

Europe Rolls Up Its Sleeve

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 4/27	FHFA House Price Index	Feb	1.0% M/M	▬	1.0% M/M
Tue 4/27	Conference Board Consumer Confidence	Apr	112.0	▲	109.7
Wed 4/28	FOMC Meeting	Apr	0.0%-0.25%	▬	0.0%-0.25%
Thu 4/29	GDP, annualized (Advanced Estimate)	1Q21	6.1% Q/Q	▲	4.3% Q/Q
Thu 4/29	Pending Home Sales	Mar	4.0% M/M	▲	-10.6% M/M
Fri 4/30	Employment Cost Index	1Q21	0.7% Q/Q	▬	0.7% Q/Q
Fri 4/30	Personal Income	Mar	20.0% M/M	▲	-7.1% M/M
Fri 4/30	Personal Spending	Mar	4.1% M/M	▲	-1.0% M/M
Fri 4/30	Core PCE Deflator	Mar	1.9% Y/Y	▲	1.4% Y/Y
Europe					
Thu 4/29	OPEC Meeting	Apr	—	—	—
Fri 4/30	EZ Unemployment Rate	Mar			8.3%
Fri 4/30	EZ CPI (Preliminary Estimate)	Apr			1.3% Y/Y
Fri 4/30	EZ GDP (Advanced Estimate)	1Q21			-4.9% Y/Y
Asia Pacific					
Tue 4/27	BOJ Policy Rate	Apr	-0.1%	▬	-0.1%
Wed 4/28	Japan Retail Sales	Mar	0.4% M/M	▼	3.1% M/M
Thu 4/29	Japan Markets Closed for Showa Day		—	—	—
Fri 4/30	China Manufacturing PMI	Apr	51.6	▼	51.9
Fri 4/30	Japan Industrial Production (Preliminary Estimate)	Mar	-2.0% M/M	▼	-1.3% M/M

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

U.S.

- **1Q21 GDP** is set to accelerate with broad-based gains due to ample fiscal stimulus, impressive vaccine campaigns, and easing restrictions.
- We will watch the **FOMC meeting** to see if Chairman Jerome Powell changes his tune to align with upward surprises in data. Separately, the **Employment Cost Index** will show if the faster pace of job gains is leading to wage inflation.

Europe

- We will watch for any positive surprises in April **EZ inflation** data driven by the recent producer price acceleration.
- **Q1 GDP for EZ and major EU economies** will show the lockdown damage. Strong manufacturing and weak services should deliver a negative print.
- Supply decisions will be followed closely at the April 28 **OPEC meeting**, with current cuts set to relax in May.

Asia Pacific

- The **BOJ meeting** will likely see no changes to its main policy tools, especially right after its biggest policy review since 2016. Nevertheless, focus will be on its market operations and whether the BOJ extends its special pandemic funding measures (expiring in September), given the latest viral resurgence.

Institute's Central Scenario

The situation in Europe is looking brighter following a pick up in vaccinations and the European Recovery Fund receiving the “all clear.” Elsewhere, a recovery in domestic demand, including both household consumption and private investment, is taking shape in China and should fill a more prominent role in driving economic growth in the months ahead. In the U.S., after easing slightly in February, the housing market is back on track for a strong peak spring buying season. Please see our [Monthly Macro Dashboard](#).

IN REVIEW
European Vaccinations on the Rise

EU vaccination programs have matched the pace of those in the U.S. and U.K. (4–5% of population inoculated per week), thanks to vaccine supplies approaching contractually agreed amounts. At this pace, the vulnerable population should receive two doses by mid-June, helping the solid rebound we expect for the second half of the year to materialize.

Resumed shipments from Johnson & Johnson and approved use of AstraZeneca, which got the green light from the bloc’s drug regulator, will likely further increase deliveries of agreed amounts. AstraZeneca and J&J vaccines still represent 125 million (29%) of the doses expected to be delivered in Q2. Pfizer/BioNTech also announced a 100 million boost in EU deliveries.

