

Vaccine News Gives Markets Another Shot

IN REVIEW

- The **ISM manufacturing index** remained in strong expansionary territory in November. The employment index weakened as rising COVID cases lead to labor shortages. The **ISM services index** expanded for the sixth-consecutive month, but at a slower pace in November.
- **Initial claims** fell 75,000 to a still-elevated 712,000 in W/E November 28. The Thanksgiving holiday likely led to greater volatility, and a Government Accountability Office report noted data is less reliable. Continuing claims fell 569,000 to 5.52 million in W/E November 21 due in part to individuals shifting to PEUC claims (13-week extension).
- **FHFA house price index** rose at a record pace in Q3, up 3.1% Q/Q and 7.8% Y/Y, amid robust demand across the U.S. and tight supply.
- **EZ CPI** stayed weak at -0.3% Y/Y in November.
- **EZ unemployment rate** remained virtually stable at 8.4% in October, as furlough schemes are still in place.
- **EZ retail sales** were up 2.8% in October and are now well-above pre-COVID levels.
- **China PMIs** remained vibrant in November, showing continued strong growth momentum.
- **Japan's industrial production** rose 3.8% M/M in October, indicating the economy continues to recover. However, output remains 4.5% below pre-crisis levels due to declining investment and no consumption.

WATCH LIST

Date		Consensus		Previous
U.S.				
Tue 12/8	NFIB Small Business Optimism	102.5	▼	104.0
Tue 12/8	3Q Nonfarm Productivity (Final)	5.0% Q/Q	▲	4.9% Q/Q
Wed 12/9	JOLTS Job Openings	6300	▼	6436
Thu 12/10	Consumer Price Index	0.1% M/M	▲	0.0% M/M
Thu 12/10	Initial Claims			712K
Fri 12/11	Producer Price Index	0.1% M/M	▼	0.3% M/M
Fri 12/11	U. of Michigan Sentiment (Prelim)	76.3	▼	76.9
Fri 12/11	U.S. Federal Budget Deadline	--		--
Europe				
Tue 12/8	German ZEW Survey Expectations	34.3	▼	39.0
Tue 12/8	EZ 3Q GDP (Final Estimate)	12.6% Q/Q	-	12.6% Q/Q
Thu 12/10	ECB Monetary Policy Meeting	0.0%	-	0.0%
Fri 12/11	Euro Summit	--		--
Asia Pacific				
Mon 12/7	China Exports	12.0% Y/Y	▲	11.4% Y/Y
Mon 12/7	China Imports	7.3% Y/Y	▲	4.7% Y/Y
Tue 12/8	Japan 3Q GDP (Final Estimate)	5.0% Q/Q	-	5.0% Q/Q
Wed 12/9	Japan Machine Tool Orders (Prelim)			-6.0% Y/Y
Wed 12/9	China Consumer Price Index	0.1% Y/Y	▼	0.5% Y/Y
Wed 12/9	China Producer Price Index	-1.8% Y/Y	▲	-2.1% Y/Y

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

U.S.

- Eyes are on **initial claims** data to see to how rising COVID cases and restrictions are weighing on the U.S. labor market.
- Preliminary **University of Michigan consumer sentiment** for December will also indicate how consumers' attitudes are holding up to COVID worries, rising cases and restrictions, and a lack of fiscal support.
- **Fiscal support negotiations** will be monitored next week with the looming end to prominent unemployment insurance programs set to expire at year-end, as well as a widely expected spending bill to avert a government shutdown by December 11.

Europe

- **The ECB** is expected next week to increase the Pandemic Emergency Purchase Programme by €500 billion, extend it through the end of 2021, and pay banks more to borrow. The ECB remains firmly accommodative to entrench the recovery.

Asia Pacific

- **China inflation** data is expected to remain low in November amid weak food prices and still-recovering internal demand. Meanwhile, **export data** should continue to point to improving global trade.

THE HIGHLIGHTS

Vaccine Fuels Market Risk Rotation

Positive vaccine developments, including the first approval to start Pfizer/BioNTech vaccinations in the U.K., have been a catalyst for a wholesale rotation back into risk. Markets have seemingly started to look past near-term headwinds of rising cases and U.S. fiscal policy uncertainty. While equities march to new highs, the details reveal a tilt towards cyclical assets as deflation comes into focus, with sectors like technology lagging behind energy and financials, both of which are up 32% and 14%, respectively, since November 6. Value stocks have also outperformed growth by more than 13%, with small caps outperforming large caps by about 9%. Safe-haven assets have taken a hit, with gold falling in sympathy with the U.S. dollar, which is approaching 2018 lows amid euro strength. On the other hand, industrial commodities such as copper and nickel have been on a tear amid a revival of global manufacturing. The classic copper-gold ratio implies higher sovereign yields from here. That said, while U.S. yield curves have steepened greatly, the price action in the 10Y Treasury is relatively subdued compared to risk assets, as rates seem to be unable to break above 1%, perhaps given a possible extension of maturity in Fed purchases.

