Weekly update
Stocks surge despite slowing economy and historic hike

July 29, 2022

The economy

- The Federal Reserve (Fed) delivered a 75-basis point interest-rate hike—the second increase of that magnitude since 1994. In recent weeks, U.S. stocks suffered from fears the Fed will cause a painful recession as it tightens monetary policy to fight inflation. However, stocks were buoyant during the week ending July 29 as economic indicators suggested that the U.S. economy is cooling off, which could be expected to keep a lid on inflation and may soften future Fed rate hikes. Favorable second-quarter earnings reports also boosted investor optimism during the week.
- U.S. economic growth contracted by a 0.9% annualized rate during the second quarter of 2022 (as measured by gross domestic product, or GDP). The reading marks two consecutive quarters of negative GDP, which meets a widely cited—but unofficial—definition of a recession. Most economists view a recession as a more significant and sustained decline in economic activity that lasts more than a few months.
- The largest driver of the GDP decline was the soaring U.S. trade deficit, followed by significant deceleration in private inventory and government spending, record-high inflation, labor shortages, and demand shortfalls. Despite the reading's weakness, consumer spending (which drives nearly 70% of U.S. economic activity) advanced by 1.0%.
- Consumer optimism inched higher from a historic low of 50.0 in June to 51.5 in July, as measured by the University of Michigan's consumer sentiment survey. The deterioration in optimism was attributed to intensifying inflationary pressures (which translate to higher prices) and rapidly rising interest rates. Consumer confidence, as measured by The Conference Board, deteriorated in July. Americans grew more pessimistic about the U.S. economy on the heels of elevated recession risks.
- U.S. home prices rose by 1.3% in May and by 20.5% 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 2006's housing boom.
- New-home sales swelled in June to an annualized pace of 590,000, down from 642,000 in May. The buying frenzy is expected to cool off in the coming months due to rising mortgage rates and home prices, as well as supply shortages in building materials. High home prices, combined with elevated mortgage rates, have diminished homebuyer purchasing power.
- Durable-goods orders grew by 1.9% in June as factory conditions improved and supply-chain constraints (shortages in labor and materials) eased during the month. New orders for core capital goods (a closely-watched proxy for business investment) increased by a favorable 0.5%.
- Mortgage-purchase applications tumbled by 0.8% for the week ending July 22, while refinancing applications decreased by 3.7%. The average interest rate on a 30-year fixed-rate mortgage, which has been rising in recent weeks, fell from 5.54% to 5.30%.

Stocks

- Global equities closed higher for the week. Developed markets fared better than emerging markets.
- U.S. equities were in positive territory. Energy and utilities were the top performers, while consumer staples and health care lagged. Growth stocks led value stocks and small caps beat large caps.

Bonds

- The 10-year Treasury bond yield decreased to 2.63% during the week.
- Global bond markets were in positive territory this week.
- Global government bonds led, followed by global corporate bonds and high-yield bonds.

The Numbers as of July 29, 2022	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	2.1%	-16.5%	-13.6%	630.4
MSCI EAFE ($)	0.9%	-18.0%	-18.2%	1915.3
MSCI Emerging Mkts ($)	0.7%	-19.0%	-23.0%	997.6
US & Canadian Equities				
Dow Jones Industrials ($)	2.8%	-9.8%	-6.5%	32786.6
S&P 500 ($)	4.0%	-13.6%	-6.8%	4119.2
NASDAQ ($)	4.4%	-21.0%	-16.4%	12358.2
S&P/ TSX Composite (C$)	3.7%	-7.2%	-3.1%	19692.1
UK & European Equities				
FTSE All-Share (£)	2.0%	-2.4%	1.3%	4107.0
MSCI Europe ex UK (€)	1.1%	-14.9%	-11.1%	1481.5
Asian Equities				
Topix (¥)	-0.8%	-2.6%	0.7%	1940.3
Hong Kong Hang Seng ($)	-2.2%	-13.9%	-23.4%	20156.5
MSCI Asia Pac. Ex-Japan ($)	0.6%	-16.8%	-20.6%	524.3
Latin American Equities				
MSCI EMF Latin America ($)	6.1%	-1.0%	-19.3%	2108.6
Mexican Bolsa (peso)	2.2%	-9.3%	-6.4%	48322.5
Brazilian Bovespa (real)	4.7%	-1.2%	-17.6%	103607.8
Commodities ($)				
West Texas Intermediate Spot	0.7%	28.2%	34.0%	98.7
Gold Spot Price	2.0%	-3.5%	-3.7%	1763.6
Global Bond Indices ($)				
Bloomberg Global Aggregate ($)	0.8%	-12.4%	-14.9%	466.4
JPMorgan Emerging Mkt Bond	1.6%	-16.8%	-17.7%	764.7
10-Year Yield Change (basis points*)				
US Treasury	-12	112	136	2.63%
UK Gilt	-7	89	129	1.86%
German Bund	-21	100	127	0.81%
Japan Govt Bond	-3	11	16	0.19%
Canada Govt Bond	-22	119	141	2.61%
Currency Returns**				
US$ per euro	0.0%	-10.2%	-14.1%	1.021
Yen per US$	-2.0%	15.9%	21.8%	133.33
US$ per £	1.4%	-10.1%	-12.9%	1.216
C$ per US$	-0.7%	1.5%	3.0%	1.282

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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