

Still No End in Sight

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 9/27	FHFA House Price Index	Jul	0.0% M/M	▼	0.1% M/M
Tue 9/27	Conference Board Consumer Confidence	Sep	104.5	▲	103.2
Tue 9/27	New Home Sales	Aug	500 K	▼	511 K
Wed 9/28	Pending Home Sales	Aug	-0.5% M/M	▲	-1.0% M/M
Thu 9/29	GDP, annualized (Third Est.)	2Q22	-0.6% Q/Q	-	-0.6% Q/Q
Fri 9/30	Personal Income	Aug	0.3% M/M	▲	0.2% M/M
Fri 9/30	Personal Spending	Aug	0.2% M/M	▲	0.1% M/M
Fri 9/30	Core PCE Deflator	Aug	4.8% Y/Y	▲	4.6% Y/Y
Europe					
Mon 9/26	OECD Publishes Interim Economic Outlook		--		--
Fri 9/30	EA Unemployment Rate	Aug	6.6%	-	6.6%
Fri 9/30	EA Consumer Price Index (Prelim. Est.)	Sep	9.7% Y/Y	▲	9.1% Y/Y
Asia Pacific					
Mon 9/26	Jibun Bank Japan Services PMI (Prelim. Est.)	Sep			49.5
Mon 9/26	Jibun Bank Japan Manufacturing PMI (Prelim. Est.)	Sep			51.5
Tue 9/27	China Industrial Profits	Aug			
Fri 9/30	Japan Jobless Rate	Aug	2.5%	▼	2.6%
Fri 9/30	Japan Retail Sales	Aug	0.2% M/M	▼	0.8% M/M
Fri 9/30	Japan Industrial Production (Prelim. Est.)	Aug	-0.2% M/M	▼	0.8% M/M
Fri 9/30	China Manufacturing PMI	Sep	49.2	▼	49.4
Fri 9/30	China Nonmanufacturing PMI	Sep	52.3	▼	52.6
Fri 9/30	Caixin China Manufacturing PMI	Sep			49.5

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

U.S.

- Retail sales numbers pointed to slower goods spending, so we will watch **personal spending data** to gauge demand for services as shoppers' preferences shift. We will also watch savings data to see how much households are relying on **excess savings**, given negative real wage growth.
- The **Core PCE Deflator** is set to rise, drawing attention as well.

Europe

- We continue to watch **escalations in Russia's war on Ukraine**, including interruptions to gas flows.
- EA CPI for September** is expected to show little respite.

Asia Pacific

- Both **Japan's and China's PMIs** should give a first look at how economic activity is faring in September amid a backdrop of slowing global growth.
- Japan August activity data** could provide clues on the consumer's sensitivity to rising COVID cases.

What This Week Means For Markets

A flutter of hawkish moves led yields to rise and equities to fall. The FOMC's updated Summary of Economic Projections showed a material upward revision for the path of Fed rate hikes, which made markets reprice rate expectations. Contrary to the FOMC, the BoE is becoming increasingly concerned about the growth outlook. China and Japan, however, have kept monetary policy accommodative, adding to currency weakness. Japan's Ministry of Finance intervened to support the yen—the first time since 1998—though the impact may be fleeting as long as the BOJ's ultra-loose policies remain. Please see our latest [Macro Dashboard](#).

IN REVIEW

FOMC Signals a Faster Pace of Rate Hikes

As widely expected, the FOMC delivered its third-consecutive 75bp hike, bringing the target Fed Funds Rate (FFR) to the 3-3.25% range. Among the more notable changes at the September meeting were updates to the Summary of Economic Projections (SEP), with the median response calling for a faster path and higher peak for the FFR and slower growth. The median dot from the dot plot suggests ending the year at a 4.4% FFR, with a majority of committee members expecting it to peak at 4.5% in 2023. Not only is this path an upward revision from the June SEP, but it is more than what has been priced into markets. Moreover, the Committee slashed estimates for growth, with the median estimate calling for 0.2% real GDP growth in 2022 (1.7% previously) and 1.2% for 2023 (1.7% previously). The SEP also showed higher expectations for inflation and an upward revision to the unemployment rate. Fed Chair Jerome Powell noted that risks to the inflation outlook are clearly weighted to the upside.

