BARINGS INVESTMENT INSTITUTE

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THE WEEK AHEAD

Central Banks Tread a Fine Line

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 3/16	Retail Sales	Feb	-0.2% M/M	▼	5.3% M/M
Tue 3/16	Industrial Production	Feb	0.6% M/M	▼	0.9% M/M
Tue 3/16	NAHB Housing Market Index	Mar	84	-	84
Wed 3/17	Building Permits	Feb	1723K	▼	1881K
Wed 3/17	Housing Starts	Feb	1570K	▼	1580K
Wed 3/17	FOMC Meeting	Mar	0%-0.25%	-	0%-0.25%
Thu 3/18	U.S.-China Meeting in Alaska		--		--
Europe					
Mon 3/15	Eurogroup Meeting		--		--
Wed 3/17	EZ CPI (final estimate)	Feb	0.9% Y/Y	-	0.9% Y/Y
Thu 3/18	Bank of England Bank Rate	Mar	0.1%	-	0.1%
Asia Pacific					
Mon 3/15	China Industrial Production (YTD)	Feb	32.6% Y/Y		
Mon 3/15	China Fixed Assets ex Rural (YTD)	Feb	41.5% Y/Y		
Mon 3/15	China Property Investment (YTD)	Feb	53.4% Y/Y		
Mon 3/15	China Retail Sales (YTD)	Feb	32.0% Y/Y		
Fri 3/19	Japan Consumer Price Index	Feb	-0.3% Y/Y	▲	-0.6% Y/Y
Fri 3/19	BOJ Policy Rate	Mar			-0.1%

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

U.S.

- **We will watch the FOMC meeting to see how the Fed responds to the newest fiscal stimulus bill.** Labor market slack in the February jobs report and a tame CPI reading this week will give the Fed cover to remain accommodative, though they will likely raise growth projections.
- **Retail sales for February will likely ease** following the January jump from stimulus checks. However, additional stimulus will provide more support over the coming months.

Europe

- **The Bank of England meeting scheduled for Thursday should keep policy rates unchanged.** The question markets want answered is whether recent rises in bond yields are considered warranted by the BoE or not. And, what will the bank do about it? For now, markets expect mostly words but no change in asset purchase amounts and pace.

Asia Pacific

- **We will listen to the Bank of Japan's comments from its meeting on Friday**. The BoJ waited and watched as a selloff in bonds led the yield on Japanese government debt to rise. At this meeting, we watch to see if the central bank will allow a wider range of yield moves going forward, or if it plans to step in to prevent yields from rising too high.
- **China activity data** for February will likely be noisy due to timing of the Lunar New Year.

Institute's Central Scenario

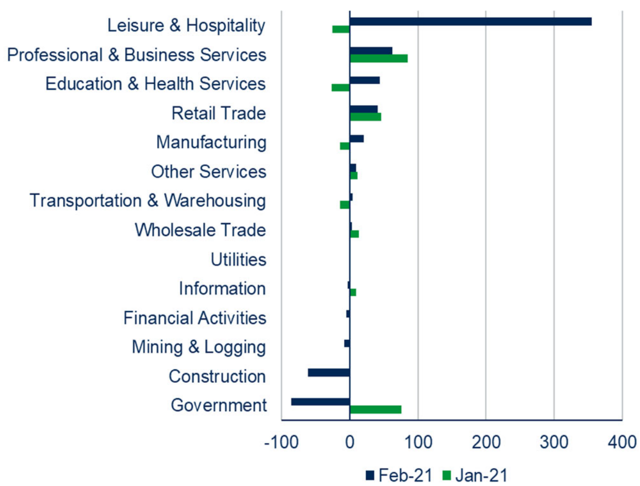
In the U.S., the labor market recovery is set to pick up steam and more fiscal stimulus is poised to boost the spending recovery. However, elevated slack there should keep the Fed accommodative, even in the face of rising inflation fears. In Europe, the ECB said it will increase the path of purchases through the PEPP, and stayed with their outlook of inflation undershooting their target. Elsewhere, China's annual NPC meeting reiterated the government's stance toward longer-term structural reform and away from near-term growth. The targets suggested less stimulus this year. This is in line with our baseline outlook, which calls for more targeted policy measures in China, where GDP has already surpassed pre-crisis levels. Please see our Monthly Macro Dashboard.

