

Sticker Shock Sinks In

WATCH LIST

Date		Period	Consensus	Previous
U.S.				
Mon 7/4	Markets Closed for Fourth of July		--	--
Wed 7/6	ISM Services Index	Jun	54.2	▼ 55.9
Wed 7/6	JOLTS Job Openings	May		11400 K
Wed 7/6	FOMC Meeting Minutes	Jun	--	--
Fri 7/8	Change in Nonfarm Payrolls	Jun	245 K	▼ 390 K
Fri 7/8	Unemployment Rate	Jun	3.6%	▬ 3.6%
Fri 7/8	Average Hourly Earnings	Jun	5.1% Y/Y	▼ 5.2% Y/Y
Fri 7/8	Consumer Credit	May	\$30.000 B	▼ \$38.069 B
Europe				
Mon 7/4	EA Producer Price Index	May	37.1% Y/Y	▼ 37.2% Y/Y
Wed 7/6	EA Retail Sales	May	0.6% M/M	▲ -1.3% M/M
Asia Pacific				
Tue 7/5	Caixin China Composite PMI	Jun		42.2
Tue 7/5	Caixin China Services PMI	Jun	49.0	▲ 41.4
Tue 7/5	Japan Wage Growth	May		1.7% Y/Y

Arrows indicate consensus forecast compared to the previous period. Local dates of release.

U.S.

- A slew of **jobs data** next week will show just how tight the labor market is: the June employment report should reveal slowing job growth, with a close eye on wage growth; we will also watch initial claims to see the extent of job market softening. Meanwhile, the JOLTS job openings data will show the strength of labor demand.

Europe

- The economic responses to **Russia's war in Ukraine** remain in focus as worries about energy supplies mount across Europe.
- EA retail sales** data will show whether consumers are responding to the loss in purchasing power or running down savings.

Asia Pacific

- Japan wage growth** will help gauge whether structural inflationary pressures are building in the economy—an explicit goal for the Bank of Japan, which is using this unique opportunity as an attempt to readjust inflation expectations higher.

What This Week Means For Markets

Investor sentiment has whipsawed notably in recent weeks amid mixed data that has put a focus on risks around softening growth. Weaker-than-expected PMI releases in the U.S. and euro area, a downward revision in longer-term inflation expectations from the University of Michigan report, and Fed officials reiterating a commitment to restoring price stability have weighed on risk assets and global core yields and saw the dollar rise amid haven flows. The U.S. yield curve has continued to flatten, and market-implied Fed funds rate expectations for December 2022 have adjusted lower, dropping below 3.4% from 3.75% immediately prior to the FOMC meeting June 14 and 15, with rate cuts still priced for mid-2023. Negativity around the U.S. and euro area outlook has overshadowed good news out of China: a relaxation of zero-COVID measures cut in half its mandatory quarantine period for inbound travelers, the biggest shift yet. While we continue to stick to our baseline scenario—Stagflation Shock—for now, overall risks of a U.S. recession are rising. Helping offset these risks, however, is a strong starting point: low unemployment, high savings buffers, and healthy corporate balance sheets. Please see our latest [Macro Dashboard](#).

IN REVIEW

PMIs Show Rising Prices Weighing on Demand

Higher prices are weighing on consumer spending across much of the globe. The manufacturing sector is faring worse than the service sector as consumers shift spending patterns.

S&P GLOBAL PMIS

Region	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
U.S. Manufacturing	60.7	58.4	58.3	57.7	55.5	57.3	58.8	59.2	57	52.4
U.S. Services	54.9	58.7	58.0	57.6	51.2	56.5	58	55.6	53.4	51.6
EZ Manufacturing	58.6	58.3	58.4	58.0	58.7	58.2	56.5	55.5	54.6	52
EZ Services	56.4	54.6	55.9	53.1	51.1	55.5	55.6	57.7	56.1	52.8
UK Manufacturing	57.1	57.8	58.1	57.9	57.3	58	55.2	55.8	54.6	53.4
UK Services	55.4	59.1	58.5	53.6	54.1	60.5	62.6	58.9	53.4	53.4
Japan Manufacturing	51.5	53.2	54.5	54.3	55.4	52.7	54.1	53.5	53.3	52.7
Japan Services	47.8	50.7	53.0	52.1	47.6	44.2	49.4	50.7	52.6	54.2

Source: Bloomberg. As of June 30, 2022.

