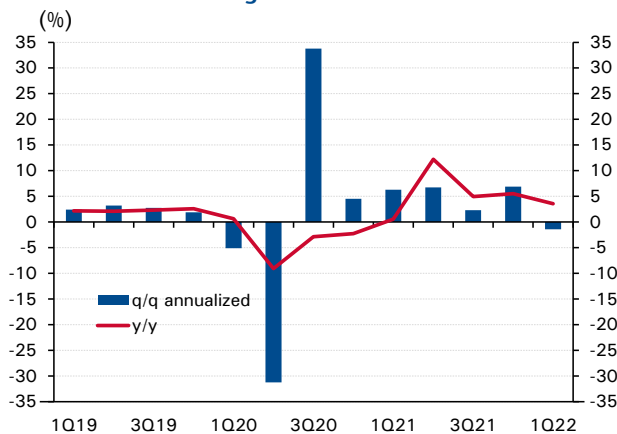


Fed remains aggressively hawkish while risk of stagflation is rising

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- 1Q22 GDP contracted by an annualized 1.5% q/q, more than the initial estimate of 1.4%, on a weaker trade balance.
- The unemployment rate was unchanged at 3.6% in May, its lowest level since February 2020.
- Wage growth eased for the second consecutive month to a still-elevated 5.2% y/y in May from 5.5% in April.
- The 10-year UST yield touched 3.5% in mid-June on high inflation and rate hikes, the highest since 2011.
- Inflation accelerated to 8.6% y/y in May—the highest its been since December 1981—on broad price increases.
- Existing home sales fell 3.4% m/m in May to a 23-month low, amid rising mortgage rates and prices.
- The futures market expects the Fed policy rate to increase by a further 175-200 bps by year-end.
- Despite a relief rally in recent weeks, the S&P 500 fell 5.3% in the month to June 26 as recession fears lingered.

▶ Chart 1: Real GDP growth



1Q22 GDP contracted by an annualized 1.5% q/q, slightly more than the initial estimate of 1.4%, on a weaker trade balance.

Source: Refinitiv

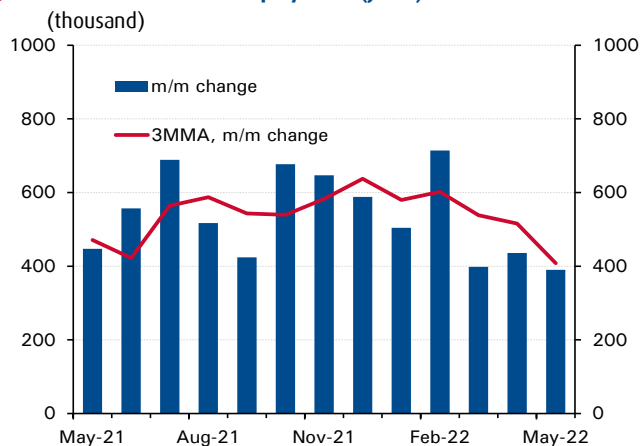
▶ Chart 2: Unemployment rate



The unemployment rate was 3.6% in May, unchanged for three months, and the lowest since February 2020.

Source: Refinitiv

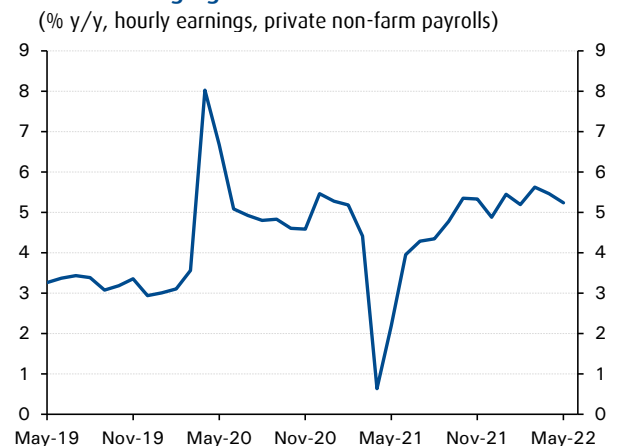
▶ Chart 3: Non-farm payrolls (jobs)



Non-farm jobs beat forecasts for May to rise by 390k, leaving employment just 0.5% (822k) below its pre-pandemic level.

