

14 September 2022

Short note on US market slump after CPI surprise

Upside surprises across the board:

Headline CPI rose 0.1% MoM with the YoY pace slowing to 8.3% from 8.5%. MoM rise in core CPI doubled from 0.3% in July to 0.6% with the YoY rate re-accelerating to 6.3% from 5.9%. Big miss was in used cars which were expected to drop more than 1% but instead fell just 0.1%. Shelter (Rent) prices up 0.7% while airline prices and energy prices fell. Shelter (Rent) accounts for about one third of the index. (Data source: Bloomberg)

FOMC meeting next week:

The report should lock in a third consecutive 75bp hike from the Fed to bring the upper bound to 3.25% at the September FOMC. Some are expecting a 100bps hike.

Market reaction:

DJI -3.9%, SPX -4.3%, Nasdaq -5.2% (largest decline since Mar-2020), 10-year Treasury yield at 3.4%. (Data source: Bloomberg)

Sunlife Asset Management views:

US stocks were giving back the gains last week when investors speculated lower inflation data. Yesterday's slide was mainly a reversal due to increasing Fed expectations. Outlook depends on coming data; we expect volatilities continue. We maintain defensive views. Long-term investors could look for bottom-fishing opportunities if markets further correct.

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