Weekly update

Misleading U.S. first-quarter GDP report rattles markets

April 29, 2022

The economy

- U.S. economic growth contracted by a weaker-than-expected 1.4% annualized rate during the first quarter of 2022 (as measured by gross domestic product, or GDP). The biggest driver of the decline was the soaring U.S. trade deficit—which reduced the GDP reading by 3.2% alone. A significant deceleration in private inventory and government spending, along with record-high inflation, labor shortages, and demand shortfalls, also presented headwinds. However, consumer spending—which drives nearly 70% of U.S. economic activity—advanced by a healthy 2.7%, and business fixed investment rose by 9.2%. Many economists wrote off the report as simply “noise” in the continued economic recovery, rather than a warning signal for an impending recession. Still, the feeble reading challenged global equity markets during the week ending April 29.
- Durable-goods orders grew by 0.8% in March as factory conditions improved and supply-chain constraints (shortages in labor and materials) eased during the month despite the ongoing conflict between Russia and Ukraine. New orders for core capital goods (a closely-watched proxy for business investment) increased by a modest 1.0%.
- U.S. home prices rose by 2.4% in February and by 20.2% year over year on robust demand, according to the S&P CoreLogic Case-Schiller National Home Price Index. Prices remained around 46% higher than their previous peak during the housing boom in 2006.
- New-home sales advanced in March to an annualized pace of 763,000. The buying frenzy is expected to retreat in the coming months due to rising mortgage rates and home prices, as well as supply shortages in building materials.
- Mortgage-purchase applications fell by 8.0% for the week ending April 22, while refinancing applications receded by 9.0%. The average interest rate on a 30-year fixed-rate mortgage, which has been rising in recent weeks, ticked down from 5.11% to 5.10%.
- The rate of initial jobless claims decreased to 180,000 from 185,000 during the week ending April 23. Ongoing progress within labor markets suggested that the Omicron variant has loosened its grip on jobs.
- U.S. consumer confidence inched down from 107.6 in March to 107.3 in April. Concerns about inflation and the economic fallout from the Russia-Ukraine war have put a dent in consumer sentiment; however, continued faith in the strength of the economic recovery was a bright spot in the report. A resilient labor market also bolstered the reading.

Stocks

- Global equities closed lower for the week. Emerging markets fared better than developed markets.
- U.S. equities were in negative territory. Materials and information technology were the top performers, while financials and utilities lagged. Value stocks led growth stocks and large caps beat small caps.

Bonds

- The 10-year Treasury bond yield increased to 2.91% during the week.
- Global bond markets were in negative territory this week.
- High-yield bonds led, followed by global corporate bonds and global government bonds.

The Numbers as of April 29, 2022	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	-0.9%	-11.8%	-6.0%	665.8
MSCI EAFE ($)	-3.3%	-13.8%	-12.2%	2012.6
MSCI Emerging Mkts ($)	-2.0%	-14.5%	-22.8%	1053.8
US & Canadian Equities				
Dow Jones Industrials ($)	-2.5%	-9.2%	-3.2%	32977.2
S&P 500 ($)	-3.2%	-13.2%	-1.8%	4135.3
NASDAQ ($)	-3.9%	-21.2%	-12.4%	12334.6
S&P/ TSX Composite (C$)	-1.7%	-1.9%	8.1%	20821.7
UK & European Equities				
FTSE All-Share (£)	0.1%	-0.5%	5.2%	4185.1
MSCI Europe ex UK (€)	-1.6%	-10.9%	-1.6%	1551.1
Asian Equities				
Topix (¥)	-0.3%	-4.7%	-0.5%	1899.6
Hong Kong Hang Seng ($)	2.2%	-9.9%	-28.0%	21089.4
MSCI Asia Pac. Ex-Japan ($)	-2.2%	-13.1%	-22.4%	547.2
Latin American Equities				
MSCI EMF Latin America ($)	-5.5%	9.4%	-4.2%	2330.6
Mexican Bolsa (peso)	-3.3%	-3.4%	5.2%	51435.9
Brazilian Bovespa (real)	-2.4%	3.4%	-9.7%	108405.5
Commodities ($)				
West Texas Intermediate Spot	2.4%	37.1%	62.3%	105.5
Gold Spot Price	-1.5%	4.5%	7.9%	1908.3
Global Bond Indices ($)				
Bloomberg Global Aggregate ($)	-1.0%	-11.3%	-12.8%	472.3
JPMorgan Emerging Mkt Bond	-0.5%	-13.7%	-12.3%	793.7
10-Year Yield Change (basis points*)				
US Treasury	1	140	128	2.91%
UK Gilt	-6	94	106	1.90%
German Bund	-3	112	113	0.94%
Japan Govt Bond	-2	16	13	0.23%
Canada Govt Bond	1	145	131	2.87%
Currency Returns**				
US$ per euro	-2.3%	-7.3%	-13.0%	1.055
Yen per US$	1.0%	12.8%	19.2%	129.80
US$ per £	-2.1%	-7.1%	-9.8%	1.257
C$ per US$	1.1%	1.7%	4.6%	1.285

Source: Bloomberg. Equity-index returns are price only, others are total return. *100 basis points = 1 percentage point. **Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

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