IN REVIEW

U.S. Employment Better, But a Long Way to Go

U.S. job growth was better than expected in February, but the labor market is still far from healed. Nonfarm payrolls rose 379,000 over the month, compared with consensus expectations for a 200,000 increase. The report showed that while weather weighed on construction employment, easing of restrictions boosted accommodation and food services a strong 321,000. Overall, the unemployment rate edged down from 6.3% to 6.2%.

CHANGE IN U.S. NONFARM PAYROLLS, THOUSANDS



Source: Bloomberg. As of March 11, 2021.

The pace of job gains is set to accelerate from here as weather warms and restrictions ease. Moreover, the passage of another fiscal stimulus bill should help boost near-term growth, as a majority of the funds are directed to consumers. Included in this week's $1.9 trillion bill is $1,400 stimulus checks; if consumers spend the same percentage of newly received support as they did with the stimulus checks from the CARES Act, we calculate this would boost personal spending 9% above pre-crisis levels. This has led to upgrades in growth outlooks, including by the OECD this week, which upgraded U.S. 2021 growth from a 3.2% estimate in December to 6.5%.

However, employment remains down 9.5 million jobs from pre-crisis levels, and the February report showed no improvement in the labor force participation rate, an increase in the share of long-term unemployed, and a rise in the unemployment rate for Black Americans. This means that the labor market is still far from the Fed's "high standards" for maximum employment. The Fed has increasingly emphasized the importance of the labor market in its dual mandate. Therefore, while inflation fears have picked up, the February Employment Report suggests that there is still a ways to go before the Fed feels comfortable raising rates. This is also one of the reasons we stay with our central economic scenario.

ECB Keeps Calm and Carries On

That was the ECB's message at this week's meeting. The ECB noted it is not going to take part in yield curve control, nor will it "micromanage weekly purchases." However, the monthly path of bond purchases will show its new commitment to put purchases on a "significantly higher path." €1 trillion remains in the Pandemic Emergency Purchase Programme, and maturities from one to 30 years are eligible. There is enough space left in the PEPP envelope to increase weekly purchases from the current €14 billion to €20 billion. More than this would require raising the envelope.

In terms of the bank's outlook, inflation is forecast to remain below target, around 1.4%—except for a few months where it can reach 2% on temporary factors, which the ECB will look through. The inflation forecasts do not include the $1.9 trillion spending package in the U.S., but we do not see much of an inflation pass-through to Europe. Some euro depreciation won't do much; it will probably lead to higher euro area growth through exports.

China's Prudent But Flexible Approach

China announced a modest 2021 GDP growth target of 6% at the annual National People's Congress. The below-consensus projection signaled the government policy focus has shifted toward longer-term structural reforms. One of the government's goals is to lower the fiscal deficit target to 3.2% GDP in an attempt to reduce debt-related risks, though it is still higher than market expectations. The announcements came amid an ongoing sell-off in Chinese equity markets, given renewed fears of policy overtightening and a broader risk-off move as global sovereign yields rose. Going forward, while policy is biased towards less accommodation, authorities will likely adopt a balanced and flexible approach.

Separately at the meeting, officials announced China will strive to keep its surveyed urban unemployment rate below 5.5%, with plans to add 11 million new jobs, and consumer prices will remain generally stable. Top Chinese officials are finalizing plans to meet with U.S. Secretary of State Antony Blinken and others on March 18 in Alaska, the first meeting with members of the new U.S. presidential administration.

