

WEEKLY MARKET UPDATE

October 24, 2022

Last Week Review

Global equities finish with strong gains. Global equities rose 3.2% as mid-week headwinds from rising bond yields were more than offset by strong gains last Friday when yields turned lower. U.S. equities led the way (+4.6%), followed by developed ex-U.S. equities (+0.9%) and emerging market equities (+0.2%). Treasury yields touched new year-to-date highs, but shorter-term yields failed to carry support at those levels and turned lower. The 2-year and 10-year Treasury yield finished the week down 2 and up 20 basis points (bps) to 4.47% and 4.22%, respectively. Oil prices fell very modestly.

War risks are still raised. Russia continued to target Ukrainian energy infrastructure, declared martial law in annexed Ukraine territory and began to evacuate Kherson, a Ukraine region in which it has lost ground. These actions do not mark a major escalation but highlight ongoing risk surrounding the war. Western nations continue to combat higher energy prices. To mitigate higher oil prices following the OPEC+ production cut, the U.S. authorized the release of 15 million more barrels of crude oil from its Strategic Petroleum Reserve – the last of the 180 million authorized last spring.

U.K. Prime Minister resigns following fiscal U-turn. U.K. Prime Minister Liz Truss announced her resignation after a U-turn on her proposed tax cuts. In initial response to the scrapped fiscal plan, U.K. government bond yields declined, and for now global spillover risks may be contained. The Bank of England (BOE) announced it will resume quantitative tightening in November but with reduced duration risk. U.K. inflation came in stronger than expected and the BOE still faces elevated risk of a policy mistake.

China's National Congress largely maintains the status-quo. As widely expected, President Xi was confirmed for a third five-year term with no indication of a potential successor. There were no major changes to expected near-term China policy, with the nation appearing to stick to its zero-Covid policy and no changes to its Taiwan approach. Security received more emphasis across food, energy and particularly technology, implying economic decoupling from the West is likely to continue.

Earnings season trends above expectations. 99 S&P 500 companies (20%) have reported third quarter earnings so far. Revenue and earnings growth are on pace to finish the quarter up 8.5% and 1.5% year-over-year (y/y), respectively. This is 1.3% and 2.3% ahead of expectations, though earnings growth would finish below average historical levels. Banks make up the bulk of reports so far and have been strong overall, highlighting a generally strong demand backdrop. Earnings resilience continues to offer some support against an otherwise weak financial market backdrop, however, macroeconomic risks loom and threaten further margin pressures moving forward.

This Week Preview

Several fluid geopolitical workings of note. Investors should continue to evaluate potential financial market risks from the Russia-Ukraine conflict – mainly through the energy channel as colder weather approaches. Other developments that may warrant investor attention include the evolution of U.S.-China critical tech export controls, and the U.K.'s aim to settle political uncertainties and elect a new Prime Minister.

Update on economic growth and its central bank implications. While last week's Beige Book may have hinted at progress on the economic cooldown front, another strong jobless claims number and hawkish Federal Reserve speak helped buoy expected central bank tightening. On Monday, investors will turn to developed region flash Purchasing Managers' Indexes (PMI) for a pulse check on the state of economic growth and the implications for inflation and upcoming monetary policy decisions.

Expected central bank rate changes. The Bank of Canada is expected to announce a 75-bp rate hike on Wednesday, followed by a 75-bp hike from the European Central Bank on Thursday and no rate hike from the Bank of Japan on Friday.

Key week of earnings season. Most of the biggest S&P 500 members are set to report this week, including: Microsoft (MSFT, Tuesday); Alphabet (GOOG, Tuesday); Meta (FB; Wednesday); Apple (AAPL, Thursday) and Amazon (AMZN; Thursday). The results may help shape investor sentiment around earnings and near-term risk appetite.

FINANCIAL MARKET SNAPSHOT

	Last	ΔW	ΔYTD
MSCI ACWI	570	3.2%	-23.1%
S&P 500	3,753	4.8%	-20.3%
MSCI Europe (\$)	1,486	1.7%	-26.8%
U.S. Dollar (DXY)	112.01	-1.1%	17.1%
Gold (\$/oz)	1,651	0.6%	-9.7%
WTI Crude Oil (\$/bbl)	85.05	-0.7%	13.1%
10-year Treasury (%)	4.22	0.20	2.71
10-year German Bund (%)	2.41	0.07	2.60
U.S. Investment Grade OAS (%)	1.51	-0.01	0.64
U.S. High Yield OAS (%)	5.08	-0.15	2.24

