

## Central Banks Take Center Stage

### WATCH LIST

Date		Period	Consensus		Previous
<b>U.S.</b>					
Tue 9/28	FHFA House Price Index	Jul	1.5% M/M	▼	1.6% M/M
Tue 9/28	Conference Board Consumer Confidence	Sep	115.0	▲	113.8
Wed 9/29	Pending Home Sales	Aug	1.0% M/M	▲	-1.8% M/M
Thu 9/30	GDP, annualized (Third Estimate)	2Q21	6.7% Q/Q	▲	6.6% Q/Q
Fri 10/1	Personal Income	Aug	0.2% M/M	▼	1.1% M/M
Fri 10/1	Personal Spending	Aug	0.6% M/M	▲	0.3% M/M
Fri 10/1	Core PCE Deflator	Aug	3.6% Y/Y	—	3.6% Y/Y
Fri 10/1	ISM Manufacturing	Sep	59.5	▼	59.9
Fri 10/1	Wards Total Vehicle Sales	Sep	13.35 M	▲	13.06 M
<b>Europe</b>					
Tue 9/28	Consumer Confidence (France and Germany)	Sep			
Thu 9/30	U.K. GDP (Final Estimate)	2Q21			4.8% Q/Q
Thu 9/30	EZ Unemployment Rate	Aug			7.6%
Fri 10/1	EZ Consumer Price Index (Preliminary Estimate)	Sep			3.0% Y/Y
<b>Asia Pacific</b>					
Tue 9/28	China Industrial Profits	Aug			16.4% Y/Y
Wed 9/29	Japan LDP Leadership Election		--		--
Thu 9/30	China Nonmanufacturing PMI	Sep			47.5
Thu 9/30	China Manufacturing PMI	Sep			50.1
Thu 9/30	Caixin China Manufacturing PMI	Sep			49.2
Thu 9/30	Japan Retail Sales	Aug	-2.2% M/M	▼	1.1% M/M
Thu 9/30	Japan Industrial Production (Preliminary Estimate)	Aug	-0.5% M/M	▲	-1.5% M/M

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

#### U.S.

- September **consumer confidence** should show the balance between an improving labor market and elevated COVID cases. Despite lower confidence in August, **personal spending data** should remain solid as income supports demand.
- The August **Core PCE Deflator**—the Fed’s preferred measure of inflation—is set to remain elevated amid transitory supply constraints.

#### Europe

- August **EZ unemployment** and **retail sales** for Spain and Germany will confirm that the recovery of demand continues.
- September **inflation numbers for Germany, France, and Italy** should remain high, mostly on base effects. It will also show the extent of the pass-through of cost pressures to other prices.

#### Asia Pacific

- Increased COVID cases likely weighed on the September **China Services PMI**, while the elevated CPI-PPI gap will likely weigh on **Industrial Profits**.
- The **Japan LDP Leadership Election** should reveal Prime Minister Yoshihide Suga’s replacement. Taro Kono, the front-runner, is focused on structural reforms, including increased infrastructure spending.

#### What This Week Means For Markets

Despite markets’ increasingly hawkish perception of central banks across major developed markets, particularly in the U.S., we reiterate our central scenario that monetary policy is set to remain supportive until the recovery is complete, especially as inflation risks remain transitory. As fears of a growth slowdown are top of mind, volatility is likely to remain elevated, but we retain our bias for yields to reprice higher and the dollar to move weaker over our 12-18 month outlook. Please see our [Monthly Macro Dashboard](#).

**IN REVIEW**
**Taper is Coming**

The FOMC held policy steady at its September meeting but an announcement on tapering asset purchases is now expected at its November meeting, should the recovery remain on track; tapering is set to be completed in mid-2022, but that timeframe could be flexible. Fed Chairman Jerome Powell again emphasized that the taper timeline is not linked to the timeline for rate hikes given the different benchmarks. The FOMC's updated economic and policy projections also included the first outlook for 2024. While the dot plot shows wide dispersion on the timing of liftoff, with the median dot for 2022 rising, Powell remains dovish—likely in favor of 2023. With such a wide range of opinions, the leadership views will be increasingly important.

