June 2022

Market Review

Global Market Strategy @ Natixis Investment Managers Solutions Marketing Communication

Macroeconomic developments

Incoming economic data continued to slow across countries as businesses and in particular consumers have started to bear the burden of tighter financial conditions. Additional visibility on the state of the economy and especially on the evolution of the war in Ukraine will be needed to determine the extent of the economic slowdown going forward.

Both US PMI surveys – manufacturing and services – dipped closer to the 50-level expansionary threshold. Looking under the hood, the prices paid, and delivery time components of the surveys improved, suggesting that price pressures and supply bottlenecks are receding at last. The latest PCE release, the Fed's preferred price gauge, brought some positive news showing that inflation had been unchanged at 6.3% year-over-year in May and down from 6.6% last March. Similarly, several indicators suggest that the tightness of the labour markets in the US and in the Eurozone might have also started to ease. By looking at the economic data overall, it appears that the Fed, which increased policy rates by 75bp in June to 1.75%, is trying to pilot a soft-landing of the US economy, what should eventually take some pressure off prices. Recession concerns have, however, increased over the last month and markets have begun to price off several basis points hikes from the Fed funds rate during this tightening cycle (i.e., 2022-2023).

Moreover, the ECB's task has only gotten more challenging in June after, on another episode of escalation. The Kremlin halted 60% of the gas supplies to Germany through the Nord Stream 1 pipeline. Germany moved to phase two of its emergency energy plan as a result, getting just one away from mandating the rationing of gas to industrial users, and potentially households as well. Meanwhile, higher inflation in Europe (+8.6% year-over-year in June vs. +8.1% in May) keeps denting consumer confidence, which has fallen to its lowest level since the early stages of the pandemic, and challenging ECB's signalled interest rate path. In fact, the sovereign spread between Italian and German government debt widened considerably, prompting the ECB to announce its intention to deploy an antifragmentation tool. This tool has two purposes: avoid another stress episode on sovereign debt and allow for a more efficient transmission of its desired monetary policy.

China's government is finally becoming more willing to accept Covid cases and has shortened the isolation period for positive cases and adjusted the frequency of Covid tests according to the risk of infection, which is a more flexible policy than one month ago. However, the risk of lockdowns still exists, what is expected to continue to weigh on business sentiment and on banks' loan issuance although overall sentiment is indeed improving.

Markets' reaction

June was a very negative month for equity markets, especially during the first half of the month, when global bond yields broke to multi-year highs. At it weakest moment, the S&P500 was down over 11.2%, coinciding when the US 10-year yield traded above 3.47%. But, as yields pulled back during the second half of the month, equity markets recovered somewhat but still ended June materially negative. For instance, the S&P 500 and the Nasdaq fell by 8.3% and 8.7%, respectively. European equity markets though, however, did not enjoy that end of month recovery as the geopolitical conflict and the energy-scarcity crisis continued to overshadow the region economic outlook. The FTSE MIB was among the worst performing developed markets after losing over 12.9%, followed by the Dax, which fell 11.2%. More broadly, the MSCI World fell by 8.7%, underperforming the MSCI Emerging Markets, which still lost 6.7%. It is noteworthy tough, that China outperformed every other equity index in June and was the only region to end the month and Q2 in positive territory. As such, the CSI 300 jumped 10.4% in June as Covid-19 lockdown measures started to be relaxed and despite the soaring US dollar.

Sovereign bonds followed the same pattern as risk assets in June: down. The combination of persistent inflation fears in Europe, a still robust economy, especially in the US, and increasingly more hawkish central banks made investors wonder the extent to which interest rates would have to rise to curb inflation. At their peak, the US 10-year yield reached 3.47% (up 63bp since the start of the month), the Bund increased to 1.76% (up 64 bp) and OATs to 2.38% (up 74bp), their highest levels since 2018 for US Treasuries and 2014 for the European yields. However, as recession concerns kicked in during the second half of the month, yields came off significantly: the US 10-year yield ended June at 3%, the Bund at 1.34% and OATs at 1.9%.

Credit suffered in line with the broad bond market sell-off, underperforming government bonds as spreads widened markedly. Given the mounting concerns over the economic outlook, high yield credit was particularly hard hit. European markets suffered the most with their IG and HY spaces down 3.6% and 6.8%, while US IG and HY markets held up slightly better, falling 2.8% and 6.7%, respectively.

Table: Last Month Best and Worst Performers

Developed Markets Equity - LC		Fixed Income Sectors - LC	
Top 3 Markets in June	**Return**	**Top 3 Markets in June**	**Return**
- Hang Seng	3.0%	- US GOV	-1.6%
- Nikkei 225	-3.1%	- EM Corp IG	-1.9%
- OMX Copenhagen	-3.3%	- EU GOV	-2.3%
Worst 3 Markets in June		**Worst 3 Markets in June**	
- ISEQ Ireland	-14.1%	- EU HY	-6.8%
- FTSE MIB	-12.9%	- US HY	-6.7%
- ATX Austrian	-12.7%	- EM Sov HC	-6.2%
Emerging Markets Equity - LC		**Forex and Commodities - USD**	
Top 3 Markets in June	**Return**	**Forex**	**Return**
- CSI 300	10.4%	- DXY Index	2.9%
- Jakarta	-2.7%	- USD/EUR	-2.3%
- KSE-100 Pakistan	-3.6%	- USD/GBP	-3.4%
Worst 3 Markets in June		**Commodities**	
- KOSPI Index	-13.1%	- Gold	-1.6%
- IBOVESPA	-11.5%	- WTI	-7.8%
- Saudi Arabia Index	-10.7%	- Bitcoin	-41.1%

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NATIXIS INVESTMENT MANAGERS INTERNATIONAL

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