

Preparing for Jackson Hole Virtual Backgrounds

IN REVIEW

- **U.S. retail sales** moderated from May and June, rising 1.2% M/M in July, but have exceeded pre-pandemic levels.
- **U.S. industrial production** rose 3% M/M in July as manufacturing recovers, boosted by high tech.
- **University of Michigan consumer sentiment** held relatively steady at low levels in August amid heightened uncertainty, according to the preliminary report.
- **NAHB housing market index** rose from 72 in July to 78 in August—the highest level since 1998, as builders remain confident.
- **U.S. housing starts** beat expectations, rising 22.6% M/M in July. **Permits** rose 18.8% M/M, suggesting strength should continue.
- **Initial claims** rose 135,000 to 1.1 million in W/E August 15. Continuing claims slid 636,000 to 14.844 million in W/E August 8.
- **U.K. CPI** beat expectations, rising 1% Y/Y in July, amid stronger apparel and fuel prices. However, inflationary pressures remain muted, and a sales tax cut may weigh on the August CPI data.
- **Japan Q2 GDP** fell 27.8% Q/Q SAAR, led by consumption and weak global demand weighing on exports. Meanwhile, capex and residential investment held up better.
- The **PBOC** held rates steady but has room to cut in the near future.
- **China activity data** in July underwhelmed, as demand eases, suggesting a rate cut by the PBOC may be warranted before year-end.

WATCH LIST

Date		Consensus		Previous
U.S.				
Tue 8/25	FHFA House Price Index	0.4% M/M	▲	-0.3% M/M
Tue 8/25	Consumer Confidence	93.2	▲	92.6
Tue 8/25	New Home Sales	775k	▼	776k
Wed 8/26	Advance Durable Goods Orders	4.0% M/M	▼	7.6% M/M
Thu 8/27	GDP 2Q (Second Estimate)	-32.5%	▲	-32.9%
Thu 8/27	Initial Claims			1106k
Thu 8/27	Pending Home Sales	5.8% M/M	▼	16.6% M/M
8/27–8/28	Jackson Hole Economic Symposium	--		--
Fri 8/28	Personal Income	-0.1% M/M	▲	-1.1% M/M
Fri 8/28	Personal Spending	1.5% M/M	▼	5.6% M/M
Fri 8/28	PCE Deflator	0.4% M/M	–	0.4% M/M
Europe				
Tue 8/25	German IFO Business Climate Index	92.4	▲	90.5
Asia Pacific				
Thu 8/27	China Industrial Profits			11.5% Y/Y
Thu 8/27	Japan All Industry Activity Index	6.3% M/M	▲	-3.5% M/M

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

U.S.

- **Personal spending** growth is expected to slow in July compared with the prior two months amid heightened financial concerns in the absence of a fourth fiscal stimulus bill, in addition to greater COVID-19 cases and restrictions weighing on consumer confidence and spending. **Personal income** is also expected to take a step back in July as disbursement of stimulus checks ends. Eyes remain on Capitol Hill for a decision on additional income support, which would impact August data.
- **The 2Q GDP second estimate** will be released on Wednesday. While a major revision is not expected, minor adjustments would not be surprising amid additional data collection and revisions.
- **The Jackson Hole Economic Symposium** on “Navigating the Decade Ahead: Implications for Monetary Policy” will be held virtually on August 27 and 28. We will watch for additional insights on monetary policy framework changes.

Europe

- **The German IFO business climate index** is expected to move higher in August as the German economy continues to recover and the European Recovery Fund continues to aid expectations.

Asia Pacific

- We watch for **Japan’s all industry activity index** for June. While Japan’s economy contracted sharply in the second quarter, higher frequency data has pointed to a solid rebound in the third quarter, though more COVID-19 cases and regional States of Emergency weigh on the outlook.

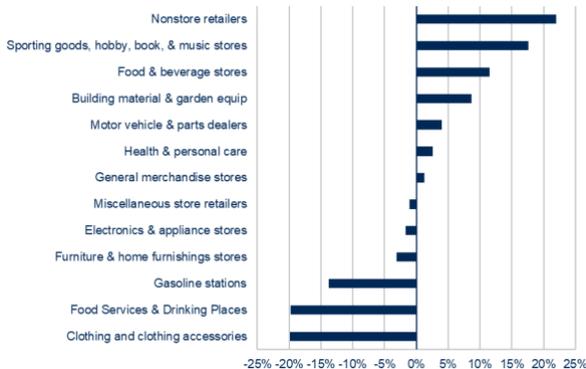
THE HIGHLIGHTS

U.S. Retail Sales

U.S. retail sales rose for the third-consecutive month in July, exceeding pre-pandemic levels. While retail sales overall have completed the ‘V-shape,’ there is much differentiation below the surface, the pace of spending has slowed and uncertainty on the sustainability is elevated as fiscal support eased in August.