European Recovery Fund Gets the “All Clear”

The German Constitutional Court ruled that the legal injunction brought against EU-level borrowing to finance the EU recovery fund (NextGenEU) was “neither admissible nor clearly founded.” German MPs will now be able to approve the issuance of common EU debt by the Commission, which should start in July. The national projects detailing how to spend the €750 billion (\$900 billion) will be presented by the end of the month.

Looking For a Domestic Demand Rebound in China

China Q1 GDP growth reached a record 18.3% Y/Y (versus 6.5% in Q4), slightly below expectations, with sequential Q/Q growth softening given the impact from mobility restrictions imposed during the Lunar New Year. However, a rebalancing of growth drivers is emerging, with retail sales rebounding strongly, growing 3.2% M/M in March. Further strength in consumption should be expected in the months ahead, especially as the surveyed unemployment rate for March edges lower to 5.3% and average per capita disposable income grows 7% CAGR for the last two years, rising close to pre-pandemic growth levels. In contrast, industrial production, having outperformed for most of the 2020, is showing signs of peaking and declined 3.9% M/M. Fixed Asset Investment also softened, but this should only be transitory given continued strong corporate profits and the extension of capex tax incentives through end-2023. Finally, despite increased focus on policymakers’ de-risking bias, the impact should be limited outside a few affected sectors, such as property. Policymakers will likely be wary to cause market turmoil ahead of the 100th anniversary of the Chinese Communist Party in July.

U.S. Housing is Back on Track But Supply is Limited

After a brief weather-related pull back in February, the U.S. housing market is poised for a strong second quarter amid elevated demand. Housing starts and building permits surprised to the upside in March, as the peak spring buying season is underway. Meanwhile, a decline in existing home sales over the month highlights how tight supply is.

NUMBER OF MONTHS’ SUPPLY OF EXISTING HOMES


Source: Bloomberg. As of April 22, 2021.

As of March, it would take only 2.1 months to sell all of the existing homes on the market—a record low for the series. Limited supply of existing homes should help support new construction. In fact, permits—a forward-looking indicator of construction—is near its highest level since 2006. While limited supply and rising input costs are driving prices higher and weighing on affordability, demand remains robust as millennials continue to enter the market and mortgage rates remain very low historically.

Earnings Continue to Outpace Expectations

Consensus currently projects 30.2% earnings growth for the S&P 500 on 6.3% sales growth; the blended earnings growth rate is up from 24.5% at the start of earnings season. In aggregate, roughly 20 percent of companies have reported so far and are beating earnings expectations. Financials, having reported first, have widely reported earnings beats on the back of loan loss provisions as the recovery continues. Airlines and Hotels/Restaurants will likely be the largest net drags in the weeks ahead, and big tech is expected to report next week, remaining resilient as much of the world continues the work-from-home and online learning wave. European earnings are also expected to rise a record 61% in Q1 2021. Forecasts tracking the pan European STOXX 600 equity benchmark point to revenues rising 2.8% in Q1. The rise in profits would also place Europe on course for a rare outperformance vs. corporate America.

