Weekly update

Fed frightens financial markets

May 6, 2022

The economy

- U.S. equity markets tumbled during the week ending May 6 due to the Federal Reserve (Fed) taking a more aggressive stance in raising interest rates. The Fed delivered a 50-basis point interest rate hike—the first half percentage point increase since 2000. The unusually fast hiking cycle spooked investors, causing bond yields to spike as stock prices sank.
- Stock market jitters overshadowed a favorable U.S. jobs report. The U.S. economy added 428,000 jobs in April. The strong reading, which beat expectations, reaffirms the Federal Reserve's plan to continue hiking interest rates. The unemployment rate held steady at 3.6%.
- Markit's U.S. services PMI weakened in April from 58.0 to 55.6. A similar reading from ISM showed decelerating non-manufacturing activity—from 58.3 to 57.1 for the month. Services activity continues to be constrained by inflation, logistical challenges and labor shortages. However, the reading suggests an improving backdrop for services activity on high global demand and moderating COVID-19 infection rates.
- U.S. manufacturing activity (which accounts for approximately 12% of the economy) regained momentum in April, lifting to 59.2 in April from 58.8 in March, as measured by Markit's manufacturing purchasing managers' index (PMI). The sector has been challenged by supply-chain disruptions and a shortage of factory workers in recent months; however, a steep reduction in COVID-19 infections improved hiring and the overall manufacturing landscape. In contrast, a report from The Institute for Supply Management (ISM) showed weakness in manufacturing activity, moving from 57.1 to 55.4 over the same period.
- Construction spending advanced by a tepid 0.1% in March. Spending on single-family homebuilding accelerated by 1.3%, while nonresidential construction spending declined by 1.2%. Higher materials prices—especially framing lumber—remains a challenge for homebuilders.
- The U.S. Census Bureau reported that new factory orders gained by 2.2% in March. The manufacturing sector experienced broad-based strength. Orders for motor vehicles, machinery and appliances were particularly strong during the month.
- The number of U.S. job openings (a measure of labor demand) inflated from 11.34 million in February to a record-high 11.54 million in March, according to the Department of Labor. Retailers registered the largest increase in job openings. The quits rate—which measures employees who leave jobs of their own accord and generally widens as the economy improves—hovered near record-highs during the month, signaling worker confidence in finding new jobs.
- Mortgage-purchase applications widened by 4.1% for the week ending April 29, while refinancing applications inched higher by 0.2%. The average interest rate on a 30-year fixed-rate mortgage, which has been rising in recent weeks, ticked up from 5.10% to 5.27%.

Stocks

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

Bonds

- The 10-year Treasury bond yield increased to 3.13% 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 May 6, 2022	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	-0.5%	-13.9%	-7.7%	650.1
MSCI EAFE ($)	-2.0%	-14.7%	-13.2%	1993.2
MSCI Emerging Mkts ($)	-1.6%	-14.1%	-21.0%	1058.7
US & Canadian Equities				
Dow Jones Industrials ($)	-0.2%	-9.5%	-4.8%	32899.4
S&P 500 ($)	0.1%	-13.3%	-1.6%	4134.6
NASDAQ ($)	-1.5%	-22.4%	-10.9%	12144.7
S&P/ TSX Composite (C$)	-0.7%	-2.8%	6.9%	20624.2
UK & European Equities				
FTSE All-Share (£)	-2.4%	-3.0%	1.3%	4083.4
MSCI Europe ex UK (€)	-2.5%	-12.5%	-3.5%	1522.6
Asian Equities				
Topix (¥)	0.9%	-3.8%	-0.6%	1915.9
Hong Kong Hang Seng ($)	-5.2%	-14.5%	-30.2%	20002.0
MSCI Asia Pac. Ex-Japan ($)	-1.2%	-12.2%	-20.0%	553.0
Latin American Equities				
MSCI EMF Latin America ($)	-2.5%	5.9%	-8.3%	2255.6
Mexican Bolsa (peso)	-3.6%	-7.0%	1.3%	49558.7
Brazilian Bovespa (real)	-2.3%	0.5%	-12.1%	105364.8
Commodities ($)				
West Texas Intermediate Spot	4.9%	42.6%	69.6%	109.8
Gold Spot Price	-1.0%	3.4%	4.0%	1888.8
Global Bond Indices ($)				
Bloomberg Global Aggregate ($)	-0.8%	-12.0%	-13.6%	468.5
JPMorgan Emerging Mkt Bond	-0.7%	-14.8%	-13.9%	783.3
10-Year Yield Change (basis points*)				
US Treasury	19	162	156	3.13%
UK Gilt	9	103	120	1.99%
German Bund	19	131	136	1.13%
Japan Govt Bond	1	17	15	0.24%
Canada Govt Bond	25	169	160	3.12%
Currency Returns**				
US$ per euro	0.0%	-7.3%	-12.6%	1.055
Yen per US$	0.7%	13.5%	19.7%	130.56
US$ per £	-1.9%	-8.8%	-11.2%	1.234
C$ per US$	0.4%	2.1%	6.2%	1.290

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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