

Anything But 20-20 Vision...

IN REVIEW

- **Conference Board consumer confidence** edged lower 0.4 points to 100.9 in October, as expectations took a step back.
- **Core capital goods orders** beat expectations in September, up 1% M/M, pointing to a capex rebound.
- **U.S. new home sales** remained elevated, but edged lower 3.5% M/M in September, as inventories remain lean. **FHFA house price index** jumped 1.5% M/M in August—up 8% Y/Y, amid elevated demand and limited supply.
- **Initial claims** slid 40,000 to 751,000 in W/E October 24. While the decline was better than expected, claims remain elevated. Continuing claims fell 709,000 to 7.756 million in W/E October 17 as regular benefits continue to exhaust.
- **German IFO business climate index** fell 0.5 points to 92.7 in October as COVID cases rise and weigh on the outlook.
- The **ECB** left policy unchanged, but hinted at expanding the PEPP at their December meeting.
- The **BOJ** held policy steady at their October meeting, but lowered their growth and inflation FY 2020 outlook. The downgrade doesn't mean a shift in policy stance, though the BOJ noted they stand ready to take action if needed.
- **China industrial profits** rose 10.1% Y/Y in September. Though the pace moderated slightly, profits remain high.
- **South Korea 3Q20 GDP** rose a better-than-expected 1.9% Q/Q, driven by a rebound in exports.

WATCH LIST

Date		Consensus		Previous
U.S.				
Mon 11/2	ISM Manufacturing	55.6	▲	55.4
Tue 11/3	Election Day	--		--
Tue 11/3	Vehicle Sales	16.45M	▲	16.34M
Wed 11/4	ADP Employment Change	750K	▲	749K
Wed 11/4	Trade Balance	-\$67.0B	▲	-\$67.1B
Wed 11/4	ISM Services Index	57.4	▼	57.8
Thu 11/5	Initial Claims			751K
Thu 11/5	3Q Nonfarm Productivity (Prelim)	3.4%	▼	10.1%
Thu 11/5	FOMC Meeting	0%-0.25%	-	0%-0.25%
Fri 11/6	Change in Nonfarm Payrolls	635K	▼	661K
Fri 11/6	Unemployment Rate	7.7%	▼	7.9%
Europe				
Wed 11/4	EZ Producer Price Index			0.1% M/M
Thu 11/5	EZ Retail Sales	-0.5% M/M	▼	4.4% M/M
Thu 11/5	BOE Bank Rate	0.1%	-	0.1%
Asia Pacific				
Sat 10/31	China Official Manufacturing PMI	51.3	▼	51.5
Sat 10/31	China Official Non-Manufacturing PMI	56.0	▲	55.9
Sun 11/1	South Korea Exports	-4.9% Y/Y	▼	7.7% Y/Y
Mon 11/2	Caixin China Manufacturing PMI	52.8	▼	53.0
Wed 11/4	Caixin China Services PMI	55.0	▲	54.8

Arrows indicate consensus forecast compared to the previous period. Local dates of release.

U.S.

- **U.S. Election Day** is Tuesday, November 3, though the final results may not be available that night. Watch Florida, Arizona, and North Carolina—key swing states that will likely have a final tally on election night. If the election is close, final results in Pennsylvania, Michigan, and Wisconsin will be important but could be delayed.
- The October **employment report** should show continued labor market improvement, but slowly improving initial claims suggest the pace is set to moderate.
- While the FOMC will likely hold policy steady, we watch for discussions on the future of the asset purchase program at the **FOMC meeting** on November 5.

Europe

- A £100 billion expansion of the asset purchase program is widely expected at the **BoE meeting** on November 5, while a cut that would bring policy rates into negative territory is not expected.

Asia Pacific

- **China PMIs** for October are expected to show a continued recovery in services, but a longer Golden Week holiday may lead to easing in manufacturing data.

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THE HIGHLIGHTS

U.S. Third-Quarter GDP Soars

Advanced estimates show easing of lockdowns and restrictions led U.S. GDP to soar 33.1% Q/Q annualized in Q3—a post-WWII record. Despite beating expectations, GDP remains 3.5% below 4Q19 levels; expect growth to slow with a resurgence in COVID cases. The Q3 rise was driven by personal consumption expenditures (notably health care, accommodations and food services, motor vehicles and parts, and clothing and footwear), private inventory investment (particularly motor vehicle dealers), exports, nonresidential fixed investment (led by transportation equipment), and residential fixed investment. Higher imports and decreased government spending—due in part to fewer PPP loan fees—subtracted from growth.

Global Flash PMIs

Global Markit flash PMIs showed much differentiation by geography in October, and data out of Europe suggests we are not in the clear yet.