Source: Refinitiv

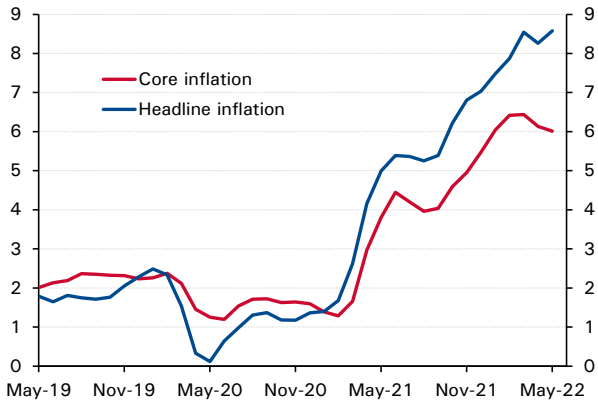
▶ Chart 4: Wage growth



Wage growth eased for the second month in a row in May to a still-high 5.2% y/y amid continued labor market tightness.

Source: Refinitiv

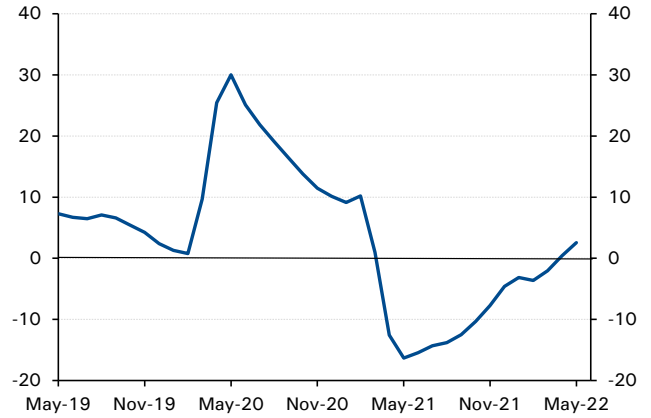
Chart 5: Consumer price inflation
(% y/y, CPI-U: All items)



Inflation accelerated to a higher than expected 8.6% in May, the highest since December 1981, on broad price increases.

Source: Refinitiv

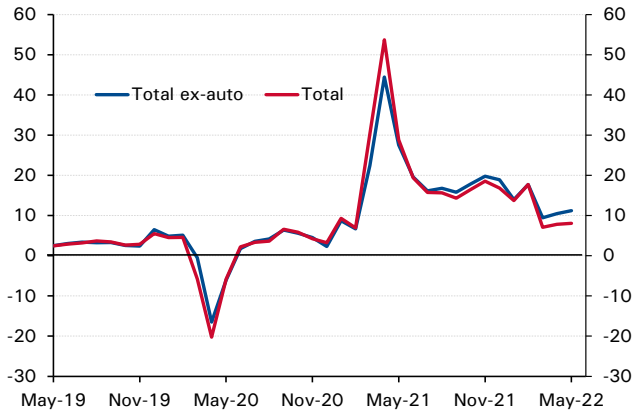
Chart 6: Commercial and industrial loans
(% y/y)



Annual loan growth accelerated for the second month in a row in May, to 2.6% y/y, the fastest rate since Feb 2021.