SEPTEMBER FOMC SUMMARY OF ECONOMIC PROJECTIONS

Variable	2022	2023	2024	Longer run
GDP	0.2%	1.2%	1.7%	1.8%
Unemployment Rate	3.8%	4.4%	4.4%	4.0%
PCE Inflation	5.4%	2.8%	2.3%	2.0%
Federal Funds Rate	4.4%	3.8%	3.4%	2.5%

Source: Federal Reserve. As of September 22, 2022.

The Fed remains committed to bringing inflation down to target, and, in doing so, is looking for growth to cool materially. The market is now pricing in a peak FFR of 4.5% in May 2023, and then pricing in cuts. While the peak is closer in line with our central Stagflation Shock scenario (see the link in the gray box on page 1), we believe the Fed may need to hold rates at the elevated level for longer before returning to cuts, until inflation has moved convincingly lower.

The Bank of England Chooses the Cautious Option

A 75bp hike was a “should do,” to tame extraordinary inflation, respond to unchained pound depreciation, and coldly reply to expected fiscal waste from the new administration. A cautious 50bps was going to be the signal the Bank of England (BoE) blinked at signs of recession and the upcoming fiscal stimulus. Markets got their answer: the BoE blinked. This will mean that the BoE will likely have to hike for longer as inflation should remain above target. The Bank is, however, starting outright

bond sales from its balance sheet, targeting £80 billion in sales in the next year.

The key question that will be answered Friday is whether the government throws a Hail Mary as it announces a bold demand stimulus plan, estimated to total 10% of GDP, to try to rescue the economy. This out-of-the-box gamble can shift the U.K. economy out of its trajectory, either to the upside if the plan is well designed, or down to a difficult place if it is not and fiscal irresponsibility brings the demise of the U.K.

China Responds to Policy Support in August

Activity data for August in China showed a broad improvement as policy support has ramped up, but risks remain skewed to the downside amid headwinds related to the ongoing property downturn and the strict adherence to the zero-COVID policy. Industrial production and retail sales came in above expectations, growing 4.2% and 5.4% Y/Y. Fixed asset investment was also robust, growing 5.8% Y/Y, led by infrastructure and manufacturing capex. The property sector remains weak, however, with property investment and sales continuing to contract, and new housing starts also showing no signs of stabilization, having contracted over the period. This has weighed significantly on consumer confidence, which is likely to dampen any upside economic momentum. With the better-than-expected data in August, however, the People’s Bank of China opted to keep its main policy rates on hold, maintaining a mildly accommodative stance while allowing fiscal policy to do the heavy lifting.

The BOJ is the Last Holdout

The Bank of Japan (BOJ) is maintaining a very accommodative stance, keeping its policy rate target, yield curve control (YCC) targets, and asset purchase programs unchanged, as expected. The Bank opted to extend special COVID programs related to funding small- and medium-sized enterprises, however. Despite headline inflation near 3% Y/Y in August and measures of core inflation steadily rising, the BOJ’s forward guidance reiterated its ultra-loose policy until it reaches sustainable 2% inflation. Looking ahead, it’s likely that YCC will be intact until the end of BOJ Governor Haruhiko Kuroda’s term in April 2023. With high prices taking their toll, however, fiscal policy has increasingly rolled out countermeasures to support the economy, including cash handouts to low-income households, extension of oil subsidies to wholesalers, and direct intervention in currency markets.

