
August 12, 2022

Commentary

Weekly Economic Perspectives

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Modest increase in US retail sales. UK unemployment rate likely steady. Japan's economy likely rebounded in Q2.

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The Economy

A quiet data week dominated by downside inflation surprises in the US.

US

Well, it was bound to happen eventually. After seemingly endless upside **inflation** surprises, we finally got a good miss to the downside in both headline and, most importantly, in core CPI in July. Overall prices were flat during the month and this was in spite of another big (+1.1%) increase in food prices. Unlike in the prior two months, energy provided a lot of relief, down 4.6% during the month; gasoline prices declined 7.7%, unwinding a majority of June's surge. Most importantly, services inflation moderated markedly to 0.3% m/m, a far cry from increases ranging from 0.7% to 0.9% in the prior four months. Even excluding energy services, the monthly gain of 0.4% marked a noticeable deceleration from recent months. Shelter costs increased 0.5% with owner equivalent rent (OER) of primary residences up 0.6%. Both were a tenth slower than in June, however. Medical care costs rose 0.4%, decelerating after an unusually large increase in June. Elsewhere, after exploding higher earlier this year, airfares retreated 7.8% in July; high frequency data suggest further relief might come in August. Used car prices declined 0.4% but new car prices rose 0.6%; the latter seem poised for further gains given recently announced price increases for some new models. The headline inflation rate moderated six tenths to 8.5% and the core inflation rate was steady at 5.9%. Both remain far above acceptable levels so the Fed is poised to raise interest rates further. But this report supports our view that a powerful disinflationary episode lies ahead for the US economy and that the Fed should tip-toe, rather than rush headlong into further tightening from here on.

The producer price data also brought some relief. Overall **producer prices** declined 0.5% in July, the first retreat since April 2020. Unsurprisingly, energy played a huge role here, down 9.0% for the month. Food prices jumped 1.0%, however. Even so, overall goods prices declined 1.8% m/m; core goods prices increased 0.2%, the least since October 2020. Services prices posted a tiny 0.1% increase. All this allowed headline PPI inflation to moderate 1.5 percentage points (ppts) to 9.8%, core PPI to moderate 0.8 ppts to 7.6%, and the alternative core measure (excluding food, energy, and trade services) to moderate 0.6 ppts to 5.8% y/y.

Import prices made it a trifecta for downside surprises in inflation metrics this week. The 1.4% monthly decline in import prices was the first since December and the largest since April of 2020. It allowed import price inflation to moderate 1.9 percentage points (ppts) to 8.8%, the lowest level since March of 2021. Petroleum price plunged 6.8%, more than unwinding June's gain, but there was also a notable 4.7% drop in industrial supplies, the first in a long while. Foods and beverage prices declined 0.9%, the third modest retreat in a row, which is a little reassuring in light of persistent upward food pressures in the PPI and CPI. As we noted last month, China is no longer exporting inflation: import prices from China were flat in July, having declined in each of the two previous months. Import prices from China were 2.8% higher y/y; back in March they were 4.9% higher y/y.

There was some good news in this week's **NFIB small business optimism** index that went beyond the tiny 0.4-point improvement in the headline, notable as that itself was, being the first since December. But even more encouraging to us was the broadening evidence that pipeline inflationary pressures are easing. Both the actual prices charged and price plans metrics retreated noticeably, especially the latter. Meanwhile, actual compensation was unchanged but planned compensation eased

back to the May 2022 level, which in turn had been the lowest since May 2021. In conjunction with an incremental decline in the share of firms reporting openings that are hard to fill, this may portend a slowdown in wage inflation ahead. The less encouraging aspects of the report had to do with profitability and sales expectations, both of which deteriorated to the lowest levels since July and April 2020, respectively.

Figure 1: Disinflationary Episode Building In The US Economy



Sources: Macrobond, SSGA Economics, NFIB, BLS

Not only small businesses but consumers, too, are breathing a small sigh of relief at the incipient signs of easing inflationary pressures. The **Michigan consumer confidence index** improved a larger than expected 3.6 points to 55.1, according to the preliminary August reading. The details were mixed, with the current situation metric unwinding about half of July’s gain but expectations up 7.6 points to a four-month high. The inflation expectations data was mixed. Short term (1-year) inflation expectations also moderated, down one tenth to a five-month low of 5.2%. Long-term (5-10 year) expectations ticked up a tenth to 3.0%, where they spent eight of the past twelve months. We suspect food prices, not just gasoline prices, will need to come down a little before we might see more persistent moderation in inflation expectations.

