

# WEEKLY MARKET UPDATE

June 27, 2022

## Last Week Review

**Equities bounce back.** Global equities, up 4.8% last week, bounced back from the prior week's 5.7% decline. U.S. equities led the charge (+6.5%), followed by developed ex-U.S. equities (+2.6%) and emerging market equities (+0.6%). Softer economic data weighed on U.S. interest rates. The 2-year and 10-year Treasury yields declined 12 and 10 basis points (bps) to 3.06% and 3.13%, respectively. Credit spreads widened with high yield spreads up 6 bps to 509 bps and investment grade spreads up 4 bps to 137 bps. Central banks, led by the Federal Reserve, have made it clear that they will slow economic growth to fight inflation. As such, credit conditions have weakened year-to-date on the back of rising recession risk. Risk assets may have received some support this past week from a decent amount of that risk already being priced in.

**Germany raises energy alarm.** Germany raised its gas emergency status from level one to two (out of three) in the wake of Russia sharply cutting gas exports to Germany. The German government has expressed an urgency to build up gas supplies ahead of the winter season. There is a risk that Russia cuts off gas flows to Europe entirely. Such a move would likely lead to higher energy prices and potentially the need for Europe to ration energy use altogether at the expense of some economic growth.

**Slowing economic data feeds recession narrative.** Flash Purchasing Managers' Index (PMI) data slowed more than expected across the U.S. and Europe. The U.S. services PMI declined to 51.6 (expected: 53.4) and the manufacturing PMI fell to 52.4 (expected: 56.0). The Europe services PMI declined to 52.8 (expected: 55.5) and the manufacturing PMI fell to 52.0 (expected: 53.8). While readings above 50 indicate expansion, the few percentage points decline across the PMI readings corroborated other recent economic data that points to slowing growth (e.g., housing, consumer confidence). Pockets of waning economic data combined with central bank tightening to bring down inflation have prompted investors to price in lower growth expectations. Whether enough weakness has been priced in remains a key point of debate.

**No change to the Fed outlook.** There were no major changes to the U.S. monetary policy outlook following a two-day Congressional testimony from Chair Powell and other Federal Reserve leaders. The speakers emphasized that the Fed is strongly committed to bringing inflation down and that a recession is a possibility but not the base case. Some investors took note of Chair Powell branding the Fed's inflation commitment as "unconditional" during the second day. Investor expectations for 2022 Fed hikes slipped a bit last week but still point to a 75 bp hike in July and a 50 bp hike in September. The path is highly dependent on the course of inflation data over the next few months.

## This Week Preview

**Investors grapple with Russia-Ukraine.** Russia remains focused on taking control of the Donbas region of Ukraine and a peace deal appears unlikely over the near term. Just last week the European Union made moves to more quickly grant Ukraine bloc membership (although membership is still unlikely near term), the U.S. agreed to send \$450 million more in military aid to Ukraine and Germany warned of broader energy market instability risks. Against this fluid backdrop war-related risks remain on watch.

**Key inflation data on tap.** China PMIs are expected to be released on Wednesday. Both the manufacturing and services reading are expected to rise to above 50 (expansionary) as there is some hope that easing lockdowns boosted activity. On Thursday, U.S. core Personal Consumption Expenditures (PCE) is expected to decline to 4.8% year-over-year (y/y) from 4.9% y/y. This is a very important release given it is the Fed's preferred measure of inflation. On Friday, the final manufacturing PMI will be released for the U.S., as well as Europe flash Consumer Price Index (CPI).

**Policy leaders in action.** Investors will analyze remarks from key leaders across the European Central Bank, Bank of England and Fed throughout the week. Russia-Ukraine will likely be a point of discussion at a meeting between G-7 member countries. The same rings true for when NATO holds a summit a few days later. Finally, toward the end of the week China President Xi may visit Hong Kong and make a speech.

## FINANCIAL MARKET SNAPSHOT

	Last	ΔW	ΔYTD
MSCI ACWI	613	4.8%	-17.9%
S&P 500	3,912	6.5%	-17.3%
MSCI Europe (\$)	1,662	3.4%	-18.7%
U.S. Dollar (DXY)	104.19	-0.5%	8.9%
Gold (\$/oz)	1,827	-0.5%	-0.1%
WTI Crude Oil (\$/bbl)	107.62	-1.8%	43.1%
10-year Treasury (%)	3.13	-0.10	1.62
10-year German Bund (%)	1.44	-0.22	1.62
U.S. Investment Grade OAS (%)	1.37	0.04	0.50
U.S. High Yield OAS (%)	5.09	0.06	2.25

