

## In Review

- **U.S. housing starts** beat expectations, rising 16.9% M/M to 1608k in December, aided by warmer weather. **Permits** slid 3.9% M/M, but remain near their highest level this expansion, and housing will aid Q4 GDP growth.
- **U.S. existing home sales** rose 3.6% in December. Inventory hit a record low, putting upward pressure on prices. **FHFA house price index** rose 4.9% Y/Y, as limited supply is met with rising demand.
- **U.S. industrial production** slid 0.3% M/M, driven by a 5.6% M/M decline in utilities due to warmer weather, while both manufacturing and mining notched gains.
- **U.K. employment** exceeded expectations, rising 208k in November, and the unemployment rate held steady at 3.8%.
- **U.K. retail sales** underwhelmed, sliding 0.6% M/M with downward revisions to November. This marks the fifth-consecutive month of no growth, boosting odds of a rate cut.
- The **German ZEW Survey** surprised to the upside in January, confirming confidence was weighed down by the trade war, and easing tensions should aid a bounce back.
- As expected, the **ECB** kept rates unchanged.
- The **BoJ** kept its policy balance rate steady at -0.1% as expected.
- **China GDP** rose 6.0% Y/Y in Q4, and activity data was better than expected.
- **Japan industrial production** slid 1% M/M (-8.2% Y/Y) in November.

## Watch List

Date		Consensus		Previous
<b>U.S.</b>				
Mon 1/27	New Home Sales	729k	▲	719k
Tue 1/28	Advance Durable Goods Orders	1.0% M/M	▲	-2.1% M/M
Tue 1/28	Consumer Confidence	128.0	▲	126.5
Wed 1/29	FOMC Rate Decision	1.5%-1.75%	▬	1.5%-1.75%
Thu 1/30	GDP 4Q Advanced	2.2%	▲	2.1%
Fri 1/31	Personal Spending	0.3% M/M	▼	0.4% M/M
<b>Europe</b>				
Mon 1/27	German IFO Business Climate	97.0	▲	96.3
Thu 1/30	EZ Unemployment Rate	7.5%	▬	7.5%
Thu 1/30	BoE Bank Rate	0.75%	▬	0.75%
Thu 1/30	Germany Unemployment Change	5.0k	▼	8.0k
Fri 1/31	Brexit	--		--
Fri 1/31	EZ GDP 4Q Advanced	0.2% Q/Q	▬	0.2% Q/Q
<b>Asia Pacific</b>				
Thu 1/30	Japan Unemployment Rate	2.3%	▲	2.2%
Thu 1/30	Japan Industrial Production	0.7% M/M	▲	-1.0% M/M
Thu 1/30	Japan Retail Sales	-1.6% Y/Y	▲	-2.1% Y/Y
Thu 1/30	China's Official Mfg PMI	50.1	▼	50.2

Arrows indicate consensus forecast compared to the previous period.

### U.S.

- The **FOMC is set to remain on hold** in January, while maintaining an easing bias. Incoming labor market, sentiment, and housing data have been upbeat and global uncertainty is waning, while wage pressures and inflation remain muted.
- **GDP** is expected to see a modest uptick to 2.2% in Q4. Consumer spending will drive growth, but at a slower pace, and residential investment and trade will aid growth.

### EUROPE

- We expect the **BoE to keep its policy rate steady**, but the markets are pricing in a 59% chance of an insurance cut. The CBI Survey beat forecasts and showed improving capex plans and new orders—good forward indicators. The RICS and the Deloitte CFO survey also had solid readings, suggesting a post-election boost will aid the economy. If the January flash PMI is upbeat, the BoE will likely stay on hold.
- The **German IFO business climate index** is expected to increase in January, as sentiment – particularly expectations – improves across the globe.

### ASIA PACIFIC

- **China's official manufacturing PMI** for January is expected to remain relatively unchanged in expansionary territory. The official PMI is more highly correlated with industrial production than the Caixin, so this will act as a good gauge for IP growth.

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## The Highlights

### CENTRAL BANKS ON PAUSE

As expected, both the BoJ and the ECB held their policy rates steady this week. More interestingly, the BoJ raised its median estimate of Japan's GDP growth, particularly for 2020, factoring in the boost from fiscal stimulus. The BoJ downplayed the effects of the consumption tax hike and noted that these are temporary and consumer sentiment is improving. Overall, they still see risks to the outlook tilted to the downside, though to a lesser degree than they were 'a while ago.'

