U.S. Market Commentary

The Markets
Capital markets tumbled in June as headline inflation spiked unexpectedly and concerns around a looming recession intensified. US bonds also retreated in June as the jump in inflation was accompanied by higher projections of interest rates.

Market Indices	June 2022	Year-to-Date
Dow Jones Industrial Average	-6.7%	-15.3%
S&P 500 Index	-8.4%	-20.6%
NASDAQ Composite	-8.7%	-29.5%
Bloomberg US Aggregate Bond Index	-1.6%	-10.3%

The Economy
While market participants had widely anticipated a peak and subsequent decline in year-over-year inflation readings based on the past few months, the latest numbers for the Consumer Price Index (CPI) confirmed that headline inflation remained stubbornly high. The Consumer Price Index climbed to a four decade high of 9.1 percent year-over-year, driven north by prices of food and energy that have soared in recent months. The monthly readings showed Core CPI (excluding volatile food and energy components) rising by the highest rate in the past twelve months at 0.7 percent, while the broader CPI increased by 1.3 percent. The Producer Price Index (PPI) showed a similar story as prices rose 11.3 percent year-over-year. On a monthly basis, the PPI climbed by 1.1 percent (the Core PPI increased by 0.4 percent over the previous month). In response, the US Federal Reserve took an even firmer position against inflation at its June meeting by raising interest rates by a substantial 0.75 percent (the largest rate hike since 1994), compared to the prior increase of 0.50 percent in May. While rate hikes of this magnitude are relatively uncommon, it underscores the central bank's concerns that the current rate of inflation remains above levels required for price stability within the US economy.

As for the broader economy, reports released for the month of June presented mixed signals to end the first half of the year. The labor market held steady with an unemployment rate of 3.6 percent as 372k jobs were added to the payroll. Consumer spending and core retail sales also firmed over the previous month, with solid gains of 1.1 percent and 1.0 percent, respectively. On the other hand, the ISM Purchasing Managers Index (PMI), a key measure of economic activity, fell to a two-year low of 53.0. Considering that a reading below the 50.0 mark is widely recognized as an indication of a manufacturing sector that is contracting, the continuing downtrend in the index further raises concerns that the US economy is headed toward recession in the near term. Moreover, consumer confidence and sentiment continue to spiral downward as those polled cited worsening expectations for business conditions and inflation. The Conference Board Consumer Confidence Index fell by 4.5 points to 98.7, while the University of Michigan Consumer Sentiment Index fell by 8.4 points to a record low of 50.0.

Finally, data from the housing market pointed to a continuous softening in demand for homes as higher mortgage rates limit home affordability. Sales of existing home slipped to a two-year low, falling by 5.4 percent to a 5.12 million annualized pace, while new home sales tumbled even further by 15.2 percent to annualized pace of 590k. Looking ahead, housing starts and building permits fell by 2.0 percent and 0.6 percent, respectively, to annualized paces of 1.559 million and 1.685 million.