U.S. Market Commentary

The Markets

Despite a slight recovery in Q4, most equity markets ended the year in negative territory as high inflation, aggressive central bank policy tightening, and geopolitical tensions contributed to sharply lower valuations throughout 2022. Bonds also recorded negative returns as the magnitude and swift pace of interest rate increases weighed on the asset class. Persistently high inflation pushed real interest rates into negative territory, further weakening the appetite for fixed income. The year 2022 marked the first time in 45 years that both equity and bond returns were negative.

Market Indices	December 2022	Year-to-Date
Dow Jones Industrial Average	-4.2%	-8.8%
S&P 500 Index	-5.8%	-19.4%
NASDAQ Composite	-8.7%	-33.1%
MSCI World Index	-4.3%	-18.1%
Bloomberg US Aggregate Bond Index	-0.5%	-13.0%
Bloomberg Global Aggregate Bond Index	-1.4%	-16.3%

The Economy

The final month of 2022 showed mixed signals for the US economy, but inflation appears to have peaked as the latest readings seem to confirm the beginning of a downtrend. The Consumer Price Index notched its first monthly decline since May 2020, falling by 0.1 percent from the month prior due to declining fuel costs (the Core CPI, which excludes volatile components such as food and energy, rose by 0.3 percent). On a year-over-year basis, the decline is more pronounced as headline inflation came in at 6.5 percent, compared with 7.1 percent in November and its June peak of 9.1 percent. The Core CPI also fell year-over-year to 5.7 percent from 6.0 percent in the prior month. On the supplier's side, the Producer Price Index followed suit by falling 0.5 percent from the previous month, while the year-over-year reading fell to 6.2 percent from 7.3 percent in November (the Core PPI increased by 0.1 percent over the month while the yearly reading fell to 5.5 percent from 6.2 percent). In response to the data, the US Federal Reserve hiked by 50 basis points in December, down from 75bps in each of the prior four meetings. While Federal Reserve Chairman Jerome Powell stressed that inflation remains well above the Fed's target, market participants perceived the smaller rate increase as a signal that monetary tightening has commenced a pivot.

In addition to dampening inflation, other sectors of the US economy appear to be contracting. Firstly, manufacturing has consistently slowed over the past year as the ISM Purchasing Manager's Index fell to 48.4 from prior readings of 49.0 and 50.2 in November and October, respectively, dipping below the 50.0 point level to signal a contracting economy. Consumer spending and retail sales have also softened as higher prices likely begin to impact personal spending habits. Consumer spending declined in both December and November, falling by 0.2 percent and 0.1 percent, respectively. Core retail sales reported declines of 1.1 percent and 0.6 percent over the same periods. Further, the housing sector continued to weaken as higher mortgage rates reduce affordability in many areas of the country. Housing starts declined for the fourth consecutive month, falling by 1.4 percent in December to an annualized rate of 1.382 million. Permits to build dropped for a third consecutive month, sliding by 0.9 percent to an annualized rate of 1.330 million. As for residential transactions, existing home sales have narrowed every month since January 2022, falling to a post-pandemic low of 4.02 million. Conversely, new home sales accelerated by 2.3 percent to 616k.

On the positive side, the labor market and consumers demonstrate a different story. The US economy added 223k jobs in December, pushing the unemployment rate down to its pre-pandemic low of 3.5 percent. While this number of job gains has trended downward over the past 6 months, it suggests that the economic deterioration noted above may not have severely impacted job gains yet (average hourly earnings also advanced by 0.3 percent). The positive job data boosted both Consumer Confidence and Consumer Sentiment in December, as consumers' views on the economy, jobs, and inflation were generally improved. The Conference Board Consumer Confidence Index increased to 108.3 in December from 101.4 in the previous month, while the University of Michigan's Consumer Sentiment Index rose to 59.7 from 56.8 for the same period. However, it should be noted that consumer sentiment remains relatively weak at 15 percent below its December 2021 reading. Finally, the US economy grew at an annualized pace of 2.9 percent in the fourth quarter, revealing an economic resilience that helped ward off near-term recession fears.

Note: Prepared by Coralisle Pension Services Ltd. – Licensed to conduct investment business by the Bermuda Monetary Authority. Please see our General Information and Disclosures page on www.cgcoralisle.com for more information.