

Consumption Resumption or Data Malfunction?

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 5/25	FHFA House Price Index	Mar	1.4% M/M	▲	0.9% M/M
Tue 5/25	New Home Sales	Apr	950K	▼	1021K
Tue 5/25	Conference Board Consumer Confidence	May	120.0	▼	121.7
Thu 5/27	Advanced Durable Goods Orders	Apr	0.8%	▬	0.8%
Thu 5/27	GDP, annualized (Second Estimate)	1Q21	6.4% Q/Q	▬	6.4% Q/Q
Thu 5/27	Pending Home Sales	Apr	1.2% M/M	▼	1.9% M/M
Fri 5/28	Personal Income	Apr	-15.0% M/M	▼	21.1% M/M
Fri 5/28	Personal Spending	Apr	0.4% M/M	▼	4.2% M/M
Fri 5/28	Core PCE Deflator	Apr	2.9% Y/Y	▲	1.8% Y/Y
Europe					
Fri 5/28	EZ Economic Confidence	May			110.3
Fri 5/28	EZ Consumer Confidence (Final Estimate)	May			
Asia Pacific					
Thu 5/27	China Industrial Profits	Apr			92.3% Y/Y
Fri 5/28	Japan Jobless Rate	Apr	2.7%	▲	2.6%

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

U.S.

- **Personal income should decline** in April following a surge in March driven by stimulus checks. Keep an eye on the wage and salary component to gauge the handoff from fiscal support. Separately, we will watch **personal spending** for a rebound in services spending that is not captured in retail sales.
- The **core PCE deflator**—the Fed's preferred measure of inflation—is expected to rise in April. Following upside surprises in CPI and PPI last week, keep a close watch on market reactions for upside data surprises.

Europe

- **May business and consumer confidence** for the eurozone and its three biggest economies will tell if the expected recovery in the single currency area is finally taking hold. After big jumps and positive surprises in April, another similar outcome would signal a strong Q2 is ahead.

Asia Pacific

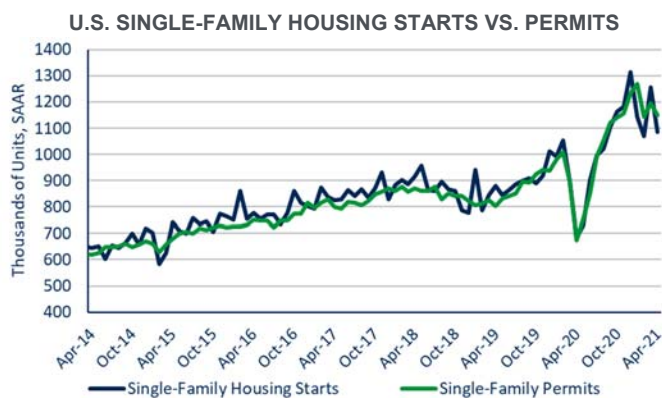
- **China industrial profits** for April should ease as base effects fade. Profit growth should remain positive, given the robust industrial production backdrop driven by global demand. Its strength should support this year's corporate investment recovery.
- **Japan's jobless rate** will likely be overshadowed by the third state of emergency declaration announced in late April. Unemployment may rise in the months ahead but should stay below last year's peak, given diminishing damage from subsequent lockdowns.

Institute's Central Scenario

In the U.S., April retail sales eased following a stimulus check-induced surge. Despite the anticipated slowdown, consumers remain in a strong position, and the reopening should drive further gains in the coming months. Separately, supply constraints may have weighed on housing starts, but strong demand and a low inventory should continue to support new construction this year. In China, investment and manufacturing remain strong, but the consumption recovery is still on shaky ground. In Europe, inflation was in line with expectations but apprehensions that prices may keep rising are gaining steam. Please see our [Monthly Macro Dashboard](#).

