BARINGS INVESTMENT INSTITUTE

29 January 2021

THE WEEK AHEAD

U.S. Consumers: Don't Worry, They're Here to Stay

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Mon 2/1	ISM Manufacturing	Jan	59.9	▼	60.7
Tue 2/2	Wards Total Vehicle Sales	Jan	16.10M	▼	16.27M
Wed 2/3	ADP Employment Change	Jan	50K	▲	-123K
Wed 2/3	ISM Services Index	Jan	56.8	▼	57.2
Thu 2/4	Nonfarm Productivity (Preliminary Estimate)	4Q20	-3.7%	▼	4.6%
Thu 2/4	Unit labor Costs (Preliminary Estimate)	4Q20	3.7%	▲	-6.6%
Fri 2/5	Change in Nonfarm Payrolls	Jan	50K	▲	-140K
Fri 2/5	Unemployment Rate	Jan	6.7%	-	6.7%
Europe					
Mon 2/1	EZ Unemployment Rate	Dec	8.3%	-	8.3%
Tue 2/2	EZ GDP (Advanced Estimate)	4Q20	-1.7% Q/Q	▼	12.5% Q/Q
Wed 2/3	EZ Producer Price Index	Dec			0.4% M/M
Wed 2/3	EZ Consumer Price Index (Preliminary Estimate)	Jan	0.2% Y/Y	▲	-0.3% Y/Y
Thu 2/4	EZ Retail Sales	Dec			-6.1% M/M
Thu 2/4	Bank of England Bank Rate	Feb	0.1%	-	0.1%
Asia Pacific					
Sun 1/31	China Manufacturing PMI	Jan	51.5	▼	51.9
Sun 1/31	China Non-manufacturing PMI	Jan	55.0	▼	55.7
Mon 2/1	South Korea Exports	Jan	9.9% Y/Y	▼	12.6% Y/Y
Mon 2/1	Caixin China Manufacturing PMI	Jan	52.6	▼	53.0
Wed 2/3	Caixin China Services PMI	Jan	55.5	▼	56.3

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

U.S.

- **The January Employment Report is set to be weak** amid elevated COVID cases and restrictions, in tandem with deteriorating high-frequency employment data.
- **The January ISM surveys will give a sense if recent fiscal support measures are sufficient** to aid consumer spending and businesses amid the tough winter months.

Europe

- **EZ inflation will accelerate temporarily**, given a low base last year and a one-off rise in oil prices.
- **EZ Q4 GDP will show a negative print** on the back of new lockdowns.
- **The BoE should keep policy steady**, but rate cuts below zero will be followed closely as COVID and Brexit fallouts weigh on the economy. Expect volatility with the British pound.

Asia Pacific

- **China PMIs for January are expected to ease slightly**, due to new restrictions amid an uptick in COVID cases, though the recovery should remain intact.
- **South Korea trade data for January is likely to remain strong** amid resilient global demand, given more targeted lockdowns and further government support.

Institute's Central Scenario

This week's worsening U.S. consumer confidence data is in line with our baseline view that the labor market remains fragile in the near-term amid heightened restrictions. However, spending should improve on the back of greater fiscal support to consumers and help prop up Q1 growth. The IMF's upward revision to U.S. GDP was consistent with our downgrade of the Fiscal Cliff scenario, and IMF's downgrade for the euro area is in line with our view of a less synchronous recovery. Meanwhile, strong trade data out of Asia show global demand remains resilient. Please see our Monthly Macro Dashboard.

IN REVIEW

Weaker Confidence Won't Stop the U.S. Consumer

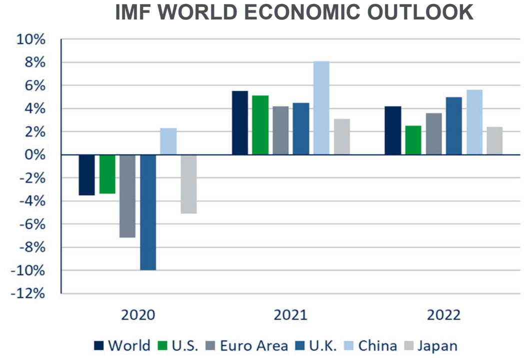
U.S. Conference Board consumer confidence remains range-bound and near recession lows in January, but fiscal support will drive consumers to spend. Current conditions turned weaker in January as COVID cases and restrictions remained elevated. Labor market conditions worsened, consistent with the deteriorating trend in initial claims that points to a weak January Employment Report next week. Income expectations also worsened, adding support to our outlook that wage growth won't accelerate and boost inflation this year or next. However, despite the weak reading on consumer confidence and labor market conditions, high-frequency spending data points to a rebound in January amid the new fiscal stimulus bill (which included stimulus checks and extended unemployment insurance benefits). The weak consumer confidence data highlights the importance of fiscal support to consumers and shows why more will likely be needed when the current package expires in mid-March.

