

Lots of Stimulus, Not Much Inflation

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Mon 2/15	Markets Closed for Presidents Day		--		--
Wed 2/17	Producer Price Index	Jan	0.4% M/M	▲	0.3% M/M
Wed 2/17	Retail Sales	Jan	0.8% M/M	▲	-0.7% M/M
Wed 2/17	Industrial Production	Jan	0.4% M/M	▼	1.6% M/M
Wed 2/17	NAHB Housing Market Index	Feb	83	▬	83
Wed 2/17	FOMC Meeting Minutes	Jan 27	--		--
Thu 2/18	Building Permits	Jan	1670K	▼	1709K
Thu 2/18	Housing Starts	Jan	1650K	▼	1669K
Fri 2/19	Markit Manufacturing PMI (Preliminary Estimate)	Feb	58.5	▼	59.2
Fri 2/19	Markit Services PMI (Preliminary Estimate)	Feb	58.0	▼	58.3
Fri 2/19	Existing Home Sales	Jan	6.55M	▼	6.76M
Europe					
Mon 2/15	EZ Industrial Production	Dec	-0.5% M/M	▼	2.5% M/M
Fri 2/19	EZ Markit Manufacturing PMI (Preliminary Estimate)	Feb	54.2	▼	54.8
Fri 2/19	EZ Markit Services PMI (Preliminary Estimate)	Feb	46.0	▲	45.4
Fri 2/19	U.K. Markit Manufacturing PMI (Preliminary Estimate)	Feb	53.0	▼	54.1
Fri 2/19	U.K. Markit Services PMI (Preliminary Estimate)	Feb	41.0	▲	39.5
Asia Pacific					
2/11-2/17	Chinese Markets Closed for Lunar New Year		--		--
Mon 2/15	Japan GDP (Preliminary Estimate)	4Q20	2.5% Q/Q	▼	5.3% Q/Q
Wed 2/17	Japan Exports	Jan	7.6% Y/Y	▲	2.0% Y/Y
Wed 2/17	Japan Imports	Jan	-4.4% Y/Y	▲	-11.6% Y/Y
Fri 2/19	Japan Consumer Price Index	Jan	-0.7% Y/Y	▲	-1.2% Y/Y
Fri 2/19	Jibun Bank Japan Mfg. PMI (Preliminary Estimate)	Feb			49.8
Fri 2/19	Jibun Bank Japan Services PMI (Preliminary Estimate)	Feb			46.1

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

U.S.

- After declining for three-consecutive months, **retail sales are expected to climb in January** as the December fiscal stimulus bill finds its way into consumers' wallets.
- **February flash PMIs are set to remain strong** amid fiscal stimulus and easing restrictions.

Europe

- **EZ flash PMIs** for February will show if the mix of strong manufacturing and increasingly suffering service sectors seen in January will continue, as lockdowns were extended in February. So far, the economic damage of these measures was much smaller than those initially seen in April 2020.

Asia Pacific

- **Japan 4Q20 GDP** is expected to show modest growth. Elevated cases, weak consumers, and a lack of tourism is weighing on Japan's recovery.
- We watch for **Japan's January trade data** to see if external demand—which has been key—remained robust despite higher case counts.

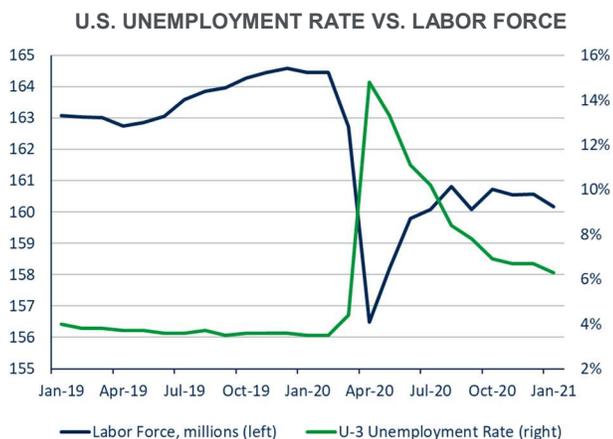
Institute's Central Scenario

Weak U.S. jobs data is fueling debate for more fiscal stimulus. While it looks likely to pass and would boost growth, elevated labor market slack should keep inflation from sustainably overshooting the Fed's target this year. In China, the PBOC is tapering monetary stimulus. Even as M2 money supply growth slowed, aggregate financing rose in January, aided by loans. COVID cases raised worries in China, and our baseline scenario sees the economy on firm enough footing to handle PBOC actions. In Europe, the Q4 contraction was less severe than first thought, but the recovery looks delayed. Please see our [Monthly Macro Dashboard](#).