The preliminary **U.S.** PMI pointed to slower growth in June due to supply shortages and high prices destroying demand. Private sector output rose at the slowest pace since the Omicron wave, with easing in both manufacturing and services. Growth in input prices eased but remains stronger than any time before April 2021. Firms continue to pass on higher prices, with output charges increasing—though at the slowest since March 2021—and some firms are offering discounts. The rise in output among services providers was the slowest in five months, while manufacturing fared worse, with production declining as consumers shift spending patterns. Rising input prices and slowing demand suggest firms will face margin pressures. Wages have increased, but hiring has slowed. Business sentiment plunged to the lowest since September 2020, given concerns of demand destruction and tightening financial conditions. Elevated inflation and slowing growth remain in line with our central Stagflation Shock scenario; see the link on page 1.

The **eurozone** composite flash PMI fell to 51.9 in June, from 54.8 in May and below consensus of 54. Persisting supply disruptions, macro uncertainty, and rising living costs continue to affect sentiment. New orders for both goods and services fell for the first time since COVID restrictions were lifted.

Manufacturing output remained in expansionary territory but fell to 52, from 54.6 in May; July's reading is expected to show further weakness given the decline in orders in June. Job growth deteriorated as firms reduce capacity due to dwindling demand. Input costs accelerated to the steepest since April following the rise in energy costs, wages, and prior increases in raw material prices. The services PMI continues to expand but at a slower pace, dropping to 52.8 in June from 56.1, due to a fall in tourism, financial services, and real estate business activities. The ECB is in a difficult position, balancing high inflation, avoiding financial fragmentation, and supporting growth.

The **U.K.** flash composite PMI surprised to the upside at 53.1 in June, unchanged and above market expectations of 52.6. The decline in manufacturing production was offset by resilient activity across the service sector. The service PMI was constant at 53.4 in June and above market expectations of 53. However, manufacturing PMI weakened slightly but remains expansionary, falling to 53.4 from 54.6 (cons. 53.7). While manufacturers' staffing numbers increased, input inflation grew and new order volumes declined, dropping business optimism in the private sector to a two-year low.

Japan's PMI declined to 52.7 in June (from 53.3 prior) amid a decline in new orders as supply constraints from lockdowns in China weighed on activity. Services were a bright spot compared with other DMs, rising to 54.2 (from 52.6), the highest since October 2013 amid reopenings and recovering tourism.

China's manufacturing PMI rose back into expansion, to 50.2 in June (from 49.6 prior), showing signs of resumed production and an improvement in logistics headwinds. Non-manufacturing PMI notably beat expectations, rising to 54.7 (from 47.8) amid a rebound in services. While the increase suggests normalizing economic momentum, the recovery is uneven and more policy support is likely needed to spur household spending.

U.S. Shoppers Balking at Higher Prices

Real personal spending in May fell for the first time since November 2021 amid higher prices and fading sentiment, setting up a slower 2H22. The 0.4% M/M decline in May was driven by a 3.5% M/M drop in durable goods and a 0.6% M/M fall in nondurable goods. However, real services spending rose 0.3% M/M as consumers shift toward services with restrictions unwinding. Nominal personal income rose 0.5% M/M, but real disposable income edged lower given elevated inflation; nominal income rose and outpaced spending, leading savings higher from 5.2% to 5.4%. Expect growth to slow as recession risks rise.

Euro Area Inflation Keeps Accelerating

Spain's annual inflation rate jumped to 10.2% in June (the highest since 1985), from 8.7% in May and above market expectations of 9%, led by rising costs of fuels, food and non-alcoholic beverages, and hospitality. Core inflation rose 5.5% Y/Y. Spain's CPI increased 1.8% M/M, three times market forecasts of 0.6%. Germany's annual inflation rate surprised to the downside, falling to 7.6% in June, below 8% expectations; efforts to control fuel prices and reduce gasoline and diesel taxes were responsible for the drop. German inflation is 0.1% M/M, below the previous month (0.9%) and consensus (0.3%). French inflation remains below most euro area countries but hit a high not seen since 1985, at 5.8% Y/Y (cons. 5.7%).