Source: Refinitiv

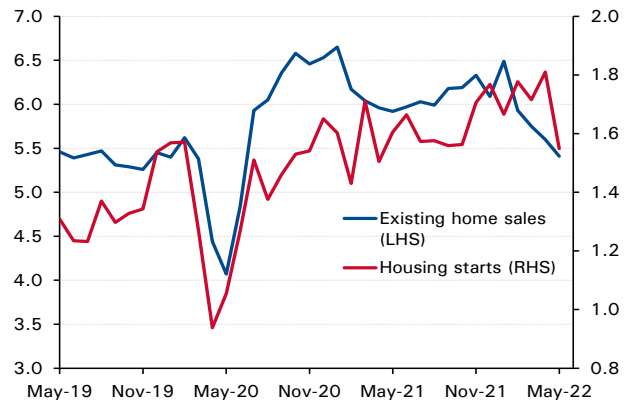
Chart 7: Retail sales
(% y/y)



Retail sales growth (ex-autos) edged up to a still-strong 11.2% y/y in May (10.5% in April) despite high inflation.

Source: Refinitiv

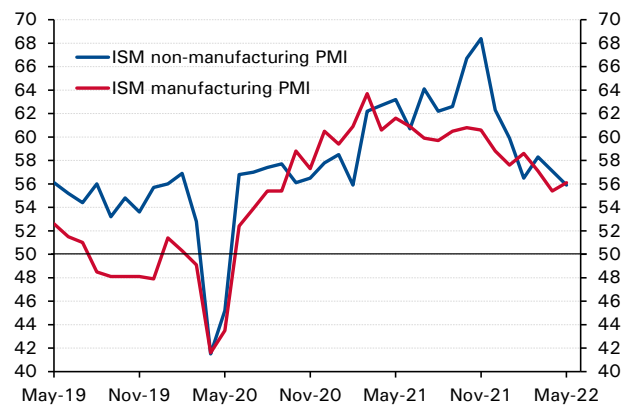
Chart 8: Existing home sales and housing starts
(million units)



Existing home sales fell 3.4% m/m in May to a 23-month low of 5.4 mn. units (annualized), amid higher mortgage rates/prices.

Source: Refinitiv

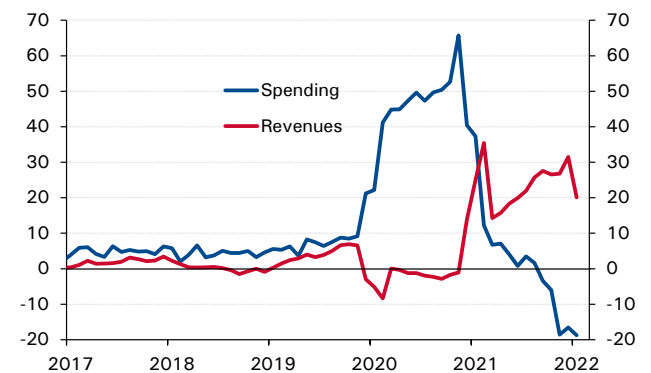
Chart 9: Business activity surveys
(index)



The ISM manufacturing index edged up to 56.1 in May on faster increases in new orders, production and inventories.

Source: Refinitiv

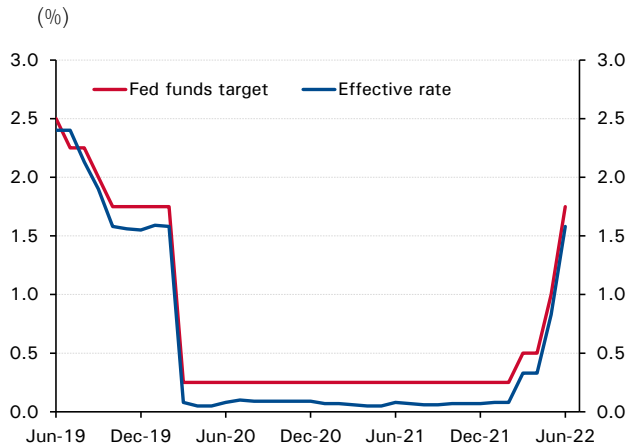
Chart 10: US government spending and revenues
(% y/y, 12-month cumulative total)



As expected, the 12-month fiscal deficit eased further to \$1.1trn in May as revenues continued to exceed expenditures.

