

Will Taper Talk Fill Jackson Hole?

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Mon 8/23	Markit Manufacturing PMI (Preliminary Estimate)	Aug	63.1	▼	63.4
Mon 8/23	Markit Services PMI (Preliminary Estimate)	Aug	59.4	▼	59.9
Mon 8/23	Existing Home Sales	Jul	5.84 M	▼	5.86 M
Tue 8/24	New Home Sales	Jul	700 K	▲	676 K
Thu 8/26	GDP, annualized (Second Estimate)	2Q21	6.6% Q/Q	▲	6.5% Q/Q
8/26-8/28	Jackson Hole Economic Policy Symposium	2021	--		--
Fri 8/27	Personal Income	Jul	0.1% M/M	▬	0.1% M/M
Fri 8/27	Personal Spending	Jul	0.4% M/M	▼	1.0% M/M
Fri 8/27	Core PCE Deflator	Jul	3.6% Y/Y	▲	3.5% Y/Y
Europe					
Mon 8/23	EZ Markit Manufacturing PMI (Preliminary Estimate)	Aug	61.9	▼	62.8
Mon 8/23	EZ Markit Services PMI (Preliminary Estimate)	Aug	60.1	▲	59.8
Mon 8/23	U.K. Markit Manufacturing PMI (Preliminary Estimate)	Aug	59.6	▼	60.4
Mon 8/23	U.K. Markit Services PMI (Preliminary Estimate)	Aug	60.3	▲	59.6
Mon 8/23	EZ Consumer Confidence (Advanced Estimate)	Aug	-4.4	▬	-4.4
Asia Pacific					
Mon 8/23	Jibun Bank Japan Mfg. PMI (Preliminary Estimate)	Aug			53.0
Mon 8/23	Jibun Bank Japan Services PMI (Preliminary Estimate)	Aug			47.4
Fri 8/27	China Industrial Profits	Jul			20.0% Y/Y

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

U.S.

- We will watch the FOMC during this year's **Jackson Hole Economic Policy Symposium**, held August 26-28, for any indications on the taper timeline of asset purchases.
- **Flash Markit PMIs** for August will be released on Monday, August 23, which will give insight into how growth is unfolding in the face of rising COVID cases.

Europe

- **Flash August PMIs** for the euro area, Germany, France, and the U.K. are out on Monday, August 23, and will show if Europe's recovery is still accelerating. Consensus estimates expect so: July numbers printed at or close to all-time highs for most components and countries, and only marginal declines are expected in August.

Asia Pacific

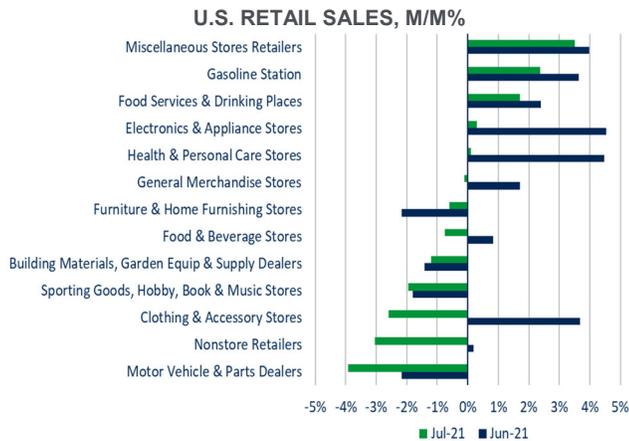
- **Japan PMIs** should show how much the most recent state of emergency is weighing on activity, particularly on the **services sector**, which has remained in contraction since the pandemic began.
- **China industrial profits for July** will provide some clues on whether we can expect to see continued strength in manufacturing capex.

What This Week Means For Markets

Elevated uncertainty surrounding the spread of COVID variants, the FOMC's timeline for tapering asset purchases, recent soft economic data out of the U.S., and fears of a slowdown in China are contributing to higher risk premiums, a defensive tone in markets, and a sell-off in commodities. Despite a major U.S. foreign policy setback in Afghanistan, the dollar continued to outperform following the release of FOMC meeting minutes, suggesting a tapering announcement may take place sooner than was expected. While market volatility will likely persist in the coming weeks given high uncertainty, we expect this will fade as ample fiscal and monetary support, reopening momentum, and strong consumer demand in advanced economies should support our central scenario of "The Best of All Possible Worlds!" with strong growth and transitory price pressures. Please see our [Monthly Macro Dashboard](#).

