Weekly update
Sticky inflation sidelines stocks

September 16, 2022

The economy

- U.S. equities tumbled during the week ending September 16 due to negative investor sentiment related to uncomfortably high inflation. Sticky inflation means high prices will be slow to change, despite the Federal Reserve's (Fed) aggressive attempt to get inflation under control through large interest rate hikes and the potential risk of a prolonged recession.
- Bond prices fell as high inflation suggests that additional interest rates hikes by the Fed will be forthcoming. The central bank is on track to deliver another 75 basis point increase at its September 20-21 meeting.
- Core U.S. inflation (which excludes volatile food and energy prices and is the number the Fed looks at when making monetary policy decisions) accelerated by 6.3% year over year. This unexpected reading crushed investor sentiment even though overall inflation continued to ease off of a 41-year high of 9.1% in June to 8.3% in August.
- Record-high inflation may potentially cause U.S. retail sales (which include purchases at stores, restaurants, and online) to deteriorate in the months ahead as purchasing power becomes further diminished. Consumer spending drives nearly 70% of U.S. economic activity.
- U.S. retail sales (which include purchases at stores, restaurants, and online) rebounded in August by a modest 0.3% after declining by 0.4% in the prior month. Consumers favored online shopping during the month. In the face of higher prices, consumers have been cutting back their spending habits.
- U.S. producer prices declined by 0.1% in August, the second consecutive negative reading, according to the Department of Labor. Energy prices crumpled during the period and heavily anchored the reading. Costs for businesses surged by 8.7% year over year amid continued demand for goods and services. Persistent supply-chain disruptions and materials shortages further pushed up prices.
- Import prices narrowed by 1.0% in August, declining for the second time in eight months. The decline in prices were a result of reduced costs for fuel and food; however, shortages in labor and key materials caused total-import prices to accelerate by 7.8% year over year. Export prices fell by 1.6% during the same period due to sinking agricultural and nonagricultural costs.
- U.S. industrial production—which accounts for about 12% of the national economy—moderated in August, falling by 0.2% following a 0.5% jump in July. 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).
- Mortgage-purchase applications widened by 0.2% for the week ending September 9, while refinancing applications decreased by 4.2%. The average interest rate on a 30-year fixed-rate mortgage continue to rise, moving from 5.89 to 6.02% (the highest reading since 2008).

Stocks

- Global equities closed lower for the week. Emerging markets fared better than developed markets.
- U.S. equities fell nearly every day during the week. Health care and telecommunications fared best, while materials led the decline. Value stocks led growth stocks and small caps beat large caps.

Bonds

- The 10-year Treasury bond yield increased to 3.45% during the week.
- Global bond prices were in negative territory this week.
- Global government bonds led, followed by global corporate bonds and high-yield bonds.

The Numbers as of September 16, 2022	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	-3.1%	-20.1%	-17.9%	603.3
MSCI EAFE ($)	-1.8%	-22.7%	-23.7%	1806.0
MSCI Emerging Mkts ($)	-1.2%	-22.2%	-24.9%	958.6
US & Canadian Equities				
Dow Jones Industrials ($)	-4.1%	-15.2%	-11.3%	30821.5
S&P 500 ($)	-4.9%	-18.8%	-13.5%	3868.2
NASDAQ ($)	-5.5%	-26.8%	-24.6%	11448.4
S&P/ TSX Composite (C$)	-2.1%	-8.8%	-6.0%	19357.9
UK & European Equities				
FTSE All-Share (£)	-1.6%	-5.5%	-1.8%	3976.7
MSCI Europe ex UK (€)	-1.4%	-18.1%	-15.2%	1425.3
Asian Equities				
Topix (¥)	-1.4%	-2.7%	-7.3%	1938.6
Hong Kong Hang Seng ($)	-3.1%	-19.8%	-23.9%	18761.7
MSCI Asia Pac. Ex-Japan ($)	-1.4%	-20.8%	-23.1%	498.8
Latin American Equities				
MSCI EMF Latin America ($)	-3.2%	0.5%	-10.1%	2141.3
Mexican Bolsa (peso)	-0.6%	-12.2%	-10.4%	46769.8
Brazilian Bovespa (real)	-2.8%	4.2%	-4.1%	109185.3
Commodities ($)				
West Texas Intermediate Spot	-1.9%	10.5%	17.2%	85.1
Gold Spot Price	-2.7%	-8.4%	-4.7%	1673.2
Global Bond Indices ($)				
Bloomberg Global Aggregate ($)	-0.8%	-17.2%	-19.1%	440.8
JPMorgan Emerging Mkt Bond	-0.8%	-17.9%	-19.7%	754.8
10-Year Yield Change (basis points*)				
US Treasury	14	194	211	3.45%
UK Gilt	4	217	232	3.13%
German Bund	6	194	206	1.75%
Japan Govt Bond	0	19	20	0.26%
Canada Govt Bond	0	171	190	3.14%
Currency Returns**				
US$ per euro	-0.3%	-11.9%	-14.9%	1.001
Yen per US$	0.3%	24.2%	30.2%	142.91
US$ per £	-1.4%	-15.6%	-17.2%	1.143
C$ per US$	1.8%	5.0%	4.6%	1.327

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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