

WEEKLY MARKET UPDATE

November 14, 2022

Last Week Review

U.S. inflation-induced rally. Brief weakness from closer-than-expected U.S. midterm elections and cryptocurrency market turmoil was not enough to hold back a broad-based financial market rally triggered by cooler U.S. inflation data and news of China easing some zero-Covid restrictions. On the week, global equities gained 6.6%, led by developed ex-U.S. (+8.2%), the U.S. (+6.0%) and emerging markets (+5.4%). The 2-year and 10-year Treasury yields declined 33 and 35 basis points (bps) to 4.33% and 3.81%, respectively. The U.S. dollar lost 4% but is still up about 11% year-to-date.

A welcomed decline in inflation. U.S. Consumer Price Index (CPI) came in at 7.7% year-over-year (y/y, expected: 7.9%) and 6.3% y/y excluding food and energy (expected 6.5%). Month-over-month the core reading slowed to 0.3% (prior: 0.6%). There was a broad-based slowdown across categories, with services, food, energy (ex-oil), used cars and shelter all lower sequentially. The positive inflation print sparked a very positive financial market response on the day with U.S. equities up ~5%, 2- and 10-year Treasury yields down a little over 25 bps each and terminal Fed policy rate expectations dropping over 10 bps to ~4.9%. While the CPI data is encouraging and likely increases the chance that the Fed slows its pace of hiking at upcoming meetings, it is unlikely to be enough for the central bank to fully reverse course. Fed policy is likely to remain restrictive until there is a clear trend of positive inflation data. Until then, the Fed may continue to ensure financial conditions remain tight enough to slow inflation.

U.S. midterms lead to likely split government. As of late last week, results were still coming in for the U.S. midterm elections. Democrats retained control of the Senate with a 50-49 lead in seats (the Georgia seat is headed to a December 6 runoff vote), while the House outcome is less certain with Republicans appearing on-track to win a slim majority. The U.S. government will likely be split given a Democratic president and Republican control of the House. As such, neither party is expected to be able to move forward with major parts of their agenda, limiting the odds of market-moving legislation. Investors are likely to remain more focused on growth, inflation and central bank policy.

Lackluster earnings ex-energy. 461 S&P 500 companies (92%) have reported third quarter earnings. U.S. revenue and earnings growth is trending 2.5% and 1.8% ahead of expectations and is on pace to finish up 10.6% and 2.2% y/y. Excluding the Energy sector – where earnings growth is up nearly 140% y/y – S&P 500 earnings growth is negative. Cost pressures are weighing on margins and companies are expressing caution in the face of an uncertain macroeconomic backdrop. Last week, Meta (META) added to Tech layoffs and announced it will fire 13% of its workforce.

This Week Preview

Eastern impacts and geopolitics more broadly. The Russia-Ukraine war remains in a very fluid state with Russia continuing to suffer from setbacks. China recently eased travel quarantine and testing requirements, but the near-term outlook for Covid policy remains a key question for investors. President Biden and President Xi are scheduled to meet on Monday ahead of the two-day G-20 summit on Tuesday and Wednesday.

More inflation data comes in. Final euro area CPI is expected to align with the flash readings (10.7% headline and 5.0% core). Albeit elevated, the European Central Bank (ECB) has hinted at taming its fight against inflation in light of notable economic growth challenges. Japan CPI is expected to rise to 3.7% y/y but it is still not a major concern for most investors – and most importantly the Bank of Japan. On monetary policy, ECB President Lagarde and several regional Fed presidents are set to talk this week.

Forward earnings show some cracks. While U.S. sales and earnings are trending a couple of percentage points higher than expected, y/y earnings have started to contract for most sectors outside of Energy. Companies have mostly struck an uncertain tone on the profit outlook given inflation pressures, tight financial conditions and slowing economic growth. The decline in 2023 earnings expectations is underway. As third quarter earnings season winds down, investors will attempt to gauge how much further the earnings reset has to go. This week, several retail companies are set to report.

FINANCIAL MARKET SNAPSHOT

| | Last | ΔW | ΔYTD |
|-------------------------------|--------|-------|--------|
| MSCI ACWI | 619 | 6.6% | -16.4% |
| S&P 500 | 3,993 | 5.9% | -15.1% |
| MSCI Europe (\$) | 1,704 | 8.0% | -16.1% |
| U.S. Dollar (DXY) | 106.29 | -4.1% | 11.1% |
| Gold (\$/oz) | 1,769 | 5.5% | -3.2% |
| WTI Crude Oil (\$/bbl) | 88.96 | -3.9% | 18.3% |
| 10-year Treasury (%) | 3.81 | -0.35 | 2.30 |
| 10-year German Bund (%) | 2.16 | -0.14 | 2.34 |
| U.S. Investment Grade OAS (%) | 1.36 | -0.05 | 0.49 |
| U.S. High Yield OAS (%) | 4.70 | 0.07 | 1.86 |

