

Markets Worry, but Central Banks Stay on Message

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Mon 3/1	ISM Manufacturing	Feb	58.6	▼	58.7
Tues 3/2	Wards Total Vehicle Sales	Feb	16.35M	▼	16.63M
Wed 3/3	ADP Employment Change	Feb	165K	▼	174K
Wed 3/3	ISM Services Index	Feb	58.7	-	58.7
Wed 3/3	Federal Reserve Beige Book		--		--
Thu 3/4	Nonfarm Productivity (Final Estimate)	4Q20	-4.8% Q/Q	-	-4.8% Q/Q
Fri 3/5	Change in Nonfarm Payrolls	Feb	145K	▲	49K
Fri 3/5	Unemployment Rate	Feb	6.4%	▲	6.3%
Fri 3/5	Trade Balance	Jan	-\$67.5B	▼	-\$66.6B
Fri 3/5	Consumer Credit	Jan	\$13.5B	▲	\$9.734B
Europe					
Mon 3/1	EZ Consumer Price Index (Preliminary Estimate)	Feb	1.1% Y/Y	▲	0.9% Y/Y
Wed 3/3	EZ Producer Price Index	Jan			-1.1% Y/Y
Thu 3/4	EZ Unemployment Rate	Jan	8.3%	-	8.3%
Thu 3/4	EZ Retail Sales	Jan	-1.5% Y/Y	▼	0.6% Y/Y
Thu 3/4	OPEC+ Meeting		--		--
Asia Pacific					
Sun 2/28	China Non-Manufacturing PMI	Feb	52.0	▼	52.4
Sun 2/28	China Manufacturing PMI	Feb	51.0	▼	51.3
Mon 3/1	Caixin China Manufacturing PMI	Feb	51.3	▼	51.5
Mon 3/1	South Korea Exports	Feb	14.1% Y/Y	▲	11.4% Y/Y
Tue 3/2	Japan Jobless Rate	Jan	3.0%	▲	2.9%
Wed 3/3	Caixin China Services PMI	Feb	52.0	-	52.0
3/4-3/5	China's National People's Congress Meeting	2021	--		--

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

U.S.

- **Fiscal stimulus discussions next week** should give a better sense of how close the bill will be to the proposed \$1.9 trillion package.
- High-frequency data suggests the **February employment report** should show another weak month of job gains, given the tougher winter months.

Europe

- **EZ January retail sales and February inflation** releases surprised to the upside last month. New numbers will indicate whether EU economies are progressing better than expected and if inflation risks are real.
- Eyes are on the **OPEC+ meeting** to see how much supply will be increased as demand improves.

Asia Pacific

- At **China's annual NPC meeting on March 4 and 5**, we will watch for rhetoric about the expected pace of fiscal stimulus withdrawal and how the government plans to reach its goal to double the size of its economy by 2035.
- **China PMIs for February** will show more detail into how much renewed restrictions weighed on growth.

Institute's Central Scenario

Global flash PMIs were in line with our baseline scenario that the U.S. is pulling ahead of Europe on the path to recovery. While fiscal stimulus and easing of restrictions boosted U.S. services in February, service sectors remain under pressure elsewhere. Separately, Fed Chairman Jerome Powell reiterated the FOMC's commitment to accommodative policy despite markets penciling in an earlier rate hike. Elsewhere, early data from China shows consumer spending held up well during the Lunar New Year despite travel restrictions, suggesting that the PBOC can taper stimulus this year. Please see our [Monthly Macro Dashboard](#).

IN REVIEW

Global PMIs Show the U.S. Edging Ahead of Europe

The preliminary Markit PMIs for February solidified the U.S.'s lead in the economic recovery. The U.S. composite PMI rose to its highest level in six years, while composite PMIs in the eurozone and Japan remained in contractionary territory. Below the surface, there was also much differentiation by sector.

MARKIT FLASH PMIS

Region	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
U.S. Manufacturing	36.1	39.8	49.8	50.9	53.1	53.2	53.4	56.7	57.1	59.2	58.5
U.S. Services	26.7	37.5	47.9	50.0	55.0	54.6	56.9	58.4	54.8	58.3	58.9
EZ Manufacturing	33.4	39.4	47.4	51.8	51.7	53.7	54.8	53.8	55.2	54.8	57.7
EZ Services	12.0	30.5	48.3	54.7	50.5	48	46.9	41.7	46.4	45.4	44.7
UK Manufacturing	32.6	40.7	50.1	53.3	55.2	54.1	53.7	55.6	57.5	54.1	54.9
UK Services	13.4	29.0	47.1	56.5	58.8	56.1	51.4	47.6	49.4	39.5	49.7
Japan Manufacturing	41.9	38.4	40.1	45.2	47.2	47.7	48.7	49	50	49.8	50.6
Japan Services	21.5	26.5	45.0	45.4	45.0	46.9	47.7	47.8	47.7	46.1	45.8

Source: Bloomberg. As of February 25, 2021.