In July, total retail sales rose 1.2% M/M, with spending particularly strong among electronics and appliance sales, as consumers grapple with the longer-than-anticipated work-from-home arrangement and many schools open virtually. Clothing and bars and restaurants also advanced but remain below pre-crisis levels.

U.S. RETAIL SALES, % CHANGE FEBRUARY-JULY



Source: Bloomberg. As of August 20, 2020.

The composition of spending has materially changed compared with prior to the pandemic. The strong performance in areas such as non-store retailers, sporting goods and hobby stores, and grocery stores has masked significant weakness in services such as dining out and apparel at outlets. The outperformance in spending on goods will be enough to boost third quarter GDP from its record lows, but the road ahead for many service industries will be much tougher and longer.

The pace of sales slowed in July, and high-frequency consumer spending data has eased in August as consumers remain concerned about their future financial conditions, as the extra \$600/week unemployment insurance benefit ended and further fiscal stimulus remains unclear. While the pace of sales is set to slow after completing the ‘V-shape,’ in the absence of a fourth fiscal stimulus bill, consumers may pull back on spending in the near-term amid uncertainty around their financial conditions with a still-elevated unemployment rate.

FOMC Meeting Minutes

Federal Reserve officials see the ongoing public health crisis as weighing heavily on the economy and the virus’ uncertain path presenting considerable

risks to the outlook. Scarring in the form of business restructurings also poses a risk to the longer-term. On monetary policy, the use of Yield Curve Control was deemed inappropriate for the current environment, given it would only yield modest benefits with high potential costs. Firmer communication in the form of “outcome-” or “calendar-based” forward guidance continues to be debated, but emphasis was put on September’s meeting as the timeline changes for rolling out its long-awaited framework.

Policy

China-U.S. Update: The U.S. Commerce Department announced additional restrictions on Huawei, including measures aimed at preventing the company from buying any semiconductor chips that were developed using U.S. software or technology without a special license, as well as adding another 38 Huawei affiliates in 21 countries to the U.S. government’s blacklist, raising the total to 152 affiliates since Huawei was first added to the list in May. The move came even as the Trump administration signaled satisfaction with the pace of purchases in recent weeks for the Sino-U.S. trade deal and has no plans to scrap the deal. The U.S. and China originally postponed talks aimed at reviewing progress at the six-month mark of their phase-one trade agreement. Trade negotiators however plan to meet by video in coming days over progress in fulfilling terms of the Phase One trade deal. Chinese Vice Premier Liu also plans to raise technology issues around Huawei and TikTok and argue that China is working hard to meet purchase targets. While the original move to cancel the meeting was likely to give China more time to boost its purchases prior to discussions, there is more to discuss beyond the trade deal.

Washington Update: For President Donald Trump’s unilateral actions on coronavirus relief, states that immediately began working to reconfigure their systems on August 8 can start administering the \$300/week additional unemployment benefits by late August. According to FEMA guidance, states approved for the lost wages program are only guaranteed three weeks of funding. Additional payments will be made on a week-by-week basis. It is estimated that the \$44 billion cap on funding would last roughly five weeks, meaning that funds could already be running out again by the time some Americans begin to see the federal aid. Trump also announced his intention to cut the capital gains tax and lower the personal income tax for middle-income earners. However, these policy actions would require Congressional approval. Senate Republicans plan to introduce a scaled-back stimulus bill that includes a \$300 enhanced unemployment benefit, more money for the Paycheck Protection Program, an additional \$10 billion for USPS and liability protections for businesses. The revised bill could be attached to a continuing resolution that funds the government past the September 30 deadline. While talks are currently at an impasse amid divisions over state and local government aid and enhanced unemployment benefits, a deal worth ~\$1.5 trillion+ is ultimately expected. House Democrats are also expected to vote on a scaled-back version of their \$3 trillion+ coronavirus relief package soon.