In Europe, the ECB noted that rates will remain either as is or be lowered until the inflation outlook converges closer to, but below, its 2% target. ECB President Christine Lagarde reinforced her view of ongoing but moderate growth in the Euro Area, but noted that monetary policy must remain accommodative.

### EARNINGS SEASON GETS UNDERWAY

Approximately 15% of the S&P 500 has reported earnings with revenues up 3% Y/Y and earnings relatively unchanged. The largest share of companies reporting earnings so far has been within Financials—at 39%—which show revenues up 5.7% Y/Y and earnings up 3.4% Y/Y. So far, for both Financials and overall S&P500, sales and earnings are better than estimates.

### FICO SCORE CHANGES

Fair Isaac Corp, as part of its regular FICO score model update, is expected to more negatively penalize borrowers with rising debt levels and place greater weight on missed loan payments. Newer versions of the FICO score will now utilize a one-to-two year history when considering how a borrower's debt level has changed, compared to just the most recent month tracked, as current FICO scores have done. The move comes amid a shift in U.S. lenders' rising concerns that credit scores are making consumers appear more creditworthy than they actually are.

### VIRUS OUTBREAK STIRS GROWTH WORRIES

China has locked down two cities at the center of the spreading coronavirus. Most transportation in Wuhan, a city of 11 million people, was suspended on Thursday morning. Later, a similar lockdown was imposed on neighboring Huanggang, a city of 6

million. U.S. health officials said a man in Washington state was diagnosed with the Wuhan coronavirus, the first confirmed U.S. case in an outbreak that has killed 17 people and sickened hundreds of others in Asia. Investors fear that pandemic growth of the illness, like the SARS outbreak in 2002, could slow global economic growth.

### POLICY

**Brexit:** After passing the upper and lower parliamentary chambers, the Brexit deal that Prime Minister Boris Johnson negotiated with the EU last year now just needs signoff from the queen to become British law. The EU will now vote on January 29, and Brexit may well happen January 31.

**Russia:** Russian President Vladimir Putin called for constitutional changes, fueling speculation that he's moving to extend his grip on power beyond the end of his term in 2024. The upheaval, for now, isn't really a market event—the ruble and Russian stocks were little changed on the news—but it adds to the list of geopolitical issues investors are facing.

**European Trade:** Earlier this week President Donald Trump and French President Emmanuel Macron tentatively agreed to a truce in their dispute over digital taxes that would mean neither France nor the U.S. would impose punitive tariffs this year, according to France. However, no White House spokesperson nor officials with the U.S. Trade Representative's office confirmed that the U.S. called off Trump's announced French tariffs. In contrast to earlier sentiments of easing tensions, Trump later in the week threatened punitive action against EU members if they do not compromise on a pact before the election. Treasury Secretary Steven Mnuchin brought up the prospect of levies on auto imports for countries that implement a tax on digital services. The developments led France to postpone its plans for a temporary truce. The spat started last year when France, frustrated at the slow pace of international discussions on taxing tech giants, implemented a 3% tax on digital revenue from tech companies with more than €750 million (\$832 million) in annual global sales. In response, the U.S. threatened tariffs of up to 100% on \$2.4 billion of French imports, including wine.

