

Still Searching for (Lasting) Inflation

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Mon 5/3	ISM Manufacturing	Apr	65.0	▲	64.7
Mon 5/3	Wards Total Vehicle Sales	Apr	17.50M	▼	17.75M
Tue 5/4	Trade Balance	Mar	-\$72.4B	▼	-\$71.7B
Wed 5/5	ADP Employment Change	Apr	850K	▲	517K
Wed 5/5	ISM Services Index	Apr	64.0	▲	63.7
Thu 5/6	Nonfarm Productivity (Preliminary Estimate)	1Q21	3.7% Q/Q	▲	-4.2% Q/Q
Thu 5/6	Unit Labor Costs (Preliminary Estimate)	1Q21	-0.7% Q/Q	▼	6.0% Q/Q
Fri 5/7	Change in Nonfarm Payrolls	Apr	900K	▼	916K
Fri 5/7	Unemployment Rate	Apr	5.8%	▼	6.0%
Fri 5/7	Consumer Credit	Mar	\$20.5B	▼	\$27.578B
Europe					
Mon 5/3	London Markets Closed		--		--
Wed 5/5	EZ Producer Price Index	Mar			1.5% Y/Y
Thu 5/6	EZ Retail Sales	Mar	0.5% M/M	▼	3.0% M/M
Thu 5/6	Bank of England Bank Rate	May	0.1%	-	0.1%
Asia Pacific					
5/3-5/5	Japan Markets Closed		--		--
Tue 5/4	Chinese Markets Closed for Labor Day		--		--
Fri 5/7	Caixin China Composite PMI	Apr			53.1
Fri 5/7	Caixin China Services PMI	Apr	54.3	-	54.3
Fri 5/7	China Exports	Apr			30.6% Y/Y

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

U.S.

- The **April employment report** is set to show more strong job gains as restrictions ease. Low-wage sectors should drive gains, which are set to distort average hourly earnings data.
- We will watch April **ISM indices**, notably the prices paid index, to gauge input price pressures. Our baseline outlook (see below) expects this to be temporary, but persistent pressures priced in would raise odds of our Inflation Anxiety scenario.

Europe

- We will watch to see if hard data matches soft data for March **EZ retail sales**, as PMI data suggests consumers are adjusting to spending from home.
- Monetary policy shouldn't change at the **BOE meeting**. However, with QE running slightly more than £4 billion in gilt purchases weekly, the focus will be on which point the MPC chooses to slow the pace later.

Asia Pacific

- **China Services PMI** should continue to show signs of recovery, especially as accelerating vaccinations pave the way for services consumption to catch-up.
- **China trade data** will provide clarity on external demand, which has been a source of strength since last year.
- Japanese markets are closed May 3-5 to commemorate **Golden Week**. Separately, Chinese markets will be closed on May 4 for **Labor Day**.

Institute's Central Scenario

Market flash PMIs suggest European economies are improving in the second quarter amid strong external demand and improving internal demand. In the U.S., stimulus and reopenings drove the composite PMI to a record high, and consumer confidence is rising sharply. While the Fed acknowledged improving data during the FOMC meeting, it is holding policy steady. Elsewhere, the BOJ revised growth projections higher amid strong external demand though given persistent pandemic risks, inflation remains absent. Please see our [Monthly Macro Dashboard](#).

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IN REVIEW

PMIs Signal Strength in the U.S. and Europe

Vaccine rollout and government support are boosting U.S. consumer demand both internally and from abroad, while European consumers are adjusting to spending from home.

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	Mar-21	Apr-21
U.S. Manufacturing	36.1	39.8	49.9	50.9	53.1	53.2	53.4	56.7	57.1	59.2	58.6	59.1	60.6
U.S. Services	26.7	37.5	47.9	50.0	55.0	54.6	56.9	58.4	54.8	58.3	59.8	60.4	63.1
EZ Manufacturing	33.4	39.4	47.4	51.8	51.7	53.7	54.8	53.8	55.2	54.8	57.9	62.5	63.3
EZ Services	12.0	30.5	48.3	54.7	50.5	48	46.9	41.7	46.4	45.4	45.7	49.6	50.3
UK Manufacturing	32.6	40.7	50.1	53.3	55.2	54.1	53.7	55.6	57.5	54.1	55.1	58.9	60.7
UK Services	13.4	29.0	47.1	56.5	58.8	56.1	51.4	47.6	49.4	39.5	49.5	56.3	60.1
Japan Manufacturing	41.9	38.4	40.1	45.2	47.2	47.7	48.7	49	50	49.8	51.4	52.7	53.3
Japan Services	21.5	26.5	45.0	45.4	45.0	46.9	47.7	47.8	47.7	46.1	46.3	48.3	48.3

Source: Bloomberg. As of April 29, 2021.