Nonfarm business productivity has swung around wildly during Covid, reflecting the massive shifts in GDP growth from one quarter to the next. No single data print can therefore be looked at in isolation, nor should it be seen as portending a new trend. And so, while the 4.6% q/q decline in productivity during the second quarter, coming on the heels of an even worse performance in Q1, is worrisome...but should also be put into context. For instance, although this marked the worst back to back performance since the 1940’s, productivity growth averaged 1.5% y/y during the Covid period (Q2 2020 to Q2 2022). In the three years prior (Q1 2017 to Q1 2020) it averaged...1.5%! The data certainly bears close watching and, if maintained, the implications of a downward shift in productivity would indeed be inflationary, but it might be too soon to draw lasting conclusions based on this year’s data.

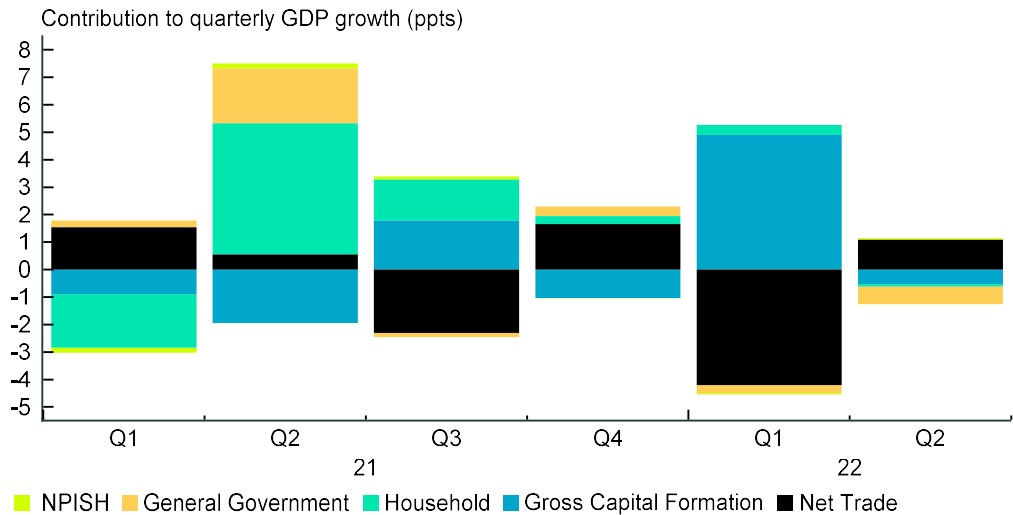
Canada

No major data releases.

UK

Real GDP contracted 0.1% in the second quarter, a bit less severe than expected. However, the details were quite disappointing as final demand was weak. Government consumption fell for the second consecutive quarter, down 2.9% q/q, and was the largest detractor from quarterly growth (-0.64 percentage points). This reflected large declines in Covid-19 health expenditures. Household consumption declined 0.2%, the first retreat since early 2021, on lower spending on tourism, clothing and footwear, food and non-alcoholic beverages, and restaurants and hotels. Net trade added 1.08 percentage points to the overall performance as exports recovered a little while imports retreated from the first-quarter surge. Notably, while overall exports rose 2.4%, services exports declined 0.6%. Meanwhile, business investment was up 3.8% q/q, contributing 0.33 percentage points to the growth. Concerningly, inventories spiked again. All and all, the data suggest some downside risks to our 3.8% full-year 2022 GDP growth forecast from June.

Figure 2: UK Economy Inching Closer To Recession



Sources: SSGA Economics, ONS

Industrial production declined 0.9% in June, a little better than expected; the May gain was revised up to 1.3%. The June weakness was led by manufacturing (-1.6%) and mining/quarrying (-1.8%). In contrast, electricity and gas increased by 3.1%, and water supply and sewerage by 0.5%. Output was 1.0% below its February 2020 level.