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

LAST WEEK'S DATA

| | Prior | Survey | Actual |
|---------------------------|-------|--------|--------|
| M Germany Ind. Prod. y/y | 1.6% | 2.0% | 2.6% |
| M China Imports y/y | 0.3% | 0.0% | -0.7% |
| M China Exports y/y | 5.7% | 4.5% | -0.3% |
| Tu China CPI y/y | 2.8% | 2.4% | 2.1% |
| Th Initial Jobless Claims | 218k | 220k | 225k |
| Th CPI y/y | 8.2% | 7.9% | 7.7% |
| Th CPI Core y/y | 6.6% | 6.5% | 6.3% |
| F UK Ind. Prod. y/y | -4.3% | -4.3% | -3.1% |
| F Germany CPI y/y | 10.0% | 10.4% | 10.4% |
| F U of Mich. Sentiment | 59.9 | 59.5 | 54.7 |

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

THIS WEEK'S DATA

| | Prior | Survey | Actual |
|------------------------------|-------|--------|--------|
| M Japan Ind. Prod. y/y | 9.8% | 10.5% | - |
| M Europe Ind. Prod. y/y | 2.5% | 3.0% | - |
| M China Fixed Asset Inv. y/y | 5.9% | 5.9% | - |
| M China Ind. Production y/y | 6.3% | 6.3% | - |
| W UK CPI Core y/y | 6.5% | 6.4% | - |
| W UK CPI y/y | 10.1% | 10.7% | - |
| Th Japan CPI y/y | 3.0% | 3.7% | - |
| Th Europe CPI Core y/y | 5.0% | 5.0% | - |
| Th Europe CPI y/y | 10.7% | 10.7% | - |
| Th Initial Jobless Claims | 225k | 222k | - |

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

Source: Bloomberg. Data as of 11/11/2022.

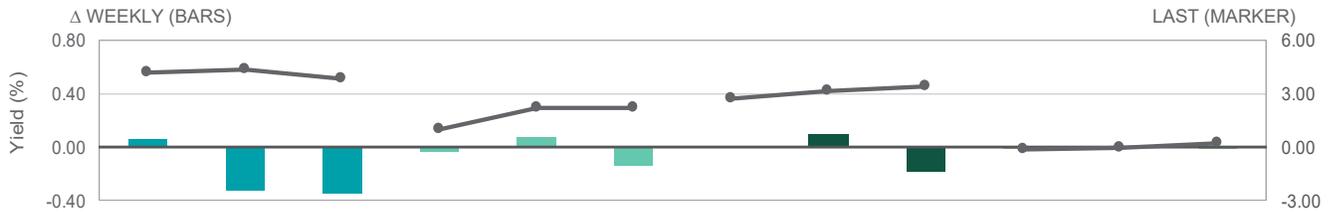


ASSET CLASS RETURNS ■ Δ Year-to-date



| | 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 | 0.1 | 2.3 | 1.4 | 1.6 | 1.2 | 4.2 | 6.0 | 8.2 | 5.4 | 5.6 | 7.5 | 4.2 |
| Δ YEAR-TO-DATE | 1.0 | -14.1 | -11.4 | -12.0 | -12.2 | -14.9 | -15.9 | -15.4 | -21.5 | 11.8 | -22.8 | -0.7 |

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) | 0.06 | -0.33 | -0.35 | -0.04 | 0.07 | -0.14 | 0.00 | 0.10 | -0.18 | -0.01 | -0.02 | -0.02 |
| LAST (RHS) | 4.16 | 4.33 | 3.81 | 0.98 | 2.19 | 2.16 | 2.68 | 3.17 | 3.36 | -0.13 | -0.06 | 0.24 |

CURRENCY RETURNS

| | KRW (Korea) | CHF (Switz.) | JPY (Japan) | GBP (UK) | EUR (Euro) | AUD (Aussie) | INR (India) | CAD (Canada) | CNY (China) | MXN (Mexico) | TW\$ (Trade Wt) | DXY (\$ Index) |
|----------------|-------------|--------------|-------------|----------|------------|--------------|-------------|--------------|-------------|--------------|-----------------|----------------|
| Δ WEEKLY | 7.6 | 5.7 | 5.6 | 4.0 | 3.9 | 3.6 | 2.0 | 1.5 | 1.1 | 0.1 | -3.4 | -4.1 |
| Δ YEAR-TO-DATE | -9.9 | -3.1 | -17.1 | -12.6 | -9.0 | -7.7 | -7.8 | -4.8 | -10.5 | 5.2 | 10.3 | 11.1 |

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

S&P 500 SECTOR RETURNS

| | Tech | Comm. Services | Materials | Real Estate | Cons. Discr. | S&P 500 | Financials | Industrials | Cons. Staples | Energy | Health Care | Utilities |
|----------------|-------|----------------|-----------|-------------|--------------|---------|------------|-------------|---------------|--------|-------------|-----------|
| Δ WEEKLY | 10.1 | 9.2 | 7.7 | 7.1 | 6.0 | 5.9 | 5.8 | 4.7 | 2.4 | 2.0 | 1.8 | 1.5 |
| Δ YEAR-TO-DATE | -23.2 | -37.2 | -8.9 | -23.4 | -29.4 | -15.1 | -6.8 | -4.7 | -2.8 | 75.0 | -4.4 | -2.7 |

Source: Northern Trust Global Asset Allocation, Bloomberg. Δ Weekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 11/11/2022.

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