Weekly update
Fed comments erase early-week gains
December 16, 2022

The economy

- U.S. equities finished in negative territory during the week ending December 16. The week began on an upbeat note with the government's release of a generally favorable inflation report, and market indices remained in positive territory even after the U.S. Federal Reserve (Fed) announced another rate hike. However, stocks surrendered all of the gains and then some in response to Fed Chair Jerome Powell's seemingly hawkish comments on Wednesday following the conclusion of the Federal Open Market Committee's (FOMC) two-day policy meeting.
- In an ongoing effort to tame inflation, the FOMC raised the target federal funds rate by 0.50% to a range of 4.25% to 4.50%. While the rate hike was widely anticipated, the Fed's "dot plot" of economic projections indicated a higher-than-expected median federal funds rate of 5.1% at the end of the 2023 calendar year, up from the previous estimate of 4.6%, implying that the central bank will implement additional rate hikes in 2023.
- During the press conference following the FOMC's meeting, Fed Chair Jerome Powell commented: "I wouldn't see [the FOMC] considering rate cuts until the committee is confident that inflation is moving down to 2% in a sustained way." In a statement accompanying the announcement of the rate hike, the FOMC noted that it would "adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals."
- There have been more signs that inflation is waning. According to the Department of Labor, the Consumer Price Index (CPI) rose by a lower-than-expected rate of 0.1% in November versus the 0.4% increase in October. The CPI's 7.1% gain over the previous 12-month period—the smallest year-over-year upturn since December 2021—was down from the 7.7% annual increase in October. Furthermore, the Personal Consumption Expenditures (PCE) Index, which is the Fed's preferred inflation measure as it excludes volatile food and energy prices, rose 6.0% year over year in November, moderating from the 6.3% annual increase in October.
- The Department of Labor also reported that initial unemployment insurance claims decreased by 20,000 to 211,000 during the week ending December 10—the lowest total since late September of this year. The four-week moving average of initial claims fell by 3,000 to 227,250, slightly below the moving average of 235,000 claims for the same period a year earlier. The tight job market has forced employers to increase compensation in an effort to retain current employees and attract qualified new workers, which ultimately could weigh on corporate earnings.
- According to the Census Bureau, U.S. retail sales—a gauge of consumer spending, which currently comprises roughly two-thirds of GDP—decreased 0.6% in November but rose 6.5% versus the previous 12-month period. Furniture and home furnishing stores saw a 2.6% decline in sales for the month, while sales for motor vehicle and parts dealers fell 2.3%.

Stocks

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

Bonds

- The 10-year Treasury note yield decreased to 3.49% during the week.
- Global bond markets were in positive territory this week.
- Corporate bonds led, followed by high-yield bonds and global government bonds.

The Numbers as of December 16, 2022	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	-1.1%	-18.8%	-17.3%	612.7
MSCI EAFE ($)	-0.9%	-16.0%	-14.7%	1961.5
MSCI Emerging Mkts ($)	-1.8%	-22.1%	-21.5%	960.2
US & Canadian Equities				
Dow Jones Industrials ($)	-1.7%	-9.4%	-8.3%	32920.5
S&P 500 ($)	-2.1%	-19.2%	-17.5%	3852.4
NASDAQ ($)	-2.7%	-31.6%	-29.5%	10705.4
S&P/ TSX Composite (C$)	-2.5%	-8.4%	-6.3%	19443.3
UK & European Equities				
FTSE All-Share (£)	-1.9%	-4.7%	-2.7%	4010.5
MSCI Europe ex UK (€)	-2.0%	-14.0%	-12.3%	1496.3
Asian Equities				
Topix (¥)	-0.6%	-2.1%	-3.1%	1950.2
Hong Kong Hang Seng ($)	-2.3%	-16.9%	-17.1%	19450.7
MSCI Asia Pac. Ex-Japan ($)	-1.5%	-18.8%	-18.0%	511.4
Latin American Equities				
MSCI EMF Latin America ($)	-4.8%	-4.1%	-3.7%	2043.6
Mexican Bolsa (peso)	-1.7%	-6.8%	-3.4%	49630.2
Brazilian Bovespa (real)	-4.3%	-1.9%	-5.1%	102855.7
Commodities ($)				
West Texas Intermediate Spot	4.6%	-3.5%	2.6%	74.3
Gold Spot Price	-0.6%	-2.1%	-0.5%	1787.7
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.3%	-14.9%	-15.3%	452.9
JPMorgan Emerging Mkt Bond	0.6%	-14.9%	-14.9%	782.3
10-Year Yield Change (basis points*)				
US Treasury	-9	198	208	3.49%
UK Gilt	15	236	257	3.32%
German Bund	22	233	250	2.15%
Japan Govt Bond	0	18	21	0.25%
Canada Govt Bond	-7	139	147	2.81%
Currency Returns**				
US$ per euro	0.5%	-6.9%	-6.5%	1.059
Yen per US$	0.1%	18.8%	20.3%	136.72
US$ per £	-0.9%	-10.2%	-8.8%	1.215
C$ per US$	0.4%	8.4%	7.2%	1.370

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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