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

## LAST WEEK'S DATA

	Prior	Survey	Actual
W UK CPI Core y/y	6.2%	6.0%	5.9%
W Japan Composite PMI	52.3	n.a.	53.2
W Europe Consumer Conf.	-21.1	-20.5	-23.6
Th UK Manufacturing PMI	54.6	53.6	53.4
Th Japan CPI Core	0.8%	0.8%	0.8%
Th Europe Services PMI	56.1	55.5	52.8
Th Europe S&P Mfg PMI	54.6	53.8	52.0
Th S&P U.S. Services PMI	53.4	53.5	51.6
Th S&P U.S. Mfg. PMI	57.0	56.0	52.4
Th Initial Jobless Claims	231k	226k	229k

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

## THIS WEEK'S DATA

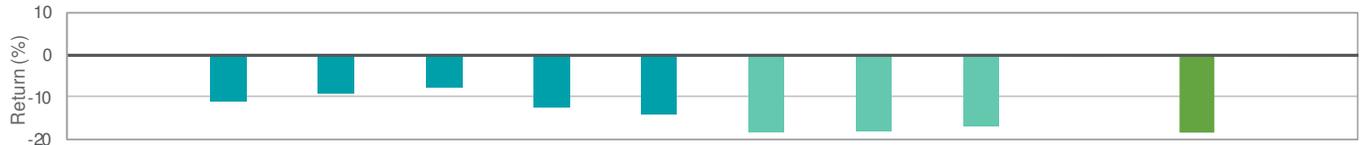
	Prior	Survey	Actual
Tu Consumer Confidence	106.4	100.0	-
W China Non-mfg PMI	47.8	50.1	-
W China Mfg PMI	49.6	50.5	-
Th Europe Unemployment Rate	6.8%	6.8%	-
Th Initial Jobless Claims	229k	230k	-
Th PCE Deflator y/y	6.3%	6.4%	-
Th PCE Core y/y	4.9%	4.8%	-
F Europe Flash CPI y/y	8.1%	8.5%	-
F Europe CPI Core y/y	3.8%	3.9%	-
F ISM Manufacturing PMI	56.1	54.7	-

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

Source: Bloomberg. Data as of 6/24/2022.

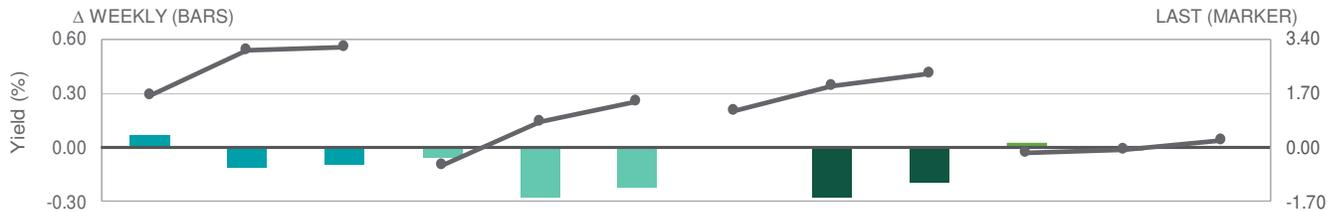


**ASSET CLASS RETURNS** ■ Δ Year-to-date



	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	0.6	0.8	0.6	0.6	0.7	6.5	2.6	0.6	-1.9	4.3	3.3
Δ YEAR-TO-DATE	0.1	-10.9	-9.3	-7.8	-12.6	-13.9	-18.4	-18.1	-17.1	-0.3	-18.5	-0.1

**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)	0.07	-0.12	-0.10	-0.06	-0.28	-0.22	0.00	-0.27	-0.20	0.02	-0.02	0.00
LAST (RHS)	1.63	3.06	3.13	-0.54	0.79	1.44	1.12	1.93	2.30	-0.18	-0.08	0.23

**CURRENCY RETURNS**

	MXN (Mexico)	CHF (Switz.)	CAD (Canada)	EUR (Euro)	CNY (China)	GBP (UK)	KRW (Korea)	AUD (Aussie)	JPY (Japan)	INR (India)	DXY (\$ Index)	TW\$ (Trade Wt)
Δ WEEKLY	2.4	1.3	1.0	0.5	0.4	0.2	0.2	0.2	-0.2	-0.4	-0.5	-0.5
Δ YEAR-TO-DATE	3.3	-4.8	-2.0	-7.2	-5.0	-9.3	-7.8	-4.4	-14.9	-4.8	8.9	7.7

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

**S&P 500 SECTOR RETURNS**

	Cons. Discr.	Health Care	Real Estate	Tech	Utilities	Comm. Services	Cons. Staples	S&P 500	Financials	Industrials	Materials	Energy
Δ WEEKLY	8.2	8.2	7.8	7.3	7.2	7.0	6.6	6.5	5.1	4.2	2.7	-1.6
Δ YEAR-TO-DATE	-28.1	-7.6	-18.2	-23.3	-2.1	-26.3	-4.6	-17.3	-16.4	-15.4	-14.7	31.9

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 6/24/2022.

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