Central Banks Cautious in Supporting the Economy

The PBOC has signaled a balanced and targeted approach to monetary policy as China continues its impressive recovery. A surprise 200 billion yuan (\$30 billion) injection through the medium-term lending facility (MLF) on November 30, following credit defaults by state-linked firms, shows the PBOC is wary to maintain financial stability while it slowly adjusts policy. The Central Bank is injecting liquidity as needed, though a flush of liquidity is unlikely as more targeted policy tightening could be expected.

The Federal Reserve remains committed to an accommodative stance, continuing to increase its holdings of Treasuries and agency MBS at least at the current pace. It is unlikely to raise rates until inflation remains above 2% for some time. Talks could begin to buy more long-term U.S. Treasuries, which would help ease some of the more recent selling and keep yields capped. While the recent move by Treasury Secretary Steven Mnuchin to take back funds showed that the Fed does in fact have limitations, Treasury Secretary Nominee Janet Yellen, is set to be very supportive and could restart some of the Fed facilities that Mnuchin ended and coordinate policy actions.

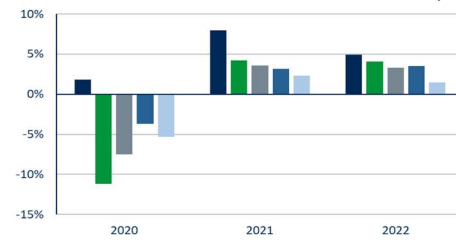
Expect the ECB next week to increase the Pandemic Emergency Purchase Programme by €500 billion, extend it through the end of 2021, and pay banks more to borrow – but there may be a surprise or two as it remains firmly accommodative to entrench the recovery.

OECD Economic Outlook

The Organisation for Economic Co-operation and Development projects global GDP will return to pre-pandemic levels by the end of 2021 amid positive vaccine progress, concerted health policies, and continued

government support, though the recovery will be gradual and uneven across countries and sectors. The OECD projects global GDP to rise 4.2% in 2021 and 3.7% in 2022, following a 4.2% collapse in 2020. Asia is projected to see the strongest growth, while Western countries that are still unable to contain the virus are expected to lag. The OECD projects a less severe 2020 contraction, resulting in a more modest rebound in 2021 compared to the IMF's October economic outlook, though this is likely due in part to better-than-expected economic data since October. Overall, the two growth outlooks are largely in-line, expecting global GDP to return to pre-crisis levels in 2021.

OECD ECONOMIC OUTLOOK REAL GDP GROWTH, Y/Y%



Source: OECD. As of December 3, 2020.

The OECD projects that labor markets will remain under pressure in 2021, so they noted that further government support will be needed to avoid a fiscal cliff. Encouraging continued fiscal support was a sentiment shared by the IMF.

Policy

Brexit: Fishing rights and common standards, including state aid and governance, appear to be the negotiation obstacles. Technically, December 31 is the final date for a deal, but both sides are already running out of time to implement whatever is agreed.

U.S. Spending: A bipartisan \$908 billion stimulus proposal could break the months-long impasse. The politics remain complicated, but negotiations could merge with efforts to extend government funding, which expires December 11.

OPEC+: The cartel and its allies are expected to increase output by as much as 500,000 bpd starting in January. Tensions between Saudi Arabia and United Arab Emirates have hindered agreement, undermining the recent rise in crude prices.

EU and U.S. Alliance: The EU proposed an alliance with the U.S. to shape the digital regulatory environment and scrapped import duties on U.S. lobster in the spirit of compromise. The U.S. cut some levies by 50% on goods including crystal glassware, cigarette lighters, prepared meals and propellants. A proposed summit in early 2021 could launch the new transatlantic agenda.

China-Australia Tensions: Amid a rapid deterioration in relations, China implemented anti-dumping duties of more than 100% on imported Australian wine, while an Australian coal flotilla stuck off China's coast has risen to more than 80 ships. China's shipment hold-ups saw Australian coal exports to the country plunge 96% in the first three weeks of November. China is still unlikely to target Australia's most valuable commodity export in iron ore.

