Global Economy

May saw continued volatility across markets but also offered a reprieve by month-end as equity markets broke a weeks-long losing streak and inflation cooled. The FOMC began the month with a 50 bps hike, the largest in 22 years, as it seeks to rein in inflation. Key US inflation measures remained near their highest levels in decades but declined from March highs, giving some hope that inflation has peaked and helping to reverse equity declines. US job growth remained robust, with unemployment holding steady at a low 3.6%. Consumer spending continues to provide support for the US economy despite rising prices, with spending growth of 0.9% outpacing inflation's monthly advance. The personal savings rate declined to its lowest level since 2008 as consumers dipped into savings accumulated during the pandemic to support consumption. Europe has seen a moderation in growth, with industrial sectors particularly slowing amid rising commodity prices and uncertainty stemming from the war in Ukraine and China's covid lockdowns. However a stronger services sector, reviving off pandemic lows, continues to help European economies show resilience. Covid lockdowns in Shanghai are easing, and China's growth outlook for the 2nd half of the year, as well as the further easing of global supply chain issues, could depend on whether other major cities can avoid a full-scale lockdown. As the month ended, the European Union agreed to limit purchases of Russian oil and geopolitical tensions showed no signs of abating, lending further downside risk to an already strained global growth outlook.

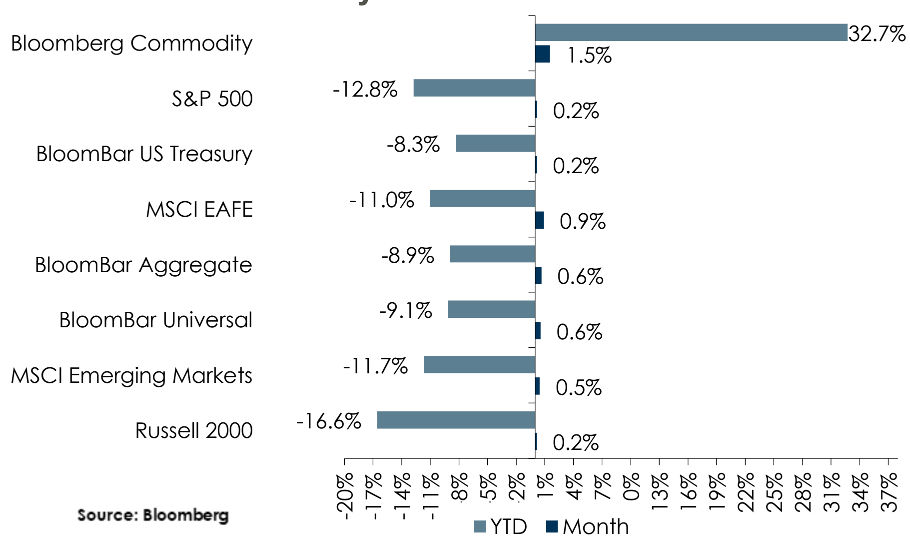
Global Markets

- **Global Equity –** Global equities ended a volatile month nearly where they began, as all four broad indices finished in positive territory but up <1%. Index level P/E multiples on forward earnings were little changed from last month, and valuations currently favor US small caps, with non-US and emerging markets also valued below their recent historical averages. Central bank tightening and geopolitical disruption have presented headwinds and stoked fears of a global slowdown, but growth forecasts remain well above recession territory as momentum persists from pandemic reopening. Downside risks are currently skewed towards non-US regions given the potential for further market disruptions in Europe and Covid lockdowns in China.

- **Global Fixed Income –** Most global bond yields continued to trend higher in the month while in the US yields mostly declined with a steeper curve. The 10-Yr US Treasury yield fell 9 bps in the month after rising 143 bps over the first four months of the year. Fed minutes were less hawkish than anticipated but signaled continued aggressive hiking in the coming months as the FOMC seeks flexibility later in the year. Credit spreads were mixed in the month with IG credit 5 bps tighter and High Yield 27 bps wider, and both measures remain at below average levels. Rising rates and wider spreads have sent core fixed income yields higher, and they now surpass current 5- and 10-year inflation expectations. Volatility in rates and currency should provide enhanced opportunities for absolute return strategies, which can also offer downside protection. A cash allocation provides portfolio flexibility while rising front-end yields improve the asset's return potential.

- **Global Real Assets & Private Markets –** Core real estate had another strong quarter in 1Q22, helping reach the highest annual return since 1980. All property sectors generated positive returns, but the industrial sector continues to propel the index. PE activity has slowed somewhat from its record breaking 2021 levels but remains elevated relative to history as managers continue to deploy cash accumulated during the pandemic. The broad commodities index continued its outperformance vs. equities and is up nearly 33% YTD. CPI (+8.3%) and Core CPI (+6.2%) both fell from the prior month but continue to sit near multi-decade highs. Measures of future inflation expectations declined with the 10-year inflation breakeven down 29 bps to 2.65%.

Key Market Indices



Source: Bloomberg

	Current	21-Dec
US GDP (%)	-1.50	2.30
US Unemployment (%) *	3.60	4.20
CPI (Core) (%)	6.20	4.90
Fed Funds (%)	0.25 – 0.50	0.00 – 0.25
10 Year UST Yld (%)	2.85	1.51
S&P 500 Div Yld (%)	1.53	1.27
S&P 500 P/E (Trailing)	20.65	26.21
Gold/oz.	$1,842.70	$1,828.60
Oil (Crude)	$114.67	$75.21
Gasoline (Natl Avg)	$4.69	$3.38
USD/Euro	$1.07	$1.14
USD/GBP	$1.26	$1.35
Yen/USD	¥128.67	¥115.08

* Data as of April 30, 2022

Source: Bloomberg

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