

Data Delivers Mixed Messages Amid Slowdown

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 8/30	FHFA House Price Index	Jun	0.8% M/M	▼	1.4% M/M
Tue 8/30	Conference Board Consumer Confidence	Aug	97.5	▲	95.7
Tue 8/30	JOLTS Job Openings	Jul	10300 K	▼	10698 K
Wed 8/31	ADP Employment Change	Aug			128 K
Thu 9/1	ISM Manufacturing	Aug	52.1	▼	52.8
Thu 9/1	Wards Total Vehicle Sales	Aug	13.65 M	▲	13.35 M
Fri 9/2	Change in Nonfarm Payrolls	Aug	300 K	▼	528 K
Fri 9/2	Unemployment Rate	Aug	3.5%	—	3.5%
Europe					
Wed 8/31	EA Consumer Price Index	Aug	8.8% Y/Y	▼	8.9% Y/Y
Thu 9/1	EA Unemployment Rate	Jul	6.6%	—	6.6%
Fri 9/2	EA Producer Price Index	Jul			35.8% Y/Y
Asia Pacific					
Tue 8/30	Japan Jobless Rate	Jul	2.6%	—	2.6%
Wed 8/31	Japan Industrial Production (Prelim. Est.)	Jul	-0.5% M/M	▼	9.2% M/M
Wed 8/31	Japan Retail Sales	Jul	0.3% M/M	▲	-1.3% M/M
Wed 8/31	China Manufacturing PMI	Aug	49.5	▲	49.0
Wed 8/31	China Non-Manufacturing PMI	Aug	52.6	▼	53.8
Thu 9/1	Caixin China Mfg. PMI	Aug	50.1	▼	50.4

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

U.S.

- We will watch the August **employment report** as the labor market remains tight.
- **The Conference Board Consumer Confidence Index** may move higher in August amid lower gas prices and a strong labor market.

Europe

- As **Russia's invasion of Ukraine** marks its sixth month, attention will turn to the closing of the Nord Stream 1 pipeline, from August 31 to September 2. Some worry Russia will not reopen the tap when this scheduled maintenance is completed.
- **Euro area CPI** will show whether talks of peak inflation are warranted yet.

Asia Pacific

- **China PMIs** will provide an initial look at how much COVID, property sector issues, and drought-induced power shortages are having on activity.
- **Japan industrial production** is expected to contract in July, as implied by the latest PMIs, amid headwinds from weakening global demand.

What This Week Means For Markets

Markets seemed to sit on their hands this week, with equity trading volumes light in anticipation of Federal Reserve Chair Jerome Powell's speech at Jackson Hole. Mixed U.S. economic data continues to fuel the debate about underlying economic strength and recession odds. The U.S. Treasury market appears to be betting on Fed hawkishness, with the 2-year yield approaching its year-to-date peak reached during the June FOMC meeting. A similar dynamic is evident with the dollar, which saw the DXY index return to its year-to-date high and the EUR fall below parity. In contrast, equity markets seem more in line with a dovish Fed outcome and are still up over 14% from the lows. Crude oil prices moved higher over the week; we'll monitor the temporary maintenance closure of the Nord Stream 1 pipeline next week. This should keep inflation and risks to the European economy elevated. Finally, Chinese policymakers increasingly concerned about the growth outlook, particularly amid the latest power shortages, have rolled out a batch of monetary and fiscal stimulus efforts to help bolster growth, helping revive risk sentiment in the near-term. Please see our latest [Macro Dashboard](#).

IN REVIEW

Global PMIs Weaken in August

U.S. flash PMIs signaled further slowing in August amid rising interest rates and the cost-of-living shock. The pace of expansion in the manufacturing PMI slowed over the month, while the services PMI posted its second-consecutive contraction amid weaker demand. Though the pace of inflation eased, the rise in both input and output charges remained elevated historically. Companies remain challenged finding workers, but the pace of employment growth slowed as some appear hesitant to replace voluntary leavers given the uncertain outlook.

S&P GLOBAL PMIS

Region	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
U.S. Manufacturing	57.7	55.5	57.3	58.8	59.2	57	52.7	52.2	51.3
U.S. Services	57.6	51.2	56.5	58.0	55.6	53.4	52.7	47.3	44.1
EZ Manufacturing	58.0	58.7	58.2	56.5	55.5	54.6	52.1	49.8	49.7
EZ Services	53.1	51.1	55.5	55.6	57.7	56.1	53	51.2	50.2
UK Manufacturing	57.9	57.3	58.0	55.2	55.8	54.6	52.8	52.1	46
UK Services	53.6	54.1	60.5	62.6	58.9	53.4	54.3	52.6	52.5
Japan Manufacturing	54.3	55.4	52.7	54.1	53.5	53.3	52.7	52.1	51
Japan Services	52.1	47.6	44.2	49.4	50.7	52.6	54	50.3	49.2

Source: Bloomberg. As of August 25, 2022.