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	-100 bps	0 bps
U.S. SOFR	0.02%	-2 bps	-4 bps	-6 bps	-7 bps	-109 bps	-5 bps
3 Month USD Libor	0.18%	-1 bps	-2 bps	-4 bps	-7 bps	-60 bps	-5 bps
3 Month Euribor	-0.54%	0 bps	0 bps	0 bps	-6 bps	-6 bps	0 bps
3 Month U.S. T-Bill	0.04%	0 bps	-1 bps	-4 bps	-8 bps	-39 bps	-4 bps
2-Year U.S. Treasury	0.15%	1 bps	6 bps	2 bps	1 bps	-33 bps	4 bps
10-Year U.S. Treasury	1.51%	4 bps	38 bps	60 bps	83 bps	75 bps	59 bps
10-Year German Bund	-0.31%	-1 bps	14 bps	29 bps	12 bps	50 bps	27 bps
10-Year U.K. Gilt	0.72%	-6 bps	26 bps	52 bps	48 bps	51 bps	53 bps
10-Year JGB	0.12%	1 bps	5 bps	11 bps	10 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	0.91%	N/A	-0.1%	-2.1%	-3.3%	-2.9%	-3.4%
Barclays Capital U.S. TIPS	1.03%	N/A	0.2%	-1.6%	-0.5%	7.2%	-1.2%
Barclays Capital U.S. Aggregate	1.51%	34	-0.3%	-2.0%	-2.5%	0.0%	-2.8%
Barclays Capital Global Aggregate	1.11%	34	-0.8%	-2.5%	-2.8%	1.4%	-3.6%
Barclays Capital U.S. ABS	0.48%	28	0.0%	-0.2%	0.1%	2.0%	0.0%
Barclays Capital U.S. MBS	1.66%	13	-0.2%	-0.8%	-0.4%	1.1%	-0.7%
Barclays Capital U.S. Corporate Investment Grade	2.23%	99	-0.7%	-3.1%	-3.7%	2.5%	-4.4%
BAML Euro Corporate Investment Grade	0.34%	89	0.0%	-0.6%	-0.9%	2.4%	-0.7%
Barclays Capital U.S. Corporate High Yield	4.43%	334	-0.6%	-0.9%	1.2%	13.0%	0.3%
BAML European Currency High Yield Non-Financial	2.90%	332	-0.2%	-0.2%	1.0%	10.1%	1.0%
CS U.S. Leveraged Loans	4.77%	445	0.1%	0.4%	2.6%	8.9%	2.0%
CS Western European Leveraged Loans Non-USD	4.26%	416	0.0%	0.6%	2.0%	7.5%	1.8%
JPM CEMBI Broad Diversified	4.42%	309	-0.7%	-1.1%	-0.1%	6.6%	-0.9%
JPM EMBI Global Diversified	5.25%	368	-1.2%	-4.1%	-3.5%	3.2%	-4.6%
JPM GBI-EM Global Diversified	4.86%	N/A	-1.4%	-4.9%	-4.5%	2.7%	-5.6%
Equities	**Price**	**Div Yield**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
S&P 500	3,898.81	1.44%	2.1%	-0.1%	6.7%	37.7%	4.1%
Euro STOXX 600 (Local)	422.11	2.05%	2.1%	3.1%	7.4%	25.8%	5.8%
U.K. FTSE 100 (Local)	6,725.60	3.24%	0.8%	3.1%	1.9%	12.8%	4.1%
Japan Nikkei 225 (Local)	29,036.56	1.43%	-1.8%	-1.8%	8.5%	46.2%	5.8%
China Shanghai Composite (Local)	3,357.74	2.10%	-6.1%	-8.1%	-0.5%	12.0%	-3.3%
MSCI AC World (Local)	666.28	1.76%	1.0%	0.0%	6.6%	36.8%	4.3%
MSCI Emerging Markets (Local)	1,324.90	1.90%	-3.1%	-4.0%	7.5%	39.3%	4.5%
Commodities/Currencies	**Price**	**1W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
S&P GS Commodity Index	485.46	2.3%	5.7%	23.1%	42.9%	52.2%	18.6%
WTI Crude ($/bbl)	64.44	5.1%	9.8%	37.8%	73.0%	86.9%	33.3%
Copper ($/lb)	4.04	-2.7%	6.8%	13.2%	35.3%	59.5%	15.0%
Gold ($/oz)	1,716.20	0.3%	-6.9%	-6.9%	-12.7%	3.7%	-9.1%
U.S. Dollar Index	91.82	1.0%	1.6%	1.1%	-1.6%	-4.8%	2.1%
Euro (USD/EUR)	1.19	-1.5%	-1.9%	-1.9%	0.2%	4.9%	-2.8%
British Pound (USD/GBP)	1.39	-0.5%	0.4%	4.8%	8.1%	7.5%	1.7%
Japanese Yen (Yen/USD)	108.63	1.6%	3.8%	4.0%	2.3%	4.7%	5.2%
Chinese Yuan (CNY/USD)	6.51	0.8%	1.1%	-0.6%	-4.8%	-6.3%	-0.4%

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

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*As of December 31, 2020
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