NORTHERN TRUST
ASSET MANAGEMENT

WEEKLY MARKET UPDATE

November 7, 2022

Last Week Review

Bond yields up, equities down. Global equities fell 1.4% as tighter central bank policy weighed on equities and pushed up bond yields. U.S. equities lost 3.3% and the 2-year and 10-year Treasury yields added 24 and 15 basis points (bps), respectively. The 2-year yield (4.66%) sits just below its year-to-date (YTD) high, leaving it 50 bps above the 10-year yield (4.16%). Outside of the U.S., developed ex-U.S equities gained 1.1%, while emerging market equities bounced 4.5% off prior week declines.

October recap. Most financial assets rebounded off lows during a choppy October. Global equities were up 6.2%, led higher by developed market equities (U.S. up 8.2% and developed ex-U.S. up 5.4%). Emerging market equities suffered from another negative month (-2.7%) as China equities struggled with news coming out of the 20th Party Congress. Central bank tightening continued, though investors became increasingly hopeful that the tightening cycle is nearing an end. Economic growth continued to slow, and the U.K. fiscal saga – albeit mostly resolved by the end of the month – underscored the global risks of tighter financial conditions. That said, inflation remains elevated globally and most bond yields ended October higher. The 2-year and 10-year Treasury yields finished off the month's highs, but each added ~20 bps in all.

Higher than previously thought. The Federal Reserve raised its policy rate by 75 bps. The initial financial market reaction was positive as the statement introduced a new line stating the Fed will consider the cumulative tightening and lagged impact of monetary policy when determining the pace of future rate hikes. However, Chair Powell was quick to emphasize it is premature to think about pausing rate hikes, and that while the Fed may soon slow the pace of hikes, the peak rate may end up being higher than thought before. The Bank of England also tightened an expected 75 bps. Unlike the Fed, it signaled a peak rate more dovish than priced into financial markets. Developed central bank policy continues to tighten and inflation will likely ultimately dictate the end game.

Still tight U.S. labor market. In October, the U.S. added 261k jobs (prior: 315k), the unemployment rate rose to 3.7% and wage growth grew at 4.7% year-over-year (y/y). Moreover, job demand remains strong with over 10 million job openings. Overall, the jobs data points to a cooling but still hot labor market that risks un-anchoring inflation expectations for as long as it remains tight. The labor market likely has a ways to weaken before the Fed is comfortable pumping the brakes on policy tightening.

U.S. earnings update. 430 S&P 500 companies (86%) have reported earnings for the quarter. Despite lower margins and shakier outlooks, U.S. revenue and earnings growth continue to trend slightly ahead of expectations helped significantly by Energy.

FINANCIAL MARKET SNAPSHOT

	Last	ΔW	ΔYTD
MSCI ACWI	581	-1.4%	-21.6%
S&P 500	3,771	-3.3%	-19.8%
MSCI Europe ($)	1,578	1.0%	-22.3%
U.S. Dollar (DXY)	110.88	0.1%	15.9%
Gold ($/oz)	1,677	1.9%	-8.3%
WTI Crude Oil ($/bbl)	92.61	5.4%	23.1%
10-year Treasury (%)	4.16	0.15	2.65
10-year German Bund (%)	2.29	0.19	2.47
U.S. Investment Grade OAS (%)	1.41	-0.05	0.54
U.S. High Yield OAS (%)	4.63	0.06	1.79

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

LAST WEEK'S DATA

		Prior	Survey	Actual
M	Japan Mfg PMI	50.8	n.a.	50.7
M	Europe Flash CPI y/y	10.0%	10.3%	10.7%
M	Europe CPI Core y/y	4.8%	5.0%	5.0%
Tu	ISM Manufacturing PMI	50.9	50.0	50.2
W	China Composite PMI	48.5	n.a.	48.3
Th	ISM Non-Mfg. Composite	56.7	55.1	54.4
Th	Initial Jobless Claims	218k	220k	217k
F	Unemployment Rate	3.5%	3.6%	3.7%
F	Δ Nonfarm Payrolls	315k	190k	261k
F	Avg. Hourly Earnings y/y	5.0%	4.7%	4.7%

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

This Week Preview

U.S. midterm elections. Tuesday's midterm elections will decide the new composition of the U.S. government. The votes are widely expected to result in a split government, with the Republican party favored to take the House and possibly the Senate. Investors are not expecting a major financial market reaction given gridlock should limit market-moving policy, however, there are potential sector-level and longer-term impacts.