Source: Refinitiv

▶ **Chart 11: Policy interest rates**



The Fed in June, as expected, raised its policy rate for a third time, by 75 bps to a target range of 1.50-1.75%...

Source: Refinitiv

▶ **Chart 12: Government bond yields**

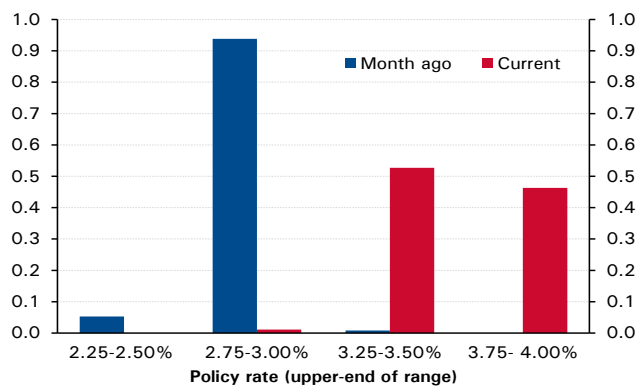


...pushing the 10-yr UST yield to 3.5%, its highest since 2011, before easing to around 3.2% on recession worries.

Source: Refinitiv

▶ **Chart 13: Fed policy action outlook for Dec. 2022**

(futures market probability, as of 26 June 2022)

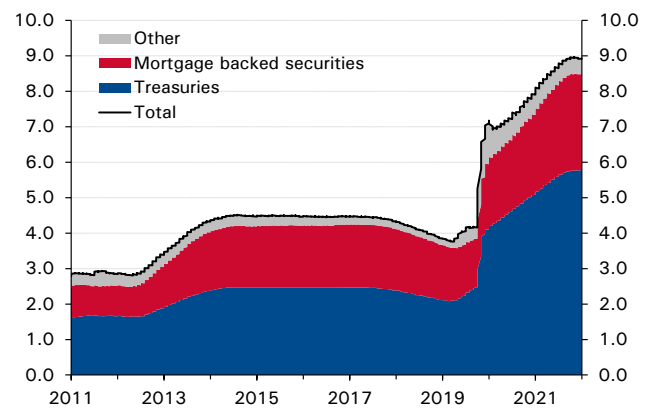


Futures markets probabilities of the Fed policy rate reaching 3.25%-4.00% by year-end have risen sharply since last month.

Source: CME Group

▶ **Chart 14: Fed balance sheet size and composition**

(total assets, \$ trillion)



The Fed's balance sheet was little changed at \$8.9trn as of mid-June, but is expected to shrink on quantitative tightening.

Source: Refinitiv

▶ **Chart 15: Stock market**

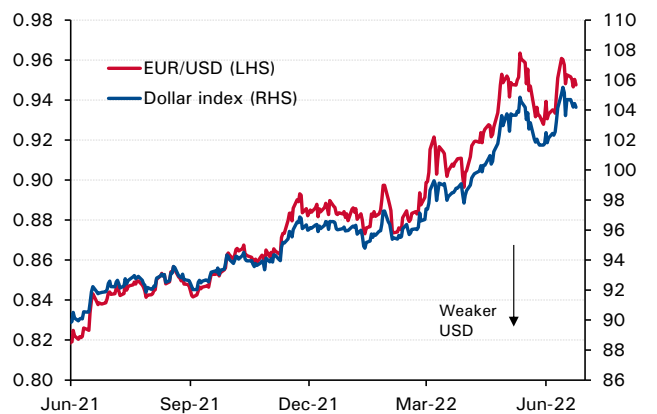
(S&P 500)



The S&P 500 continued to trend downwards in June (-5.3% mtd as of 24 June; -17.9% ytd), despite a relief rally in recent weeks.

Source: Refinitiv

▶ **Chart 16: Exchange rates**



The USD index strengthened to a 20-year high in June on higher interest rates and increased safe-haven demand.

Source: Refinitiv

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