8 October 2021

THE WEEK AHEAD

Congress Sets New Deadline, So Do Markets

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 10/12	NFIB Small Business Optimism	Sep	99.5	▼	100.1
Tue 10/12	JOLTS Job Openings	Aug	10925 K	▼	10934 K
Wed 10/13	Consumer Price Index	Sep	5.3% Y/Y	-	5.3% Y/Y
Wed 10/13	FOMC Meeting Minutes	Sep	--		--
Thu 10/14	Producer Price Index	Sep	0.6% M/M	▼	0.7% M/M
Fri 10/15	Retail Sales	Sep	-0.3% M/M	▼	0.7% M/M
Fri 10/15	Business Inventories	Aug	0.7%	▲	0.5%
Fri 10/15	University of Michigan Sentiment (Preliminary Estimate)	Oct	73.5	▲	72.8
Europe					
Tue 10/12	U.K. Unemployment Rate	Aug	4.5%	▼	4.6%
Wed 10/13	U.K. Industrial Production	Aug	0.2% M/M	▼	1.2% M/M
Wed 10/13	EZ Industrial Production	Aug	-1.5% M/M	▼	1.5% M/M
Asia Pacific					
10/8-10/15	China Aggregate Financing	Sep	3110 B	▲	2960 B
Mon 10/11	Japan Machine Tool Orders (Preliminary Estimate)	Sep			85.2% Y/Y
Wed 10/13	China Exports	Sep	22.3% Y/Y	▼	25.6% Y/Y
Thu 10/14	China Consumer Price Index	Sep	0.9% Y/Y	▲	0.8% Y/Y
Thu 10/14	China Producer Price Index	Sep	10.6% Y/Y	▲	9.5% Y/Y

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

U.S.

- The **September CPI is likely to remain elevated** amid stickier transitory factors, such as protracted supply chain bottlenecks. We will watch for the underlying drivers of the headline figure.
- The October **University of Michigan Consumer Sentiment Index** should help reveal if improving COVID trends will aid a rebound in consumer confidence and spending in the fourth quarter.

Europe

- **Eurozone industrial production for August is likely to moderate.** We will watch whether supply disruptions are affecting other EZ countries as much as they are impacting Germany.

Asia Pacific

- **China Aggregate Financing and Loan Growth should stabilize** as authorities fine-tune policies to hedge growing downside risks to growth; government bond issuance should prove to be supportive.
- **China CPI should remain subdued** as food prices continue to weigh on prices. Meanwhile, **PPI should edge higher** amid broad increases in commodity prices.

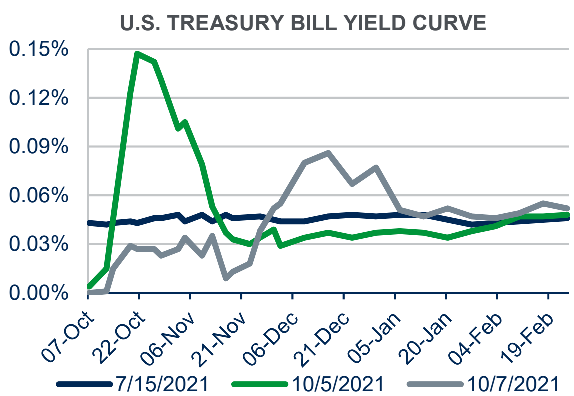
What This Week Means For Markets

A general sense of risk-off dominated early in the week as markets faced a growing "wall of worry." Lingering concerns over China regulations slowing global growth, stalemates over raising the U.S. debt ceiling, the stunning spike and volatility surrounding energy prices—particularly in oil and natural gas—and how this may ultimately impact inflation all weighed on market sentiment. However, we remain with our central outlook that price pressure will prove transitory as drivers, such as supply constraints, ease. Please see our Monthly Macro Dashboard.

IN REVIEW

Congress (and Investors) Kick the Can

With markets repricing U.S. default risks lower following the potential agreement to move the deadline on raising the debt ceiling to December, the curve adjusted to the new deadline right away. Earlier this week, the risk of a U.S. default was most visible in the very short-end of the U.S. yield curve, where yields on bills maturing around the prior October 18 “X-Date” rose close to the same magnitude as in the 2011 debt crisis. Elsewhere though, the evidence was more muted. Credit default swap (CDS) spreads on U.S. sovereign debt ticked up at most by 8 bps, compared to 20 bps in 2011. The recent weakness in equity and credit markets was telling, but it’s likely other factors, like the energy price spike or concerns on contagion from the Chinese property sector, are also to blame.