**FOMC SUMMARY OF ECONOMIC PROJECTIONS**

Variable	2021	2022	2023	2024	Longer run
GDP	5.9%	3.8%	2.5%	2.0%	1.8%
Unemployment Rate	4.8%	3.8%	3.5%	3.5%	4.0%
PCE Inflation	4.2%	2.2%	2.2%	2.1%	2.0%
Federal Funds Rate	0.1%	0.3%	1.0%	1.8%	2.5%

Source: Federal Reserve. As of September 23, 2021.

In the Summary of Economic Projections (SEP), the FOMC revised 2021 growth lower since its June meeting (5.9% vs. 7% prior) and 2021 inflation higher (4.2% vs. 3.4% prior) due to the rise in COVID cases and longer-lasting supply constraints. However, it did revise 2022 GDP growth higher. Overall market reaction was relatively muted amid no taper-related surprises. The questions going forward will be on the speed of tapering and the pace of rate hikes that will follow, particularly given the split for liftoff within the FOMC.

**No Moves Following the BoE Meeting**

Despite a 4% inflation forecast for this year, above its 2% target, the Bank of England (BoE) voted unanimously to keep the policy rate at 0.1%. The stock of asset purchases will remain constant, at £875 billion for government bonds and £20 billion for corporate bonds. Growth is weakening due to labor shortages, which are related to government restrictions on visas for non-U.K. nationals, as well as Brexit-related goods shortages. Furlough schemes remain open to the end of September. The high inflation forecast led markets to bring forward their 15bps policy rate hike expectations from May 2022 to March 2022. Despite the dovish meeting, the pound thus appreciated.

**BOJ Maintains the Status Quo**

The Bank of Japan (BOJ) kept policy settings unchanged at its September meeting. While the bank's assessment of economic conditions was similar to July, it acknowledged the impact of supply-side constraints on exports and production. The BOJ remains committed to policy normalization, appearing to differ from the Fed and the ECB, given minimal inflation risks. Balance sheet holdings of government securities and ETFs stopped growing in March, closer to "sustainable easing."

**PBOC Keeping Things Liquid**

The People's Bank of China (PBOC) kept key policy rates steady in September but boosted liquidity by injecting a total net amount of ¥190 billion (\$63.5 billion) into the banking system over the last week, the most in over eight months. The moves, which saw the PBOC inject net liquidity four times since September 17, are likely aimed at calming worries around indebted property developer Evergrande. Policymakers have emphasized no sharp policy moves, increasing risks—mainly around a slowdown in real estate investment—will likely have the PBOC continue its dovish tilt, increasing odds of another reserve requirement ratio (RRR) cut before year-end.

**PMIs Show Strong but Slower Growth in September**

Preliminary Markit PMIs indicate the U.S. economy grew at a solid but slower pace in September. Manufacturing demand remained strong, but output was constrained by protracted supply chain bottlenecks. Meanwhile, the spread of Delta weighed on service sector demand. Worsening supply chain bottlenecks kept input costs elevated. On the employment front, manufacturers increased employment levels, while the service sector saw little change, which adds downside risks to the September employment report. However, the FOMC noted it doesn't need a knockout report in September to remain on track to taper.

Declines in services and manufacturing PMIs were expected in European economies, if only because they hit all-time highs in July. Reopenings also progressed substantially, leaving less scope for catch-up growth. However, declines were steeper than expected in the eurozone, Germany, France, and the U.K. Both manufacturing and services PMIs for September came in lower than expected, suggesting that shortages of raw materials and chips, as well as transport bottlenecks and input costs rises, are more widespread than previously thought. Still, the EZ composite PMI printed at 56.1; with July and August prints, this points towards Q3 GDP growth north of 7% Q/Q annualized and higher than Q2. It seems peak growth is ahead in the EU.