In the U.S., the composite flash PMI hit a record high of 62.2. Vaccine rollout, easing restrictions, and fiscal stimulus are supporting strong services growth. Meanwhile, supply chain bottlenecks are driving input prices higher for manufacturers, reaching a record for the longest supplier delivery times. Companies passed some of the costs onto consumers, but supply constraints should ease as supply and demand come back inline.

Following a modest decline in Q1, the outlook for European economies looks brighter as consumers adjust to lockdown spending, vaccine rollouts ramp up, and external demand remains robust. External demand is supporting a record-high manufacturing PMI, and services reached expansion territory for the first time in eight months, despite restrictions.

In Japan, strong external demand boosted the manufacturing sector further into expansionary territory. However, rising cases and restrictions weighed on the services sector, which remained unchanged in contractionary territory.

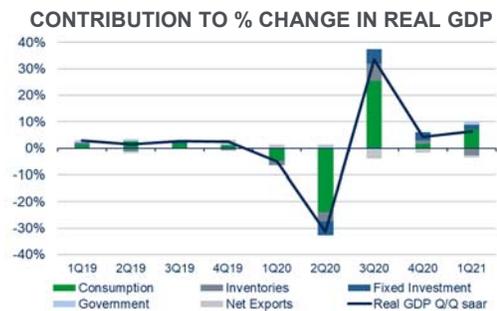
Fed Acknowledges Improving Data, But Stands Pat

Chair Jerome Powell acknowledged at the FOMC meeting that the outlook is improving but reiterated the Fed's commitment to accommodative policy given extensive labor market slack. The FOMC removed "considerable" when characterizing risks to the outlook, but Powell noted it is still too early to consider tapering. The Fed continues to view accelerating inflation as transitory and doesn't anticipate a sharp rise in inflation expectations, remaining focused on an inclusive labor market recovery. The Fed could announce in late summer that tapering may begin in 2022, but incoming data will be monitored closely.

Consumers Fuel U.S. Growth

U.S. real GDP jumped 6.4% Q/Q annualized in Q1, according to the advanced estimate. Growth was driven by consumption,

investment, and government spending, while inventories and net exports weighed on the topline figure. Consumer spending was the largest driver, contributing 7 ppt to growth, boosted by goods and services as the economy reopened.



Source: Bloomberg. As of April 29, 2021.

Spillover fiscal support should help boost Q2 growth as restrictions ease further and consumer confidence, which jumped to a pandemic-high in April thanks to improving conditions, continues to grow. Moreover, the unemployment rate proxy (jobs hard to find minus jobs easy to find) declined significantly over the month, suggesting the April Employment Report may surprise to the upside next week.

Taxes Not Tripping Earnings, Yet

President Biden's \$1.8 trillion American Families Plan includes \$1 trillion in new spending over 10 years and \$800 billion in tax cuts. Markets have been sanguine on tax risk so far as strategists don't expect the corporate tax rate or the capital gains tax rate to go as high as the initial proposals (28% and 39.6%, respectively). The 2022 EPS estimate for the S&P 500 also reached a new high at \$204.61, up 5% since January, despite recent talk of raising taxes. The recovery, due largely to fiscal stimulus tailwinds and recent reopenings, is likely outweighing tax proposals for now. One-day price reaction post earnings have been mostly negative for SPX companies despite strong earnings growth, which may indicate headwinds in the future and the near-term earnings momentum is likely priced in.

BOJ Sees Better Growth But Inflation Still Elusive

As expected, the Bank of Japan did not change policy settings. The quarterly outlook report revised growth projections slightly higher for the current fiscal year to March 2022, largely due to an increase in external demand. Meanwhile, inflation should remain below its 2% target through its forecast horizon, with the recent downgrade reflecting lower mobile phone charges, which it sees as transitory, and sluggish domestic demand due to the continued COVID-19 outbreaks and slow vaccination progress.