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KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	1.75%	0 bps	75 bps	125 bps	150 bps	150 bps	150 bps
U.S. SOFR	1.51%	6 bps	73 bps	123 bps	146 bps	146 bps	146 bps
3 Month USD Libor	2.28%	9 bps	68 bps	127 bps	205 bps	213 bps	207 bps
3 Month Euribor	-0.19%	-2 bps	18 bps	28 bps	38 bps	35 bps	38 bps
3 Month U.S. T-Bill	1.72%	16 bps	68 bps	116 bps	168 bps	168 bps	167 bps
2-Year U.S. Treasury	3.08%	2 bps	61 bps	73 bps	233 bps	282 bps	235 bps
10-Year U.S. Treasury	3.10%	-5 bps	36 bps	70 bps	156 bps	162 bps	159 bps
10-Year German Bund	1.54%	-8 bps	59 bps	91 bps	173 bps	171 bps	172 bps
10-Year U.K. Gilt	2.39%	-8 bps	50 bps	74 bps	140 bps	165 bps	143 bps
10-Year JGB	0.22%	-1 bps	0 bps	-2 bps	17 bps	17 bps	16 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	3.18%	N/A	0.3%	-1.9%	-3.9%	-9.2%	-9.6%
Barclays Capital U.S. TIPS	3.47%	N/A	-0.9%	-3.5%	-5.9%	-4.9%	-8.8%
Barclays Capital U.S. Aggregate	3.79%	55	0.4%	-2.5%	-4.7%	-10.6%	-10.7%
Barclays Capital Global Aggregate	2.97%	55	0.0%	-4.2%	-8.0%	-15.7%	-14.3%
Barclays Capital U.S. ABS	3.89%	78	0.2%	-0.9%	-1.0%	-4.5%	-4.0%
Barclays Capital U.S. MBS	3.85%	47	0.7%	-2.6%	-4.1%	-9.5%	-9.2%
Barclays Capital U.S. Corporate Investment Grade	4.75%	153	0.1%	-3.4%	-7.1%	-14.3%	-14.6%
BAML Euro Corporate Investment Grade	3.15%	202	0.2%	-4.3%	-7.3%	-12.9%	-12.5%
Barclays Capital U.S. Corporate High Yield	8.80%	549	-0.7%	-6.3%	-9.2%	-12.4%	-13.9%
BAML European Currency High Yield Non-Financial	7.54%	622	-1.7%	-6.2%	-10.4%	-14.2%	-14.4%
CS U.S. Leveraged Loans	9.64%	638	-0.6%	-1.4%	-3.7%	-2.1%	-3.9%
JPM CEMBI Broad Diversified	7.09%	395	-0.5%	-3.0%	-6.7%	-14.2%	-13.9%
JPM EMBI Global Diversified	8.56%	535	-1.1%	-6.5%	-11.8%	-21.1%	-20.2%
JPM GBI-EM Global Diversified	7.05%	N/A	-0.5%	-4.4%	-8.7%	-19.2%	-14.3%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,818.83	1.58%	1.6%	-8.0%	-17.2%	-9.7%	-19.3%
Euro STOXX 600 (Local)	413.42	2.54%	1.9%	-6.9%	-10.5%	-9.4%	-15.2%
U.K. FTSE 100 (Local)	7,312.32	3.57%	3.1%	-3.6%	-3.0%	3.2%	-1.0%
Japan Nikkei 225 (Local)	26,804.60	2.07%	2.5%	0.1%	-5.1%	-7.0%	-6.9%
China Shanghai Composite (Local)	3,361.52	2.26%	2.9%	7.4%	4.9%	-5.9%	-7.6%
MSCI AC World (Local)	603.50	2.30%	1.8%	-6.3%	-13.7%	-11.0%	-16.6%
MSCI Emerging Markets (Local)	1,013.20	2.91%	2.5%	-0.5%	-7.4%	-19.1%	-12.6%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	737.16	-0.7%	-7.0%	0.7%	29.6%	39.1%	31.4%
WTI Crude (\$/bbl)	109.78	3.4%	-4.5%	5.3%	43.4%	50.1%	45.7%
Copper (\$/lb)	3.78	-4.4%	-12.2%	-19.9%	-14.2%	-11.6%	-15.2%
Gold (\$/oz)	1,817.75	-1.3%	-1.8%	-4.8%	1.3%	3.5%	0.7%
U.S. Dollar Index	105.11	0.9%	3.4%	6.8%	9.6%	14.2%	9.5%
Euro (USD/EUR)	1.05	-1.1%	-2.2%	-5.6%	-7.7%	-12.0%	-7.9%
British Pound (USD/GBP)	1.21	-1.5%	-3.9%	-7.7%	-10.1%	-12.4%	-10.5%
Japanese Yen (Yen/USD)	136.84	0.7%	7.6%	11.5%	19.1%	23.8%	18.8%
Chinese Yuan (CNY/USD)	6.70	-0.3%	-0.2%	5.1%	5.1%	3.7%	5.1%

Source: FactSet and Bloomberg. As of June 30, 2022.

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