

09 April 2021

THE WEEK AHEAD

Spring has Sprung from Seeds of Spending

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 4/13	NFIB Small Business Optimism	Mar	98.0	▲	95.8
Tue 4/13	Consumer Price Index	Mar	2.5% Y/Y	▲	1.7% Y/Y
Wed 4/14	Federal Reserve Beige Book		--		--
Thu 4/15	Retail Sales	Mar	5.0% M/M	▲	-3.0% M/M
Thu 4/15	Industrial Production	Mar	2.9% M/M	▲	-2.2% M/M
Thu 4/15	NAHB Housing Market Index	April	84	▲	82
Fri 4/16	Building Permits	Mar	1745K	▲	1682K
Fri 4/16	Housing Starts	Mar	1615K	▲	1421K
Fri 4/16	University of Michigan Sentiment (Preliminary Estimate)	Apr	89.0	▲	84.9
Europe					
Mon 4/12	EZ Retail Sales	Feb	1.3% M/M	▲	-5.9% M/M
Mon 4/12	U.K. Industrial Production	Feb	0.3% M/M	▲	-1.5% M/M
Mon 4/12	U.K. Monthly GDP	Feb			-2.9% M/M
Wed 4/14	EZ Industrial Production	Feb	0.3% M/M	▼	0.8% M/M
Fri 4/16	EZ Consumer Price Index (Final Estimate)	Mar	1.3% Y/Y	▲	0.9% Y/Y
Asia Pacific					
4/8-4/15	China Aggregate Financing	Mar	3700.0 B	▲	1710.0B
4/12-4/13	China Exports	Mar	37.6% Y/Y	▲	18.1% Y/Y
4/12-4/13	China Imports	Mar	24.3% Y/Y	▲	6.5% Y/Y
4/12	Japan Producer Price Index	Mar	0.3% Y/Y	▲	-0.7% Y/Y
4/13	Japan Core Machine Orders	Feb	3.0% M/M	▲	-4.5% M/M
Fri 4/16	China GDP	1Q21	18.6% Y/Y	▲	6.5% Y/Y
Fri 4/16	China Industrial Production (YTD)	Mar	28.1% Y/Y	▼	35.1% Y/Y
Fri 4/16	China Fixed Assets ex Rural (YTD)	Mar	27.0% Y/Y	▼	35.0% Y/Y
Fri 4/16	China Property Investment (YTD)	Mar			38.3% Y/Y
Fri 4/16	China Retail Sales (YTD)	Mar	32.5% Y/Y	▼	33.8% Y/Y

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

U.S.

- **CPI data for March is expected to rise sharply** largely due to base effects. We will watch if markets view this as temporary or if they price in higher inflation, particularly if there is an upside surprise in the data.
- **Retail sales** are set to jump in March as fiscal stimulus boosts spending.

Europe

- **EZ industrial production** for February will show if hard data follow PMI surveys and confirm lockdowns inflicted limited damage to the economy.
- **EZ February retail sales** are expected to show improvement after months of softening.

Asia Pacific

- **China 1Q21 GDP** is set to rise at a solid pace, aided by greater external demand, improving internal demand, and investment.
- **We will monitor China activity data** and the recovery in internal demand to see if hard data—such as retail sales—matches earlier PMI data.

Institute's Central Scenario

In the U.S., fiscal stimulus, vaccine rollout, and easing of restrictions are already leading to improvements in the service sector. Forward-looking indicators point to strong near-term demand, even with only one-quarter of the population vaccinated. In Europe, upward revisions to PMIs show policy support is minimizing the pain of renewed lockdowns. Meanwhile, the PBOC remains optimistic about China's growth outlook while focusing on financial de-risking. Please see our [Monthly Macro Dashboard](#).

IN REVIEW
U.S. Services on the Mend

The March Employment Report eased concerns about weak February activity data. Nonfarm payrolls rose 916,000 over the month, above the consensus estimate of 660,000, aided by government spending to consumers, better weather, vaccine rollout, and easing restrictions. Details were impressive, with the breadth of job gains broadly improving. COVID-sensitive sectors saw strong job gains, showing that it won't take herd immunity in the U.S. for these sectors to begin recovering.