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THE WEEK AHEAD

## Key Financial Indicators

Rates	Yield	1Y Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	1.75%	0 bps	0 bps	-25 bps	-75 bps	-75 bps	0 bps
3 Month USD Libor	1.80%	-4 bps	-13 bps	-14 bps	-48 bps	-98 bps	-11 bps
3 Month Euribor	-0.39%	0 bps	0 bps	1 bps	-2 bps	-8 bps	-1 bps
3 Month U.S. T-Bill	1.55%	-2 bps	-2 bps	-11 bps	-53 bps	-86 bps	0 bps
2-Year U.S. Treasury	1.51%	-4 bps	-11 bps	-9 bps	-30 bps	-106 bps	-6 bps
10-Year U.S. Treasury	1.77%	-2 bps	-14 bps	0 bps	-27 bps	-97 bps	-15 bps
10-Year German Bund	-0.27%	-6 bps	-2 bps	11 bps	8 bps	-50 bps	-8 bps
10-Year U.K. Gilt	0.65%	-2 bps	-14 bps	-5 bps	-16 bps	-69 bps	-17 bps
10-Year JGB	-0.01%	-2 bps	-1 bps	13 bps	13 bps	-1 bps	1 bps
Fixed Income	Yield	OAS	1Y Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.71%	N/A	0.2%	1.1%	0.6%	8.0%	1.0%
Barclays Capital U.S. TIPS	1.87%	N/A	0.0%	0.8%	1.5%	9.0%	0.8%
Barclays Capital U.S. Aggregate	2.20%	40	0.2%	1.1%	1.3%	9.4%	0.9%
Barclays Capital Global Aggregate	1.39%	38	0.1%	0.8%	0.5%	6.7%	0.2%
Barclays Capital U.S. ABS	1.88%	33	0.2%	0.6%	0.8%	5.0%	0.5%
Barclays Capital U.S. MBS	2.42%	41	0.0%	0.6%	1.1%	6.6%	0.4%
Barclays Capital U.S. Corporate Investment Grade	2.71%	93	0.6%	1.6%	2.6%	14.9%	1.4%
BAML Euro Corporate Investment Grade	0.44%	92	0.4%	0.3%	0.4%	6.4%	0.5%
Barclays Capital U.S. Corporate High Yield	5.09%	332	0.0%	0.9%	3.0%	11.0%	0.7%
BAML European Currency High Yield Non-Financial	2.88%	324	0.2%	0.7%	2.5%	9.5%	0.5%
CS U.S. Leveraged Loans	5.99%	442	6.9%	1.0%	2.9%	6.6%	0.8%
CS Western European Leveraged Loans Non-USD	4.39%	396	4.6%	0.7%	1.4%	4.3%	0.5%
JPM CEMBI Broad Diversified	4.77%	306	0.3%	1.5%	2.9%	12.5%	1.3%
JPM EMBI Global Diversified	4.83%	295	0.2%	1.4%	2.7%	13.1%	1.0%
JPM GBI-EM Global Diversified	5.11%	N/A	0.1%	1.4%	2.3%	11.1%	0.0%
Equities	Price	Div Yield	1Y Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,321.75	1.71%	1.0%	3.2%	11.4%	28.7%	2.9%
Euro STOXX 600 (Local)	423.04	3.66%	0.8%	1.1%	7.2%	19.1%	1.7%
U.K. FTSE 100 (Local)	7,571.92	4.34%	-0.9%	-0.1%	5.0%	9.7%	0.4%
Japan Nikkei 225 (Local)	24,031.35	1.85%	0.5%	0.9%	6.6%	16.5%	1.6%
China Shanghai Composite (Local)	3,060.75	2.21%	-0.9%	1.9%	3.6%	18.6%	0.3%
MSCI AC World (Local)	577.29	2.32%	0.7%	2.7%	9.6%	24.1%	2.6%
MSCI Emerging Markets (Local)	1,133.40	2.55%	-0.2%	2.6%	9.7%	15.9%	2.1%
Commodities/Currencies	Price	1Y Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	418.53	-1.6%	-3.4%	2.9%	0.4%	2.9%	-4.1%
WTI Crude (\$/bbl)	56.73	-2.0%	-6.1%	4.6%	1.5%	7.9%	-7.2%
Copper (\$/lb)	2.77	-3.6%	-1.6%	5.5%	1.9%	2.9%	-1.0%
Gold (\$/oz)	1,556.90	0.5%	5.3%	4.8%	9.0%	21.4%	2.8%
U.S. Dollar Index	97.53	0.3%	-0.2%	0.0%	0.3%	1.3%	1.2%
Euro (USD/EUR)	1.11	-0.7%	-0.1%	-0.5%	-1.3%	-2.5%	-1.3%
British Pound (USD/GBP)	1.31	0.9%	0.7%	1.8%	5.2%	1.4%	-0.8%
Japanese Yen (Yen/USD)	109.91	-0.1%	0.4%	1.2%	1.9%	0.4%	1.1%
Chinese Yuan (CNY/USD)	6.90	0.2%	-1.6%	-2.5%	0.3%	1.3%	-0.9%

Source: FactSet and Bloomberg. As of Jan. 22, 2020.

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