

## Recovery on Track in Spite of Delta

### WATCH LIST

Date		Period	Consensus		Previous
<b>U.S.</b>					
Mon 8/30	Pending Home Sales	Jul	-0.2% M/M	▲	-1.9% M/M
Tue 8/31	FHFA House Price Index	Jun	2.0% M/M	▲	1.7% M/M
Tue 8/31	Conference Board Consumer Confidence	Aug	124.0	▼	129.1
Wed 9/1	ADP Employment Change	Aug	650 K	▲	330 K
Wed 9/1	ISM Manufacturing	Aug	58.9	▼	59.5
Wed 9/1	Wards Total Vehicle Sales	Aug	14.90 M	▲	14.75 M
Thu 9/2	Nonfarm Productivity (Final Estimate)	2Q21	2.4%	▲	2.3%
Thu 9/2	Trade Balance	Jul	-\$74.2 B	▲	-\$75.7 B
Fri 9/3	Change in Nonfarm Payrolls	Aug	750 K	▼	943 K
Fri 9/3	Unemployment Rate	Aug	5.2%	▼	5.4%
Fri 9/3	ISM Services Index	Aug	62.3	▼	64.1
<b>Europe</b>					
Tue 8/31	EZ Consumer Price Index (Preliminary Estimate)	Aug	2.6% Y/Y	▲	2.2% Y/Y
Wed 9/1	EZ Unemployment Rate	Jul	7.6%	▼	7.7%
Wed 9/1	OPEC Meeting	Sep	--		--
Thu 9/2	EZ Producer Price Index	Jul			10.2% Y/Y
Fri 9/3	EZ Retail Sales	Jul	0.0% M/M	▼	1.5% M/M
<b>Asia Pacific</b>					
Mon 8/30	Japan Retail Sales	Jul			3.1% M/M
Tue 8/31	Japan Jobless Rate	Jul			2.9%
Tue 8/31	Japan Industrial Production (Preliminary Estimate)	Jul			6.5% M/M
Tue 8/31	China Non-Manufacturing PMI	Aug	52.0	▼	53.3
Tue 8/31	China Manufacturing PMI	Aug	50.2	▼	50.4
Wed 9/1	Caixin China Manufacturing PMI	Aug	50.2	▼	50.3
Fri 9/3	Caixin China Services PMI	Aug	51.3	▼	54.9

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

#### U.S.

- The **August employment report** is expected to show another strong month of job gains despite constraints weighing on labor supply.
- We will watch the **Conference Board Consumer Confidence Index** to see how sentiment is holding in the face of rising cases.

#### Europe

- **Watch August EZ CPI** closely after an upside surprise last month. CPI is expected to hit 2.5%, and any positive surprise would likely rattle EU bond markets.
- **EZ retail sales for July** should remain strong with service sectors reopening amid the tourist season.

#### Asia Pacific

- **China PMIs** are expected to continue easing but remain in expansionary territory amid normalizing growth.
- **Japan activity data for July** should provide an early look at how rising infections have impacted activity, especially as mobility data has shown a gradual deterioration since July.

#### What This Week Means For Markets

Ahead of the FOMC's Jackson Hole symposium, markets appeared to be positioning for a dovish conclusion as yields grinded higher, energy and industrial commodities rose, the dollar weakened, and cyclical equities generally outperformed. Downside risks from COVID have already led the Reserve Bank of New Zealand to pause plans for a rate hike, while action from the Bank of Korea was perceived to be more dovish than expected. Though high-frequency data suggests activity is easing in hot spots, demand remains strong and the recovery is intact. Please see our [Monthly Macro Dashboard](#).

**IN REVIEW**
**PMIs Signal Strong Demand Goes On**

The preliminary August Markit PMIs show that while COVID remains a risk, demand continues outstripping supply.

