

Shoppers Are Back—Spending is the New Saving

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Thu 4/22	Existing Home Sales	Mar	6.17M	▼	6.22M
Fri 4/23	Markit Manufacturing PMI (Preliminary Estimate)	Apr	60.0	▲	59.1
Fri 4/23	Markit Services PMI (Preliminary Estimate)	Apr	61.0	▲	60.4
Fri 4/23	New Home Sales	Mar	868K	▲	775K
Europe					
Tue 4/20	U.K. Unemployment Rate	Feb	5.1%	▲	5.0%
Wed 4/21	U.K. Consumer Price Index	Mar	0.9% Y/Y	▲	0.4% Y/Y
Thu 4/22	ECB Monetary Policy Meeting	Apr	0.0%	—	0.0%
Fri 4/23	EZ Markit Manufacturing PMI (Preliminary Estimate)	Apr	62.2	▼	62.5
Fri 4/23	EZ Markit Services PMI (Preliminary Estimate)	Apr	49.9	▲	49.6
Fri 4/23	U.K. Retail Sales Inc. Auto Fuel	Mar			2.1% M/M
Fri 4/23	U.K. Markit Manufacturing PMI (Preliminary Estimate)	Apr	59.8	▲	58.9
Fri 4/23	U.K. Markit Services PMI (Preliminary Estimate)	Apr	58.0	▲	56.3
Asia Pacific					
Tue 4/20	PBOC Meeting	Apr	—		—
Wed 4/21	South Korea Exports 20 Days	Apr			12.5% Y/Y
Fri 4/23	Japan Consumer Price Index	Mar	-0.2% Y/Y	▲	-0.4% Y/Y
Fri 4/23	Jibun Bank Japan Mfg. PMI (Preliminary Estimate)	Apr			52.7
Fri 4/23	Jibun Bank Japan Services PMI (Preliminary Estimate)	Apr			48.3

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

U.S.

- **Flash PMIs for April** will show the extent to which reopening in the absence of herd immunity is boosting the U.S. recovery. We also will watch to see if companies are able to pass along rising input prices to consumers.
- **Earnings season has begun**, and we will watch to see if data live up to the optimistic outlook. S&P 500 earnings are expected to increase 24.5% Y/Y in Q1, which would mark the highest growth since Q3 2018.

Europe

- **ECB Meeting for April** is unlikely to result in any policy change, but the press conference will focus on the Pandemic Emergency Purchase Programme (PEPP), its pace of purchases, its expiration (March 2021) and challenges from the German Constitutional Court.
- **Flash PMIs for April** will give clues on the pace of the recovery as restrictions start to ease.

Asia Pacific

- The **PBOC meets next week**, and while markets expect no changes to Loan Prime Rates, ongoing focus will be on its open market operations, which has not injected any new net liquidity YTD.
- **South Korea preliminary first 20-day exports for April** will likely moderate after five-consecutive months of gains. Expect greater focus on whether recent supply bottlenecks are causing a drag on auto exports.

Institute's Central Scenario

Data in Europe was a mixed bag this week, but the region remains on track for a delayed recovery as consumers weathered winter lockdowns fairly well. In the U.S., data popped in March. Base effects, reopenings, and stimulus checks drove inflation and retail sales data higher. However, given much anticipation, markets took higher inflation data in stride. Elsewhere, credit growth in China slowed as policymakers remain confident in the economic recovery. Please see our [Monthly Macro Dashboard](#).

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IN REVIEW

Mixed Messages from Europe, But Recovery Remains on Track

Retail sales surprised to the upside with the strongest numbers since last summer, confirming that the EU consumer has weathered winter lockdowns fairly well. Supply bottlenecks in the semiconductor space hurt chip-intensive sectors, such as automotive, but in general industrial production held up. Germany Producer Price Index (PPI) also showed the impact of supply bottlenecks, in this case through freight costs. All in all, the recovery remains on track, conditional on vaccine supply not disappointing again (see dedicated section further down).

