Europe CPI Core y/y	3.8%	3.8%	-
F	Europe CPI y/y	8.1%	8.1%	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.
Source: Bloomberg. Data as of 6/10/2022.

NORTHERN TRUST

Weekly Market Update

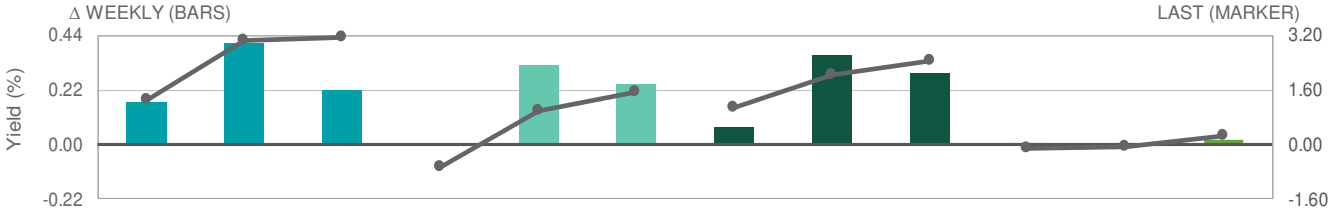
ASSET CLASS RETURNS

■ Δ Year-to-date

	FIXED INCOME						EQUITIES			REAL ASSETS		
	Cash	Inv. Grade	Muni.	TIPS	High Yield	Emerg. Markets	U.S.	Dev. Ex-U.S.	Emerg. Markets	NR	GRE	GLI
Δ WEEKLY	0.0	-1.5	-1.0	-1.1	-2.3	-2.6	-5.1	-4.6	-0.8	-4.1	-5.0	-3.7
Δ YEAR-TO-DATE	0.1	-10.7	-8.2	-6.5	-10.5	-12.7	-18.6	-14.9	-13.4	12.9	-17.7	4.3

INTEREST RATES

■ Δ Weekly (left) —●— Last (right)



	UNITED STATES			EUROZONE (GERMANY)			UNITED KINGDOM			JAPAN		
	3-Month	2-Year	10-Year	3-Month	2-Year	10-Year	3-Month	2-Year	10-Year	3-Month	2-Year	10-Year
Δ WEEKLY (LHS)	0.17	0.41	0.22	0.00	0.32	0.24	0.07	0.36	0.29	0.01	-0.01	0.02
LAST (RHS)	1.30	3.06	3.16	-0.64	0.96	1.51	1.07	2.05	2.45	-0.10	-0.08	0.25

CURRENCY RETURNS

	DXY ($ Index)	TW$ (Trade Wt)	INR (India)	CNY (China)	GBP (UK)	CAD (Canada)	EUR (Euro)	AUD (Aussie)	MXN (Mexico)	KRW (Korea)	CHF (Switz.)	JPY (Japan)
Δ WEEKLY	2.0	1.9	-0.6	-0.7	-1.4	-1.5	-1.9	-2.1	-2.1	-2.2	-2.6	-2.7
Δ YEAR-TO-DATE	8.9	7.5	-4.7	-5.3	-9.0	-1.1	-7.5	-2.8	2.7	-7.1	-7.7	-14.4

Note: Currency returns are in relation to USD; DXY and TW$ are against a basket of currencies.

S&P 500 SECTOR RETURNS

	Energy	Cons. Staples	Health Care	Utilities	Comm. Services	Industrials	S&P 500	Materials	Cons. Discr.	Real Estate	Tech	Financials
Δ WEEKLY	-0.8	-2.6	-3.4	-4.1	-4.1	-5.0	-5.0	-5.8	-6.1	-6.1	-6.4	-6.8
Δ YEAR-TO-DATE	61.7	-6.5	-10.6	0.4	-27.9	-13.8	-17.6	-9.5	-29.7	-20.0	-24.8	-16.4

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 6/10/2022.