Global Economy

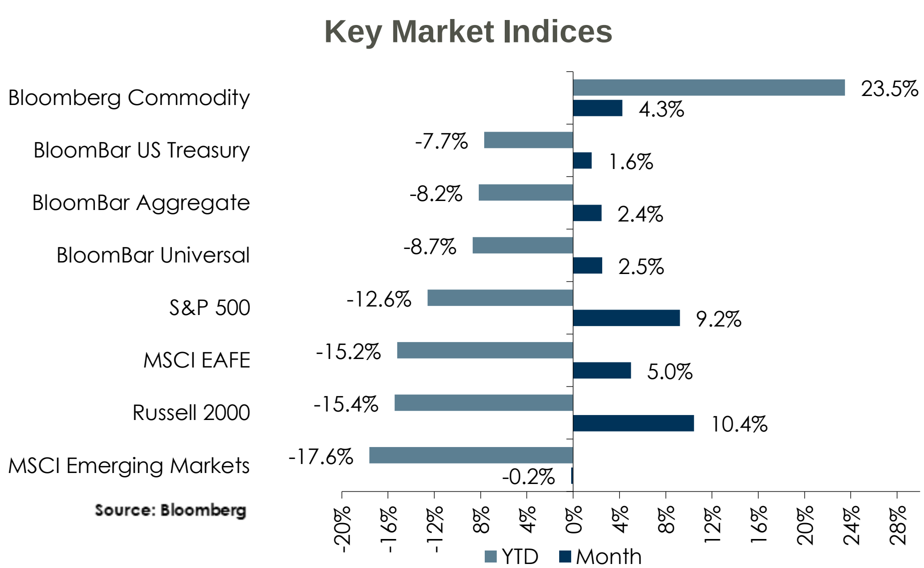
Risk assets rallied in July despite weak economic data as investors weighed signs of slowing growth against the prospect that a slowdown could lead to less central bank tightening. US GDP contracted for a second consecutive quarter in 2Q, shrinking at a 0.9% annual rate. However the labor market continues to stand in contrast to GDP, with June payrolls beating expectations and unemployment holding steady at 3.6%. With June's results, private payrolls have now recovered to pre-covid levels. Peak inflation again proved elusive, with headline CPI surging a higher-than-expected 9.1%. As expected, the Fed hiked interest rates by another 75 bps, its second consecutive hike of this magnitude, as the central bank remains focused on bringing inflation down. Higher-than-expected inflation worldwide, Covid-19 lockdowns in China, and negative spillovers from the war in Ukraine have lead the IMF to cut its global GDP forecasts by 0.4% to 3.2% for 2022 and by 0.7% to 2.9% for 2023 in their latest update. Further negative inflation surprises and geopolitical shocks remain a risk, but strong balance sheets and a robust labor market can help soften an economic slowdown, and the broad rally in July suggests a market view that a severe recession will be avoided.

Global Markets

- **Global Equity –** Most equity indices rallied in July, with the S&P 500 finishing with its strongest month since November 2020. Emerging markets were an exception with a small negative return as China erased its June gains. Better-than-expected earnings have helped lift sentiment, as 66% of S&P 500 companies have reported a positive surprise so far this earnings season. Index level P/E multiples on forward earnings moved higher but remain near historic averages. Valuations continue to favor US Small Caps although the gap has narrowed. Further aggressiveness from the Fed will raise the difficulty of avoiding a recession, and volatility is likely to remain until a definitive peak in inflation helps provide some clarity on the Fed's path, but valuations and earnings growth provide support. Downside risks are currently skewed towards non-US regions given the potential for further market disruptions from the war in Ukraine or lockdowns in China.

- **Global Fixed Income –** Global bond yields fell in July as sovereign bond markets gained favor amid recession fears. In the US, yields fell across the curve and the curve flattened. The closely-watched 10-Yr minus 2-Yr spread inverted and the measure reached its lowest point since 2000, adding fuel to recession concerns. Credit spreads declined amid the risk-rally, with high yield tightening the most in nearly two years. Lack of supply also played a role with issuance plummeting amid the uncertain backdrop. While the current macro backdrop presents headwinds, 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. PE activity has slowed somewhat from record breaking 2021 levels but remains elevated relative to history as managers continue to deploy cash accumulated during the pandemic. The broad commodities index saw another positive month at +4.3% as disruptions in energy markets continue to be felt. Headline CPI (+9.1%) rose again as food and energy prices both continued their ascent and helped the figure exceed expectations. Core CPI (+5.9%) had a small decline but remains elevated. Measures of future inflation expectations reversed some of their recent decline, with the 10-year inflation breakeven up 21 bps to 2.55%.



	Current	21-Dec
US GDP (%)	-1.60	2.30
US Unemployment (%) *	3.60	4.20
CPI (Core) (%)	5.90	4.90
Fed Funds (%)	2.25 – 2.50	0.00 – 0.25
10 Year UST Yld (%)	2.65	1.51
S&P 500 Div Yld (%)	1.56	1.27
S&P 500 P/E (Trailing)	20.42	26.21
Gold/oz.	$1,762.90	$1,828.60
Oil (Crude)	$98.62	$75.21
Gasoline (Natl Avg)	$4.44	$3.38
USD/Euro	$1.02	$1.14
USD/GBP	$1.22	$1.35
Yen/USD	¥133.27	¥115.08

* Data as of June 30, 2022

Source: Bloomberg

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