

Locking Down to Speed Opening Up

IN REVIEW

- **University of Michigan consumer sentiment** regressed in November according to preliminary reports, due to worsening expectations amid rising virus cases.
- **U.S. industrial production** rose a solid 1.1% in October, boosted by utilities and manufacturing. Plans to increase inventories suggests a continued production recovery.
- The U.S. housing market showed continued strength. The **NAHB housing market index** beat expectations in November, rising to a record high of 90. **Single-family starts** rose to the best pace since 2007 and **permits** remain elevated.
- **Initial claims** rose for the first time in five weeks, up 31,000 to 742,000 in W/E November 14. Continuing claims fell to 6.37 million in W/E November 7 as regular benefits ended and people shifted to PEUC claims (13-week extension), which expire at year-end.
- **U.K. CPI** rose from 0.5% Y/Y to 0.7% Y/Y due to higher core goods and food prices. However, weak demand will likely keep inflation pressures at bay in the near-term.
- **Japan 3Q GDP** rose a better-than-expected 5% Y/Y, heavily aided by government support, as private demand disappointed. Continued government support will be needed.
- **China activity data** showed the recovery continued in October. Industrial production and fixed asset investment were better-than-expected, while retail sales signaled internal demand continued to heal.

WATCH LIST

Date		Consensus		Previous
U.S.				
Mon 11/23	Markit Manufacturing PMI (Prelim)	52.5	▼	53.4
Mon 11/23	Markit Services PMI (Prelim)	56.0	▼	56.9
Tue 11/24	FHFA House Price Index			1.5% M/M
Tue 11/24	Consumer Confidence	98.0	▼	100.9
Wed 11/25	3Q20 GDP (Second Estimate)	33.1% Q/Q	—	33.1% Q/Q
Wed 11/25	Initial Claims			742K
Wed 11/25	Personal Income	0.1% M/M	▼	0.9% M/M
Wed 11/25	Personal Spending	0.5% M/M	▼	1.4% M/M
Wed 11/25	Core PCE Deflator	1.4% Y/Y	▼	1.5% Y/Y
Wed 11/25	New Home Sales	968K	▲	959K
Thu 10/26	Thanksgiving Holiday Markets Closed	—		—
Europe				
Mon 11/23	EZ Markit Manufacturing PMI (Prelim)	54.2	▼	54.8
Mon 11/23	EZ Markit Services PMI (Prelim)	44.1	▼	46.9
Mon 11/23	U.K. Markit Manufacturing PMI (Prelim)	51.6	▼	53.7
Mon 11/23	U.K. Markit Services PMI (Prelim)	46.0	▼	51.4
Tue 11/24	German IFO Business Climate	90.9	▼	92.7
Asia Pacific				
Mon 11/23	Japan Workers' Day Markets Closed	—		—
Fri 11/27	China Industrial Profits			10.1% Y/Y

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

U.S.

- **November flash PMIs** are expected to show continued recovery, though the pace could moderate amid greater restrictions.
- **Personal income and spending** for October are set to moderate amid waning government support to consumers. While pent-up **savings** should aid spending, extra savings among the low-income cohort is diminishing.
- Look to **initial claims** data in the near-term, as indications of a second round of layoffs amid greater restrictions would show up here first.

Europe

- Expect a generalized softening Monday when **November flash PMIs** for the euro area, Germany, France and the U.K. are released, with service sectors contracting further due to virus containment measures. October showed mildly negative growth in Q4, and November may be worse if numbers align with consensus.
- **French household consumption and Spanish retail sales data** on Friday will show European consumers' resilience in October amid second-wave lockdowns. Negative numbers in September could mean a deeper negative dive is likely.

Asia Pacific

- **China industrial profits** are likely to show continued recovery in the industrial sector. **Markets in Japan** will be closed November 23 due to Workers' Day.

THE HIGHLIGHTS

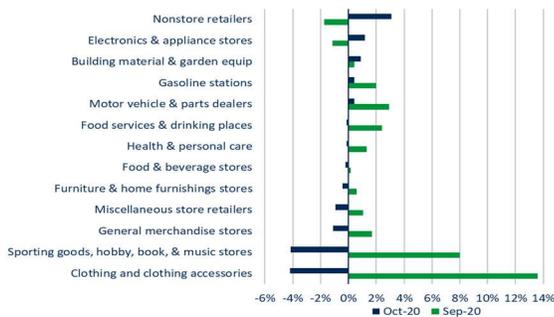
Vaccine Progress Expands

Preliminary analysis of Moderna’s Phase 3 trial data shows 94.5% effectiveness preventing infections and that it was well tolerated, with the majority of adverse events mild or moderate. The company plans to submit for Emergency Use Authorization with U.S. regulators in the coming weeks. This highly positive result follows Pfizer/BioNTech’s vaccine, which has been found to be 95% effective. While both vaccines utilize the same mRNA technology, Moderna’s vaccine poses more temperature-friendly storage requirements—2C–8C for up to a month—which increases odds of widespread vaccination by the end of 2Q21 (which would require multiple vaccines), as do positive follow up Phase 2 trial results of the Oxford-AstraZeneca vaccine.