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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	0 bps	75 bps	200 bps	225 bps	225 bps
U.S. SOFR	2.25%	-2 bps	-3 bps	80 bps	196 bps	220 bps	220 bps
3 Month USD Libor	3.60%	12 bps	65 bps	145 bps	265 bps	348 bps	339 bps
3 Month Euribor	1.12%	11 bps	69 bps	128 bps	161 bps	166 bps	169 bps
3 Month U.S. T-Bill	3.23%	10 bps	61 bps	170 bps	275 bps	321 bps	318 bps
2-Year U.S. Treasury	3.98%	21 bps	74 bps	77 bps	186 bps	378 bps	326 bps
10-Year U.S. Treasury	3.51%	10 bps	53 bps	21 bps	120 bps	219 bps	200 bps
10-Year German Bund	1.89%	17 bps	66 bps	13 bps	145 bps	222 bps	207 bps
10-Year U.K. Gilt	3.33%	17 bps	90 bps	69 bps	172 bps	263 bps	236 bps
10-Year JGB	0.25%	0 bps	6 bps	2 bps	5 bps	21 bps	18 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	3.85%	N/A	-0.4%	-2.6%	-1.0%	-12.6%	-11.6%
Barclays Capital U.S. TIPS	3.99%	N/A	-1.3%	-4.0%	-1.8%	-8.7%	-10.2%
Barclays Capital U.S. Aggregate	4.39%	54	-0.6%	-3.2%	-0.9%	-13.5%	-12.6%
Barclays Capital Global Aggregate	3.43%	55	-1.3%	-4.5%	-3.6%	-19.8%	-18.0%
Barclays Capital U.S. ABS	4.62%	55	-0.3%	-0.9%	-0.2%	-5.4%	-4.7%
Barclays Capital U.S. MBS	4.42%	54	-0.7%	-4.0%	-0.9%	-12.0%	-11.4%
Barclays Capital U.S. Corporate Investment Grade	5.21%	141	-0.6%	-3.4%	-0.7%	-17.0%	-15.9%
BAML Euro Corporate Investment Grade	3.75%	197	-1.4%	-3.9%	-0.9%	-14.6%	-13.5%
Barclays Capital U.S. Corporate High Yield	8.80%	482	-1.0%	-3.6%	1.0%	-11.7%	-12.1%
BAML European Currency High Yield Non-Financial	7.72%	566	-1.2%	-3.3%	-0.1%	-13.7%	-13.0%
CS U.S. Leveraged Loans	10.10%	599	-0.5%	-0.8%	1.8%	-0.8%	-1.7%
JPM CEMBI Broad Diversified	7.39%	379	-0.8%	-2.0%	-0.8%	-15.1%	-14.1%
JPM EMBI Global Diversified	8.74%	507	-1.1%	-3.3%	-1.0%	-21.9%	-20.2%
JPM GBI-EM Global Diversified	7.02%	N/A	-1.3%	-2.1%	-2.5%	-19.3%	-16.0%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,789.93	1.63%	-3.9%	-10.2%	1.1%	-11.6%	-19.6%
Euro STOXX 600 (Local)	407.05	2.32%	-2.5%	-6.9%	-0.4%	-11.3%	-16.6%
U.K. FTSE 100 (Local)	7,237.64	3.72%	-0.5%	-4.1%	1.2%	3.7%	-2.0%
Japan Nikkei 225 (Local)	27,313.13	2.06%	-1.8%	-5.6%	4.1%	-8.5%	-5.1%
China Shanghai Composite (Local)	3,117.18	2.65%	-3.7%	-4.3%	-5.7%	-13.7%	-14.4%
MSCI AC World (Local)	585.85	2.37%	-3.3%	-8.4%	1.0%	-12.2%	-17.3%
MSCI Emerging Markets (Local)	932.08	3.40%	-2.6%	-5.1%	-2.0%	-17.1%	-16.4%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	629.97	-3.7%	-6.0%	-16.6%	-16.7%	19.1%	12.3%
WTI Crude (\$/bbl)	82.94	-6.7%	-11.3%	-24.9%	-26.0%	17.6%	10.1%
Copper (\$/lb)	3.51	-0.9%	-4.7%	-13.1%	-25.3%	-14.9%	-21.2%
Gold (\$/oz)	1,671.75	-1.9%	-4.5%	-9.2%	-13.6%	-5.8%	-7.4%
VIX Index	27.99	7.0%	35.9%	-3.3%	29.2%	14.9%	62.5%
U.S. Dollar Index	110.64	0.9%	2.3%	5.9%	12.3%	18.7%	15.3%
Euro (USD/EUR)	0.99	-1.2%	-1.6%	-6.5%	-10.6%	-15.7%	-13.1%
British Pound (USD/GBP)	1.13	-2.1%	-4.0%	-7.8%	-14.2%	-16.9%	-16.3%
Japanese Yen (Yen/USD)	144.13	1.1%	5.1%	5.9%	21.0%	32.0%	25.2%
Chinese Yuan (CNY/USD)	7.05	1.3%	3.6%	5.3%	10.9%	9.3%	10.7%

Source: FactSet and Bloomberg. As of September 22, 2022.

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