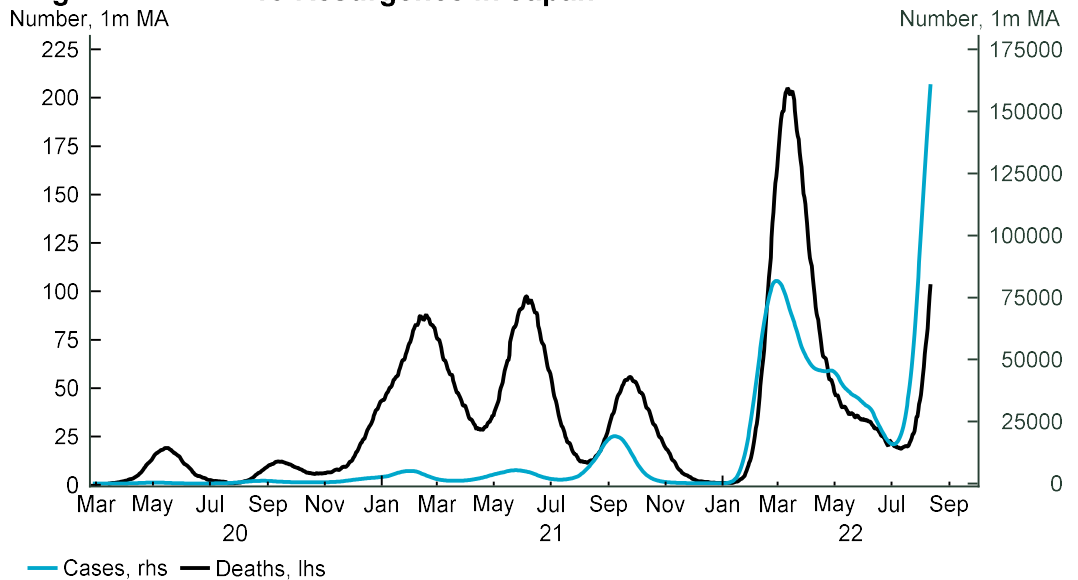
Eurozone

It was a light data week in the eurozone, with final prints on **consumer price inflation** for **Germany** and **France** confirming the preliminary estimates at 7.5% and 6.1%, respectively. The most important (and positive) update was on **eurozone June industrial production**. Not only did output increase a much better than expected 0.7% in June, but May's growth was revised sharply to 2.1%.

Japan

Just when the yen is gathering a little strength, Japan's rising Covid cases are adding a new headwind for the currency. Weekly cases climbed to a record 1.49 million up 11% from the week before. The mood is captured in the **Eco Watchers Survey** whose index of current conditions dropped to 43.8 from 52.9 for the survey taken between July 25-31. Expectations had been for only a minimal retreat.

Figure 3: Covid-19 Resurgence In Japan



Sources: SSGA Economics, Our World in Data

Producer price inflation cooled to 8.6% in July, slightly less than expected, as the June figure was revised up by two tenths to 9.4%. Electricity prices came in higher while oil and metals prices declined. However, the terms of trade problem persisted with import prices up 0.8% against a 0.4% decline in export prices (local currency basis). The combination suggests a profit squeeze for exporters.

Another source of profit pressures is the minimum wage increase, delivered on August 1; the government adopted the recommendations on minimum wage of 961 yen (\$7.2). All the 47 prefectures will formalize this in the next two-three months. It remains to be seen whether this will have a negative impact on employment or whether labor demand is strong enough to avoid that. Next week's second quarter GDP update will offer some clues on the question. Unfortunately, while consensus expectations are for a decent 2.8% q/q saar advance, we see some downside risks not only to this number, but more so to the sustainability of the rebound.

Australia

Australian consumer sentiment has now fallen 9 straight months to a post-pandemic low; the **Westpac consumer confidence index** fell to 81.2 in August from a peak of 112.04 in December 2020. Declines have become more precipitous with the shift towards tightening by the RBA.

Conversely, the **NAB business confidence** rose to 7 in July from 1 previously as firms reported strong sales and profits on the back of a strong consumer and labor market. The difference between the two is telling as firms are optimistic on strong sales while the consumer faces the heat of high inflation and increasing loan payments. This raises a possibility that business confidence may not be sustained at these levels going forward.

In a positive development, the **Melbourne Institute's consumer inflation expectations** fell in August to 5.9% from 6.3% in July and 6.7% in June. This is a 30% trimmed mean number and is substantially higher from a year ago when Australians expected 3.3% annual inflation. Also, the wage expectations fell notably strongly to 0.8% and hence there is no evidence of a building wage-price spiral.

