

## Europe Moves from Strength to Strength

### WATCH LIST

Date		Period	Consensus		Previous
<b>U.S.</b>					
Tue 6/8	NFIB Small Business Optimism	May			99.8
Tue 6/8	Trade Balance	Apr	-\$68.1B	▲	-\$74.4B
Tue 6/8	JOLTS Job Openings	Apr			8123K
Thu 6/10	Consumer Price Index	May	4.6% Y/Y	▲	4.2% Y/Y
Thu 6/10	Household Change in Net Worth	1Q21			\$6925B
Fri 6/11	University of Michigan Sentiment (Preliminary Estimate)	Jun	83.5	▲	82.9
<b>Europe</b>					
Tue 6/8	EZ GDP (Final Estimate)	1Q21	-0.6% Q/Q	-	-0.6% Q/Q
Thu 6/10	ECB Monetary Policy Meeting	June	0.0%	-	0.0%
Fri 6/11	U.K. Industrial Production	Apr	2.0% M/M	▲	1.8% M/M
6/11-6/13	G7 Summit		--		--
<b>Asia Pacific</b>					
Mon 6/7	China Exports	May	32.1% Y/Y	▼	32.3% Y/Y
Tue 6/8	Japan GDP (Final Estimate)	1Q21	-1.2% Q/Q	▲	-1.3% Q/Q
Wed 6/9	Japan Machine Tool Orders (Preliminary Estimate)	May			120.8% Y/Y
Wed 6/9	China Consumer Price Index	May	1.6% Y/Y	▲	0.9% Y/Y
Wed 6/9	China Producer Price Index	May	8.4% Y/Y	▲	6.8% Y/Y
Thu 6/10	Japan Producer Price Index	May	4.5% Y/Y	▲	3.6% Y/Y
6/8-6/15	China Aggregate Financing	May	2000.0B	▲	1850.0B

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

#### U.S.

- **The consumer price index** for May is expected to remain elevated amid base effects, recovery in oil, and the reopening. However, we and the Federal Reserve continue to view inflation pressures as transitory.
- While consumers are expected to be upbeat about current conditions in the preliminary June **University of Michigan sentiment index**, we will watch for consumer inflation expectations and future buying plans.

#### Europe

- Markets will watch the **ECB meeting** closely as the central bank must decide to extend the increased pace of purchases into Q3. We expect it will, while keeping flexibility to act, depending on pressures on European curves.
- We will watch the 47<sup>th</sup> **G7 Summit**, as members discuss a global corporate minimum tax, among other topics. This would be a pivotal step in Biden's tax agenda in the U.S.

#### Asia Pacific

- **China consumer and producer prices** will be closely monitored given rising input costs. While the historical pass-through from producer to consumer prices has been limited, the May output price PMI sub-index has climbed to the highest level on record, suggesting some costs are being passed on to consumers.
- The final estimate of **Japan 1Q21 GDP** could be revised lower, given weak capex data in the latest Ministry of Finance corporate statistics report.

#### Institute's Central Scenario

European data is confirming that our "Best of All Possible Worlds" scenario is unfolding there. Activity data continues to be revised higher, while inflation and viral contagion remain in check. In the U.S., while income and pace of spending eased following one-off stimulus checks, consumers are transitioning spending from goods to services and are poised to unleash pent-up demand. In Asia, despite the recent moderation, industrial activity continues to come in strong, fueled by solid global demand. The outlook for consumption remains uncertain, especially given the latest case flare-ups in places such as Japan. Please see our [Monthly Macro Dashboard](#).

## IN REVIEW

### “Best of All Possible Worlds” Unfolding in Europe

Our central scenario of accelerating growth with benign inflation is unfolding in Europe. Eurozone inflation continues its gradual normalization from the COVID-induced slump. May numbers came in at 2% Y/Y for the headline and 0.9% Y/Y for core, in line with expectations. Base effects and technical factors were the main drivers behind the acceleration, expectations remain subdued, and pressure from wages was not apparent.

Activity data continue to be revised up: this time it was the manufacturing PMI for May (EZ index revised to 63.1 from 62.8), signaling momentum is building going into June. Italian manufacturing PMI reached 62.3, the highest since record keeping began in 1997. The stop-and-go nature of reopening is still making data somewhat volatile; German retail sales posted a big miss in April (-5.5% vs. -2% consensus) after showing the second-biggest monthly increase ever recorded in March.