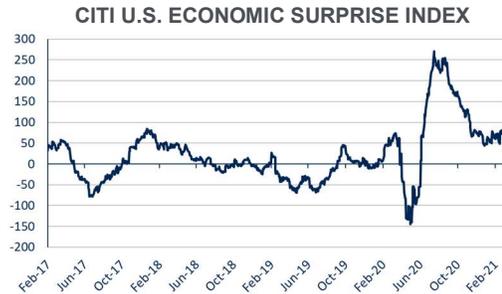
In the **U.S.**, the fiscal stimulus signed into law in December alongside easing restrictions boosted the services PMI higher into expansionary territory in February. Meanwhile, heightened demand for e-commerce and goods, along with more-targeted restrictions, kept the manufacturing PMI well into expansion.

However, in **Europe**, restrictions remain elevated, which is leading the services PMI to fall further into contractionary territory. Similar to the U.S., the more-targeted restrictions allowed manufacturing to rise further into expansionary territory, helping limit the downside from extended restrictions.

In **Japan**, weak consumers and a lack of tourism are keeping the service sector under pressure. However, stronger external demand has finally allowed Japan's manufacturing PMI to peak into expansionary territory—albeit very modestly. Restrictions and a slower vaccine rollout are expected to weigh on 1Q21 GDP.

Powell Reiterates Support

U.S. economic data has surprised to the upside as fiscal stimulus from the December bill found its way to shoppers' wallets. Moreover, Congress appears increasingly likely to pass yet another fiscal stimulus package on the high-end of estimates. While the Senate may amend the House bill next week and reduce the size somewhat, the overall package is expected to be worth \$1.5-1.9 trillion. Congress would like to pass this next relief package before March 14, when the current extension of unemployment insurance benefits expires.



Source: Bloomberg. As of February 25, 2021.

While the data and stimulus prospects are driving yields higher and leading markets to pencil in a rate hike ahead of the FOMC dot plot, Federal Reserve Chairman Jerome Powell remained unwavering in the FOMC's accommodative stance during this week's semiannual monetary policy testimony to Congress. He reiterated that the FOMC will look past any temporary inflation jump in March and April, as the data will be distorted due to base effects from lockdowns last year. Moreover, Powell's remarks about considering impacts among different income groups emphasizes the importance of the labor market on Fed rate decisions; this suggests that rate hikes will come later in this recovery than has historically been the case. Powell's testimony indicated the FOMC does not plan to begin tapering until substantial progress has been made towards their inflation and labor market targets—likely not until 2022—and rate hikes are unlikely before full-employment is achieved. With full support from the Fed confirmed, equities climbed higher.

COVID Restrictions Don't Sway the PBOC

A spike in COVID cases ahead of the Lunar New Year raised concerns about the pace of China's recovery. While travel restrictions led to a decline in passenger traffic, early readings show that activity was not hampered by restrictions: intra-city travel, box office sales, and retail sales held up well during the holiday season. This suggests the damage wasn't as severe as feared and that underlying drivers of steady consumption growth remain intact. The "stay-put" campaign may also expedite work resumption this year compared to history, which should accelerate industrial output growth.

Despite greater restrictions during the Lunar New Year, the PBOC did not lower rates during its meeting this week. Early data surrounding the Lunar New Year supports our baseline view that the PBOC is set to remain on track to taper stimulus this year as China's economy continues to recover.