Resilient consumer demand in the U.S. is providing support to exports out of Asia, which showed further improvement in January.

IMF Projects an Asynchronous Recovery

The IMF boosted its growth projection for 2021 to 5.5% but expects regional divergence. The upward revision was largely driven by a 2 percentage point increase for the U.S. as well as an upgrade in Japan, amid greater fiscal support. Meanwhile, the IMF cut growth projections for the euro area, which is suffering from renewed restrictions. The U.S. and Japan are projected to reach their 2019 GDP levels by 2H21, while the euro area and the U.K. are not expected to reach that target this year.

IMF WORLD ECONOMIC OUTLOOK



Source: International Monetary Fund. As of January 28, 2021.

The IMF's forecast is largely in line with our baseline view that greater fiscal support will boost U.S. GDP, while the European recovery will likely lag behind, consistent with our downgrade of the Fiscal Cliff scenario.

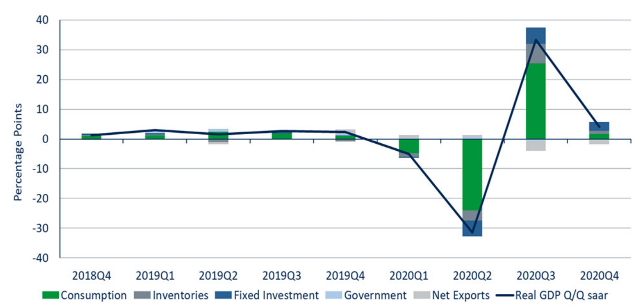
Weak Inflation Gives ECB More Room to Cut Rates

German CPI bounced back into positive territory, but this reflects a number of one-off factors rather than inflationary pressures. Euro area inflation for January (to be released Wednesday) will follow a similar pattern. Weak demand and an appreciating euro will keep inflation subdued in 2021 and well below the ECB's 2% target for the foreseeable future. This will give the central bank plenty of room to accommodate policy further, if need be. The recent attention to the exchange rate, which various ECB board members have discussed, is meant to keep the euro from appreciating. Should this fail, a further rate cut is possible, but only as a last resort. The damage of negative rates on banking profitability is well-understood by the ECB, as evident by their resorting to reserve tiering policies to reduce it.

U.S. GDP Improves But Still Has Room to Run

U.S. GDP rose 4% Q/Q at an annualized rate in 4Q20—leaving GDP down 2.5% from 2019 levels. Growth was broad-based amid the continued recovery, but easing was seen in consumer spending amid greater restrictions and a delay in the passage of fiscal stimulus that weighed on personal income.

CONTRIBUTION TO PERCENTAGE CHANGE IN U.S. GDP



Source: Bloomberg. As of January 28, 2021.

Net exports detracted from headline growth, as the restocking of inventories boosted imports. However, a robust housing market drove gains in residential investment, and strong business investment was also a boon. Our baseline scenario calls for U.S. GDP to return to 2019 levels this year, particularly amid greater fiscal support and as increased vaccinations provide a boost to COVID-sensitive sectors.