U.S. Retail Sales Moderating

After an impressive rebound, U.S. retail sales growth moderated in October amid rising cases, greater restrictions, winding down of fiscal stimulus, and diminishing hopes of additional fiscal stimulus this year. Retail sales rose 0.3% M/M following a 1.6% M/M rise in September. While consumer spending should slow in the near-term, pent-up savings, a labor market recovery, further fiscal support likely in 2021, and possible vaccines should keep the spending recovery on track through the medium-term.

U.S. RETAIL SALES, M/M % CHANGE



Source: Bloomberg. As of November 19, 2020.

While online deals such as Prime Day helped boost nonstore retail sales in October, eight of the 13 major retail categories declined, led by clothing, sporting goods and hobby stores. Restaurant and bar sales fell for the first time since April, a sign cooler weather may be weighing on outdoor dining.

Mortgages Drive Household Debt Higher

U.S. household debt rose 0.6% in Q3, due to rising mortgage balances amid a housing market recovery and record-low mortgage rates that are boosting refinancing, according to the New York Federal Reserve’s Household Debt and Credit Report. But consumers are deleveraging elsewhere. Auto loan balances also increased in Q3, driven by rising demand for cars given virus concerns surrounding public transit. However, credit card balances declined, due in part to consumers paying down debt, borrowing less, and likely shifting some spending from credit cards to debit given the elevated levels of government transfer payments.

Policy

U.S. Lockdowns: President-elect Joe Biden’s coronavirus advisers favor targeted, local measures to curb coronavirus spread, as opposed to a nationwide lockdown. Vivek Murthy, a former U.S. surgeon general and a top coronavirus adviser to Biden, argued that a national lockdown without targeted efforts would exacerbate pandemic fatigue, along with worries about job security and the adverse effects on the economy and child education. The focus will likely be on mask-wearing, testing and adjusting localized capacity restrictions. Despite positive vaccine news, cities throughout Europe and North America have reacted to rising numbers with new restrictions.

EU Recovery fund: Hungary and Poland blocked approval of the European Union’s budget over a clause that ties funding with adherence to the rule of law in the bloc. The package includes €750 billion for a COVID recovery fund, though ambassadors of the 27 member states meeting in Brussels were unable to endorse the budget because the two countries vetoed it. EU states had already agreed on the €1.1 trillion budget for 2021–2027 and the coronavirus stimulus package in July. This road block could be short-lived as the politicians work through negotiations. The recovery fund should start transferring funds to EU countries in April 2021, as planned, but the risk of a delay has increased slightly on the back of the Polish-Hungarian obstructionism.

Brexit: Another week, another crunch-time deadline passed without notice. In the rarefied world of Brexit negotiations, no other realistic deadline stands other than the end of the year. Since all 27 EU leaders and the EU Parliament must ratify the deal for it to be official, something will have to give if no deal is found in the next two weeks. Some EU member states are reportedly asking the EU Commission to publish its plans for a no-deal event, just in case.

Free Trade: The ASEAN nations and their four-largest partners (China, Korea, Japan, Australia/New Zealand) have signed a free trade agreement, named Regional Comprehensive Economic Partnership (RCEP). Benefits of the agreement include a tariff elimination of at least 92% on traded goods among participating countries, as well as strengthening supply chains with common rules of origin, and codifying new e-commerce rules. While India withdrew from the negotiations and will not see direct benefits (as of now), the deal allows other economies to join in the future. RCEP’s 15 members generated \$26 trillion of GDP in 2019, or a little over 30% of world output. This makes the free trade area slightly larger than USMCA and significantly larger than CPTPP. Already, the majority of RCEP economies send more than half of their exports to other members, and that proportion is likely to rise given the region’s growing share of global GDP. The deal is expected to take effect next year after parties complete their domestic ratification procedures; the deal needs approval by either half the membership or by six ASEAN economies and half of the non-ASEAN parties. China’s direct benefits of RCEP will likely be marginal against the backdrop of trade tensions with the U.S.