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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	-7 bps	0 bps	-6 bps
3 Month USD Libor	0.19%	1 bps	-1 bps	-2 bps	-3 bps	-57 bps	-5 bps
3 Month Euribor	-0.53%	0 bps	0 bps	1 bps	-2 bps	-30 bps	1 bps
3 Month U.S. T-Bill	0.01%	-2 bps	-1 bps	-5 bps	-8 bps	-10 bps	-7 bps
2-Year U.S. Treasury	0.17%	2 bps	3 bps	5 bps	2 bps	-4 bps	5 bps
10-Year U.S. Treasury	1.62%	6 bps	-5 bps	57 bps	84 bps	101 bps	71 bps
10-Year German Bund	-0.24%	3 bps	12 bps	31 bps	39 bps	24 bps	34 bps
10-Year U.K. Gilt	0.79%	6 bps	4 bps	51 bps	57 bps	51 bps	60 bps
10-Year JGB	0.09%	2 bps	1 bps	5 bps	7 bps	13 bps	7 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.95%	N/A	-0.2%	0.5%	-2.7%	-4.5%	-3.5%
Barclays Capital U.S. TIPS	1.05%	N/A	0.5%	1.2%	-0.4%	5.5%	0.1%
Barclays Capital U.S. Aggregate	1.53%	30	-0.2%	0.7%	-2.0%	-0.3%	-2.6%
Barclays Capital Global Aggregate	1.13%	32	-0.1%	1.1%	-2.2%	4.9%	-3.0%
Barclays Capital U.S. ABS	0.51%	31	0.0%	0.1%	-0.2%	3.5%	0.0%
Barclays Capital U.S. MBS	1.72%	11	-0.3%	0.4%	-0.7%	-0.1%	-0.7%
Barclays Capital U.S. Corporate Investment Grade	2.18%	88	-0.1%	1.3%	-2.5%	4.5%	-3.6%
BAML Euro Corporate Investment Grade	0.33%	85	-0.1%	0.0%	-0.7%	5.4%	-0.6%
Barclays Capital U.S. Corporate High Yield	4.04%	294	0.3%	1.3%	1.4%	20.5%	1.9%
BAML European Currency High Yield Non-Financial	2.66%	306	0.1%	0.7%	1.6%	15.7%	2.0%
CS U.S. Leveraged Loans	4.84%	448	0.1%	0.5%	1.1%	16.7%	2.5%
CS Western European Leveraged Loans Non-USD	4.27%	417	0.1%	0.4%	1.3%	14.8%	2.2%
JPM CEMBI Broad Diversified	4.43%	301	0.0%	0.4%	-0.3%	14.9%	-0.3%
JPM EMBI Global Diversified	5.08%	344	-0.3%	1.5%	-1.6%	17.7%	-2.7%
JPM GBI-EM Global Diversified	4.92%	N/A	0.1%	2.6%	-2.7%	14.2%	-4.3%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,183.18	1.34%	0.2%	5.3%	10.9%	48.5%	11.9%
Euro STOXX 600 (Local)	439.92	2.72%	0.8%	3.0%	9.1%	29.0%	10.2%
U.K. FTSE 100 (Local)	6,963.67	3.07%	1.0%	3.3%	6.7%	16.9%	7.8%
Japan Nikkei 225 (Local)	29,053.97	1.41%	1.9%	-0.4%	3.0%	47.0%	5.9%
China Shanghai Composite (Local)	3,457.07	2.04%	-0.5%	1.1%	-1.4%	23.0%	-0.5%
MSCI AC World (Local)	705.72	1.70%	0.8%	4.4%	9.0%	45.1%	10.4%
MSCI Emerging Markets (Local)	1,364.96	1.86%	1.7%	3.6%	0.1%	47.6%	7.0%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	504.92	3.6%	6.5%	17.3%	45.7%	110.4%	23.3%
WTI Crude (\$/bbl)	63.86	4.1%	4.8%	22.2%	71.3%	415.0%	32.1%
Copper (\$/lb)	4.54	5.8%	11.2%	26.6%	48.4%	90.7%	29.1%
Gold (\$/oz)	1,772.20	-1.4%	2.3%	-4.4%	-5.2%	4.8%	-6.1%
U.S. Dollar Index	90.61	-0.6%	-2.3%	0.2%	-3.0%	-9.3%	0.7%
Euro (USD/EUR)	1.21	0.5%	2.5%	-0.3%	2.9%	11.6%	-1.2%
British Pound (USD/GBP)	1.39	-0.2%	0.8%	1.4%	7.0%	11.8%	1.7%
Japanese Yen (Yen/USD)	108.91	0.7%	-0.6%	4.4%	4.4%	1.8%	5.5%
Chinese Yuan (CNY/USD)	6.48	-0.2%	-0.9%	0.1%	-3.4%	-8.5%	-0.8%

Source: FactSet and Bloomberg. As of April 28, 2021.

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*As of December 31, 2020
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