Week in Review (August 8– August 12)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, August 08					
No major data releases					
Tuesday, August 09					
US	NFIB Small Business Optimism (Jul)	89.5	89.9	89.5	First improvement since December.
US	Nonfarm Productivity (Q2, prelim)	-4.6%	-4.6%	-7.4% (↓)	Terrible, but not the new "trend"!
AU	NAB Business Confidence (Jul)	n/a	7	2 (↑)	Can this resilience last?
AU	Westpac Consumer Conf Index (Aug)	n/a	81.2	83.8	Steady retreat.
Wednesday, August 10					
US	CPI (Jul, y/y)	8.7%	8.5%	9.1%	Finally, some relief. Core unchanged at 5.9%.
US	Real Avg Weekly Earnings (Jul, y/y)	n/a	-3.6%	-4.4%	Still a lot of pain.
US	Monthly Budget Statement (Jul, \$bn)	-175.0	-211.1	-302.1	Much improved YTD compared with last year.
GE	CPI (Jul, y/y, final)	7.5%	7.5%	7.6%	Not much relief.
JN	PPI (Jul, y/y, final)	8.4%	8.6%	9.4% (↑)	Risen lower than past month.
Thursday, August 11					
US	PPI (Jul, y/y)	10.4%	9.8%	11.3%	We'll take any improvement!
US	Initial Jobless Claims (06 Aug, thous)	265	262	248 (↓)	Inching higher.
US	Continuing Claims (30 Jul, thous)	1,420	1,428	1,420 (↑)	Inching higher.
AU	Consumer Inflation Expectations (Aug)	n/a	5.9%	6.3%	But still far higher than a year ago.
Friday, August 12					
US	U. of Mich. Sentiment (Aug, prelim)	52.5	55.1	51.5	Expectations jumped.
UK	GDP (Q2, q/q, prelim)	-0.2%	-0.1%	0.8%	Sliding into recession.
UK	Industrial Production (Jun, m/m)	-1.4%	-0.9%	1.3% (↑)	Weakening.
EC	Industrial Production (Jun, m/m)	0.2%	0.7%	2.1% (↑)	Good news; big upward revision.
FR	Unemployment Rate (Q2)	7.1%	7.2%	7.1%	Will likely get worse.
FR	CPI (Jul, y/y, final)	6.1%	6.1%	5.8%	Yet to peak.

Source: for data, Bloomberg®; for commentary, SSGA Economics.

Week In Preview (August 15– August 19)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, August 15				
US	Empire Manufacturing (Aug)	5	11.1	
US	NAHB Housing Market Index (Aug)	55	55	
CA	Manufacturing Sales (Jun, m/m)	n/a	-2.0%	
CA	Existing Home Sales (Jul, m/m)	n/a	-5.6%	Weakening.
JN	GDP (q/q, Q2, prelim)	0.7%	-0.1%	
JN	Industrial Production (Jun, m/m, final)	8.9%(p)	-7.5%	
Tuesday, August 16				
US	Housing Starts (Jul, thous, saar)	1,540	1,559	
US	Building Permits (Jul, thous, saar)	1,650	1,685	
US	Industrial Production (Jul, m/m)	0.3%	-0.2%	
CA	Housing Starts (Jul, thous)	n/a	273.8	Weakening.
CA	CPI (Jul, y/y)	n/a	8.1%	Remaining elevated.
UK	Average Weekly Earnings (Jun, 3m)	5.0%	6.2%	Expect to see some moderation.
UK	ILO Unemployment Rate (Jun, 3m)	3.8%	3.8%	Remaining at record low.
GE	ZEW Survey Expectations (Aug)	-60.0	-53.8	
JN	Tertiary Industry Index (Jun, m/m)	0.4%	0.8%	
Wednesday, August 17				
US	Retail Sales Advance (Jul, m/m)	0.2%	1.0%	
US	Business Inventories (Jun)	1.4%	1.4%	
UK	CPI (Jul, y/y)	9.8%	9.4%	Continuing to escalate.
EC	GDP (q/q, Q2, prelim)	0.7%	0.5%	
JN	Core Machine Orders (Jun, m/m)	1.3%	-5.6%	
AU	Wage Price Index (Q2, y/y)	2.7%	2.4%	
Thursday, August 18				
US	Philly Fed Business Outlook (Aug)	-5	-12.3	
US	Initial Jobless Claims (13 Aug, thous)	n/a	262	
US	Continuing Claims (06 Aug, thous)	n/a	1,428	
US	Existing Home Sales (Jul, m/m)	-5.3%	-5.4%	
US	Leading Index (Jul, m/m)	-0.5%	-0.8%	
CA	Teranet/National Bank HPI (Jul, y/y)	n/a	16.7%	Moderating.
EC	CPI (Jul, y/y, final)	8.9% (p)	8.6%	
AU	Unemployment Rate (Jul)	3.5%	3.5%	
Friday, August 19				
CA	Retail Sales (Jun, m/m)	n/a	2.2%	Weakening.
UK	GfK Consumer Confidence (Aug)	-42	-41	Weak.
UK	Retail Sales Incl Auto Fuel (Jul, m/m)	-0.2%	-0.1%	Weak.
JN	CPI (Jul, y/y)	2.6%	2.4%	

