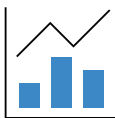




Economic Update

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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 manufacturing and services PMIs have confirmed broad-based weakening in the economy, with both indicators decreasing relative to July.



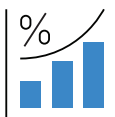
Jobs

The August Jobs report was a very positive one for the economy, with continued momentum in employment gains, a healthy increase in the labor force and relatively mild increases in wages. Nonfarm payrolls rose by a solid 315K, bringing total employment further above pre-pandemic highs. Notably, 786K people re-entered the workforce, leading the unemployment rate to nudge up to 3.7% and the prime-age labor force participation rate to jump to 82.8%. Greater labor market slack allowed for a cooling in wages, rising at a moderate pace of 0.3% in August. Combined with falling gasoline prices, this report increases the odds that the economy could gradually return to milder inflation without falling into recession.



Profits

The 2Q22 earnings season is coming to a close with 476 companies having reported (95.3% of market cap). Our current estimate for 2Q22 is \$47.22. 70% of companies have beaten on earnings expectations and 63% have beaten on revenue expectations. Revenue beats are tracking above their long-run average, while earnings beats are tracking below. In a similar vein, revenue surprises have been larger than average, while earnings surprises have been below average. Record inflation, continued supply constraints and a stronger dollar were among the key headwinds for profitability in 2Q22.



Inflation

Hot inflation is beginning to cool down with the headline PCE price index falling -0.1% m/m, though still up +6.3% y/y, in July. The core PCE deflator modestly rose +0.1% m/m and +4.6% y/y. The August CPI report was hotter than expected. Headline CPI rose a modest 0.1% m/m while core CPI jumped 0.6% m/m, double expectations. With this report, headline CPI inflation fell from 8.5% y/y in July to 8.3% in August. While declines in energy prices drove the moderation in headline inflation, other areas of inflation, such as food prices, core goods and 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 September 26, 2022

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