Source: Bloomberg. As of October 7, 2021.

In the unlikely event of a default, it’s worth noting several mitigating factors that may alleviate investor concern. Contingency plans from both SIFMA and TPMG instruct that rather than lose principal, investors would get principal on a delayed basis, with the maturity of the underlying security rolled on a day-by-day basis. The Fed is also expected to maintain eligibility for Treasuries with delayed payments as collateral. Finally, it’s also likely the Treasury delays other payments, such as social security or wages, in order to make coupon payments.

German Manufacturing Feels the Pinch

German industrial production is experiencing a much sharper-than-expected slowdown. Highly dependent on manufacturing and trade, Germany is suffering from the global supply chain crisis more than any other EU country. According to the ECB, in the first six months of the year, exports could have been 7% higher in Europe if not for the supply disruptions. Factory orders fell 7.7% M/M in August—more than three times bigger than the market had forecast. As supply chain disruptions continue to hit the auto sector, German industrial production also fell 4% M/M in August (consensus was -0.4%). Also, the Ifo Business Climate Index, the leading indicator for economic activity in Germany, fell from 99.6 points in August to 98.8 points in September, indicating no improvement is coming.

Italian Elections Strengthen Draghi’s Position

Key local elections in Italy strengthened Prime Minister Mario Draghi and the parties supporting his government more openly (the center-left PD and centrist minor ones); populist parties lost ground everywhere. This is a strong signal for Draghi to stay in power until the mandate’s end (2023) and complete reforms attached to the recovery plan.

Mayors of Italy’s five major cities (Rome, Milan, Turin, Naples, and Bologna), as well as other local governments, were elected last weekend. The results point to the end of the populist era and show Italians support Draghi’s reformist agenda. The populist, anti-politician Five Star Movement has been reduced to a fringe party, with single-digit results in all major cities. The party elected the mayor of Rome and became the biggest party, obtaining 32% of votes in the national elections, just five years ago. The right-wing Lega and FdI parties also underperformed.

Tailwinds for Stronger 4Q21 U.S. Consumption

U.S. consumer spending is set to contribute much less to Q3 growth, but rising incomes and improving COVID trends should support better growth in Q4. U.S. consumer spending rose 0.8% M/M in August. The impact from Delta was apparent: services spending increased amid the reopening, but rose at the weakest pace since February. Meanwhile, spending on items such as food and beverage, household supplies, and recreational items accelerated over the month. Elsewhere, durable goods spending fell for the fourth-consecutive month, largely due to auto sales. A spending shift from durable goods to services should continue amid the reopening and improving case counts. Adjusting for inflation, real consumer spending held largely flat in Q3.

Personal income rose 0.2% M/M in August, in line with consensus expectations. Declines in unemployment insurance benefits and PPP subsidies were more than offset by increases in wages and salaries, which are expected to continue improving as workers re-enter the labor force. This should support spending as case counts ease in Q4.

