Global Economy

July's rally continued into mid-August before markets retreated under shifting expectations for Federal Reserve tightening. A lower than expected CPI result helped buoy the market early on and led investors to reassess their Fed rate hike expectations. However, overall economic data reinforced the argument that the US is not in a recession, with a strong July employment report, improving consumer sentiment, and resilient retail sales. The tight labor market, combined with wage inflation, provides support for another large Fed hike, and Chairman Powell dashed any remaining hope of a Fed pivot with a hawkish speech to close out the Fed's Jackson Hole Symposium. Other headwinds for global growth persist, as high energy prices and inflation continue to threaten Europe's economy and Chinese manufacturing is slowed by extreme weather and Covid-related lockdowns. The hardline stance being taken by central banks against inflation has narrowed the window for an economic soft landing, but strong balance sheets and robust labor markets should help soften any economic slowdown.

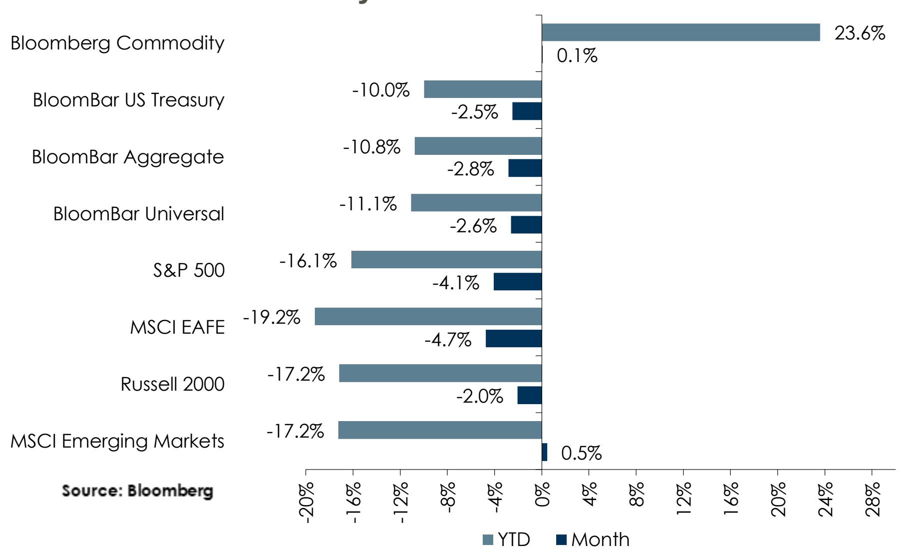
Global Markets

- **Global Equity –** The rally in equity markets came to a halt in August as the Fed's hawkish tone weighed on risk assets. US small caps outperformed large caps but were still negative, while emerging markets were the top performer with a modest advance. Index level P/E multiples on forward earnings drifted lower and are below historic averages with the exception of US large caps, which are modestly above. Valuations lean towards US small caps, helped by the US' generally more favorable forward earnings outlook vs. Non-US and EM. The US dollar had another positive month and dollar-strength continues to weigh on non-US returns. Uncertainty over Fed policy is likely to continue to create volatility, but labor market and corporate strength can help minimize the effects of Fed tightening. Outside of the US, Europe's energy crisis and continued Covid lockdowns in China present additional downside risk, but current valuations offer support.

- **Global Fixed Income –** Global bond yields rose in August, with sovereign yields generally erasing the prior month's decline. In the US, yields rose across the curve as investors reconsidered the full extent of Fed tightening following Chairman Powell's hawkish comments. The curve flattened further, with 6-month through 7-year treasuries all now surpassing the 30-year rate. Credit spreads were mixed in the month, with investment grade credit tightening 4 bps and high yield widening 15 bps, and the broad high yield credit index now yields well above 8%. While the current macro backdrop presents headwinds, default expectations remain subdued and strong corporate balance sheets should soften the impact to credit of a growth slowdown. 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 have improved the asset's return potential.

- **Global Real Assets & Private Markets –** Core real estate returns declined from the last several quarters' record pace, but maintained strong positive performance. Weaker returns were felt across all sectors except hotels, though industrial property returns continue to lead sector performance. New deal activity in private equity continues to slow from 2021's elevated rate but overall remains at healthy levels. The broad commodities index was slightly higher as most index components have moderated off recent highs. The positive return reflects continued disruption in European natural gas supplies, as well as the impact of worldwide drought on certain agricultural outputs such as corn. Core CPI (+5.9%) was unchanged from last month but rose less than estimated, while measures of future inflation expectations declined, with the 10-year inflation breakeven down 7 bps to 2.48%.

Key Market Indices



Source: Bloomberg

	Current	21-Dec
US GDP (%)	-0.60	2.30
US Unemployment (%) *	3.50	4.20
CPI (Core) (%)	5.90	4.90
Fed Funds (%)	2.25 – 2.50	0.00 – 0.25
10 Year UST Yld (%)	3.20	1.51
S&P 500 Div Yld (%)	1.65	1.27
S&P 500 P/E (Trailing)	19.35	26.21
Gold/oz.	$1,716.90	$1,828.60
Oil (Crude)	$89.55	$75.21
Gasoline (Natl Avg)	$3.94	$3.38
USD/Euro	$1.01	$1.14
USD/GBP	$1.16	$1.35
Yen/USD	¥138.96	¥115.08

* Data as of July 31, 2022

Source: Bloomberg

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