NORTHERN TRUST
ASSET MANAGEMENT

WEEKLY MARKET UPDATE

June 6, 2022

Last Week Review

Global equities cap off volatile May. Global equities decreased 0.5% last week as emerging market equities aided performance while U.S. equities detracted. U.S. interest rates finished the week higher with the 2-year and 10-year Treasury yields up 18 and 20 basis points (bps), respectively. Credit spreads tightened again, albeit less than the prior week. For the month of May, global equities finished up 0.2% as non-U.S. equities ended slightly up, and U.S. equities ended slightly down. Equities caught a bid late in the month as investors responded positively to lower valuations, signs of peak inflation emerged and the significant increase in expectations for policy tightening slowed. Alongside the late-month equity reversal, credit spreads came in from highs last reached in 2020. After reaching recent highs toward the start of the month, U.S. interest rates trended downward throughout the remainder of May.

Europe agrees to oil embargo. The European Union reached an agreement to ban Russian oil imports. The embargo initially covers two-thirds of imported Russian oil, but by year-end it will cover ~90% of crude and petroleum products. OPEC+ announced a production increase last week, but oil prices are still up over 50% year-to-date on tighter global inventories helped by lower Russian supply. Russia had previously indicated it will respond to an EU oil embargo. It could cut off a major portion of Europe's natural gas supplies. Such a move could put meaningful upward pressure on European energy prices and downward pressure on consumer sentiment.

Jobs data offers hope for soft landing. The solid May U.S. jobs report somewhat supported the Fed's hope that the U.S. economy can withstand rate hikes. Nonfarm payrolls topped expectations (390k) and the unemployment rate held low at 3.6%. Importantly, wage growth slowed to 5.2% year-over-year (y/y) and the participation rate increased. Jobs data is unlikely to materially sway upcoming Fed decisions given the central bank's focus on inflation. Vice Chair Brainard indicated that the September meeting debate will more likely be centered on a 25 or 50 bp hike (rather than a rate hike pause) and the decision will depend on if and how quickly inflation decelerates.

PMIs show some resilience. Purchasing Managers' Index (PMI) readings for China surprised to the upside but were below 50 (contractionary territory). The readings marked an improvement from prior levels and lockdowns are expected to ease. Still, economic growth remains below target and hampered by ongoing virus headwinds. The U.S. manufacturing PMI also surprised to the upside at a strong level of 56.1, however, equities fell following the release (like they did following the jobs data). It could be that solid economic data encourages greater monetary policy tightening.

FINANCIAL MARKET SNAPSHOT

	Last	ΔW	ΔYTD
MSCI ACWI	649	-0.5%	-13.1%
S&P 500	4,109	-1.2%	-13.2%
MSCI Europe ($)	1,797	-0.6%	-12.1%
U.S. Dollar (DXY)	102.14	0.5%	6.8%
Gold ($/oz)	1,845	-0.3%	0.9%
WTI Crude Oil ($/bbl)	118.87	3.3%	58.1%
10-year Treasury (%)	2.93	0.20	1.42
10-year German Bund (%)	1.27	0.31	1.45
U.S. Investment Grade OAS (%)	1.22	-0.03	0.35
U.S. High Yield OAS (%)	4.09	-0.04	1.25

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

LAST WEEK'S DATA

		Prior	Survey	Actual
M	China Mfg PMI	47.4	49.0	49.6
M	China Non-mfg PMI	41.9	45.5	47.8
Tu	Europe Flash CPI y/y	7.5%	7.8%	8.1%
Tu	Europe CPI Core y/y	3.5%	3.6%	3.8%
W	Europe Unemployment Rate	6.8%	6.8%	6.8%
W	ISM Manufacturing PMI	55.4	54.5	56.1
Th	Initial Jobless Claims	211k	210k	200k
F	Unemployment Rate	3.6%	3.5%	3.6%
F	Δ Nonfarm Payrolls	436k	325k	390k
F	Avg. Hourly Earnings y/y	5.5%	5.2%	5.2%

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

This Week Preview

Russian retaliation risks. Risks of an adverse Russian action are incrementally higher following last week's moves by Europe (oil embargo) and the U.S. (sending long-range missiles to Ukraine). Investors should monitor war-related financial market risks.

U.S. inflation marks key data point of the week. U.S. headline Consumer Price Index (CPI) will be released on Friday and is expected to hold at 8.3% y/y. Core CPI is expected to decline to 5.9% y/y from 6.2% y/y. U.S. CPI rolled over last month, but the direction and pace at which inflation proceeds in aggregate over the next few months are more important to future Fed policy than any single reading.