GLOBAL FLASH PMIS

Region	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
U.S. Manufacturing	50.7	48.5	36.1	39.8	49.8	50.9	53.1	53.2	53.3
U.S. Services	49.4	39.8	26.7	37.5	47.9	50	55	54.6	56
EZ Manufacturing	49.2	44.5	33.4	39.4	47.4	51.8	51.7	53.7	54.4
EZ Services	52.6	26.4	12.0	30.5	48.3	54.7	50.5	48	46.2
UK Manufacturing	51.7	47.9	32.6	40.7	50.1	53.3	55.2	54.1	53.3
UK Services	53.2	34.5	13.4	29.0	47.1	56.5	58.8	56.1	52.3
Japan Manufacturing	47.8	44.8	41.9	38.4	40.1	45.2	47.2	47.7	48
Japan Services	46.8	33.8	21.5	26.5	45.0	45.4	45	46.9	46.6

Source: Bloomberg. As of October 29, 2020.

In **Europe**, flash PMIs showed the recovery held up but keeps moderating with threats of rising COVID cases. Data also showed a divergence by sector, with the services PMI sinking into contractionary territory amid rising virus cases and restrictions, while rebounding global trade pushed manufacturing PMI higher into expansionary territory. In **Japan**, PMIs remained in contractionary territory. Manufacturing eased less, while services slid further, indicating Japan's economic recovery is likely to be slow and uneven. In contrast, PMIs in the **U.S.** expanded faster across sectors—a strong Q4 start. Weaker new orders and a hiring slowdown are likely due to uncertainty with the U.S. presidential election and signs of a resurgence in COVID cases.

European COVID-19 Check-Up

Second waves have hit Europe, with unexpected virulence. France had 500 fatalities in a day, already half those registered at the peak in April, and hospitalizations grew exponentially. Most of Europe is close behind; the east, largely untouched by the first wave, is seeing record case numbers. Varying levels and types of new government restrictions across the continent are having two effects: sapped confidence and increased frustrations, including new disturbances in various European cities, which does not bode well for the recovery. Manufacturing continues accelerating out of government-imposed closures, but service sectors, more exposed to pandemic fears, were already suffering. Renewed restrictions hurt activities, and a negative GDP number in Q4 is increasingly likely, which should lead European central banks to push more, and sooner. **German** Chancellor Angela Merkel and the 16 regional

leaders agreed on a lockdown from November 2 through month-end, closing bars and restaurants. Only people from two households can meet outdoors, with a maximum 10 people. Retail outlets can remain open if customers each have 10 square meters of space. Finance Minister Olaf Scholz noted that the government will provide support to businesses up to 75% of their sales compared to the same month last year, a measure that will cost €7-10 billion. **France** introduced stricter measures, envisaging a complete lockdown of non-essential shops, venues and a stay-at-home order. President Emmanuel Macron justified the move to avoid overwhelming the health care sector.

3Q Earnings See Perverse Reactions

Approximately 54% of the S&P 500 has reported 3Q financials, with revenues and earnings down 3.21% Y/Y and 10.86% Y/Y, respectively. With reopening narratives dominating most of the quarter, earnings are better than expected, with the biggest surprises coming from Energy and Consumer Discretionary. About 48% of the Euro Stoxx 600 has reported, with revenues and earnings down 9.1% Y/Y and 16.5% Y/Y, respectively; the largest earnings surprises came from Financials. Despite the news, markets reacted mostly negative.

Policy

Brexit: The U.K. and EU are maintaining full confidentiality on progress of their ongoing talks, which could signal final negotiations have started; a level playing field and state aid remain the final pieces. U.K. Prime Minister Boris Johnson and EU Chief Ursula von der Leyen will attempt a final compromise if differences are narrowed by November 3. The deadline to ensure ratification is now set for mid-November, and a deal seems likely, with markets reacting slightly warmer to the British Pound, which has recovered some the depreciation it experienced versus the euro in recent months.

China Economic Plan: President Xi Jinping spoke in Beijing at a meeting devoted to mapping out the country's 14th five-year plan, which should focus on technological innovation, economic self-reliance and the environment.

Chinese Easing: At the 2020 Bund Summit in Shanghai, PBOC Governor Yi Gang reiterated China's commitment to opening its financial sector and lowering market barriers to foreign investors. Reform of the yuan exchange-rate formation mechanism and the internationalization of the currency should be promoted with the financial opening-up. Former governor Zhou Xiaochuan said China's high savings rate will change amid the adoption of a "dual circulation" strategy, a policy focus to make the economy more self-sufficient. Chinese policymakers are looking at currency controls that have kept the renminbi from weakening in recent years as the currency has rallied to its strongest level against the dollar in years and China attracts more outside capital. Dropping the counter-cyclical factor is one of the PBOC's strongest tools to change the value of the currency, beyond direct market intervention.

U.S. Stimulus: U.S. stimulus talks have largely been scrapped after several failed attempts at bipartisan compromise. The market still expects a post-election deal, though package size seems to depend on who wins the Senate.