IN REVIEW
U.S. Demand Continues Outpacing Supply

Retail sales surprised to the downside as fiscal transfers ease and consumers shift spending patterns. Retail sales fell 1.1% M/M in July, versus consensus expectations of a 0.3% M/M decline. The details showed a continued shift away from spending on goods to services as consumers unleash pent-up demand; spending on building materials, sporting goods, and furniture declined while restaurant sales increased. Given that retail sales largely captures spending on goods, we will watch next week's broader personal spending data for details on services spending. Separately, give-back from Amazon Prime Day in June weighed on M/M growth in the nonstore segment. Overall, retail sales are up 17.5% from pre-pandemic levels as demand remains strong. Looking ahead, while the spread of variants remains a key downside risk to the near-term consumption outlook, high-frequency data suggests that foot traffic is holding up well as consumers learn to live with COVID.



Source: *Haver*. As of August 19, 2021.

While demand continues to outstrip supply, data on the supply-side surprised to the upside over the month. Industrial production rose 0.9% M/M in July, after rising 0.2% M/M in June. Part of the increase was due to seasonal factors artificially boosting auto manufacturing, given that auto plants typically shutdown in July for retooling. The production increase comes as a welcome sign, but it will likely still take several months before supply catches up with demand.

China's Growth Momentum Eased in July

Activity data from China underwhelmed expectations in July, with the surveyed jobless rate also ticking up slightly. Retail

sales growth declined from 12.1% to 8.5% Y/Y, likely impacted by increased infections and bad weather. Industrial production saw broad-based slowing, coming in at 6.4% Y/Y from 8.3% a month ago, with weather and weaker real estate activity likely to blame. Fixed asset investment slowed to 10.3% YTD Y/Y from 12.6% prior amid a decline in infrastructure investment, while manufacturing investment remains robust.

Looking ahead, capex will likely remain an important growth driver, especially given healthy industrial profits and more supportive fiscal spending in H2. Meanwhile, downside risks are in focus. Mobility restrictions have been the preferred tool to stop contagion and should continue to weigh on consumer activity, particularly on services and travel. A slowing in goods demand in the U.S. should also gradually weigh on industrial production.

Consumer Spending Fuels Japan's Q2 Growth

Japan grew 0.3% Q/Q in Q2, or 1.3% Q/Q annualized, higher than expected and avoiding a feared double-dip recession. The upside surprise was driven by resilient private consumption, with services spending remaining firm despite the third state of emergency during the quarter, as consumers have likely gotten more accustomed to living with restrictions. Business investment also surprised to the upside, driven by investment in the manufacturing sector. Robust exports and industrial production activity are likely contributing factors.

The fourth state of emergency and still-elevated infections are likely to weigh on activity in Q3. But, as vaccine rollout picks up, and amid the potential for a fiscal stimulus package sometime in the fall, expect a gradual normalization in activity by Q4.

U.K. Inflation Data is Volatile

While a slowdown in U.K. inflation was expected, it materialized stronger than consensus forecasts. Headline inflation printed at 2.0% Y/Y, down from 2.5% and against a consensus forecast of 2.3%. Similarly, core slowed from 2.3% to 1.8%, well below consensus (2.0%). The surprise is mostly attributable to recreation and cultural items, so that generalized disinflationary forces do not seem to be building up. Still, with much attention focused on inflation, a negative surprise of this size points to a volatile inflation environment in the U.K. Brexit, COVID, and FX gyrations are all likely to play a part in it.