IN REVIEW
U.S. Employment Report Aids Stimulus Debate

The labor market recovery remained weak in January. While we expect weakness to be temporary, the large amount of labor market slack should keep wage pressures at bay and inflation from sustainably overshooting the Fed's target this year.

Nonfarm payrolls rose just 49,000 in January, and the previous two months were downwardly revised 159,000. While weakness in December was concentrated in leisure and hospitality, declines were more broad-based in January. In addition to leisure and hospitality, declines were seen in retail, transportation and warehousing, and manufacturing. The unemployment rate fell to 6.3%, but in part for the wrong reasons, as the labor force declined.



The weak report adds more fuel to the fire for the Democratic policymakers pushing additional fiscal stimulus measures. It is looking increasingly likely that stimulus should pass near the mid-March deadline—when the current package is set to expire—and would be closer to the Biden-proposed \$1.9 trillion than the Republican-proposed \$618 billion. Another fiscal package, along with the easing of restrictions and greater vaccine deployment, should lift the pace the job gains this year. However, with the labor force still down over 4 million from February 2020, the large amount of labor market slack should keep wage pressures subdued, thereby keeping a lid on inflation this year.

EU Projects a Mixed Recovery

On the positive side, 2020 turned out to be a less painful year than previously expected, with the euro area contracting “only” 6.8%, 1 percentage point less than expected. However, the recovery is now expected to be delayed by the slow start of vaccination programs and the new variants. Euro area growth is now forecast slightly lower this year (3.8% vs. 4.2% previously) but stronger in 2022 (3.8% vs 3.0% previously expected). With a strong rebound expected in the second half of this year, the economy should get back to pre-COVID levels in early 2022. Inflation will however remain subdued. It was revised slightly up this year (1.4% up from 1.1%), pushed by energy taxes, the expiration of the German VAT cut, and the impact of pent-up demand hitting some remaining supply constraints. Inflation will then moderate again to 1.3% in 2022.

China Aggregate Financing Rising

China's aggregate financing started the year strong despite the PBOC's efforts to taper stimulus. Aggregate financing rose ¥5.17 trillion (\$1.04 trillion) in January, heavily aided by new loans—which tripled over the month. While new loans tend to be higher at the start of the year, they were up even compared with January 2020, which suggests corporates are in a better financial position. Loans to households also grew at an impressive clip. However, the PBOC was clearly at work when looking at M2 money supply growth, which slowed from 10.1% Y/Y to 9.4% Y/Y. While the Central Bank will need to tread carefully, particularly given an increase in COVID cases at the start of the year, the economy remains in a strong enough position to handle targeted reductions of monetary stimulus.

COVID Cases are Easing, But Concerns Remain

COVID cases are falling in much of the world after new highs this winter, but vaccine rollout remains a key driver of the near-term outlook. Lower-than-hoped vaccination counts, limited global availability, and efficacy questions among new variants have raised worries. However, many new vaccines will likely be available soon, which should speed vaccination rates, and efficacy so far has not been threatened by new variants. Looking ahead, the current pace of manufacturing and inoculation shows there may be enough doses to vaccinate 70% of the world population by the end of 2022. What matters next is durability and sterilizing immunity of vaccines, which should give insight into whether the health crisis is turning from a pandemic to an endemic—like the flu—and whether annual booster shots will be needed. Vaccine rollout disruptions remain a downside risk to the outlook, though we are headed in the right direction.

