Weekly update
Rate hike talk sinks stocks
August 26, 2022

The economy

- U.S. equity markets closed lower during the week ending August 26 after a roller coaster ride due to the Federal Reserve (Fed) reiterating its commitment to aggressively hiking interest rates in an effort to control inflation. Fed Chairman Jerome Powell's reaffirmation that "we will keep at it until we are confident the job is done" took away the week's gains and more.
- Interest rate hikes are intended to dampen demand and cool-off the economy. The central bank is on track to hike rates again at its September meeting.
- U.S. economic growth contracted by a 0.6% 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 1.5%. Slow-growth and high inflation have raised recession concerns worldwide.
- Preliminary estimates of U.S. manufacturing activity—which accounts for around 12% of the national economy—decreased from 52.2 in July to a five-month low of 51.3 in August, according to S&P Global's manufacturing purchasing managers' index (PMI). The report indicated slower growth in business activity as demand ebbed.
- Preliminary estimates of U.S. services activity moderated from 47.3 in July to 44.1 in August. Labor and supply shortages and rising inflation presented continued challenges to U.S. service providers.
- New-home sales swelled in July to an annualized pace of 511,000, down from 585,000 in June. 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.
- Mortgage-purchase applications hit their lowest level in 22 years for the week ending August 19, sliding 0.5% from the prior week. The average interest rate on a 30-year fixed-rate mortgage increased from 5.13% to 5.55%.
- Durable-goods orders were unchanged in July as factory conditions improved and supply-chain constraints (shortages in labor and materials) eased modestly during the month. New orders for core capital goods (a closely-watched proxy for business investment) increased by a favorable 0.4%.
- Initial U.S. jobless claims decreased by 2,000 to 243,000 amid recession fears during the week of August 20—a sign that the labor market remains resilient despite rising interest rates.

Stocks

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

Bonds

- The 10-year Treasury bond yield increased to 3.04% 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 August 26, 2022	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	-0.6%	-14.8%	-12.2%	643.0
MSCI EAFE ($)	-1.1%	-18.7%	-18.8%	1898.5
MSCI Emerging Mkts ($)	0.2%	-18.6%	-20.7%	1003.4
US & Canadian Equities				
Dow Jones Industrials ($)	-4.0%	-10.9%	-8.1%	32366.0
S&P 500 ($)	-3.6%	-14.5%	-8.8%	4075.0
NASDAQ ($)	-4.2%	-22.2%	-18.6%	12166.1
S&P/ TSX Composite (C$)	-1.1%	-6.3%	-3.0%	19884.3
UK & European Equities				
FTSE All-Share (£)	-2.0%	-3.1%	-0.7%	4076.3
MSCI Europe ex UK (€)	-1.2%	-14.9%	-12.7%	1480.6
Asian Equities				
Topix (¥)	-0.7%	-0.6%	2.3%	1979.6
Hong Kong Hang Seng ($)	2.0%	-13.8%	-20.6%	20170.0
MSCI Asia Pac. Ex-Japan ($)	-0.1%	-17.0%	-19.2%	523.0
Latin American Equities				
MSCI EMF Latin America ($)	3.1%	5.3%	-8.1%	2243.2
Mexican Bolsa (peso)	-3.0%	-11.8%	-10.1%	47011.3
Brazilian Bovespa (real)	0.8%	7.2%	-5.4%	112345.8
Commodities ($)				
West Texas Intermediate Spot	1.5%	19.7%	36.6%	92.1
Gold Spot Price	-0.8%	-5.0%	-3.1%	1736.1
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.6%	-14.7%	-16.5%	454.3
JPMorgan Emerging Mkt Bond	0.1%	-16.0%	-17.2%	772.6
10-Year Yield Change (basis points*)				
US Treasury	6	153	169	3.04%
UK Gilt	19	163	200	2.60%
German Bund	16	157	179	1.39%
Japan Govt Bond	2	15	20	0.22%
Canada Govt Bond	9	160	179	3.03%
Currency Returns**				
US$ per euro	-0.7%	-12.4%	-15.2%	0.997
Yen per US$	0.4%	19.4%	24.9%	137.46
US$ per £	-0.8%	-13.2%	-14.3%	1.174
C$ per US$	0.3%	3.1%	2.7%	1.304

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.

Index returns are for illustrative purposes only and do not represent actual investment performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

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