Euro area flash PMIs suggest the recession is hitting Europe faster than was expected. The eurozone composite flash PMI for August dropped 0.7 points to an 18-month low of 49.2 and remained below the neutral level of 50 for the second-consecutive month, pointing to moderately negative GDP growth in Q3, mostly driven by weakness in Germany. Service and manufacturing indices declined markedly, hitting a 17-month low of 50.2 and a 26-month low of 49.7, respectively. Worryingly, the stock of finished but unsold manufacturing goods rose at the fastest pace in 25 years, suggesting “little prospect of an improvement in manufacturing production any time soon” (as commented by S&P). The only silver lining is that input and output price inflation continued to ease in both service and manufacturing sectors, while supplier delivery times also improved. The recessionary environment seems to at least start to exert downward pressure on prices and ease supply chain constraints. We expect the euro area economy to enter a recession in the second half of the year; should Russian gas supplies be cut further, it may be deep and more prolonged.

Japan flash PMIs for July pointed to weakening production activity as global demand softens amid supply chain impacts from the recent power-supply issues in China. The decline in the manufacturing PMI to 51.0 from 52.1 was broad-based, but new export orders fell sharply. The services PMI also fell to 49.2, from 50.3 prior, likely a function of the recent resurgence of COVID altering peoples’ behaviors, even though no government restrictions have been imposed.

U.K. Inflation Hits Double Digits & Spells Trouble

U.K. CPI hit double digits for the first time in 40 years, reaching 10.1% (consensus 9.8%). Worryingly, the main surprise came from core inflation, not on the back of surging energy prices. This print was also higher than the 9.9% projected by the Bank of England and shows a striking breadth of categories experiencing price gains. Combined with the recent wage strength, there is plenty of evidence of a wage-price spiral taking hold. This makes a 50bp hike in September seem almost a done deal, with a larger 75bp hike also likely to become a talking point. If this was not enough, energy bills are set to surge again in October and push inflation even higher. Various forecasters look at U.K. CPI peaking above 15% in 2023.

U.S. Shoppers Keeps Spending

U.S. consumers are proving fairly resilient as core retail sales surprised to the upside in July and Q1 consumer spending was revised higher. Lower gas prices weighed on nominal gasoline sales and autos took a step back in July, leaving overall retail sales flat over the month. However, nine of the 13 major categories posted gains and, excluding autos and gasoline, sales surprised to the upside, rising 0.7% M/M. Retail sales largely comprises spending on goods, and the resilience in consumption suggests that easing in core goods inflation may not be as strong as previously thought. This data supports our central Stagflation Shock scenario (see link on page 1), in which the Fed will need to hike more than is currently priced into markets.

China Rolls Out Support, But is it Enough?

With the latest July activity data significantly underperforming, policymakers announced support to help contain downside risks. The PBOC trimmed the 1-year MLF rate to 2.75%, the 7-day repo rate to 2%, the 1-year LPR to 3.65%, and the 5-year LPR to 4.30%. The cuts were beyond market expectations and likely reflect authorities’ negative view on growth amid concerns about the property sector and the fading COVID rebound in the next few quarters. The State Council also unveiled 19 new measures totalling more than 1 trillion yuan (\$146 billion), 0.8% of GDP. While a welcome development, execution risks are still a concern, especially as local governments have been constrained in spending or implementing stimulus measures. This will likely support infrastructure investment, but weak private demand and confidence—a function of the ongoing property downturn—remains an issue as the central government refrains from large-scale sector bailouts.