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KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	0.25%	0 bps	0 bps	0 bps	0 bps	-175 bps	-150 bps
U.S. SOFR	0.09%	1 bps	1 bps	-1 bps	6 bps	-175 bps	-146 bps
3 Month USD Libor	0.21%	0 bps	0 bps	-6 bps	-63 bps	-171 bps	-170 bps
3 Month Euribor	-0.51%	0 bps	-1 bps	-5 bps	-29 bps	-10 bps	-13 bps
3 Month U.S. T-Bill	0.10%	-1 bps	0 bps	-1 bps	-2 bps	-158 bps	-145 bps
2-Year U.S. Treasury	0.15%	0 bps	2 bps	0 bps	-8 bps	-148 bps	-143 bps
10-Year U.S. Treasury	0.78%	-1 bps	12 bps	18 bps	13 bps	-102 bps	-114 bps
10-Year German Bund	-0.61%	-1 bps	-8 bps	-12 bps	-16 bps	-24 bps	-42 bps
10-Year U.K. Gilt	0.24%	5 bps	5 bps	12 bps	-6 bps	-43 bps	-58 bps
10-Year JGB	0.03%	1 bps	2 bps	1 bps	6 bps	18 bps	5 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.54%	N/A	0.2%	-0.7%	-1.1%	8.2%	8.3%
Barclays Capital U.S. TIPS	0.73%	N/A	0.2%	0.2%	1.5%	10.0%	9.2%
Barclays Capital U.S. Aggregate	1.20%	55	0.2%	-0.1%	-0.6%	7.2%	6.7%
Barclays Capital Global Aggregate	0.89%	46	0.3%	1.2%	0.7%	7.1%	6.6%
Barclays Capital U.S. ABS	0.54%	39	0.0%	0.0%	0.6%	4.6%	4.2%
Barclays Capital U.S. MBS	1.33%	57	0.1%	0.0%	0.1%	4.3%	3.6%
Barclays Capital U.S. Corporate Investment Grade	1.96%	123	0.4%	0.6%	-0.8%	8.6%	7.2%
BAML Euro Corporate Investment Grade	0.36%	110	0.1%	1.0%	1.4%	1.6%	1.6%
Barclays Capital U.S. Corporate High Yield	5.52%	488	-0.3%	1.0%	1.9%	4.0%	1.8%
BAML European Currency High Yield Non-Financial	4.10%	470	0.0%	1.6%	1.9%	0.8%	-1.4%
CS U.S. Leveraged Loans	5.94%	569	10.2%	14.2%	-0.8%	1.7%	-0.3%
CS Western European Leveraged Loans Non-USD	5.41%	534	9.0%	16.2%	-0.6%	0.8%	0.0%
JPM CEMBI Broad Diversified	4.55%	392	-0.1%	0.8%	1.5%	4.9%	3.3%
JPM EMBI Global Diversified	5.11%	420	-0.5%	0.7%	-0.1%	1.9%	0.2%
JPM GBI-EM Global Diversified	4.44%	N/A	0.2%	2.3%	-0.9%	-3.0%	-4.6%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,390.68	1.70%	-1.5%	2.9%	5.1%	14.3%	6.5%
Euro STOXX 600 (Local)	352.58	2.12%	-3.5%	-0.8%	-3.7%	-11.4%	-15.2%
U.K. FTSE 100 (Local)	5,728.99	4.61%	-2.7%	-1.9%	-6.2%	-21.8%	-24.0%
Japan Nikkei 225 (Local)	23,485.80	2.22%	-0.3%	1.2%	3.4%	3.0%	-0.7%
China Shanghai Composite (Local)	3,254.32	2.19%	-2.2%	1.1%	1.5%	10.1%	6.7%
MSCI AC World (Local)	571.53	2.07%	-1.6%	-2.4%	3.8%	8.2%	-2.4%
MSCI Emerging Markets (Local)	1,133.99	2.20%	-0.2%	5.9%	4.3%	13.8%	6.9%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	357.26	-2.1%	2.6%	4.3%	55.0%	-14.2%	-18.1%
WTI Crude (\$/bbl)	39.55	-4.4%	-1.3%	-4.6%	225.0%	-30.0%	-35.3%
Copper (\$/lb)	3.09	-1.7%	3.9%	7.0%	29.7%	15.9%	10.6%
Gold (\$/oz)	1,905.70	0.4%	2.5%	-1.6%	11.1%	25.9%	25.8%
U.S. Dollar Index	92.94	-0.1%	-1.8%	-0.8%	-7.1%	-5.0%	-3.6%
Euro (USD/EUR)	1.18	0.0%	1.8%	0.5%	9.2%	6.7%	5.4%
British Pound (USD/GBP)	1.31	0.8%	2.8%	1.3%	5.3%	1.8%	-1.4%
Japanese Yen (Yen/USD)	104.47	-1.0%	-1.1%	-0.6%	-2.5%	-3.8%	-3.9%
Chinese Yuan (CNY/USD)	6.72	0.5%	-1.5%	-4.1%	-5.2%	-5.0%	-3.6%

Source: FactSet and Bloomberg. As of October 28, 2020.

30 October 2020 | *The Week Ahead*

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*As of September 30, 2020

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