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	-5 bps	-2 bps
3 Month USD Libor	0.12%	-1 bps	1 bps	-1 bps	-7 bps	-11 bps	-11 bps
3 Month Euribor	-0.55%	-1 bps	0 bps	-1 bps	-1 bps	-5 bps	-1 bps
3 Month U.S. T-Bill	0.04%	0 bps	-1 bps	-1 bps	2 bps	-6 bps	-4 bps
2-Year U.S. Treasury	0.30%	1 bps	9 bps	9 bps	14 bps	14 bps	18 bps
10-Year U.S. Treasury	1.52%	-2 bps	20 bps	15 bps	-13 bps	78 bps	61 bps
10-Year German Bund	-0.19%	3 bps	17 bps	7 bps	12 bps	32 bps	38 bps
10-Year U.K. Gilt	1.07%	19 bps	45 bps	43 bps	27 bps	79 bps	88 bps
10-Year JGB	0.08%	2 bps	5 bps	4 bps	-2 bps	5 bps	6 bps
Fixed Income	**Yield**	**OAS**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
Barclays Capital U.S. Government-Treasury	1.02%	N/A	0.1%	-1.0%	-0.5%	-2.8%	-2.5%
Barclays Capital U.S. TIPS	1.17%	N/A	0.5%	-0.2%	1.5%	6.0%	4.0%
Barclays Capital U.S. Aggregate	1.57%	33	0.0%	-0.8%	-0.5%	-0.8%	-1.6%
Barclays Capital Global Aggregate	1.18%	33	-0.1%	-2.1%	-1.3%	-1.1%	-4.2%
Barclays Capital U.S. ABS	0.63%	27	0.0%	-0.1%	0.0%	0.6%	0.3%
Barclays Capital U.S. MBS	1.84%	27	0.1%	-0.4%	-0.1%	-0.5%	-0.7%
Barclays Capital U.S. Corporate Investment Grade	2.14%	86	-0.2%	-1.0%	-0.7%	1.5%	-1.3%
BAML Euro Corporate Investment Grade	0.35%	86	-0.2%	-0.7%	-0.4%	1.2%	-0.5%
Barclays Capital U.S. Corporate High Yield	4.16%	300	-0.4%	-0.5%	0.2%	9.9%	4.2%
BAML European Currency High Yield Non-Financial	2.95%	331	-0.6%	-0.8%	0.0%	7.9%	3.0%
CS U.S. Leveraged Loans	4.78%	438	0.1%	0.6%	1.1%	8.3%	4.7%
CS Western European Leveraged Loans Non-USD	4.19%	406*	0.0%	0.3%	1.2%	7.5%	4.0%
JPM CEMBI Broad Diversified	4.46%	307	-0.3%	-1.0%	-0.3%	5.4%	1.2%
JPM EMBI Global Diversified	5.22%	367	-0.8%	-2.9%	-1.6%	3.1%	-2.0%
JPM GBI-EM Global Diversified	5.38%	N/A	-0.4%	-4.0%	-2.4%	1.1%	-6.8%
Equities	**Price**	**Div Yield**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
S&P 500	4,363.55	1.30%	0.1%	-3.7%	0.8%	31.8%	17.5%
Euro STOXX 600 (Local)	451.33	2.72%	-0.8%	-5.0%	-1.0%	23.4%	13.1%
U.K. FTSE 100 (Local)	6,995.87	3.51%	-1.6%	-2.7%	-1.5%	17.6%	8.3%
Japan Nikkei 225 (Local)	27,528.87	1.60%	-6.8%	-7.2%	-3.9%	17.5%	0.3%
China Shanghai Composite (Local)	3,568.17	2.04%	0.9%	-1.5%	1.1%	10.9%	2.7%
MSCI AC World (Local)	709.69	1.82%	-0.6%	-4.0%	-1.0%	27.2%	13.4%
MSCI Emerging Markets (Local)	1,227.13	2.42%	-1.6%	-4.9%	-6.7%	13.6%	-0.8%
Commodities/Currencies	**Price**	**1W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
S&P GS Commodity Index	569.16	2.6%	7.0%	7.6%	21.5%	60.9%	39.0%
WTI Crude ($/bbl)	77.43	3.2%	11.7%	5.2%	30.5%	91.1%	60.1%
Copper ($/lb)	4.16	-1.0%	-3.9%	-2.4%	0.7%	40.2%	18.3%
Gold ($/oz)	1,759.70	1.3%	-3.5%	-2.8%	0.9%	-8.0%	-6.8%
U.S. Dollar Index	94.27	-0.1%	2.4%	1.9%	2.1%	0.6%	4.8%
Euro (USD/EUR)	1.15	-0.6%	-2.7%	-2.4%	-2.5%	-2.1%	-5.7%
British Pound (USD/GBP)	1.36	1.1%	-1.9%	-1.7%	-2.1%	4.6%	-0.7%
Japanese Yen (Yen/USD)	111.24	-0.6%	1.3%	0.6%	1.4%	5.3%	7.7%
Chinese Yuan (CNY/USD)	6.46	-0.1%	0.1%	0.0%	-1.3%	-5.1%	-1.2%

Source: FactSet and Bloomberg. As of October 6, 2021.

Note: *As of September 30, 2021.

IMPORTANT INFORMATION

21-1867273