Source: for data, Bloomberg®; for commentary, SSGA Economics.

Economic Indicators

Central Bank Policy Targets

Region	Target	Year/Year % Change in Target				
		Feb	Mar	Apr	May	Jun
US	Target: PCE price index 2.0% y/y	6.3	6.6	6.3	6.3	6.8
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	5.7	6.7	6.8	7.7	8.1
UK	Target: CPI 2.0% y/y	6.2	7.0	9.0	9.1	9.4
Eurozone	Target: CPI below but close to 2.0% y/y	5.9	7.4	7.4	8.1	8.6
Japan	Target: CPI 2.0% y/y	0.9	1.2	2.5	2.5	2.4
Australia	Target Range: CPI 2.0%-3.0% y/y	5.1	5.1	6.1	6.1	6.1

Source: Macrobond

Key Interest Rates

	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
US (top of target range)	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	1.00	1.75	2.50
Canada (Overnight Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.00	1.50	2.50
UK (Bank Rate)	0.10	0.10	0.10	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.25
Eurozone (Refi)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50
Japan (OCR)	-0.05	-0.03	-0.05	-0.02	-0.02	-0.01	-0.02	-0.02	-0.03	-0.04	-0.01
Australia (OCR)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.33	0.73	1.28

Source: Macrobond

General Government Structural Balance as a % of Potential GDP

										Forecast	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
US	-2.7	-2.5	-3.5	-4.2	-5.2	-6.1	-10.4	-8.0	-5.3	-4.6	
Canada	-0.6	0.0	0.1	-0.3	0.0	-0.2	-8.6	-3.6	-2.3	-1.3	
UK	-3.9	-3.6	-2.8	-2.3	-2.4	-2.7	0.5	-3.2	-4.4	-2.0	
Eurozone	-0.7	-0.6	-0.5	-0.5	-0.3	-0.5	-4.5	-4.0	-3.5	-2.3	
Germany	1.2	1.2	1.2	1.1	1.6	1.3	-3.1	-2.6	-2.0	-0.5	
France	-2.5	-2.1	-2.0	-1.9	-1.5	-2.1	-5.9	-5.9	-5.3	-3.4	
Italy	-1.0	-0.6	-1.3	-1.6	-1.7	-1.0	-6.0	-4.6	-5.2	-3.7	
Japan	-5.4	-4.2	-4.1	-3.3	-2.5	-2.5	-8.1	-6.9	-7.3	-3.3	
Australia	-2.8	-2.6	-2.3	-1.6	-1.2	-4.1	-7.8	-7.7	-5.4	-3.6	

Source: International Monetary Fund, World Economic Outlook

Headline Consumer and Producer Price Inflation

	CPI Year/Year % Change						PPI Year/Year % Change				
	Mar	Apr	May	Jun	Jul		Mar	Apr	May	Jun	Jul
	US	8.5	8.3	8.6	9.1		8.5	11.7	11.2	11.1	11.3
Canada	6.7	6.8	7.7	8.1		18.1	17.0	15.7	14.3		
UK	7.0	9.0	9.1	9.4		12.1	14.8	15.7	16.5		
Eurozone	7.4	7.4	8.1	8.6		36.9	37.3	36.2	35.8		
Germany	7.3	7.4	7.9	7.6	7.5	30.9	33.5	33.6	32.7		
France	4.5	4.8	5.2	5.8	6.1	24.8	25.1	24.9	25.0		
Italy	6.5	6.0	6.8	8.0	7.9	36.9	35.3	34.6	34.1		
Japan	1.2	2.5	2.5	2.4		9.3	10.0	9.3	9.4	8.6	
Australia	5.1	6.1	6.1	6.1		4.9	5.6	5.6	5.6		