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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	0.05%	0 bps	0 bps	4 bps	2 bps	-4 bps	-2 bps
3 Month USD Libor	0.13%	1 bps	0 bps	-2 bps	-5 bps	-12 bps	-11 bps
3 Month Euribor	-0.55%	0 bps	0 bps	1 bps	-1 bps	-7 bps	0 bps
3 Month U.S. T-Bill	0.07%	2 bps	2 bps	5 bps	4 bps	-3 bps	-1 bps
2-Year U.S. Treasury	0.21%	0 bps	-2 bps	6 bps	10 bps	7 bps	9 bps
10-Year U.S. Treasury	1.27%	-6 bps	-3 bps	-37 bps	-1 bps	61 bps	36 bps
10-Year German Bund	-0.48%	-3 bps	-13 bps	-38 bps	-15 bps	-3 bps	9 bps
10-Year U.K. Gilt	0.56%	-3 bps	-6 bps	-31 bps	-8 bps	34 bps	36 bps
10-Year JGB	0.01%	-2 bps	-1 bps	-7 bps	-8 bps	-2 bps	-1 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.87%	N/A	0.5%	0.3%	2.4%	-2.2%	-1.4%
Barclays Capital U.S. TIPS	0.98%	N/A	0.0%	0.7%	2.8%	6.1%	3.9%
Barclays Capital U.S. Aggregate	1.43%	37	0.4%	0.2%	2.1%	-0.3%	-0.8%
Barclays Capital Global Aggregate	1.01%	35	0.2%	0.2%	0.4%	0.3%	-2.4%
Barclays Capital U.S. ABS	0.53%	27	0.0%	0.1%	0.2%	1.0%	0.3%
Barclays Capital U.S. MBS	1.71%	36	0.0%	0.1%	0.5%	-0.3%	-0.4%
Barclays Capital U.S. Corporate Investment Grade	2.01%	90	0.7%	0.1%	3.4%	2.1%	-0.4%
BAML Euro Corporate Investment Grade	0.15%	85	0.1%	0.6%	1.9%	2.9%	0.8%
Barclays Capital U.S. Corporate High Yield	4.11%	309	0.1%	-0.2%	1.7%	10.1%	3.7%
BAML European Currency High Yield Non-Financial	2.57%	311	0.0%	0.5%	1.6%	9.1%	3.6%
CS U.S. Leveraged Loans	4.85%	452	0.1%	0.1%	0.9%	8.7%	3.7%
CS Western European Leveraged Loans Non-USD	4.18%	407	0.1%	0.5%	1.0%	8.7%	3.5%
JPM CEMBI Broad Diversified	4.24%	311	0.3%	0.2%	1.8%	6.1%	1.9%
JPM EMBI Global Diversified	4.90%	354	0.4%	0.0%	2.0%	3.5%	-0.2%
JPM GBI-EM Global Diversified	5.03%	N/A	-0.1%	-1.0%	-1.9%	2.7%	-5.0%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,400.27	1.29%	-1.0%	1.8%	7.0%	31.8%	18.2%
Euro STOXX 600 (Local)	474.42	2.74%	0.0%	4.3%	7.1%	29.2%	18.9%
U.K. FTSE 100 (Local)	7,169.32	3.14%	-0.7%	2.3%	1.9%	18.0%	11.0%
Japan Nikkei 225 (Local)	27,585.91	1.59%	-1.7%	-1.5%	-2.9%	19.7%	0.5%
China Shanghai Composite (Local)	3,485.29	2.07%	-1.3%	-1.5%	-1.2%	1.0%	0.4%
MSCI AC World (Local)	724.93	1.74%	-1.0%	1.2%	6.0%	28.9%	15.1%
MSCI Emerging Markets (Local)	1,261.60	2.26%	-2.4%	-4.9%	-2.9%	14.7%	0.9%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	511.29	-2.6%	-3.2%	-1.6%	8.1%	42.7%	24.9%
WTI Crude (\$/bbl)	65.46	-5.5%	-8.8%	0.0%	8.4%	52.6%	35.4%
Copper (\$/lb)	4.12	-5.7%	-5.0%	-13.1%	5.1%	38.5%	17.1%
Gold (\$/oz)	1,783.45	2.3%	-2.2%	-4.5%	0.6%	-11.2%	-5.5%
U.S. Dollar Index	93.14	0.2%	0.5%	3.8%	2.8%	0.9%	3.6%
Euro (USD/EUR)	1.17	-0.2%	-0.8%	-4.1%	-3.0%	-1.8%	-4.3%
British Pound (USD/GBP)	1.38	-0.8%	-0.3%	-3.2%	-1.4%	4.1%	0.6%
Japanese Yen (Yen/USD)	109.90	-0.5%	-0.2%	0.9%	3.9%	4.2%	6.4%
Chinese Yuan (CNY/USD)	6.48	-0.1%	0.2%	0.9%	0.1%	-6.4%	-0.9%

Source: FactSet and Bloomberg. As of August 18, 2021.

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