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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	0 bps	4 bps	-2 bps	-2 bps
3 Month USD Libor	0.13%	1 bps	0 bps	0 bps	-6 bps	-9 bps	-11 bps
3 Month Euribor	-0.54%	0 bps	0 bps	0 bps	-1 bps	-4 bps	0 bps
3 Month U.S. T-Bill	0.03%	-1 bps	-2 bps	-1 bps	2 bps	-7 bps	-5 bps
2-Year U.S. Treasury	0.23%	2 bps	2 bps	0 bps	9 bps	10 bps	12 bps
10-Year U.S. Treasury	1.33%	3 bps	7 bps	-14 bps	-36 bps	67 bps	42 bps
10-Year German Bund	-0.33%	-1 bps	17 bps	-17 bps	-2 bps	18 bps	25 bps
10-Year U.K. Gilt	0.70%	4 bps	17 bps	-8 bps	-13 bps	51 bps	51 bps
10-Year JGB	0.03%	0 bps	2 bps	-2 bps	-5 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	0.89%	N/A	0.0%	0.1%	1.6%	-2.1%	-1.2%
Barclays Capital U.S. TIPS	1.06%	N/A	-0.5%	0.6%	2.8%	6.2%	4.2%
Barclays Capital U.S. Aggregate	1.44%	36	0.0%	0.2%	1.3%	0.0%	-0.4%
Barclays Capital Global Aggregate	1.06%	34	-0.4%	0.0%	0.7%	0.5%	-2.6%
Barclays Capital U.S. ABS	0.59%	30	0.0%	0.0%	0.2%	0.7%	0.3%
Barclays Capital U.S. MBS	1.73%	36	-0.1%	0.1%	0.5%	0.0%	-0.3%
Barclays Capital U.S. Corporate Investment Grade	1.98%	86	0.2%	0.7%	2.0%	2.8%	0.4%
BAML Euro Corporate Investment Grade	0.25%	84	0.0%	-0.6%	0.7%	2.0%	0.1%
Barclays Capital U.S. Corporate High Yield	3.83%	280	-0.1%	1.3%	1.8%	11.7%	4.9%
BAML European Currency High Yield Non-Financial	2.54%	299	0.0%	0.5%	1.1%	9.3%	4.0%
CS U.S. Leveraged Loans	4.79%	441	0.1%	0.8%	1.1%	7.9%	4.5%
CS Western European Leveraged Loans Non-USD	4.17%	405*	0.0%	0.4%	0.9%	7.4%	3.9%
JPM CEMBI Broad Diversified	4.25%	305	-0.3%	0.2%	1.0%	6.3%	2.1%
JPM EMBI Global Diversified	4.90%	354	-0.7%	0.4%	1.0%	5.5%	0.3%
JPM GBI-EM Global Diversified	5.15%	N/A	-1.1%	1.0%	-1.4%	3.2%	-4.8%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,395.64	1.29%	-1.9%	-0.9%	3.9%	34.6%	18.3%
Euro STOXX 600 (Local)	463.20	2.72%	-0.2%	-1.2%	1.5%	29.5%	16.1%
U.K. FTSE 100 (Local)	7,083.37	3.46%	1.0%	-0.1%	-0.1%	21.5%	9.6%
Japan Nikkei 225 (Local)	29,639.40	1.48%	-2.9%	9.7%	2.6%	26.9%	8.0%
China Shanghai Composite (Local)	3,628.49	2.01%	-0.8%	5.9%	2.0%	10.8%	4.5%
MSCI AC World (Local)	724.24	1.77%	-1.5%	0.2%	2.3%	31.4%	15.2%
MSCI Emerging Markets (Local)	1,262.79	2.30%	-1.6%	2.9%	-5.5%	17.7%	1.1%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	539.31	-1.0%	9.1%	2.7%	13.4%	55.0%	31.7%
WTI Crude (\$/bbl)	72.00	-0.8%	15.7%	-1.6%	17.1%	82.0%	48.9%
Copper (\$/lb)	4.25	-3.4%	2.9%	0.4%	2.5%	39.0%	21.0%
Gold (\$/oz)	1,773.40	-1.3%	-0.3%	-0.1%	2.1%	-7.0%	-6.1%
U.S. Dollar Index	93.46	1.0%	0.0%	1.9%	1.9%	-0.6%	3.9%
Euro (USD/EUR)	1.17	-0.7%	0.5%	-1.4%	-1.7%	0.2%	-4.1%
British Pound (USD/GBP)	1.36	-1.3%	0.2%	-2.0%	-1.5%	7.2%	-0.2%
Japanese Yen (Yen/USD)	109.63	0.3%	-0.2%	-1.0%	0.9%	4.4%	6.2%
Chinese Yuan (CNY/USD)	6.47	0.5%	-0.5%	-0.1%	-0.6%	-4.7%	-1.1%

Source: FactSet and Bloomberg. As of September 22, 2021.

Note: \*As of September 16, 2021.

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