Source: Macrobond

Economic Indicators

Real GDP Growth (Q/Q Seasonally Adjusted)

	Quarter/Quarter % Change					Year/Year % Change				
	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22
US	1.6	0.6	1.7	-0.4	-0.2	12.2	4.9	5.5	3.5	1.6
Canada	-0.8	1.3	1.6	0.8		11.7	3.8	3.2	2.9	
UK	5.6	0.9	1.3	0.8	-0.1	24.5	6.9	6.6	8.7	2.9
Eurozone	2.1	2.3	0.4	0.5	0.7	14.6	3.9	4.8	5.4	4.0
Germany	2.0	0.7	0.0	0.8	0.0	10.2	1.8	1.2	3.6	1.5
France	1.0	3.3	0.6	-0.2	0.5	18.6	3.6	5.1	4.8	4.2
Italy	2.6	2.7	0.7	0.1	1.0	17.5	4.0	6.4	6.2	4.6
Japan	0.6	-0.8	1.0	-0.1		7.4	1.2	0.4	0.7	
Australia	0.8	-1.8	3.6	0.8		9.7	4.1	4.4	3.3	

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)

	Month/Month % Change					Year/Year % Change				
	Feb	Mar	Apr	May	Jun	Feb	Mar	Apr	May	Jun
US	0.8	0.7	0.8	0.0	-0.2	7.0	4.9	5.6	4.8	4.2
Canada	0.9	1.2	1.6	-0.8		3.7	4.1	7.5	6.8	
UK	-0.5	0.3	-0.1	1.3	-0.9	1.9	1.0	1.6	1.9	2.3
Germany	0.4	-4.2	1.3	-0.1	0.4	2.8	-4.5	-2.5	-1.7	-0.4
France	-1.2	-0.4	-0.3	0.2	1.4	2.1	-0.1	-0.6	-0.3	1.4
Italy	3.9	0.1	1.3	-1.1	-2.1	3.3	3.1	3.4	3.4	-1.0
Japan	2.0	0.3	-1.5	-7.5	8.9	0.5	-0.8	-3.4	-4.7	-3.1

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
US	4.7	4.6	4.2	3.9	4.0	3.8	3.6	3.6	3.6	3.6	3.5
Canada	7.0	6.8	6.1	6.0	6.5	5.5	5.3	5.2	5.1	4.9	4.9
UK	4.2	4.1	4.0	4.0	3.8	3.7	3.8	3.8			
Eurozone	7.3	7.3	7.1	7.0	6.9	6.8	6.7	6.6	6.6	6.6	
Germany	5.4	5.4	5.3	5.2	5.1	5.1	5.0	5.0	5.0	5.3	5.4
France	7.6	7.5	7.4	7.4	7.3	7.3	7.3	7.2	7.2	7.2	
Italy	9.1	9.2	9.0	8.9	8.7	8.5	8.3	8.3	8.2	8.1	
Japan	2.8	2.7	2.8	2.7	2.8	2.7	2.6	2.5	2.6	2.6	
Australia	4.7	5.2	4.6	4.2	4.2	4.0	3.9	3.9	3.9	3.5	

Source: Macrobond

Current Account Balance as a % of GDP (Seasonally Adjusted)

	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22
US	-1.9	-2.0	-3.1	-3.2	-3.5	-3.4	-3.6	-3.9	-3.7	-4.8	
Canada	-1.6	-3.2	-1.1	-2.0	-0.8	0.1	-0.1	0.2	0.0	0.7	
UK	0.5	-2.2	-1.4	-1.4	-4.8	-2.2	-2.0	-4.9	-1.2	-8.3	
Eurozone	1.5	0.6	1.3	2.5	3.4	4.0	3.3	2.5	0.9	0.8	
Germany	7.4	6.7	5.2	7.3	8.2	8.8	7.8	7.0	6.4	5.1	3.3
France	0.5	-1.3	-3.7	-2.0	-0.4	0.7	0.7	0.4	-0.3	-0.2	-1.3
Japan	4.3	3.7	4.6	4.2	3.6	4.0	3.4	3.1	3.4	3.5	3.5
Australia	-1.5	-2.5	-2.8	-3.5	-2.2	-2.7	-2.2	-1.4	-0.2	1.2	

Source: Macrobond

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* Pensions & Investments Research Center, as of December 31, 2020.

† This figure is presented as of December 31, 2021 and includes approximately \$61.43 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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