Inflation data scheduled for Thursday. U.S. Consumer Price Index (CPI) is expected to rise 7.9% y/y (prior: 8.2%) and 6.5% y/y excluding food and energy (prior 6.6%). A convincing decline in inflation is likely table stakes for a pause in Fed hikes. Given a data-dependent Fed, the CPI data should influence investors' policy expectations.

China and Russia's ongoing developments. Last week, China equities rallied on unverified plans that it is shifting away from zero-Covid policies. Meanwhile, Russia temporarily pushed up commodity prices after withdrawing from (and later returning to) the grain deal. Investors will continue to track these developments outside of the U.S.

U.S. and Europe earnings trending higher than expected. Aggregate earnings growth is expected to finish at about 2-3% for the U.S. and 25% for Europe. Both of these estimates are slightly ahead of expectations despite some notable margin compression. Company-level commentary will continue this week, with communication services company Disney (DIS) set to report on Tuesday and SoftBank on Friday.

THIS WEEK'S DATA

		Prior	Survey	Actual
M	Germany Ind. Prod. y/y	2.1%	2.0%	-
M	China Imports y/y	0.3%	0.0%	-
M	China Exports y/y	5.7%	4.5%	-
Tu	China CPI y/y	2.8%	2.4%	-
Th	Initial Jobless Claims	217k	220k	-
Th	CPI y/y	8.2%	7.9%	-
Th	CPI Core y/y	6.6%	6.5%	-
F	UK Ind. Prod. y/y	-5.2%	-4.3%	-
F	Germany CPI y/y	10.4%	10.4%	-
F	U of Mich. Sentiment	59.9	59.5	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.
Source: Bloomberg. Data as of 11/4/2022.

NORTHERN TRUST

Weekly Market Update

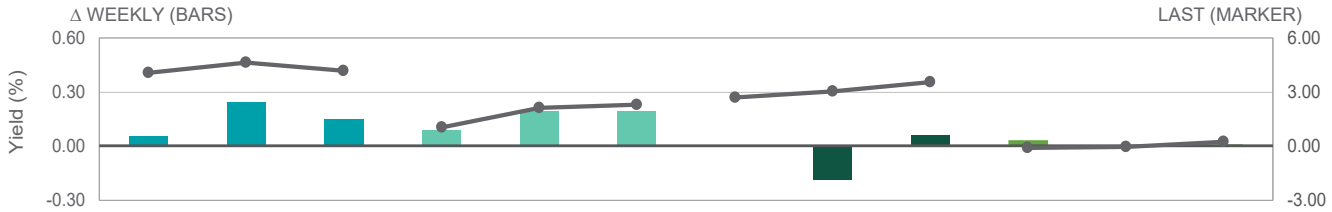
ASSET CLASS RETURNS

■ 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	-0.8	0.4	-1.1	-1.2	0.7	-3.3	1.1	4.5	2.0	-0.8	0.9
Δ YEAR-TO-DATE	0.9	-16.0	-12.6	-13.3	-13.2	-18.3	-20.6	-21.8	-25.5	5.9	-28.2	-4.7

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)	0.05	0.24	0.15	0.09	0.20	0.19	0.00	-0.19	0.06	0.03	0.00	0.01
LAST (RHS)	4.10	4.66	4.16	1.02	2.12	2.29	2.68	3.07	3.54	-0.12	-0.04	0.26

CURRENCY RETURNS

	MXN (Mexico)	CNY (China)	AUD (Aussie)	CAD (Canada)	JPY (Japan)	KRW (Korea)	DXY ($ Index)	CHF (Switz.)	INR (India)	EUR (Euro)	TW$ (Trade Wt)	GBP (UK)
Δ WEEKLY	1.4	1.0	0.9	0.9	0.7	0.2	0.1	0.1	0.0	-0.1	-0.2	-2.0
Δ YEAR-TO-DATE	5.1	-11.5	-10.9	-6.2	-21.5	-16.2	15.9	-8.3	-9.6	-12.4	14.3	-15.9

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

S&P 500 SECTOR RETURNS

	Energy	Materials	Industrials	Utilities	Financials	Health Care	Real Estate	Cons. Staples	S&P 500	Cons. Discr.	Tech	Comm. Services
Δ WEEKLY	2.4	0.9	0.4	-0.5	-0.8	-1.5	-1.7	-1.8	-3.3	-5.8	-6.8	-7.4
Δ YEAR-TO-DATE	71.6	-15.4	-9.0	-4.2	-11.8	-6.0	-28.5	-5.0	-19.8	-33.3	-30.2	-42.5

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 11/4/2022.