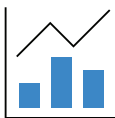




Economic Update

Dr. David Kelly, CFA | Chief Global Strategist for J.P. Morgan Asset Management

This weekly update provides a snapshot of changes in the economy and markets and their implications for investors.



Growth

2Q22 Real GDP showed the economy contracted at a 0.6% annual rate in 2Q22, following a decline of 1.6% in 1Q22. Weakness was widespread with declines in both residential and non-residential construction, capital spending on equipment, inventory rebuilding and government spending at both the federal and state and local levels. This was only partly offset by modest gains in consumer spending and an improvement in trade. With massive fiscal drag, a higher dollar and higher mortgage rates, GDP growth is likely to continue to be very soft for the rest of the year. So far in 3Q22, August and September manufacturing and services PMIs have confirmed broad-based weakening in the economy.



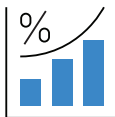
Jobs

The September Jobs report showed the economy continues to make progress in easing labor market tightness. The recent pace of job growth remains solid at 263K but has moderated, and wage growth continues to run at a more modest pace of 0.3% m/m. Private sector job gains were broad-based with the greatest strength in leisure and hospitality and health care. The unemployment rate fell back down to 3.5%. In combination with job openings falling, continued progress on job gains, particularly in the sectors with the greatest demand, is a welcome signal for investors that a more balanced labor market could put a lid on inflationary pressures and the Fed's hawkish trajectory.



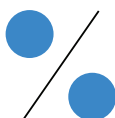
Profits

The 3Q22 earnings season has kicked off with 21.7% of market cap having reported. Our current estimate for 3Q22 S&P 500 operating earnings per share (EPS) is \$53.72 (\$45.96 ex-financials), representing year-over-year (y/y) growth of 3.3%. So far, 51% of companies have beat earnings expectations and 48% have beat revenue expectations. Strong estimates are supported by higher energy prices, a resumption of travel and better-than-expected consumer spending and industrial production data. However, the surge in the dollar, deteriorating conditions in Europe and China and softening consumer demand amidst high inflation also pose headwinds and could push earnings to come in below expectations.



Inflation

Hot inflation is beginning to cool down but continues to surprise expectations to the upside. The headline PCE price index rose 0.3% m/m and +6.2% y/y in August. The core PCE deflator also rose +0.6% m/m and +4.9% y/y. After a string of upside surprises, the September CPI report came in hotter-than-expected. Headline CPI rose 0.4% m/m while core CPI jumped 0.6% m/m. With this report, headline CPI inflation eased slightly to 8.2% y/y in September from 8.3% y/y in August. While energy prices continued to decline, other areas of inflation, such as food prices, services inflation and owners' equivalent rent, still remain hot.



Rates

Persistent inflationary pressures have pushed the Fed to accelerate its rate hiking trajectory. At its September meeting, the FOMC announced another 0.75% increase in the federal funds rate to a range of 3.00%-3.25%. In its updated dot plot, the committee expects to lift rates to 4-5% next year and doesn't expect to begin lowering rates until 2025. The tone of the committee remains hawkish with a focus on taming inflation that runs well above its 2% target. Strong job growth and persistent excess demand for labor suggest a soft landing is still possible. However, aggressive Fed tightening keeps the probability of recession sometime next year elevated.



Risks

- The Fed could push the economy into recession if it overtightens policy in response to supply-driven inflation.
- Heightened geopolitical tensions with Russia could result in continued energy shortages, low consumer confidence and dampened growth.
- Markets may remain depressed and volatile until investors receive clarity on inflation and the Fed.



Investment Themes

- After this year's sell-off, fixed income now offers more protection against a market correction or economic downturn.
- U.S. equity investors may use profits as a guide in a rising rate environment.
- Long-term growth prospects, a falling dollar and wide valuation discounts support international equities.

● Denotes updated information



Data are as of October 24, 2022

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