



## TheECONOMY

### Economic Tug of War

The U.S. economy contracted by 0.6% in Q2, marking a second consecutive quarter of economic decline. As evidenced by a notable slowdown in consumer spending and investment, the GDP report underscores the challenges facing U.S. households and businesses as a result of elevated inflation, a cooling housing market and weakening sentiment. However, July's robust jobs report supports a still red-hot labor market, paving the way for a continued path of aggressive Fed tightening as the central bank maintains its commitment to combating inflation.

Driven primarily by the decline in oil prices since the recent highs of early June, headline inflation, as measured by the consumer-price index (CPI) year-over-year, declined to 8.5% in July, down from a cycle peak of 9.1% the prior month. While last month's slowdown in inflation is a welcome development for the Fed, FOMC members have repeatedly warned it is still far too soon to "declare victory" in the fight against inflation, throwing cold water on the possibility of a pivot towards looser policy between now and year-end. Core prices, which strips out the more volatile components of inflation such as food and energy, increased 0.3% month-over-month and 5.9% over the last 12 months. Average hourly earnings continues to lag core price appreciation resulting in negative inflation adjusted wages.

Last month's labor report in many ways defied expectations of a slowing economy with employers adding 528k jobs in July, officially recouping the full 22 million positions lost in the early months of 2020. FOMC members will get one more look at the inflation number before their next meeting in September. While another subsequent decline in price appreciation leaves the door open to a 50-bps increase in the Federal Funds Target Rate next month, an additional 75-bps hike remains on the table as the accelerated growth in jobs and wages could sustain stronger spending, ultimately keeping prices persistently elevated in the short run.

### Treasury Yields

MATURITY	8/22/22	7/22/22	CHANGE
3 Month	2.683%	2.479%	0.204%
6 Month	3.155%	2.902%	0.253%
1 -Year	3.272%	2.957%	0.315%
2 -Year	3.310%	2.970%	0.340%
3 -Year	3.350%	2.914%	0.436%
5 -Year	3.158%	2.843%	0.315%
10 -Year	3.015%	2.750%	0.264%
30 -Year	3.226%	2.972%	0.254%

Source: Bloomberg

### Agency Yields

MATURITY	8/22/22	7/22/22	CHANGE
3 Month	3.030%	2.808%	0.222%
6 Month	3.146%	2.910%	0.236%
1 -Year	3.338%	3.045%	0.294%
2 -Year	3.391%	3.040%	0.351%
3 -Year	3.378%	3.019%	0.359%
5 -Year	3.305%	3.002%	0.303%

Source: Bloomberg

### Commercial Paper Yields (A-1/P-1)

MATURITY	8/22/22	7/22/22	CHANGE
1-Month	2.380%	2.190%	0.190%
3-Month	2.910%	2.720%	0.190%
6-Month	3.490%	3.300%	0.190%
9-Month	3.740%	3.550%	0.190%

Source: Bloomberg

### Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q2 '22	-0.60%
US Unemployment	Jul '22	3.50%
ISM Manufacturing	Jul '22	52.8
PPI YoY	Jul '22	15.50%
CPI YoY	Jul '22	8.50%
Fed Funds Target	Aug 23, 2022	2.25% - 2.50%

Source: Bloomberg