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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	0.08%	0 bps	-3 bps	-1 bps	1 bps	-155 bps	-147 bps
3 Month USD Libor	0.23%	0 bps	1 bps	-2 bps	-10 bps	-167 bps	-168 bps
3 Month Euribor	-0.52%	0 bps	0 bps	-5 bps	-19 bps	-12 bps	-14 bps
3 Month U.S. T-Bill	0.08%	0 bps	0 bps	-3 bps	-6 bps	-149 bps	-147 bps
2-Year U.S. Treasury	0.16%	0 bps	0 bps	2 bps	0 bps	-146 bps	-142 bps
10-Year U.S. Treasury	0.95%	7 bps	10 bps	30 bps	27 bps	-89 bps	-97 bps
10-Year German Bund	-0.52%	6 bps	12 bps	-5 bps	-10 bps	-25 bps	-33 bps
10-Year U.K. Gilt	0.36%	6 bps	14 bps	12 bps	14 bps	-39 bps	-46 bps
10-Year JGB	0.03%	1 bps	-1 bps	-1 bps	2 bps	9 bps	5 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.63%	N/A	-0.4%	-0.4%	-1.5%	7.3%	7.5%
Barclays Capital U.S. TIPS	0.81%	N/A	0.2%	0.6%	-0.1%	10.1%	9.4%
Barclays Capital U.S. Aggregate	1.21%	45	-0.2%	0.5%	-0.4%	7.2%	6.9%
Barclays Capital Global Aggregate	0.89%	39	0.2%	1.8%	1.4%	8.5%	7.7%
Barclays Capital U.S. ABS	0.51%	34	0.0%	0.1%	0.2%	4.4%	4.3%
Barclays Capital U.S. MBS	1.34%	45	-0.1%	0.0%	-0.2%	3.9%	3.6%
Barclays Capital U.S. Corporate Investment Grade	1.84%	100	0.1%	2.1%	1.0%	9.8%	8.9%
BAML Euro Corporate Investment Grade	0.27%	93	-0.2%	0.8%	1.6%	2.2%	2.3%
Barclays Capital U.S. Corporate High Yield	4.56%	392	0.5%	4.1%	3.5%	7.7%	5.5%
BAML European Currency High Yield Non-Financial	3.11%	369	0.5%	4.7%	4.0%	3.5%	2.3%
CS U.S. Leveraged Loans	5.40%	513	0.3%	2.3%	2.8%	3.2%	1.7%
CS Western European Leveraged Loans Non-USD	4.73%	466	0.3%	2.9%	4.0%	3.1%	2.5%
JPM CEMBI Broad Diversified	4.20%	340	0.3%	2.8%	2.2%	6.7%	5.7%
JPM EMBI Global Diversified	4.74%	367	0.2%	4.1%	0.7%	5.9%	3.5%
JPM GBI-EM Global Diversified	4.35%	N/A	0.8%	6.4%	4.7%	4.0%	0.1%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,669.01	1.57%	1.1%	11.0%	2.9%	20.0%	15.5%
Euro STOXX 600 (Local)	391.69	1.85%	-0.1%	12.6%	5.5%	-2.3%	-5.8%
U.K. FTSE 100 (Local)	6,463.39	3.68%	1.1%	14.3%	8.8%	-11.3%	-14.3%
Japan Nikkei 225 (Local)	26,800.98	2.22%	1.9%	15.0%	15.3%	13.9%	13.3%
China Shanghai Composite (Local)	3,449.38	2.05%	2.6%	7.0%	1.3%	19.9%	13.1%
MSCI AC World (Local)	626.25	1.89%	0.8%	12.8%	5.2%	16.4%	11.8%
MSCI Emerging Markets (Local)	1,228.71	2.04%	0.6%	9.5%	7.8%	21.3%	14.4%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	386.27	-0.3%	12.0%	9.2%	23.5%	-6.0%	-11.4%
WTI Crude (\$/bbl)	45.28	-0.7%	23.7%	5.9%	22.8%	-19.1%	-25.9%
Copper (\$/lb)	3.48	4.9%	13.1%	15.7%	39.3%	32.0%	24.4%
Gold (\$/oz)	1,822.60	0.7%	-3.6%	-6.4%	4.6%	24.7%	20.3%
U.S. Dollar Index	91.12	-1.0%	-3.2%	-1.9%	-6.7%	-6.9%	-5.5%
Euro (USD/EUR)	1.21	1.5%	3.8%	2.0%	8.0%	9.1%	7.6%
British Pound (USD/GBP)	1.33	-0.4%	3.2%	0.2%	6.1%	3.1%	0.6%
Japanese Yen (Yen/USD)	104.59	0.2%	-0.2%	-1.5%	-3.7%	-4.2%	-3.8%
Chinese Yuan (CNY/USD)	6.57	-0.2%	-2.0%	-3.8%	-7.6%	-6.8%	-5.7%

Source: FactSet and Bloomberg. As of December 2, 2020.

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*As of September 30, 2020

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