Crucial for the tourist season, vaccination programs are resulting in very low and still-declining infection levels in most EU countries while economies reopen and travel resumes. The EU-wide travel pass for vaccinated and negative-test holders in two weeks should breed some normality, although it is likely EU citizens choose more domestic destinations this summer.

The ECB will decide at its June 10 meeting whether to continue with the increased pace of asset purchases agreed upon for Q2 (roughly €20 billion a week) in Q3. We expect it will.

### U.S. Shoppers Unleashing Demand for Services

The easing of stimulus checks weighed on personal income, but U.S. consumers are welcoming the reopening of the services sector with open arms. Personal income fell 13.1% M/M in April after surging in March due to one-off stimulus checks. Despite the headline decline, wages and salaries rose 1% M/M for the second-consecutive month as the labor market heals. As government transfers ease—half of all states will end extra UI benefits ahead of schedule—more weight will be on the rebound in wages and salaries as it drives the next leg of the recovery.

Personal spending moderated from a strong 4.7% M/M in March to 0.5% M/M in April. While spending on goods took a step back over the month, consumers increased their spending on services—up 1.1% M/M. Within services, spending rose the most for recreation services and food and accommodations.

The decline in income and rise in spending led the personal savings rate to fall from 27.7% to a still-impressive 14.9%. The data shows consumers are ready to unleash their pent-up

demand and still have excess savings to spend, supporting our baseline outlook of a strong near-term U.S. consumption boom.

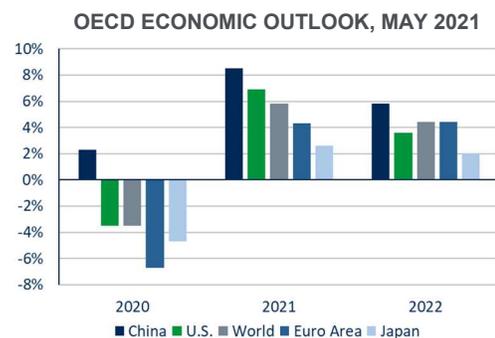
### Asia Production Resilient, Consumption Mixed

Japan industrial production grew 2.5% M/M in April—below expectations, though gains were broad-based, increasing in 12 of the 15 sectors due to external demand and global capex. Japan retail sales declined 4.5% M/M in April, more than expected. April’s State of Emergency likely weighed on consumption, but location data suggests mobility has declined since March. With restrictions extended to June 20 and cases still elevated (but declining), expect weak consumption until vaccination programs ramp up. It shouldn’t derail the recovery, but it does delay the expected rebound and may dampen corporate capex demand.

In China, the official manufacturing PMI remained in expansion but declined slightly to 51 in May. New export orders fell into contraction but overall new orders declined by less—remaining in expansion—implying internal demand is holding up. Amid improving vaccinations, the recovery continues to show signs of broadening, with the non-manufacturing PMI rising to 55.2 amid strength in construction activity. The services PMI also remains in expansion and well above its long-term average.

### OECD Expects a Stronger But Uneven Recovery

The OECD revised 2021 global growth projections higher in its May outlook, due to vaccine rollout and more U.S. stimulus—5.8% in 2021 (up from 4.2% in December) and moderating to 4.5% in 2022. While much of the world should return to pre-crisis GDP levels by the end of 2022, it will be far from even and based largely on ample access to vaccines.



The OECD acknowledged the recent increase in headline inflation due to supply bottlenecks, and the recovery in oil and commodities, but they see these pressures as temporary due to spare capacity. While it believes central banks will also see these as temporary, larger risk lies with financial market expectations.