IN REVIEW
U.S. Data is Noisy, but Demand Remains Strong

Despite some volatility in data, U.S. demand remains robust, supported by the continued reopening and pent-up savings. Retail sales were unchanged in April after surging an upwardly revised 10.7% M/M in March, as the boost from one-off stimulus checks faded. Despite easing, consumer spending remains impressive, with retail sales 18% above pre-crisis levels. Moreover, the continued reopening of the economy should drive further gains in consumption. While goods have so far benefited the most from stimulus, easing restrictions should help services take the lead. Since retail sales largely captures spending on goods, we will watch personal spending data next week to see the extent of services spending growth. Pent-up demand and healthy consumer balance sheets will likely keep shoppers in the driver's seat this year.



Source: Haver. As of May 20, 2021.

Meanwhile, hard data on the housing market disappointed this week after housing starts and single-family permits took a step back in April. This is likely due in part to homebuilders' supply constraints, such as elevated lumber and steel prices, as well as a shortage of labor. Despite the pull back over the month, starts and permits remain elevated. Moreover, the NAHB housing market index held steady at an elevated 83, with improvement for single-family sales expected over the next six months. Strong demand, aided by low mortgage rates and millennials entering the market, combined with a low inventory of existing homes for sale are set to support new home construction this year.

Consumption in China Remains Bumpy

The two levers driving growth in China this year should be a revival in both consumption and investment. There are signs of the latter, with fixed asset investment growing 5.7% on a two-year CAGR basis in April. Ongoing credit normalization was a

headwind to infrastructure and real estate, but manufacturing capex showed improving momentum. Meanwhile, retail sales in April unexpectedly slipped to 4.3% two-year CAGR, well below consensus. The deceleration highlights consumption recovery's shaky ground, despite recent data of improving income growth, consumer confidence, and declining unemployment. Industrial production remains supportive, growing 6.8% two-year CAGR in April, as expected.

Negative Surprise for Japan Q1 Growth

First-quarter GDP surprised to the downside, coming in at -1.3% Q/Q, below consensus of -1.1%. Private consumption detracted the most from growth, given the impact of the second state of emergency. However, the capex contraction was behind much of the negative surprise, driven by weakness in construction investment, while equipment investment remained strong. Exports also moderated as a result of supply constraints caused by the global semiconductor shortage. While consumption should face headwinds given the latest viral surge, healthy exports should support corporate capex in subsequent quarters.

Europe Inflation in Line, but Anxiety Rises

Eurozone and U.K. inflation numbers were exactly in line with expectations, mostly driven by oil prices. The absence of generalized price increases, still-abundant labor market slack, and stable inflation expectations should have quelled fears of runaway inflation somewhat, but they did not. Equity markets were sharply down, and German sovereign bonds sold off. It seems that inflation anxiety has finally taken a tighter hold of EU markets as well.

Tariffs Not Changing, For Now...

The EU and U.S. announced this week that the EU would not move forward with a planned 25% increase in tariffs on a broad range of U.S. goods, originally set to take effect on June 1. The EU has retaliated since the 2018 Trump tariffs and was going to double tariffs to 50%. Under an agreement with the Biden administration, the EU will refrain from increasing those tariffs, and both sides will discuss steel overcapacity. Pausing to allow time for a resolution means good news for U.S. companies, as tariff hikes are likely off the table for the rest of the year. This, along with the administration signaling that China tariffs will remain in place, gives a clearer picture of President Joe Biden's trade policy while indicating that Trump's tariffs are remaining, for now.