Europe decides monetary policy. Last week, Europe flash CPI came in higher-than-expected at 8.1% y/y. Europe CPI has not rolled over, but Europe inflation is narrower than in the U.S. Nonetheless, it remains elevated, and the European Central Bank has alluded to upcoming policy tightening. On Thursday, it is expected to firm its plans for tightening by pointing to future hikes. Investors expect at least a 25 bp hike in July.

China tries to turn the corner. Positive performance in emerging market equities last week was helped by indications that China lockdowns will ease and policymakers will ramp up policy support. China continues to introduce easing measures, but they are seemingly aimed at mitigating, not overriding, its economic burdens. Several economic data releases should help give insight into the state of China's economy this week.

THIS WEEK'S DATA

		Prior	Survey	Actual
W	MBA Mortgage Apps.	-2.3%	n.a.	-
W	Germany Ind. Prod. y/y	-3.5%	-2.4%	-
Th	China Imports y/y	0.0%	2.5%	-
Th	China M2 Money Supply	10.5%	10.2%	-
Th	China Exports y/y	3.9%	8.0%	-
Th	China CPI y/y	2.1%	2.2%	-
Th	Initial Jobless Claims	200k	206k	-
F	U of Mich. Sentiment	58.4	58.3	-
F	CPI y/y	8.3%	8.3%	-
F	CPI Core y/y	6.2%	5.9%	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.
Source: Bloomberg. Data as of 6/3/2022.

NORTHERN TRUST

Weekly Market Update

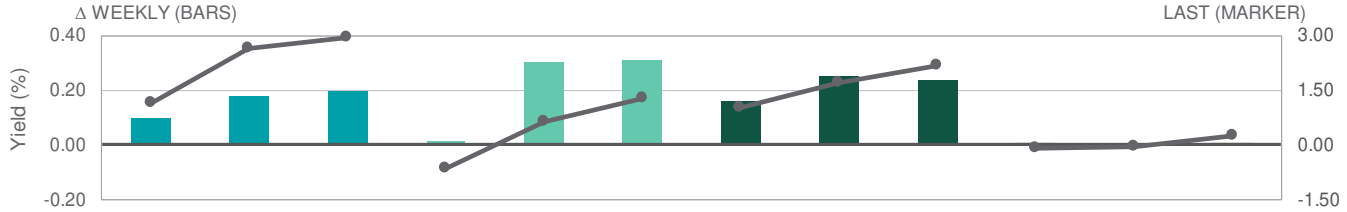
ASSET CLASS RETURNS

■ 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	-0.9	0.3	0.1	-0.3	0.1	-1.1	0.0	1.8	0.4	-1.5	0.1
Δ YEAR-TO-DATE	0.1	-9.3	-7.3	-5.4	-8.4	-10.4	-14.2	-10.9	-12.8	17.7	-13.4	8.3

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)	0.10	0.18	0.20	0.01	0.31	0.31	0.16	0.25	0.24	0.01	-0.01	0.00
LAST (RHS)	1.13	2.65	2.93	-0.65	0.64	1.27	1.00	1.69	2.16	-0.10	-0.07	0.23

CURRENCY RETURNS

	CAD (Canada)	AUD (Aussie)	CNY (China)	DXY ($ Index)	TW$ (Trade Wt)	MXN (Mexico)	KRW (Korea)	INR (India)	EUR (Euro)	CHF (Switz.)	GBP (UK)	JPY (Japan)
Δ WEEKLY	1.0	0.6	0.6	0.5	0.4	0.1	0.1	0.0	-0.1	-0.6	-1.1	-2.8
Δ YEAR-TO-DATE	0.4	-0.8	-4.6	6.8	5.6	4.9	-5.0	-4.1	-5.7	-5.2	-7.7	-12.0

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

S&P 500 SECTOR RETURNS

	Energy	Cons. Discr.	Industrials	Comm. Services	Materials	Tech	S&P 500	Utilities	Cons. Staples	Financials	Real Estate	Health Care
Δ WEEKLY	1.2	0.1	0.1	-0.1	-0.8	-1.1	-1.2	-1.3	-1.6	-2.0	-2.2	-3.1
Δ YEAR-TO-DATE	63.0	-25.2	-9.3	-24.8	-4.0	-19.7	-13.2	4.7	-4.1	-10.4	-14.9	-7.5

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 6/3/2022.