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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	-150 bps	0 bps
U.S. SOFR	0.06%	-1 bps	-3 bps	-4 bps	-3 bps	-152 bps	-1 bps
3 Month USD Libor	0.20%	1 bps	-2 bps	-1 bps	-6 bps	-151 bps	-4 bps
3 Month Euribor	-0.54%	0 bps	1 bps	-3 bps	-6 bps	-14 bps	0 bps
3 Month U.S. T-Bill	0.05%	1 bps	-4 bps	-6 bps	-5 bps	-151 bps	-3 bps
2-Year U.S. Treasury	0.10%	-1 bps	-4 bps	-8 bps	-2 bps	-129 bps	-2 bps
10-Year U.S. Treasury	1.13%	0 bps	2 bps	16 bps	55 bps	-42 bps	21 bps
10-Year German Bund	-0.45%	2 bps	8 bps	4 bps	8 bps	-5 bps	13 bps
10-Year U.K. Gilt	0.47%	10 bps	18 bps	8 bps	35 bps	-12 bps	27 bps
10-Year JGB	0.07%	2 bps	4 bps	4 bps	7 bps	13 bps	5 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.68%	N/A	0.0%	-0.1%	-0.5%	4.2%	-1.3%
Barclays Capital U.S. TIPS	0.81%	N/A	0.1%	1.1%	2.9%	9.2%	0.4%
Barclays Capital U.S. Aggregate	1.19%	33	0.1%	0.1%	0.3%	4.5%	-0.8%
Barclays Capital Global Aggregate	0.91%	33	0.4%	-0.6%	1.6%	7.4%	-1.1%
Barclays Capital U.S. ABS	0.40%	27	0.0%	0.2%	0.5%	3.6%	0.1%
Barclays Capital U.S. MBS	1.22%	14	0.0%	0.2%	0.5%	3.1%	0.1%
Barclays Capital U.S. Corporate Investment Grade	1.86%	92	0.4%	0.3%	1.2%	5.8%	-1.3%
BAML Euro Corporate Investment Grade	0.24%	88	0.0%	-0.3%	0.6%	1.5%	-0.1%
Barclays Capital U.S. Corporate High Yield	3.95%	327	0.5%	1.1%	4.2%	7.8%	1.3%
BAML European Currency High Yield Non-Financial	2.79%	334	0.2%	0.7%	3.7%	3.6%	1.3%
CS U.S. Leveraged Loans	4.73%	448	0.3%	0.7%	3.5%	3.9%	1.6%
CS Western European Leveraged Loans Non-USD	4.31%	425	0.2%	0.8%	3.3%	3.5%	1.3%
JPM CEMBI Broad Diversified	4.10%	317	0.3%	0.7%	3.3%	5.5%	0.4%
JPM EMBI Global Diversified	4.70%	346	0.1%	0.0%	2.2%	2.6%	-0.8%
JPM GBI-EM Global Diversified	4.30%	N/A	0.5%	0.4%	4.3%	3.3%	-0.3%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,909.88	1.44%	2.1%	2.3%	10.7%	18.8%	4.2%
Euro STOXX 600 (Local)	409.47	2.05%	0.5%	-0.4%	6.5%	-3.6%	2.6%
U.K. FTSE 100 (Local)	6,524.36	3.52%	0.3%	-5.1%	3.6%	-12.4%	1.0%
Japan Nikkei 225 (Local)	29,562.93	1.38%	3.2%	5.1%	18.7%	24.8%	7.7%
China Shanghai Composite (Local)	3,655.09	1.93%	3.9%	2.4%	8.8%	26.5%	5.2%
MSCI AC World (Local)	678.06	1.73%	2.0%	2.4%	11.3%	17.1%	5.2%
MSCI Emerging Markets (Local)	1,422.94	1.75%	1.9%	5.3%	19.8%	32.4%	10.7%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	459.49	3.1%	7.5%	24.5%	31.7%	20.2%	12.2%
WTI Crude (\$/bbl)	58.39	4.9%	12.0%	41.8%	39.2%	17.7%	20.8%
Copper (\$/lb)	3.79	5.8%	3.0%	20.2%	32.4%	48.0%	7.7%
Gold (\$/oz)	1,842.65	0.4%	-1.1%	-1.9%	-9.9%	17.1%	-2.4%
U.S. Dollar Index	90.37	-0.9%	0.3%	-2.6%	-3.4%	-8.6%	0.5%
Euro (USD/EUR)	1.21	1.0%	-1.0%	2.6%	3.1%	11.0%	-0.9%
British Pound (USD/GBP)	1.38	1.5%	1.9%	4.5%	5.8%	7.1%	1.3%
Japanese Yen (Yen/USD)	104.67	-0.4%	0.8%	-0.5%	-1.0%	-4.6%	1.4%
Chinese Yuan (CNY/USD)	6.44	-0.3%	-0.5%	-2.5%	-7.6%	-7.8%	-1.6%

Source: FactSet and Bloomberg. As of February 10, 2021.

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*As of December 31, 2020

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