Bond Markets Take U.S. Inflation & Retail Boom in Stride

Base effects boosted U.S. inflation data this week, but markets kept their cool. The PPI rise in March showed input price pressures continue to mount in reaction to supply chain congestion. However, only a fraction of this is being passed on to consumers. The Consumer Price Index (CPI) rose 2.6% Y/Y in March, largely due to base effects and energy prices. Excluding food and energy, core CPI rose 1.6% Y/Y. COVID-sensitive sectors are beginning to improve, aided by reopenings and stimulus checks. Over the month, indices accelerated for transportation, lodging away from home, and recreation. The Fed sees the increase in inflation as temporary and will look through the noise. After a few months of high inflation numbers, our central scenario calls for inflation to edge back down by year-end. However, fears of persistent inflationary pressures could result in our Inflation Anxiety scenario, which would lead to greater volatility and the 10-year U.S. Treasury near 3%.

While spending in all major categories rose, gains in COVID-sensitive sectors were particularly strong, with a notable shift towards dining at restaurants and in-person shopping.

Separately, the chip shortage has not dented auto sales yet, with motor vehicle and parts sales up 15.1% M/M. While consumer spending will likely ease as one-off stimulus checks fade, spending should remain strong given healthy consumer finances.

Looking Through Elevated China Credit Volatility

China credit growth slowed as loan, aggregate total financial, and M2 money growth all moderated in Y/Y terms in March. New bond issuance declined sharply and off-balance sheet activities shrank—reflecting stricter shadow credit rules—while bank lending softened. Though the overall economic impact should remain benign, it comes amid growing concern that China’s largest state-owned bad-debt manager, Huarong, would be allowed to go into bankruptcy. The overall number of bond defaults this year has nevertheless stayed low, however, and there are no indications that a systemic credit-crunch would spread beyond sectors like real estate. Policymakers have adopted a de-risking stance and guided that Y/Y credit growth should moderate to 11% by year-end, but it has not curtailed capex activity, which remains robust. Long-term corporate loan growth remained strong while capital goods imports surged in March, reflecting a continued recovery in the manufacturing capex amid resilient external demand.

Vaccine Rollout Continues Amid New Hurdles

New vaccine obstacles are popping up around the world following suspensions of the Johnson & Johnson (J&J) vaccine; while temporary, the moves leave the U.S. and the EU with one fewer vaccine in the days ahead. Moderna and Pfizer vaccines accounted for 95% of the shots allocated in the U.S. this week. Added doubts about the safety of available COVID-19 vaccines could jeopardize global vaccination campaigns.

The situation in Europe is even more unclear as AstraZeneca and J&J vaccines represent 125 million (29%) of the doses expected to be delivered in Q2. J&J will delay vaccine rollout in Europe to review with European health authorities extremely rare blood clotting incidents. Should use of J&J and AstraZeneca vaccines be ruled out, vaccination programs would likely experience delays, though Pfizer announced delivery of an additional 50 million doses in Q2. The situation remains fluid, and the Italian medical agency is running trials on the Russian Sputnik vaccine to decide whether it will allow its use there.



Source: Haver. As of April 15, 2021.

Reopenings and stimulus checks also boosted March retail sales, which jumped 9.8% M/M—well above the consensus estimate.