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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	-150 bps	-150 bps
U.S. SOFR	0.07%	-1 bps	-2 bps	-2 bps	3 bps	-149 bps	-148 bps
3 Month USD Libor	0.22%	0 bps	1 bps	-3 bps	-15 bps	-167 bps	-168 bps
3 Month Euribor	-0.53%	-1 bps	-2 bps	-4 bps	-25 bps	-12 bps	-14 bps
3 Month U.S. T-Bill	0.09%	-1 bps	-2 bps	-1 bps	-4 bps	-148 bps	-146 bps
2-Year U.S. Treasury	0.17%	-2 bps	2 bps	3 bps	-2 bps	-142 bps	-140 bps
10-Year U.S. Treasury	0.88%	-10 bps	14 bps	21 bps	14 bps	-93 bps	-104 bps
10-Year German Bund	-0.56%	-5 bps	7 bps	-10 bps	-5 bps	-21 bps	-37 bps
10-Year U.K. Gilt	0.33%	-8 bps	16 bps	11 bps	9 bps	-39 bps	-49 bps
10-Year JGB	0.01%	-2 bps	0 bps	-2 bps	3 bps	10 bps	4 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.60%	N/A	0.7%	-0.5%	-0.9%	7.7%	7.9%
Barclays Capital U.S. TIPS	0.78%	N/A	0.4%	-0.5%	0.1%	9.4%	8.7%
Barclays Capital U.S. Aggregate	1.20%	50	0.6%	0.1%	-0.1%	7.2%	6.9%
Barclays Capital Global Aggregate	0.89%	41	1.2%	1.1%	1.1%	7.9%	7.4%
Barclays Capital U.S. ABS	0.54%	36	0.1%	0.0%	0.4%	4.4%	4.2%
Barclays Capital U.S. MBS	1.32%	50	0.2%	0.1%	-0.1%	4.0%	3.6%
Barclays Capital U.S. Corporate Investment Grade	1.89%	110	1.1%	1.0%	1.1%	9.4%	8.4%
BAML Euro Corporate Investment Grade	0.27%	96	0.3%	0.7%	1.7%	2.3%	2.3%
Barclays Capital U.S. Corporate High Yield	4.80%	417	0.2%	2.3%	3.5%	6.7%	4.4%
BAML European Currency High Yield Non-Financial	3.47%	403	0.6%	2.7%	3.5%	2.9%	1.0%
CS U.S. Leveraged Loans	5.61%	534	0.1%	1.2%	2.9%	2.8%	1.0%
CS Western European Leveraged Loans Non-USD	4.99%	492	0.5%	1.5%	3.7%	2.3%	1.5%
JPM CEMBI Broad Diversified	4.32%	359	0.7%	1.4%	1.9%	6.2%	4.9%
JPM EMBI Global Diversified	4.80%	380	0.7%	1.8%	1.2%	5.4%	2.9%
JPM GBI-EM Global Diversified	4.34%	N/A	1.1%	4.8%	4.1%	2.7%	-0.8%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,567.79	1.62%	-0.1%	2.6%	5.7%	16.5%	12.3%
Euro STOXX 600 (Local)	390.54	1.85%	0.5%	6.3%	6.4%	-3.8%	-6.1%
U.K. FTSE 100 (Local)	6,385.24	3.86%	0.0%	7.9%	5.1%	-12.6%	-15.3%
Japan Nikkei 225 (Local)	25,728.14	2.22%	1.5%	9.9%	11.6%	9.9%	8.8%
China Shanghai Composite (Local)	3,347.30	2.12%	0.2%	0.3%	-3.0%	15.1%	9.7%
MSCI AC World (Local)	610.11	1.94%	0.5%	4.1%	6.6%	12.4%	9.1%
MSCI Emerging Markets (Local)	1,207.55	2.11%	2.0%	5.9%	7.7%	17.6%	12.7%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	372.68	0.8%	2.8%	4.0%	25.7%	-10.3%	-14.6%
WTI Crude (\$/bbl)	41.82	1.4%	2.8%	-2.5%	31.4%	-26.4%	-31.6%
Copper (\$/lb)	3.20	2.2%	4.3%	7.6%	33.0%	22.2%	14.5%
Gold (\$/oz)	1,876.10	0.8%	-1.5%	-6.6%	8.2%	27.8%	23.9%
U.S. Dollar Index	92.32	-0.8%	-1.5%	0.0%	-7.4%	-5.6%	-4.2%
Euro (USD/EUR)	1.19	1.0%	1.3%	-0.4%	9.4%	7.2%	5.8%
British Pound (USD/GBP)	1.33	0.8%	2.9%	0.6%	9.1%	2.6%	0.4%
Japanese Yen (Yen/USD)	103.67	-1.9%	-1.7%	-1.7%	-3.5%	-4.5%	-4.6%
Chinese Yuan (CNY/USD)	6.54	-1.2%	-2.3%	-5.5%	-8.0%	-6.7%	-6.1%

Source: FactSet and Bloomberg. As of November 18, 2020.

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