Source: Haver. As of April 8, 2021.

The unemployment rate fell from 6.2% to 6.0% for the right reasons, as the labor force participation rate edged up slightly to 61.5%. There was even some re-entry from those on the sidelines who had not been counted among the labor force.

Separately, average hourly earnings fell 0.1% M/M in March. Data is being distorted because of the compositional effect from a rise in low-wage jobs; a return of more low-wage jobs in the coming months should put continued downward pressure on the average hourly earnings figure. We will watch the Employment Cost Index, which controls for compositional shifts, to see if wage pressures materialize as the recovery shifts into high gear.

Temporary layoffs remain elevated, suggesting that job gains should remain strong in the near-term as the economy continues to reopen and vaccines are distributed. However, with 5 million more people than before the crisis not in the labor force, slack here should keep the Fed accommodative as it puts increasing emphasis on reaching maximum employment.

Separately, the ISM Services Index reached a record-high in March, aided by better weather and reopening of the economy. Forward-looking indicators, such as new orders and business activity, saw the biggest increases, suggesting growth in the services sector should accelerate in the near-term.

Limited Lockdown Damage Shows the EU Turning the Corner

The surge in European PMIs continued unabated last week. March Service PMIs were revised upwards substantially, while Construction PMIs came in well-above consensus in all five major European economies. Strong end-of-month revisions suggest momentum in the battered service sectors. Composite PMI is back above 50 (at 53.2) for the first month since October, increasing the probability of a strong GDP print in Q2. This suggests that the latest restrictions imposed in France, Italy and elsewhere are having a limited impact on EU activity. Vaccine deliveries are finally picking up, meaning vaccination programs should as well. The EU Commission announced that all vulnerable populations there should be vaccinated by July 1.

China Supports Tech & Manufacturing Lending

Credit growth should be 11% this year, following new details about the PBOC's comments in late March that asked banks to keep 2021 loan growth stable and reasonable. To de-risk, certain sectors like real estate have also seen tightening policy measures, such as the "Three Red Lines," which are rules regarding leverage limits for property developers. Despite the latest hawkish guidance for banks, they have been asked to increase lending in areas such as technology and manufacturing, implying not all sectors will see tightening across the board. The PBOC also committed to further reduction of real interest rates for loans to smaller enterprises. The longer de-risking bias prevails, the more it can be inferred policymakers are confident in the economic outlook, despite near-term headwinds.

IMF Upgrades Growth, But Highlights Divergence

The IMF upgraded its global economic growth outlook this week to 6% for 2021 and 4.4% for 2022, up from its 5.5% 2021 projection in January. The move is largely attributable to greater policy support—notably the \$1.9 trillion U.S. stimulus package—and vaccine availability. While the IMF projects strong global growth, it sees diverging paths, particularly depending on the pace of vaccine rollout, strength of policy support, and reliance on tourism. Across major economies, China is projected to grow 8.4% this year, followed by the U.S., which should easily surpass pre-crisis GDP levels, while other advanced economies such as the euro area should see a delayed rebound.