**GLOBAL MARKIT PMIS**

Region	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21
U.S. Manufacturing	53.4	56.7	57.1	59.2	58.6	59.1	60.5	62.1	62.1	63.4	61.2
U.S. Services	56.9	58.4	54.8	58.3	59.8	60.4	64.7	70.4	64.6	59.9	55.2
EZ Manufacturing	54.8	53.8	55.2	54.8	57.9	62.5	62.9	63.1	63.4	62.8	61.5
EZ Services	46.9	41.7	46.4	45.4	45.7	49.6	50.5	55.2	58.3	59.8	59.7
UK Manufacturing	53.7	55.6	57.5	54.1	55.1	58.9	60.9	65.6	63.9	60.4	60.1
UK Services	51.4	47.6	49.4	39.5	49.5	56.3	61	62.9	62.4	59.6	55.5
Japan Manufacturing	48.7	49.0	50.0	49.8	51.4	52.7	53.6	53	52.4	53	52.4
Japan Services	47.7	47.8	47.7	46.1	46.3	48.3	49.5	46.5	48	47.4	43.5

Source: Bloomberg. As of August 26, 2021.

In the U.S., PMIs continue showing a strong recovery, but the pace eased in August amid material and labor shortages and the spread of the Delta variant. The struggle for supply to catch up with demand continues pushing input prices higher for companies, some of which is being passed on to consumers.

In line with expectations, European PMIs softened slightly from July's all-time highs to remain at still-elevated levels. As restrictions lifted across the continent and a solid tourist season got underway, service sectors growth picked up. Surprisingly, manufacturing strength persisted in the face of supply-side disruptions that are proving more stubborn than initially thought. This seems particularly evident in Germany—which has the biggest manufacturing share of GDP of any major EU economy—where signs of slowdown in industrial sectors are starting to appear.

Japan PMIs showed a sharp drop in services amid steadily rising infection rates, while supply chain issues and fading external demand are weighing on manufacturing. Spread of the Delta variant is a major headwind to services, especially with the new business component dropping to May 2020 lows.

**China Monetary Policy To Become More Supportive**

Governor Yi Gang indicated in a symposium this week that the PBOC intends to take action to stabilize credit growth (which should be pegged to nominal GDP growth) and provide greater support to SMEs, green development, and manufacturing. The move follows the Q2 Politburo meeting in late July, which called the recovery vulnerable and unbalanced. This increases the odds that the reserve requirement ratio is lowered further, but not necessarily a policy rate cut, which would signal broad-based loosening. Overall, the PBOC will likely keep liquidity conditions ample, while fiscal policy should provide a greater impulse to

growth through the end of the year. Despite monetary policy taking a more dovish tilt, the overall barbell approach to policy remains. Market risk premiums will likely remain elevated and returns increasingly differentiated in the medium term amid crackdowns to address antitrust concerns and promote social equality in industries such as technology as part of the 14<sup>th</sup> Five Year Plan.

**COVID Risks Linger, With Less Economic Impact**

In the U.S., daily hospitalizations and deaths have risen to about two-thirds of January levels, as infections spread from younger to older age cohorts, as well as the unvaccinated. While infections have also increased in Europe, hospitalizations remain low relative to previous waves. Mobility restrictions or voluntary curtailment of activity are the primary risk, though questions on lasting vaccine efficacy remain, particularly as data from the U.S. Centers for Disease Control and Prevention show a notable decline in vaccine efficacy after the Delta variant became dominant. This mirrors findings from Israel and the U.K., suggesting ongoing booster shots may be part of the global public health response.



Source: Bloomberg. As of August 26, 2021.

The impact from rising COVID cases can now be seen in high-frequency data, including easing in TSA passenger travel. However, a closer look shows the impact is differentiated by region. In COVID hot spots such as Florida and Texas, high-frequency data shows that in-person leisure activities such as dining at restaurants has turned lower, though to a much smaller degree than in previous waves. Moreover, foot traffic is holding up well in other areas of the U.S., leaving the overall impact on the country's activity only on the margin, for now. While rising cases may weigh somewhat on near-term demand, overall consumer spending should remain robust, and this could provide further impetus to growth as fears and cases fade.