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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	-1 bps	-5 bps	-3 bps	-6 bps
3 Month USD Libor	0.15%	0 bps	-4 bps	-3 bps	-6 bps	-22 bps	-9 bps
3 Month Euribor	-0.55%	-1 bps	-2 bps	-1 bps	-3 bps	-29 bps	-1 bps
3 Month U.S. T-Bill	0.01%	-1 bps	-1 bps	-3 bps	-7 bps	-12 bps	-7 bps
2-Year U.S. Treasury	0.15%	-1 bps	-1 bps	4 bps	-1 bps	-3 bps	4 bps
10-Year U.S. Treasury	1.68%	-2 bps	9 bps	34 bps	83 bps	98 bps	76 bps
10-Year German Bund	-0.11%	2 bps	12 bps	20 bps	46 bps	36 bps	46 bps
10-Year U.K. Gilt	0.85%	-2 bps	8 bps	15 bps	52 bps	60 bps	65 bps
10-Year JGB	0.07%	0 bps	-1 bps	-2 bps	5 bps	7 bps	5 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	0.1%	-0.4%	-1.4%	-4.2%	-3.9%
Barclays Capital U.S. TIPS	1.12%	N/A	-0.2%	1.0%	1.7%	6.5%	0.4%
Barclays Capital U.S. Aggregate	1.57%	31	0.1%	-0.3%	-1.2%	-0.4%	-2.9%
Barclays Capital Global Aggregate	1.17%	33	0.4%	0.1%	-1.0%	4.9%	-2.9%
Barclays Capital U.S. ABS	0.45%	27	0.1%	0.1%	0.0%	2.8%	0.1%
Barclays Capital U.S. MBS	1.80%	14	0.0%	-0.4%	-0.7%	-0.6%	-1.0%
Barclays Capital U.S. Corporate Investment Grade	2.21%	87	0.2%	-0.2%	-1.4%	4.3%	-3.9%
BAML Euro Corporate Investment Grade	0.41%	86	-0.1%	-0.6%	-0.8%	5.4%	-1.1%
Barclays Capital U.S. Corporate High Yield	4.23%	308	-0.1%	0.0%	0.5%	17.9%	1.8%
BAML European Currency High Yield Non-Financial	2.80%	314	0.0%	-0.2%	0.5%	15.7%	1.9%
CS U.S. Leveraged Loans	4.80%	448	0.1%	0.4%	1.0%	15.2%	2.8%
CS Western European Leveraged Loans Non-USD	4.22%	412	0.1%	0.4%	0.9%	13.4%	2.5%
JPM CEMBI Broad Diversified	4.38%	292	0.1%	0.4%	-0.2%	12.3%	0.1%
JPM EMBI Global Diversified	5.04%	332	0.2%	0.1%	-0.2%	11.7%	-2.1%
JPM GBI-EM Global Diversified	4.98%	N/A	0.4%	1.2%	-1.9%	10.9%	-3.2%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,115.68	1.36%	1.3%	-1.0%	5.7%	43.1%	10.2%
Euro STOXX 600 (Local)	436.34	2.80%	-0.4%	-1.3%	5.2%	28.5%	9.4%
U.K. FTSE 100 (Local)	6,950.20	3.04%	-0.8%	-0.7%	4.9%	15.8%	7.6%
Japan Nikkei 225 (Local)	28,044.45	1.55%	-0.4%	-5.5%	-6.6%	37.2%	2.2%
China Shanghai Composite (Local)	3,510.96	2.01%	1.4%	1.0%	-5.0%	21.1%	1.1%
MSCI AC World (Local)	694.70	1.76%	1.0%	-1.7%	2.2%	39.8%	8.6%
MSCI Emerging Markets (Local)	1,327.54	1.95%	1.0%	-2.1%	-7.6%	40.3%	4.0%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	507.45	-3.6%	3.4%	7.9%	37.1%	71.2%	23.9%
WTI Crude (\$/bbl)	63.36	-3.9%	0.0%	7.2%	52.4%	96.2%	31.0%
Copper (\$/lb)	4.59	-3.4%	8.0%	12.2%	43.3%	89.4%	30.6%
Gold (\$/oz)	1,888.45	3.2%	6.4%	5.7%	1.7%	8.7%	0.0%
U.S. Dollar Index	90.19	-0.6%	-1.0%	-0.2%	-2.3%	-9.2%	0.3%
Euro (USD/EUR)	1.22	1.2%	1.6%	0.7%	3.2%	11.6%	-0.2%
British Pound (USD/GBP)	1.41	0.3%	1.1%	0.9%	7.0%	15.5%	3.5%
Japanese Yen (Yen/USD)	108.60	-0.7%	0.5%	2.8%	4.5%	0.6%	5.2%
Chinese Yuan (CNY/USD)	6.44	-0.1%	-1.1%	-0.3%	-2.2%	-9.4%	-1.6%

Source: FactSet and Bloomberg. As of May 19, 2021.

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