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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	0.02%	-4 bps	-3 bps	-5 bps	-6 bps	-156 bps	-5 bps
3 Month USD Libor	0.19%	1 bps	-3 bps	-4 bps	-4 bps	-146 bps	-5 bps
3 Month Euribor	-0.54%	1 bps	0 bps	-2 bps	-5 bps	-13 bps	1 bps
3 Month U.S. T-Bill	0.03%	-2 bps	-6 bps	-6 bps	-7 bps	-148 bps	-5 bps
2-Year U.S. Treasury	0.13%	2 bps	0 bps	-4 bps	-2 bps	-113 bps	1 bps
10-Year U.S. Treasury	1.39%	9 bps	30 bps	51 bps	74 bps	2 bps	47 bps
10-Year German Bund	-0.29%	8 bps	22 bps	29 bps	22 bps	19 bps	29 bps
10-Year U.K. Gilt	0.76%	18 bps	44 bps	44 bps	57 bps	24 bps	56 bps
10-Year JGB	0.12%	2 bps	8 bps	9 bps	9 bps	18 bps	10 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.81%	N/A	-0.8%	-1.8%	-2.8%	1.4%	-2.8%
Barclays Capital U.S. TIPS	0.90%	N/A	-0.9%	-1.5%	0.4%	6.5%	-1.3%
Barclays Capital U.S. Aggregate	1.39%	34	-0.7%	-1.5%	-1.8%	2.3%	-2.2%
Barclays Capital Global Aggregate	1.04%	33	-0.3%	-1.6%	-0.6%	5.8%	-2.3%
Barclays Capital U.S. ABS	0.43%	28	0.0%	0.0%	0.3%	3.2%	0.1%
Barclays Capital U.S. MBS	1.60%	21	-0.2%	-0.5%	-0.2%	2.2%	-0.5%
Barclays Capital U.S. Corporate Investment Grade	2.03%	91	-1.2%	-2.0%	-2.3%	2.9%	-3.2%
BAML Euro Corporate Investment Grade	0.31%	86	-0.3%	-0.6%	-0.5%	0.7%	-0.6%
Barclays Capital U.S. Corporate High Yield	4.05%	317	-0.2%	0.7%	3.3%	7.8%	1.2%
BAML European Currency High Yield Non-Financial	2.77%	323	0.0%	0.6%	2.4%	4.2%	1.4%
CS U.S. Leveraged Loans	4.73%	445	0.2%	0.5%	3.4%	4.3%	2.0%
CS Western European Leveraged Loans Non-USD	4.23%	415	0.2%	0.8%	2.4%	4.1%	1.7%
JPM CEMBI Broad Diversified	4.23%	307	-0.2%	0.3%	1.8%	4.7%	0.1%
JPM EMBI Global Diversified	4.97%	350	-0.8%	-1.5%	-0.9%	0.2%	-2.7%
JPM GBI-EM Global Diversified	4.56%	N/A	-0.7%	-0.8%	1.4%	3.0%	-2.0%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,925.43	1.43%	-0.1%	2.3%	8.4%	23.9%	4.7%
Euro STOXX 600 (Local)	413.21	2.05%	-0.7%	1.1%	5.3%	0.3%	3.6%
U.K. FTSE 100 (Local)	6,658.97	3.30%	-0.8%	-0.5%	3.5%	-7.0%	3.1%
Japan Nikkei 225 (Local)	29,671.70	1.40%	-2.0%	3.6%	13.4%	26.9%	8.1%
China Shanghai Composite (Local)	3,564.08	1.98%	-2.5%	-1.2%	4.7%	17.6%	2.6%
MSCI AC World (Local)	675.37	1.75%	-1.2%	1.4%	8.5%	23.7%	4.9%
MSCI Emerging Markets (Local)	1,376.76	1.80%	-4.7%	-1.2%	12.6%	31.8%	7.1%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	489.30	3.4%	14.5%	26.9%	37.4%	25.7%	19.5%
WTI Crude (\$/bbl)	63.22	3.5%	20.9%	41.4%	49.0%	23.1%	30.8%
Copper (\$/lb)	4.30	12.1%	18.3%	30.3%	47.2%	65.9%	22.4%
Gold (\$/oz)	1,788.00	0.4%	-3.5%	-0.6%	-8.0%	7.0%	-5.3%
U.S. Dollar Index	90.18	-0.9%	-0.1%	-2.2%	-3.3%	-9.2%	0.3%
Euro (USD/EUR)	1.21	0.7%	-0.4%	2.1%	2.6%	11.7%	-0.9%
British Pound (USD/GBP)	1.41	1.8%	3.1%	5.5%	7.9%	9.1%	3.1%
Japanese Yen (Yen/USD)	105.94	0.0%	2.1%	1.2%	0.1%	-4.3%	2.6%
Chinese Yuan (CNY/USD)	6.45	0.2%	-0.4%	-1.9%	-6.6%	-8.2%	-1.3%

Source: FactSet and Bloomberg. As of February 24, 2021.

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*As of December 31, 2020

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