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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	0 bps	0 bps
U.S. SOFR	0.01%	0 bps	-1 bps	-9 bps	-9 bps	0 bps	-6 bps
3 Month USD Libor	0.19%	0 bps	1 bps	-3 bps	-4 bps	-113 bps	-4 bps
3 Month Euribor	-0.54%	-1 bps	-1 bps	1 bps	-4 bps	-25 bps	0 bps
3 Month U.S. T-Bill	0.02%	-1 bps	-3 bps	-8 bps	-8 bps	-12 bps	-6 bps
2-Year U.S. Treasury	0.16%	0 bps	1 bps	1 bps	1 bps	-13 bps	4 bps
10-Year U.S. Treasury	1.65%	-9 bps	10 bps	58 bps	86 bps	92 bps	73 bps
10-Year German Bund	-0.32%	-2 bps	-1 bps	24 bps	18 bps	2 bps	26 bps
10-Year U.K. Gilt	0.79%	-4 bps	3 bps	51 bps	48 bps	42 bps	59 bps
10-Year JGB	0.10%	1 bps	-1 bps	6 bps	7 bps	10 bps	8 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.98%	N/A	0.4%	-0.4%	-2.9%	-4.1%	-3.9%
Barclays Capital U.S. TIPS	1.09%	N/A	0.1%	0.4%	-1.1%	5.6%	-1.3%
Barclays Capital U.S. Aggregate	1.57%	31	0.4%	-0.1%	-2.2%	0.9%	-3.0%
Barclays Capital Global Aggregate	1.13%	32	0.7%	-0.2%	-3.3%	5.8%	-3.8%
Barclays Capital U.S. ABS	0.55%	35	0.0%	-0.1%	-0.1%	4.1%	-0.1%
Barclays Capital U.S. MBS	1.78%	12	0.2%	-0.2%	-0.9%	-0.3%	-0.9%
Barclays Capital U.S. Corporate Investment Grade	2.23%	89	0.6%	0.4%	-2.7%	9.0%	-4.1%
BAML Euro Corporate Investment Grade	0.30%	88	0.3%	0.3%	-0.5%	8.9%	-0.4%
Barclays Capital U.S. Corporate High Yield	4.00%	290	0.6%	1.0%	1.3%	25.0%	1.5%
BAML European Currency High Yield Non-Financial	2.67%	313	0.5%	0.9%	1.6%	20.6%	1.9%
CS U.S. Leveraged Loans	4.82%	446	0.3%	1.0%	3.4%	19.4%	2.3%
CS Western European Leveraged Loans Non-USD	4.29%	419	0.2%	0.9%	2.2%	20.5%	1.9%
JPM CEMBI Broad Diversified	4.44%	298	0.3%	-0.1%	-0.5%	18.3%	-0.5%
JPM EMBI Global Diversified	5.18%	350	0.8%	0.7%	-3.1%	16.8%	-3.7%
JPM GBI-EM Global Diversified	4.91%	N/A	1.5%	0.2%	-5.4%	15.0%	-5.3%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,079.95	1.38%	2.7%	6.3%	7.6%	56.0%	9.1%
Euro STOXX 600 (Local)	434.32	2.20%	1.1%	6.3%	6.3%	33.0%	8.8%
U.K. FTSE 100 (Local)	6,885.32	3.01%	2.6%	3.8%	0.4%	20.7%	6.6%
Japan Nikkei 225 (Local)	29,730.79	1.33%	1.9%	3.0%	8.2%	56.9%	8.3%
China Shanghai Composite (Local)	3,479.63	2.03%	1.1%	-0.6%	-2.7%	23.4%	0.2%
MSCI AC World (Local)	689.24	1.71%	2.2%	5.2%	7.7%	51.1%	8.3%
MSCI Emerging Markets (Local)	1,338.76	1.86%	1.5%	0.3%	3.6%	50.4%	5.6%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	469.95	0.5%	-4.4%	11.0%	33.0%	73.7%	14.8%
WTI Crude (\$/bbl)	59.77	1.0%	-9.5%	18.1%	50.1%	153.9%	23.6%
Copper (\$/lb)	4.06	1.5%	-0.6%	10.0%	33.9%	77.6%	15.7%
Gold (\$/oz)	1,738.05	2.8%	2.5%	-9.5%	-7.8%	5.4%	-7.9%
U.S. Dollar Index	92.46	-0.8%	0.5%	2.9%	-1.3%	-7.5%	2.8%
Euro (USD/EUR)	1.19	1.3%	-0.1%	-2.9%	1.2%	9.4%	-2.7%
British Pound (USD/GBP)	1.38	-0.1%	-0.2%	1.8%	6.9%	12.0%	0.9%
Japanese Yen (Yen/USD)	109.63	-0.8%	1.3%	5.5%	3.4%	0.6%	6.2%
Chinese Yuan (CNY/USD)	6.55	-0.1%	1.1%	1.4%	-3.9%	-7.2%	0.1%

Source: FactSet and Bloomberg. As of April 7, 2021.

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*As of December 31, 2020
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