

Weekly update

Recessions fears sink stocks.

July 15, 2022



The economy

- U.S. equities tumbled during the week ending July 15 on renewed concerns of a looming recession. Investor optimism dimmed on the worst inflation reading in more than four decades and rising interest rates. The Federal Reserve's recent shift to aggressive monetary policy-tightening and the possibility of a 100-basis point interest-rate hike spooked financial markets.
- U.S. inflation expanded by 9.1% year over year in June—hitting a 41-year high—as measured by the Department of Labor's consumer-price index. Robust demand compounded with pandemic-related supply constraints drove prices higher, especially in food. Core inflation (which excludes volatile food and energy prices) accelerated by 5.9% over the same period.
- U.S. producer prices advanced by 1.1% in June, according to the Department of Labor. Costs for businesses surged by 11.3% year over year amid continued demand for goods and services. Persistent supply-chain disruptions and materials shortages further pushed up prices.
- Record-high inflation caused U.S. retail sales (which include purchases at stores, restaurants, and online) to slide for the first time in five months in May. However, retail sales rebounded by 1.0% in June, driven by food and gasoline purchases.
- Significantly higher fuel and food prices and shortages in key materials caused total-import prices to accelerate by 10.7% year over year. Export prices grew by 18.2% year over year on rising agricultural and nonagricultural costs.
- U.S. industrial production retreated by 0.2% in June. In the same period, capacity utilization (which reflects the operating limits of U.S. factories, mines and utilities) decreased to 80.0% (a reading of less than 100% indicates that a company is producing less-than-full potential).
- Consumer optimism inched higher from a historic low of 50.0 in June to 51.1 in July, as measured by the University of Michigan's consumer sentiment survey. The deterioration in optimism was attributed to economic uncertainty posed by the Ukraine-Russia conflict, intensifying inflationary pressures (which translate to higher prices) and rapidly-rising interest rates.
- Initial jobless claims widened to 244,000 from 235,000 during the week ending July 9, although labor conditions remained tight. The unemployment rate has clocked in at 3.6% for four consecutive months.
- Mortgage-purchase applications tumbled by 3.6% for the week ending July 8, while refinancing applications increased by 2.2%. The average interest rate on a 30-year fixed-rate mortgage, which has been rising in recent weeks, advanced from 5.30% to 5.51%.

Stocks

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

Bonds

- The 10-year Treasury bond yield decreased to 2.93% during the week.
- Global bond markets were in negative territory this week.
- Global corporate bonds led, followed by high-yield bonds and global government bonds.

The Numbers as of July 15, 2022	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI (\$)	-3.2%	-22.0%	-18.6%	589.1
MSCI EAFE (\$)	-3.5%	-23.6%	-22.8%	1784.9
MSCI Emerging Mkts (\$)	-3.4%	-21.6%	-28.4%	965.5
US & Canadian Equities				
Dow Jones Industrials (\$)	-0.2%	-13.9%	-10.6%	31288.3
S&P 500 (\$)	-1.0%	-19.0%	-11.5%	3858.9
NASDAQ (\$)	-1.6%	-26.8%	-21.3%	11452.4
S&P/ TSX Composite (C\$)	-3.5%	-13.5%	-9.0%	18363.8
UK & European Equities				
FTSE All-Share (£)	-0.5%	-6.3%	-1.6%	3940.9
MSCI Europe ex UK (€)	-2.8%	-19.7%	-14.8%	1397.8
Asian Equities				
Topix (¥)	0.3%	-5.0%	-2.4%	1892.5
Hong Kong Hang Seng (\$)	-6.6%	-13.2%	-27.5%	20297.7
MSCI Asia Pac. Ex-Japan (\$)	-3.0%	-19.1%	-26.0%	509.8
Latin American Equities				
MSCI EMF Latin America (\$)	-6.4%	-10.2%	-26.2%	1912.6
Mexican Bolsa (peso)	-1.1%	-11.6%	-6.4%	47072.7
Brazilian Bovespa (real)	-3.6%	-7.8%	-24.1%	96695.9
Commodities (\$)				
West Texas Intermediate Spot	-6.9%	26.8%	36.2%	97.6
Gold Spot Price	-2.2%	-6.7%	-6.7%	1704.7
Global Bond Indices (\$)				
Bloomberg Global Aggregate (\$)	-0.4%	-14.9%	-16.7%	453.3
JPMorgan Emerging Mkt Bond	-1.9%	-20.4%	-21.1%	732.4
10-Year Yield Change (basis points*)				
US Treasury	-16	141	163	2.93%
UK Gilt	-14	112	143	2.09%
German Bund	-21	131	146	1.13%
Japan Govt Bond	-1	17	22	0.24%
Canada Govt Bond	-22	165	181	3.08%
Currency Returns**				
US\$ per euro	-1.0%	-11.3%	-14.7%	1.008
Yen per US\$	1.8%	20.4%	26.1%	138.54
US\$ per £	-1.4%	-12.3%	-14.2%	1.186
C\$ per US\$	0.6%	3.0%	3.4%	1.302

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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