Market Update – July 2022

July was a particularly positive month and especially strong for US equities with their natural weighting to growth. The economic data revealed disappointing PMI data in the US, indicating slowing activity and weaker growth, but led markets to price in Fed cuts in 2023 despite the 75bp increase in July. The strong inflation prints remain despite aggressive central bank tightening, and have more than offset any nominal wage growth found from the tight labour market data. In Europe the ECB climbed out of negative rates delivering the first rate hike in over a decade alongside formally announcing the Transmission Protection Instrument (TPI) aimed at stabilizing excessive volatility across member states. Italy's government collapse may potentially provide the first test of the tool. The energy woes in Europe initially abated with the reopening of the Nordstream 1 pipeline before Russia reduced its flows leading to a spike in gas prices as well as some fear of potential industrial slowdowns and downward GDP revisions. Recessionary risks have clearly risen through the month though the markets had already priced in a lot of bad news ahead of data. While any earnings downgrades could pose further risk, earnings season has proven to be generally stronger than expected given the valuation de-rating in equity markets.