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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	-3 bps	-2 bps
3 Month USD Libor	0.12%	-1 bps	-1 bps	-1 bps	-7 bps	-13 bps	-11 bps
3 Month Euribor	-0.55%	0 bps	-1 bps	-1 bps	-1 bps	-7 bps	-1 bps
3 Month U.S. T-Bill	0.06%	-1 bps	1 bps	4 bps	2 bps	-5 bps	-2 bps
2-Year U.S. Treasury	0.23%	2 bps	4 bps	9 bps	7 bps	8 bps	12 bps
10-Year U.S. Treasury	1.34%	7 bps	6 bps	-22 bps	-18 bps	66 bps	43 bps
10-Year German Bund	-0.43%	6 bps	-1 bps	-26 bps	-19 bps	1 bps	15 bps
10-Year U.K. Gilt	0.59%	3 bps	0 bps	-20 bps	-20 bps	34 bps	39 bps
10-Year JGB	0.01%	0 bps	0 bps	-6 bps	-12 bps	-1 bps	-1 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.90%	N/A	-0.3%	-0.2%	1.5%	-2.5%	-1.7%
Barclays Capital U.S. TIPS	1.04%	N/A	0.0%	0.2%	2.6%	5.8%	3.8%
Barclays Capital U.S. Aggregate	1.46%	36	-0.2%	-0.2%	1.3%	-0.4%	-1.0%
Barclays Capital Global Aggregate	1.04%	34	-0.2%	-0.1%	-0.2%	0.7%	-2.6%
Barclays Capital U.S. ABS	0.54%	27	0.0%	0.0%	0.1%	0.9%	0.3%
Barclays Capital U.S. MBS	1.74%	33	-0.1%	-0.2%	0.1%	-0.2%	-0.5%
Barclays Capital U.S. Corporate Investment Grade	2.04%	88	-0.2%	-0.4%	2.2%	1.9%	-0.6%
BAML Euro Corporate Investment Grade	0.19%	85	-0.3%	0.0%	1.3%	2.7%	0.5%
Barclays Capital U.S. Corporate High Yield	4.01%	297	0.4%	0.1%	2.0%	10.0%	4.1%
BAML European Currency High Yield Non-Financial	2.58%	310	0.0%	0.5%	1.4%	8.8%	3.6%
CS U.S. Leveraged Loans	4.86%	451	0.1%	0.2%	0.8%	8.7%	3.8%
CS Western European Leveraged Loans Non-USD	4.18%	407	0.1%	0.5%	0.9%	8.6%	3.6%
JPM CEMBI Broad Diversified	4.26%	305	0.1%	0.3%	1.5%	6.0%	2.0%
JPM EMBI Global Diversified	4.86%	344	0.4%	0.5%	1.7%	3.8%	0.2%
JPM GBI-EM Global Diversified	5.01%	N/A	0.4%	-0.1%	-1.9%	3.5%	-4.6%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,496.19	1.26%	2.2%	2.1%	7.7%	32.5%	20.8%
Euro STOXX 600 (Local)	471.84	2.74%	-0.5%	2.2%	6.0%	27.6%	18.2%
U.K. FTSE 100 (Local)	7,150.12	3.27%	-0.3%	1.7%	1.7%	18.4%	10.7%
Japan Nikkei 225 (Local)	27,724.80	1.58%	0.5%	0.6%	-2.9%	19.0%	1.0%
China Shanghai Composite (Local)	3,540.38	2.02%	1.6%	-0.3%	-1.1%	4.9%	1.9%
MSCI AC World (Local)	735.79	1.72%	1.5%	1.4%	5.4%	29.2%	16.8%
MSCI Emerging Markets (Local)	1,275.31	2.24%	1.1%	-2.2%	-3.3%	14.8%	2.0%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	524.33	2.5%	-1.5%	2.3%	7.3%	45.6%	28.1%
WTI Crude (\$/bbl)	68.36	4.6%	-5.4%	3.2%	7.8%	58.4%	41.4%
Copper (\$/lb)	4.27	3.6%	-3.2%	-5.7%	0.0%	45.5%	21.4%
Gold (\$/oz)	1,788.70	0.3%	-0.6%	-5.2%	0.5%	-6.4%	-5.2%
U.S. Dollar Index	92.83	-0.3%	-0.1%	3.6%	3.0%	-0.2%	3.2%
Euro (USD/EUR)	1.18	0.3%	-0.1%	-4.0%	-3.9%	-0.6%	-4.0%
British Pound (USD/GBP)	1.37	-0.2%	-0.1%	-2.8%	-2.8%	4.7%	0.5%
Japanese Yen (Yen/USD)	110.10	0.2%	-0.4%	1.1%	3.6%	3.3%	6.6%
Chinese Yuan (CNY/USD)	6.47	-0.1%	0.0%	1.0%	0.4%	-6.3%	-1.0%

Source: FactSet and Bloomberg. As of August 25, 2021.

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