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

LAST WEEK'S DATA

	Prior	Survey	Actual
M Japan Ind. Prod. y/y	-2.0%	1.8%	5.8%
M China Fixed Asset Inv. y/y	5.7%	6.0%	5.8%
M China Ind. Production y/y	3.8%	4.2%	4.2%
W UK CPI y/y	9.9%	10.0%	10.1%
W Europe CPI Core y/y	4.3%	4.8%	4.8%
W Europe CPI y/y	9.1%	10.0%	9.9%
Th Japan CPI y/y	3.0%	2.9%	3.0%
Th Initial Jobless Claims	226k	232k	214k
F Japan Mfg PMI	51.5	n.a.	50.8
F Japan Composite PMI	49.4	n.a.	51.0

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

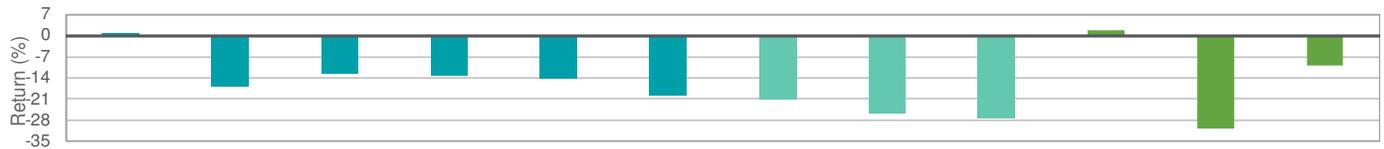
THIS WEEK'S DATA

	Prior	Survey	Actual
M Europe Services PMI	48.8	48.2	-
M Europe S&P Mfg PMI	48.4	47.9	-
M S&P U.S. Services PMI	49.3	49.5	-
M S&P U.S. Mfg. PMI	52.0	51.0	-
Th Initial Jobless Claims	214k	220k	-
F U of Mich. Sentiment	59.8	59.6	-
F PCE Deflator y/y	6.2%	6.3%	-
F PCE Core y/y	4.9%	5.2%	-
F China Non-mfg PMI	50.6	52.4	-
F China Mfg PMI	50.1	49.7	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.
 Source: Bloomberg. Data as of 10/21/2022.

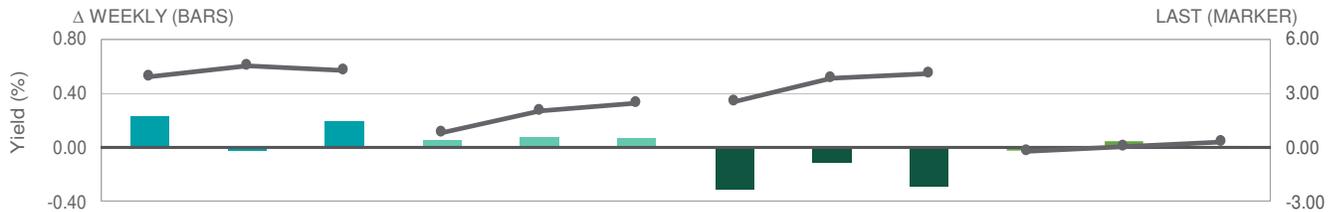


ASSET CLASS RETURNS ■ Δ Year-to-date



	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	-1.1	-1.2	-0.3	0.3	-0.7	4.6	0.9	0.2	5.1	1.4	2.3
Δ YEAR-TO-DATE	0.8	-16.7	-12.4	-13.4	-14.2	-19.9	-21.2	-25.8	-27.4	1.8	-30.9	-10.0

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)	0.23	-0.02	0.20	0.06	0.08	0.07	-0.31	-0.12	-0.28	-0.02	0.05	0.01
LAST (RHS)	3.93	4.47	4.22	0.83	2.03	2.41	2.55	3.80	4.05	-0.19	0.00	0.26

CURRENCY RETURNS

	AUD (Aussie)	CAD (Canada)	EUR (Euro)	GBP (UK)	CHF (Switz.)	MXN (Mexico)	JPY (Japan)	INR (India)	CNY (China)	KRW (Korea)	DXY (\$ Index)	TW\$ (Trade Wt)
Δ WEEKLY	2.9	1.8	1.4	1.2	0.8	0.7	0.7	-0.4	-0.6	-0.9	-1.1	-1.3
Δ YEAR-TO-DATE	-12.2	-7.3	-13.3	-16.5	-8.6	2.9	-22.0	-9.9	-12.1	-17.5	17.1	15.3

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

S&P 500 SECTOR RETURNS

	Energy	Tech	Materials	Cons. Discr.	Comm. Services	S&P 500	Industrials	Financials	Real Estate	Health Care	Cons. Staples	Utilities
Δ WEEKLY	8.1	6.5	6.2	5.7	5.0	4.8	4.7	3.9	2.8	2.3	2.3	2.0
Δ YEAR-TO-DATE	63.0	-28.2	-18.9	-29.7	-36.1	-20.3	-15.1	-16.4	-31.5	-9.1	-8.8	-9.6

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 10/21/2022.

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