NORTHERN TRUST
ASSET MANAGEMENT

WEEKLY MARKET UPDATE

October 31, 2022

Last Week Review

Global equities chip away at year-to-date losses. Global equities gained 3.4% as strong returns across developed ex-U.S. equities (+4.2%) and U.S. equities (+4.1%) more than offset emerging market headwinds (-1.9%) related to China (see below). Bond yield relief helped buoy investor sentiment otherwise weighed on by weakening economic activity and generally poor big tech earnings. The 2-year and 10-year Treasury yields declined 6 and 20 basis points (bps) to 4.41% and 4.01%, respectively. The 10-year German Bund came off its year-to-date high, down 31 bps on the week.

Economic activity declines for developed regions. Flash Purchasing Managers' Indexes (PMIs) declined across the developed world. The U.S. and Europe services and manufacturing readings now sit below 50 (readings below 50 are contractionary). The weak reports highlight a deteriorating demand backdrop brought on in significant part by price pressures and tight monetary policy. Inflation measures – including those in last week's PMI reports and U.S. employment cost index release – have moderated, but they remain too high and pose challenges to the global economic backdrop.

Central bank hiking continues. The Bank of Canada (BOC) hiked its policy rate by 50 bps (25 bps less than expected). The European Central Bank (ECB) hiked its policy rate by 75 bps (in-line with expectations) and tightened conditions pertaining to its borrowing facility. However, some members voted against the significant hike and the ECB statement dropped language that previously implied hikes over the next several meetings. Consistent with the BOC, there were some signals that the ECB is becoming more sensitive to the impacts of tighter monetary policy on slowing economic growth. The Bank of Japan made no major changes to its policy and maintains an ultra-dovish approach relative to the other developed central banks despite Yen weakness.

Doses of China equity skepticism. China equities fell under more pressure last week amongst concern that President Xi's consolidation of power may hinder economic growth. China also continues to deal with rolling Covid-related lockdowns, new government regulations and tightening U.S. export controls on key technology. Overall, investors remain skeptical on the economic and political challenges facing the region.

U.S. tech companies disappoint. 263 S&P 500 companies (53%) have reported earnings. U.S. revenue and earnings growth are on pace to finish the quarter up 11% and 2% year-over-year (y/y), respectively. Last week, Microsoft (MSFT), Alphabet (GOOG), Meta (FB), Apple (AAPL) and Amazon (AMZN) all reported earnings. A weakening demand backdrop, expense concerns and currency challenges contributed to mostly poor results and guidance that added to year-to-date tech underperformance.

FINANCIAL MARKET SNAPSHOT

	Last	ΔW	ΔYTD
MSCI ACWI	589	3.4%	-20.5%
S&P 500	3,901	4.0%	-17.1%
MSCI Europe ($)	1,563	5.2%	-23.1%
U.S. Dollar (DXY)	110.75	-1.1%	15.8%
Gold ($/oz)	1,645	-0.4%	-10.1%
WTI Crude Oil ($/bbl)	87.90	3.4%	16.9%
10-year Treasury (%)	4.01	-0.20	2.50
10-year German Bund (%)	2.10	-0.31	2.28
U.S. Investment Grade OAS (%)	1.46	-0.05	0.59
U.S. High Yield OAS (%)	4.57	-0.51	1.73

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

LAST WEEK'S DATA

		Prior	Survey	Actual
M	Europe Services PMI	48.8	48.2	48.2
M	Europe S&P Mfg PMI	48.4	47.9	46.6
M	S&P U.S. Services PMI	49.3	49.5	46.6
M	S&P U.S. Mfg. PMI	52.0	51.0	49.9
Th	Initial Jobless Claims	214k	220k	217k
F	U of Mich. Sentiment	58.6	59.6	59.9
F	PCE Deflator y/y	6.2%	6.3%	6.2%
F	PCE Core y/y	4.9%	5.2%	5.1%
F	China Non-mfg PMI	52.6	52.4	50.6
F	China Mfg PMI	49.4	49.7	50.1

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

This Week Preview

Ukraine uncertainties. Last week Russia alleged that Ukraine is building a "dirty bomb" (i.e., a nuclear weapon). The claim is so far unsubstantiated by the West and the benefits of using unconventional tactics appear limited for both sides. Nonetheless, risks surrounding the war remain elevated, particularly if Russia remains vulnerable to ongoing Ukraine advances. Investors should continue to track the war's progression.

Action-packed week of macroeconomic data. Across a heavy macro week, final PMIs are expected to confirm weaker economic activity signaled by the preliminary readings. Flash Europe inflation data is expected to remain elevated. Finally, any U.S. labor market loosening implied by Friday's jobs data should be well-received.

Investors widely expect a sizable Fed hike. The Royal Bank of Australia is expected to deliver a 25-bp hike on Tuesday, followed by a 75-bp hike from the Federal Reserve on Wednesday and a 50-75-bp hike from the Bank of England on Thursday. A large focus will likely be on signals from the Fed on its future rate hike decisions.