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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	-150 bps	-200 bps	-150 bps
U.S. SOFR	0.09%	-1 bps	-3 bps	5 bps	-151 bps	-204 bps	-146 bps
3 Month USD Libor	0.25%	-2 bps	-2 bps	-13 bps	-145 bps	-190 bps	-166 bps
3 Month Euribor	-0.49%	0 bps	-5 bps	-23 bps	-9 bps	-7 bps	-11 bps
3 Month U.S. T-Bill	0.11%	-1 bps	-1 bps	-2 bps	-147 bps	-179 bps	-144 bps
2-Year U.S. Treasury	0.14%	-1 bps	0 bps	-4 bps	-128 bps	-139 bps	-143 bps
10-Year U.S. Treasury	0.67%	0 bps	5 bps	-3 bps	-89 bps	-93 bps	-125 bps
10-Year German Bund	-0.48%	-3 bps	-2 bps	-1 bps	-6 bps	18 bps	-29 bps
10-Year U.K. Gilt	0.22%	-2 bps	6 bps	-3 bps	-39 bps	-26 bps	-60 bps
10-Year JGB	0.03%	0 bps	2 bps	3 bps	8 bps	26 bps	5 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.49%	N/A	-0.1%	-0.3%	0.5%	7.7%	8.9%
Barclays Capital U.S. TIPS	0.68%	N/A	0.0%	1.2%	3.7%	8.7%	8.5%
Barclays Capital U.S. Aggregate	1.14%	56	-0.2%	0.0%	2.1%	7.2%	7.0%
Barclays Capital Global Aggregate	0.87%	48	0.4%	2.0%	5.1%	6.0%	6.2%
Barclays Capital U.S. ABS	0.65%	50	0.1%	0.4%	2.0%	4.3%	3.9%
Barclays Capital U.S. MBS	1.14%	51	0.1%	0.2%	0.3%	4.9%	3.8%
Barclays Capital U.S. Corporate Investment Grade	1.95%	130	-0.8%	0.0%	5.8%	8.7%	7.1%
BAML Euro Corporate Investment Grade	0.53%	116	0.2%	1.1%	4.3%	-0.5%	0.6%
Barclays Capital U.S. Corporate High Yield	5.59%	499	-0.4%	2.6%	9.1%	4.9%	0.9%
BAML European Currency High Yield Non-Financial	4.33%	484	-0.1%	1.8%	7.4%	0.4%	-2.3%
CS U.S. Leveraged Loans	6.22%	599	0.3%	1.6%	6.6%	0.3%	-1.9%
CS Western European Leveraged Loans Non-USD	5.80%	574	0.2%	1.0%	5.2%	-0.9%	-2.1%
JPM CEMBI Broad Diversified	4.48%	393	-0.1%	2.1%	7.4%	5.9%	2.9%
JPM EMBI Global Diversified	4.99%	418	-0.5%	2.8%	9.0%	3.9%	1.6%
JPM GBI-EM Global Diversified	4.44%	N/A	0.4%	1.2%	5.2%	0.8%	-4.7%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,374.85	1.74%	-0.1%	4.8%	16.0%	17.7%	5.8%
Euro STOXX 600 (Local)	369.58	2.12%	-1.4%	-0.8%	8.9%	-1.1%	-11.1%
U.K. FTSE 100 (Local)	6,111.98	4.61%	-2.7%	-2.8%	1.8%	-15.0%	-19.0%
Japan Nikkei 225 (Local)	23,110.61	2.22%	1.2%	1.8%	13.1%	12.4%	-2.3%
China Shanghai Composite (Local)	3,408.13	2.10%	2.7%	6.0%	17.6%	18.2%	11.7%
MSCI AC World (Local)	571.95	2.10%	0.0%	3.5%	13.3%	14.0%	2.3%
MSCI Emerging Markets (Local)	1,099.41	2.34%	0.4%	4.1%	17.5%	17.2%	4.6%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	358.53	1.9%	6.2%	20.9%	-11.2%	-10.2%	-17.8%
WTI Crude (\$/bbl)	42.88	0.7%	5.7%	32.8%	-19.6%	-23.8%	-29.9%
Copper (\$/lb)	3.02	4.6%	4.6%	24.6%	15.6%	16.2%	8.1%
Gold (\$/oz)	1,981.00	2.5%	9.6%	14.0%	23.5%	32.4%	30.8%
U.S. Dollar Index	92.89	-0.6%	-3.2%	-6.5%	-6.8%	-5.6%	-3.6%
Euro (USD/EUR)	1.19	0.8%	4.2%	8.7%	10.3%	7.3%	6.0%
British Pound (USD/GBP)	1.32	1.0%	5.2%	7.6%	1.8%	8.6%	-0.5%
Japanese Yen (Yen/USD)	105.65	-1.2%	-1.4%	-2.1%	-4.8%	-0.8%	-2.8%
Chinese Yuan (CNY/USD)	6.91	-0.5%	-1.3%	-2.8%	-1.2%	-1.9%	-0.8%

Source: FactSet and Bloomberg. As of August 19, 2020.

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*As of June 30, 2020

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