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	-150 bps	0 bps
U.S. SOFR	0.03%	-3 bps	-5 bps	-6 bps	-7 bps	-150 bps	-4 bps
3 Month USD Libor	0.21%	-1 bps	-3 bps	0 bps	-6 bps	-156 bps	-3 bps
3 Month Euribor	-0.54%	0 bps	0 bps	-3 bps	-9 bps	-15 bps	0 bps
3 Month U.S. T-Bill	0.08%	0 bps	-1 bps	-2 bps	-3 bps	-147 bps	0 bps
2-Year U.S. Treasury	0.11%	0 bps	0 bps	-3 bps	-4 bps	-132 bps	0 bps
10-Year U.S. Treasury	1.01%	-8 bps	8 bps	23 bps	41 bps	-59 bps	10 bps
10-Year German Bund	-0.55%	-2 bps	0 bps	6 bps	-6 bps	-17 bps	2 bps
10-Year U.K. Gilt	0.26%	-4 bps	1 bps	2 bps	14 bps	-27 bps	6 bps
10-Year JGB	0.03%	0 bps	2 bps	1 bps	2 bps	8 bps	1 bps
Fixed Income	**Yield**	**OAS**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
Barclays Capital U.S. Government-Treasury	0.62%	N/A	0.3%	-0.5%	-0.9%	5.2%	-0.7%
Barclays Capital U.S. TIPS	0.54%	N/A	0.2%	0.6%	1.9%	9.7%	0.3%
Barclays Capital U.S. Aggregate	1.15%	37	0.1%	-0.3%	0.2%	5.3%	-0.5%
Barclays Capital Global Aggregate	0.86%	35	-0.1%	-0.3%	1.7%	7.6%	-0.7%
Barclays Capital U.S. ABS	0.40%	27	0.1%	0.2%	0.5%	3.8%	0.1%
Barclays Capital U.S. MBS	1.18%	22	0.0%	0.1%	0.3%	3.3%	0.0%
Barclays Capital U.S. Corporate Investment Grade	1.84%	98	-0.1%	-0.5%	1.5%	6.7%	-1.0%
BAML Euro Corporate Investment Grade	0.22%	92	0.0%	0.2%	1.2%	1.9%	0.1%
Barclays Capital U.S. Corporate High Yield	4.29%	362	-0.3%	0.8%	5.5%	7.7%	0.3%
BAML European Currency High Yield Non-Financial	2.93%	357	-0.2%	0.6%	5.3%	3.3%	0.5%
CS U.S. Leveraged Loans	4.79%	455	0.0%	1.5%	4.8%	3.6%	1.4%
CS Western European Leveraged Loans Non-USD	4.42%	436	0.0%	1.0%	3.9%	3.1%	0.9%
JPM CEMBI Broad Diversified	4.12%	328	0.2%	0.2%	3.9%	5.6%	0.0%
JPM EMBI Global Diversified	4.75%	362	0.2%	-0.8%	4.2%	3.1%	-1.1%
JPM GBI-EM Global Diversified	4.32%	N/A	-1.2%	-1.3%	7.0%	1.9%	-1.6%
Equities	**Price**	**Div Yield**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
S&P 500	3,750.77	1.51%	-2.6%	1.4%	11.1%	17.7%	-0.1%
Euro STOXX 600 (Local)	402.98	2.05%	-1.9%	1.8%	14.3%	-2.7%	1.0%
U.K. FTSE 100 (Local)	6,567.37	3.60%	-2.6%	1.0%	14.6%	-11.4%	1.7%
Japan Nikkei 225 (Local)	28,635.21	1.42%	0.4%	7.4%	21.9%	22.7%	4.3%
China Shanghai Composite (Local)	3,573.34	1.98%	-0.3%	5.2%	9.8%	20.1%	2.9%
MSCI AC World (Local)	652.50	1.80%	-2.3%	2.6%	16.7%	15.1%	1.3%
MSCI Emerging Markets (Local)	1,371.42	1.69%	-1.8%	9.9%	20.5%	28.1%	6.8%
Commodities/Currencies	**Price**	**1W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
S&P GS Commodity Index	433.31	-0.1%	7.1%	21.3%	26.5%	8.8%	5.8%
WTI Crude ($/bbl)	52.63	-1.0%	9.2%	33.8%	26.9%	-0.9%	8.9%
Copper ($/lb)	3.57	-2.1%	0.3%	15.6%	23.7%	37.6%	1.6%
Gold ($/oz)	1,843.00	-0.7%	-1.7%	-3.3%	-4.8%	16.6%	-2.4%
U.S. Dollar Index	90.65	0.2%	0.4%	-2.5%	-3.2%	-7.5%	0.8%
Euro (USD/EUR)	1.21	-0.1%	-0.8%	2.2%	2.7%	9.8%	-1.2%
British Pound (USD/GBP)	1.37	0.5%	1.2%	4.9%	6.3%	5.0%	0.2%
Japanese Yen (Yen/USD)	104.11	0.5%	0.5%	-0.3%	-1.0%	-4.4%	0.8%
Chinese Yuan (CNY/USD)	6.47	0.0%	-1.0%	-3.7%	-7.6%	-6.7%	-1.1%

Source: FactSet and Bloomberg. As of January 27, 2021.

*As of September 30, 2020
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