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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	-3 bps	-6 bps	0 bps	-6 bps
3 Month USD Libor	0.17%	-1 bps	-2 bps	-4 bps	-4 bps	-87 bps	-7 bps
3 Month Euribor	-0.54%	0 bps	0 bps	1 bps	-3 bps	-30 bps	1 bps
3 Month U.S. T-Bill	0.03%	1 bps	1 bps	-6 bps	-7 bps	-8 bps	-5 bps
2-Year U.S. Treasury	0.15%	-1 bps	-1 bps	2 bps	0 bps	-6 bps	3 bps
10-Year U.S. Treasury	1.56%	-7 bps	-16 bps	46 bps	75 bps	99 bps	65 bps
10-Year German Bund	-0.27%	1 bps	2 bps	22 bps	33 bps	22 bps	31 bps
10-Year U.K. Gilt	0.73%	-5 bps	-11 bps	40 bps	49 bps	44 bps	53 bps
10-Year JGB	0.06%	-2 bps	-5 bps	3 bps	3 bps	5 bps	4 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.92%	N/A	0.4%	1.1%	-2.2%	-4.5%	-3.3%
Barclays Capital U.S. TIPS	1.04%	N/A	0.5%	1.5%	-0.8%	6.3%	-0.5%
Barclays Capital U.S. Aggregate	1.49%	31	0.3%	1.2%	-1.7%	-0.1%	-2.4%
Barclays Capital Global Aggregate	1.10%	32	0.6%	1.1%	-2.2%	5.6%	-2.9%
Barclays Capital U.S. ABS	0.49%	31	0.1%	0.1%	0.0%	3.8%	0.0%
Barclays Capital U.S. MBS	1.64%	8	0.2%	0.8%	-0.4%	0.4%	-0.4%
Barclays Capital U.S. Corporate Investment Grade	2.17%	91	0.2%	1.9%	-2.3%	4.9%	-3.5%
BAML Euro Corporate Investment Grade	0.32%	86	0.1%	0.2%	-0.6%	6.5%	-0.5%
Barclays Capital U.S. Corporate High Yield	4.06%	298	0.1%	1.7%	0.9%	19.9%	1.6%
BAML European Currency High Yield Non-Financial	2.69%	311	0.0%	0.8%	1.3%	16.8%	1.9%
CS U.S. Leveraged Loans	4.83%	450	0.0%	0.4%	0.9%	16.2%	2.4%
CS Western European Leveraged Loans Non-USD	4.27%	417	0.1%	0.3%	1.3%	15.8%	2.1%
JPM CEMBI Broad Diversified	4.41%	305	0.3%	0.4%	-0.1%	14.9%	-0.3%
JPM EMBI Global Diversified	5.02%	342	0.6%	1.8%	-1.0%	17.7%	-2.4%
JPM GBI-EM Global Diversified	4.88%	N/A	0.7%	0.6%	-4.0%	14.1%	-4.4%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,173.42	1.35%	1.2%	6.8%	8.7%	55.1%	11.6%
Euro STOXX 600 (Local)	436.64	2.72%	0.0%	3.1%	6.3%	34.6%	9.4%
U.K. FTSE 100 (Local)	6,895.29	3.07%	-0.6%	2.8%	2.7%	22.2%	6.7%
Japan Nikkei 225 (Local)	28,508.55	1.39%	-3.8%	-4.3%	-0.9%	47.9%	3.9%
China Shanghai Composite (Local)	3,472.93	2.03%	1.6%	2.0%	-4.1%	22.8%	0.0%
MSCI AC World (Local)	699.91	1.71%	0.4%	4.3%	5.7%	50.3%	9.6%
MSCI Emerging Markets (Local)	1,336.86	1.88%	-0.3%	0.2%	-3.3%	49.1%	5.2%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	487.19	-0.1%	2.5%	12.4%	35.3%	113.4%	19.0%
WTI Crude (\$/bbl)	61.35	-2.9%	-0.1%	15.8%	53.8%	588.6%	26.9%
Copper (\$/lb)	4.29	3.5%	4.0%	17.3%	34.2%	89.1%	22.0%
Gold (\$/oz)	1,798.20	3.6%	3.6%	-3.4%	-6.5%	6.9%	-4.7%
U.S. Dollar Index	91.16	-0.6%	-0.8%	1.1%	-1.6%	-9.1%	1.4%
Euro (USD/EUR)	1.20	0.5%	1.0%	-1.0%	1.3%	10.7%	-1.7%
British Pound (USD/GBP)	1.39	1.1%	0.4%	1.5%	5.8%	13.5%	1.9%
Japanese Yen (Yen/USD)	108.17	-0.8%	-0.6%	4.4%	3.6%	0.5%	4.8%
Chinese Yuan (CNY/USD)	6.50	-0.6%	-0.1%	0.5%	-2.4%	-8.4%	-0.7%

Source: FactSet and Bloomberg. As of April 21, 2021.

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*As of December 31, 2020
21-1617006