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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	0 bps	-7 bps	-8 bps	-5 bps	-6 bps
3 Month USD Libor	0.18%	-1 bps	-1 bps	-4 bps	-5 bps	-99 bps	-5 bps
3 Month Euribor	-0.54%	1 bps	0 bps	1 bps	-3 bps	-29 bps	1 bps
3 Month U.S. T-Bill	0.02%	1 bps	-2 bps	-7 bps	-10 bps	-18 bps	-6 bps
2-Year U.S. Treasury	0.15%	0 bps	1 bps	0 bps	2 bps	-7 bps	4 bps
10-Year U.S. Treasury	1.63%	-2 bps	1 bps	51 bps	92 bps	89 bps	72 bps
10-Year German Bund	-0.28%	4 bps	2 bps	27 bps	30 bps	12 bps	29 bps
10-Year U.K. Gilt	0.78%	0 bps	-4 bps	49 bps	56 bps	46 bps	59 bps
10-Year JGB	0.09%	-1 bps	-2 bps	6 bps	6 bps	8 bps	7 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.96%	N/A	0.2%	0.4%	-2.5%	-3.8%	-3.7%
Barclays Capital U.S. TIPS	1.10%	N/A	0.3%	0.9%	-0.5%	4.8%	-1.0%
Barclays Capital U.S. Aggregate	1.53%	29	0.3%	0.6%	-1.9%	0.3%	-2.7%
Barclays Capital Global Aggregate	1.12%	32	0.3%	0.3%	-2.8%	4.7%	-3.5%
Barclays Capital U.S. ABS	0.53%	33	0.1%	0.0%	-0.1%	4.0%	-0.1%
Barclays Capital U.S. MBS	1.70%	7	0.3%	0.2%	-0.6%	0.2%	-0.6%
Barclays Capital U.S. Corporate Investment Grade	2.19%	88	0.4%	1.5%	-2.4%	5.2%	-3.7%
BAML Euro Corporate Investment Grade	0.33%	87	-0.2%	0.1%	-0.7%	6.5%	-0.6%
Barclays Capital U.S. Corporate High Yield	4.07%	295	0.0%	1.0%	1.2%	17.8%	1.5%
BAML European Currency High Yield Non-Financial	2.66%	308	0.0%	0.6%	1.5%	15.9%	2.0%
CS U.S. Leveraged Loans	4.82%	447	0.1%	0.3%	1.3%	16.1%	2.4%
CS Western European Leveraged Loans Non-USD	4.28%	418	0.1%	0.1%	1.4%	16.6%	2.0%
JPM CEMBI Broad Diversified	4.45%	302	0.0%	0.2%	-0.1%	15.6%	-0.6%
JPM EMBI Global Diversified	5.09%	343	0.7%	1.5%	-1.6%	14.6%	-3.0%
JPM GBI-EM Global Diversified	4.91%	N/A	0.3%	0.0%	-4.2%	12.2%	-5.0%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,124.66	1.36%	1.1%	4.7%	9.1%	47.4%	10.3%
Euro STOXX 600 (Local)	436.57	2.72%	0.5%	3.2%	6.0%	30.7%	9.4%
U.K. FTSE 100 (Local)	6,939.58	3.03%	0.8%	2.6%	2.0%	19.8%	7.4%
Japan Nikkei 225 (Local)	29,620.99	1.34%	-0.4%	-0.3%	3.2%	50.8%	7.9%
China Shanghai Composite (Local)	3,416.72	2.06%	-1.8%	-1.1%	-4.2%	20.8%	-1.6%
MSCI AC World (Local)	695.84	1.70%	0.8%	3.4%	6.4%	45.1%	9.2%
MSCI Emerging Markets (Local)	1,336.59	1.86%	-0.1%	-0.4%	-0.4%	47.7%	5.5%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	487.52	3.7%	-1.0%	11.6%	34.6%	75.0%	19.1%
WTI Crude (\$/bbl)	63.15	5.7%	-3.7%	18.1%	54.6%	213.4%	30.6%
Copper (\$/lb)	4.14	1.9%	-0.1%	12.9%	35.8%	76.4%	17.8%
Gold (\$/oz)	1,735.55	-0.1%	1.8%	-5.8%	-9.1%	-0.4%	-8.1%
U.S. Dollar Index	91.69	-0.8%	0.0%	1.6%	-1.8%	-7.3%	1.9%
Euro (USD/EUR)	1.20	0.6%	0.2%	-1.4%	1.8%	9.1%	-2.2%
British Pound (USD/GBP)	1.38	-0.1%	-0.8%	0.7%	5.7%	9.4%	0.8%
Japanese Yen (Yen/USD)	109.02	-0.6%	0.0%	5.0%	3.7%	1.7%	5.6%
Chinese Yuan (CNY/USD)	6.53	-0.2%	0.4%	1.0%	-3.0%	-7.5%	-0.1%

Source: FactSet and Bloomberg. As of April 14, 2021.

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