Global Economy

Financial market volatility continued in June with further declines for risk assets as market participants shifted between concerns over inflation and concerns of impending recession. Hopes for peak inflation were interrupted by a worse than expected CPI report, as food and energy prices drove headline inflation higher. This led the Fed to hike interest rates by 75 bps, the largest hike since 1994, and a move that would have been highly unexpected prior to the CPI print. Despite the inflation surprise, market and consumer survey-based measures of inflation expectations cooled in June, helped by a decline from peaks in commodities markets. The overall consumer mood is gloomy, however, with sentiment dropping to a multi-decade low and consumer spending showing signs of slowing. The number of market prognosticators calling for a recession increased as the month went on, and a central bank currently prioritizing inflation did little to dispel this notion, with Fed Chairman Powell vowing to keep price increases from becoming entrenched by moving rates "into restrictive territory fairly quickly." However, a recession is still not a certainty given the robust labor market and strong household and corporate balance sheets.

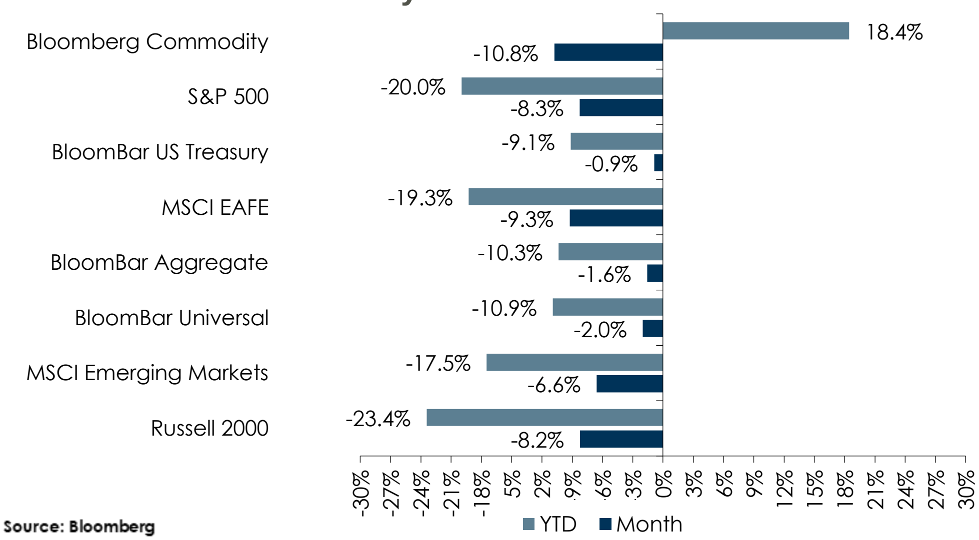
Global Markets

- **Global Equity –** Global equities ended the month sharply down, with the S&P 500 closing out its worst first half of the year since 1970. With the decline, index level P/E multiples on forward earnings continued their recent trend lower and are now below recent averages for most indices. Earnings estimates have weakened but remain above trend in US markets, and valuations continue to favor US Small Caps. A more aggressive Fed raises 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. The outlook for China has improved as lockdowns have eased, but the prospect of additional disruptions will linger until China relents on its "zero-Covid" policy. 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 continued higher in the month, including in the US where yields rose with a flatter curve. A hawkish Fed helped push yields higher and the closely watched 10-Yr minus 2-Yr spread nearly inverted even as the 10-Yr UST yield approached 3.5% before retreating on recession fears. Credit spreads moved higher, particularly for high yield, as higher rates and a weaker outlook increased expectations of downgrades or defaults. Fixed income yields have risen to much more attractive levels in recent months, and 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 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 saw its first negative month of the year as several commodities markets retreated from their peaks, falling over 10%. Still, the index is up 24% for the past year. CPI (+8.6%) rose unexpectedly while Core CPI (+6.0%) had a smaller than expected fall, denting hopes that inflation had peaked. Helped by retreating commodities markets, measures of future inflation expectations declined with the 10-year inflation breakeven, down 31 bps to 2.34%, for a total fall of 60 bps over the past two months.

Key Market Indices



Source: Bloomberg

	Current	21-Dec
US GDP (%)	-1.60	2.30
US Unemployment (%) *	3.60	4.20
CPI (Core) (%)	6.00	4.90
Fed Funds (%)	1.50 – 1.75	0.00 – 0.25
10 Year UST Yld (%)	3.02	1.51
S&P 500 Div Yld (%)	1.70	1.27
S&P 500 P/E (Trailing)	18.96	26.21
Gold/oz.	$1,807.30	$1,828.60
Oil (Crude)	$105.76	$75.21
Gasoline (Natl Avg)	$5.11	$3.38
USD/Euro	$1.05	$1.14
USD/GBP	$1.22	$1.35
Yen/USD	¥135.72	¥115.08

*** Data as of June 30, 2022** **Source: Bloomberg**

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