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KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	2.50%	0 bps	75 bps	150 bps	225 bps	225 bps	225 bps
U.S. SOFR	2.27%	-2 bps	75 bps	149 bps	222 bps	222 bps	222 bps
3 Month USD Libor	3.01%	3 bps	24 bps	148 bps	250 bps	289 bps	280 bps
3 Month Euribor	0.49%	14 bps	29 bps	85 bps	102 bps	104 bps	107 bps
3 Month U.S. T-Bill	2.72%	12 bps	34 bps	167 bps	242 bps	267 bps	267 bps
2-Year U.S. Treasury	3.37%	9 bps	38 bps	87 bps	183 bps	315 bps	264 bps
10-Year U.S. Treasury	3.11%	22 bps	33 bps	36 bps	115 bps	183 bps	160 bps
10-Year German Bund	1.38%	31 bps	33 bps	42 bps	122 bps	185 bps	156 bps
10-Year U.K. Gilt	2.69%	42 bps	73 bps	84 bps	125 bps	215 bps	172 bps
10-Year JGB	0.21%	3 bps	-1 bps	-2 bps	2 bps	20 bps	14 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	3.35%	N/A	-1.0%	-2.1%	-2.2%	-10.7%	-9.9%
Barclays Capital U.S. TIPS	3.45%	N/A	0.3%	0.6%	-0.3%	-4.4%	-6.3%
Barclays Capital U.S. Aggregate	3.87%	49	-1.3%	-1.8%	-1.7%	-11.1%	-10.4%
Barclays Capital Global Aggregate	3.00%	53	-2.0%	-2.2%	-4.8%	-17.1%	-15.0%
Barclays Capital U.S. ABS	4.09%	70	-0.1%	-0.4%	-0.8%	-4.6%	-3.9%
Barclays Capital U.S. MBS	3.86%	37	-1.6%	-1.7%	-1.4%	-9.2%	-8.6%
Barclays Capital U.S. Corporate Investment Grade	4.71%	136	-1.5%	-1.8%	-1.3%	-14.2%	-13.7%
BAML Euro Corporate Investment Grade	2.97%	191	-1.8%	-1.8%	-2.4%	-12.4%	-10.8%
Barclays Capital U.S. Corporate High Yield	8.00%	447	-1.7%	0.8%	1.1%	-8.6%	-9.7%
BAML European Currency High Yield Non-Financial	6.89%	559	-1.7%	0.8%	-1.8%	-11.3%	-11.0%
CS U.S. Leveraged Loans	9.13%	561	-0.4%	1.8%	2.1%	0.4%	-1.2%
JPM CEMBI Broad Diversified	6.94%	378	-0.6%	2.0%	-1.2%	-13.6%	-12.7%
JPM EMBI Global Diversified	8.16%	486	-1.1%	2.7%	-2.4%	-19.4%	-17.8%
JPM GBI-EM Global Diversified	6.84%	N/A	-1.5%	2.2%	-3.4%	-17.9%	-14.2%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,140.77	1.49%	-3.1%	4.7%	5.5%	-6.3%	-12.2%
Euro STOXX 600 (Local)	432.05	2.45%	-1.6%	1.5%	0.1%	-8.4%	-11.4%
U.K. FTSE 100 (Local)	7,471.51	3.56%	-0.6%	2.7%	-0.2%	4.9%	1.2%
Japan Nikkei 225 (Local)	28,313.47	1.97%	-3.1%	1.4%	5.9%	2.1%	-1.7%
China Shanghai Composite (Local)	3,215.20	2.54%	-2.3%	-1.7%	4.7%	-8.5%	-11.7%
MSCI AC World (Local)	634.97	2.20%	-2.7%	3.4%	3.0%	-7.7%	-11.4%
MSCI Emerging Markets (Local)	985.13	3.28%	-2.3%	0.1%	0.7%	-14.4%	-13.2%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	691.74	5.2%	4.3%	-10.0%	3.6%	33.0%	23.3%
WTI Crude (\$/bbl)	94.89	4.4%	-2.9%	-15.7%	2.3%	40.6%	26.0%
Copper (\$/lb)	3.66	1.7%	9.3%	-15.4%	-17.8%	-14.0%	-17.8%
Gold (\$/oz)	1,745.65	-1.2%	0.5%	-6.5%	-9.8%	-3.5%	-3.3%
VIX Index	22.82	14.7%	-0.9%	-19.6%	-24.7%	32.5%	32.5%
U.S. Dollar Index	108.68	2.0%	1.8%	6.7%	11.9%	17.0%	13.2%
Euro (USD/EUR)	1.00	-1.7%	-2.3%	-6.8%	-10.1%	-15.0%	-12.1%
British Pound (USD/GBP)	1.18	-1.9%	-1.8%	-5.6%	-11.0%	-13.9%	-12.7%
Japanese Yen (Yen/USD)	136.77	1.0%	0.5%	8.1%	18.3%	24.7%	18.8%
Chinese Yuan (CNY/USD)	6.87	1.3%	1.5%	2.9%	8.6%	6.0%	7.7%

Source: FactSet and Bloomberg. As of August 25 2022.

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