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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	-6 bps	-6 bps
3 Month USD Libor	0.13%	0 bps	-4 bps	-5 bps	-10 bps	-20 bps	-10 bps
3 Month Euribor	-0.54%	-1 bps	-1 bps	0 bps	-2 bps	-21 bps	0 bps
3 Month U.S. T-Bill	0.02%	1 bps	1 bps	-1 bps	-6 bps	-12 bps	-6 bps
2-Year U.S. Treasury	0.13%	0 bps	-2 bps	2 bps	-2 bps	-3 bps	2 bps
10-Year U.S. Treasury	1.59%	2 bps	-4 bps	18 bps	64 bps	92 bps	67 bps
10-Year German Bund	-0.20%	1 bps	1 bps	14 bps	32 bps	22 bps	38 bps
10-Year U.K. Gilt	0.80%	5 bps	-3 bps	9 bps	44 bps	58 bps	61 bps
10-Year JGB	0.07%	1 bps	-1 bps	-5 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	0.93%	N/A	-0.1%	0.2%	-0.4%	-3.5%	-3.3%
Barclays Capital U.S. TIPS	1.06%	N/A	0.2%	1.3%	2.4%	7.2%	1.2%
Barclays Capital U.S. Aggregate	1.51%	31	-0.1%	0.3%	-0.1%	-0.4%	-2.4%
Barclays Capital Global Aggregate	1.13%	32	-0.1%	0.8%	0.1%	4.2%	-2.5%
Barclays Capital U.S. ABS	0.41%	25	0.0%	0.2%	0.2%	2.2%	0.2%
Barclays Capital U.S. MBS	1.75%	17	-0.1%	-0.2%	-0.4%	-0.6%	-0.8%
Barclays Capital U.S. Corporate Investment Grade	2.13%	85	0.0%	0.7%	0.3%	3.4%	-2.9%
BAML Euro Corporate Investment Grade	0.35%	85	0.1%	0.0%	0.0%	4.5%	-0.7%
Barclays Capital U.S. Corporate High Yield	4.04%	298	0.3%	0.5%	1.4%	14.1%	2.4%
BAML European Currency High Yield Non-Financial	2.66%	305	0.4%	0.4%	1.3%	12.0%	2.5%
CS U.S. Leveraged Loans	4.72%	444	0.1%	0.6%	1.1%	12.2%	3.1%
CS Western European Leveraged Loans Non-USD	4.15%	406	0.1%	0.5%	0.9%	10.6%	2.8%
JPM CEMBI Broad Diversified	4.34%	295	0.1%	0.7%	0.7%	10.4%	0.5%
JPM EMBI Global Diversified	4.93%	330	0.3%	1.3%	2.3%	9.7%	-1.1%
JPM GBI-EM Global Diversified	4.94%	N/A	1.0%	2.9%	2.5%	6.4%	-1.8%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,208.12	1.33%	0.3%	0.8%	9.1%	38.8%	12.7%
Euro STOXX 600 (Local)	451.34	2.80%	1.4%	3.2%	9.2%	25.5%	13.1%
U.K. FTSE 100 (Local)	7,108.00	2.97%	1.2%	2.0%	7.5%	14.3%	10.0%
Japan Nikkei 225 (Local)	28,946.14	1.50%	1.1%	0.5%	-1.6%	29.7%	5.5%
China Shanghai Composite (Local)	3,597.14	1.97%	0.1%	4.4%	2.5%	23.1%	3.6%
MSCI AC World (Local)	714.42	1.72%	0.8%	1.6%	8.2%	36.5%	11.7%
MSCI Emerging Markets (Local)	1,388.47	1.92%	2.4%	2.3%	0.2%	41.1%	8.1%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	531.23	3.4%	5.0%	12.6%	37.5%	69.9%	29.7%
WTI Crude (\$/bbl)	68.83	3.6%	8.4%	15.3%	52.2%	86.6%	42.4%
Copper (\$/lb)	4.60	1.5%	2.7%	8.7%	32.4%	84.4%	30.9%
Gold (\$/oz)	1,902.75	0.2%	7.6%	10.4%	4.4%	9.2%	0.8%
U.S. Dollar Index	89.91	-0.1%	-1.5%	-1.0%	-1.3%	-7.9%	0.0%
Euro (USD/EUR)	1.22	-0.1%	1.4%	1.2%	1.1%	9.2%	-0.2%
British Pound (USD/GBP)	1.42	0.3%	2.3%	1.5%	6.3%	12.8%	3.6%
Japanese Yen (Yen/USD)	109.62	0.5%	0.3%	2.7%	4.8%	0.9%	6.2%
Chinese Yuan (CNY/USD)	6.39	-0.1%	-1.3%	-1.3%	-2.8%	-10.2%	-2.3%

Source: FactSet and Bloomberg. As of June 2, 2021.

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