Energy earnings support. U.S. earnings have been somewhat mixed but overall are trending a few percentage points above expectations. Aggregate earnings growth is expected to finish ~+2% y/y, but excluding the energy sector the number is ~-4%. Among those scheduled to report this week are non-U.S. energy company BP on Tuesday and consumer discretionary company Starbucks (SBUX) on Wednesday.

THIS WEEK'S DATA

		Prior	Survey	Actual
M	Japan Mfg PMI	50.7	n.a.	-
M	Europe Flash CPI y/y	10.0%	10.3%	-
M	Europe CPI Core y/y	4.8%	5.0%	-
Tu	ISM Manufacturing PMI	50.9	50.0	-
W	China Composite PMI	48.5	n.a.	-
Th	ISM Non-Mfg. Composite	56.7	55.1	-
Th	Initial Jobless Claims	217k	220k	-
F	Unemployment Rate	3.5%	3.6%	-
F	Δ Nonfarm Payrolls	263k	190k	-
F	Avg. Hourly Earnings y/y	5.0%	4.7%	-

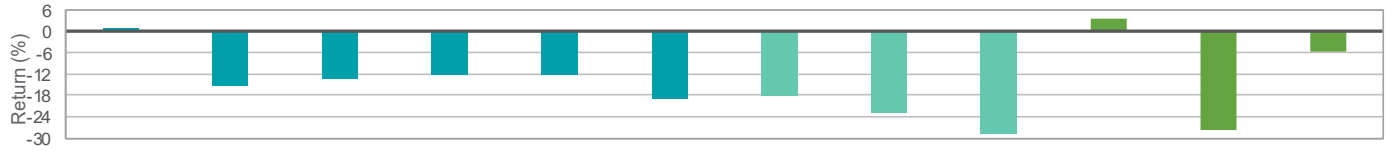
Survey = Bloomberg consensus. U.S. data unless otherwise stated.
Source: Bloomberg. Data as of 10/28/2022.

NORTHERN TRUST

Weekly Market Update

ASSET CLASS RETURNS

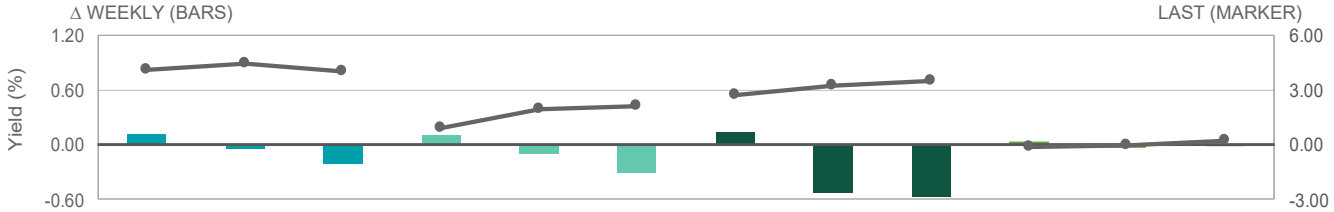
■ Δ Year-to-date



	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	0.1	1.7	-0.6	1.1	2.4	1.3	4.1	4.2	-1.9	1.9	4.7	4.8
Δ YEAR-TO-DATE	0.8	-15.4	-12.9	-12.4	-12.2	-18.9	-17.9	-22.7	-28.8	3.8	-27.6	-5.6

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)	0.12	-0.06	-0.20	0.10	-0.10	-0.31	0.13	-0.54	-0.58	0.03	-0.04	-0.01
LAST (RHS)	4.05	4.41	4.01	0.93	1.93	2.10	2.68	3.26	3.48	-0.15	-0.05	0.25

CURRENCY RETURNS

	GBP (UK)	KRW (Korea)	EUR (Euro)	MXN (Mexico)	AUD (Aussie)	CAD (Canada)	INR (India)	CHF (Switz.)	JPY (Japan)	CNY (China)	TW$ (Trade Wt)	DXY ($ Index)
Δ WEEKLY	2.8	1.4	1.0	0.7	0.5	0.3	0.3	0.2	0.0	-0.3	-0.7	-1.1
Δ YEAR-TO-DATE	-14.2	-16.4	-12.4	3.6	-11.7	-7.0	-9.6	-8.4	-22.0	-12.4	14.5	15.8

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

S&P 500 SECTOR RETURNS

	Industrials	Utilities	Financials	Real Estate	Cons. Staples	Health Care	Tech	S&P 500	Materials	Energy	Cons. Discr.	Comm. Services
Δ WEEKLY	6.7	6.5	6.2	6.2	6.1	5.0	4.3	4.0	3.4	2.8	0.7	-2.9
Δ YEAR-TO-DATE	-9.4	-3.7	-11.2	-27.2	-3.3	-4.6	-25.1	-17.1	-16.1	67.6	-29.2	-37.9

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 10/28/2022.