

WHO Said Money Can't Buy Health?

IN REVIEW

- FHFA house price index** surprised to the upside in December, rising 0.6% M/M. **New home sales** beat expectations, rising 7.9% M/M to 764k in January. Inventory slid over the month, which will put upward pressure on prices.
- U.S. consumer confidence** rose from a downwardly revised 130.4 in January to 130.7 in February. The present situation index slid to 165.1 from 173.9, while the expectations component rose from 101.4 to 107.8. Downward revisions are likely, given the timing of the survey and spreading COVID-19 concerns.
- Durable goods orders** slid 0.2% M/M in January, according to the advance report. Nondefense capital goods orders excluding aircraft rose 0.9% M/M.
- German IFO business climate index** moved sideways in February, as the COVID-19 outbreak weighs on business confidence.
- EZ flash manufacturing PMI** surprised to the upside, rising from 47.9 to 49.1 in February. However, longer supplier delivery times due to COVID-19-related supply chain disruptions artificially boosted the headline.
- Japan flash composite PMI** slid from 50.1 to 47.0 in February, with declines in both the services and manufacturing PMIs as COVID-19 weighs on the economy.
- Japan CPI** moderated from 0.8% Y/Y in December to 0.7% Y/Y in January, while the core CPI rose 0.8% Y/Y.

WATCH LIST

| Date | | Consensus | | Previous |
|---------------------|--------------------------------|-----------|---|-----------|
| U.S. | | | | |
| Mon 3/2 | ISM Manufacturing | 50.5 | ▼ | 50.9 |
| Tue 3/3 | Super Tuesday | -- | | -- |
| Tue 3/3 | Wards Total Vehicle Sales | 16.80m | ▼ | 16.84m |
| Wed 3/4 | ISM Non-Manufacturing | 55.5 | ■ | 55.5 |
| Wed 3/4 | Beige Book | -- | | -- |
| Thu 3/5 | Factory Orders | -0.4% M/M | ▼ | 1.8% M/M |
| Fri 3/6 | Trade Balance | -\$48.8b | ▲ | -\$48.9b |
| Fri 3/6 | Change in Nonfarm Payrolls | 190k | ▼ | 225k |
| Fri 3/6 | Unemployment Rate | 3.5% | ▼ | 3.6% |
| Fri 3/6 | Average Hourly Earnings | 3.0% Y/Y | ▼ | 3.1% Y/Y |
| Europe | | | | |
| Tue 3/3 | EZ CPI (Prelim) | 1.2% Y/Y | ▼ | 1.4% Y/Y |
| Tue 3/3 | EZ Unemployment Rate | 7.4% | ■ | 7.4% |
| Wed 3/4 | EZ Retail Sales | | | -1.6% M/M |
| Wed 3/4 | Italy GDP 4Q (Final) | -0.3% Q/Q | ■ | -0.3% Q/Q |
| Thu 3/5 | OPEC Meeting | -- | | -- |
| Thu 3/5 | OECD Interim Economic Outlook | -- | | -- |
| Asia Pacific | | | | |
| Mon 3/2 | Caixin China Manufacturing PMI | 46.3 | ▼ | 51.1 |
| Tue 3/3 | South Korea GDP 4Q (Final) | 1.2% Q/Q | ■ | 1.2% Q/Q |
| Sat 3/7 | China Trade Balance | | | |

Arrows indicate consensus forecast compared to the previous period.

U.S.

- The February **employment report** is expected to show another strong month of job creation. Job gains should exceed the estimated 100,000/month pace needed to absorb new entrants into the labor market. However, as there is still slack to be worked through, wages are not expected to materially accelerate.
- Given the uncertainty surrounding the Democratic nominee, we look for the results of **Super Tuesday** on March 3, which should signal who the front runner(s) is(are).

Europe

- EZ unemployment rate** should signal strong labor markets across the region in January, which would aid private consumption—the driver of GDP growth.
- The **OPEC meeting** March 5 and 6 should yield a decision on whether or not to enact further production cuts. The Joint Technical Committee previously recommended a 600K bpd cut, as the virus outbreak significantly reduced demand.

Asia Pacific

- China's exports and imports** are likely to decline amid COVID-19 disruptions.

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THE HIGHLIGHTS

Covid-19 Weekly Checkup

The impact is increasingly apparent as Chinese car sales plunged 92% in the first two weeks of February, and the airline industry expects to see the first annual decline in global passenger demand in 11 years. Estimates suggest a 4.7% drop in the passenger-traffic forecast issued two months ago from the International Air Transport Association. The IMF downgraded its forecast for China's 2020 GDP growth by 0.4 percentage points to 5.6% and reduced its global growth outlook by 0.1 percentage points to 3.2% overall.

Fiscal Stimulus: As Hong Kong posts its first deficit in more than 15 years, the government unveiled HKD\$15 billion (USD \$1.9 billion) of fiscal stimulus measures, including payment of HKD \$10,000 (\$1,300 USD) to each permanent resident of the city 18 or older, waiving business registration fees, extending subsidies on utility bills, and even covering one month's rent for lower-income tenants. Singapore announced a S\$1.6 billion (USD \$2.1 billion) support package to help households with expenses. The city state is forecasting its biggest budget deficit in more than two decades for 2020, with S\$6.4 billion in support. The U.K. is considering a fiscal stimulus of 1-1.5% of GDP in the new March budget.

ISM Manufacturing: Take Flight or Touch Down?

The consensus view is for the ISM manufacturing index to remain relatively unchanged in expansionary territory, but risks are tilted to the downside. While the "Phase One" deal provides upside for U.S. manufacturing, the Boeing production halt and COVID-19 disruptions are set to be a drag, and regional PMIs are sending mixed signals.

The regional PMIs are generally a good leading indicator of the ISM manufacturing index. Richmond and Kansas City surveys should be impacted by the production halt at Boeing. The Richmond Fed manufacturing index slid from 20 in January to 2 in February. For reference, a reading above 0 indicates expansion; below 0 indicates contraction. The Kansas City Fed manufacturing index rose from -1 to 5 in February. Survey respondents noted the Boeing halt led to some layoffs, while over 40% of firms reported negative effects from COVID-19. Boeing likely weighed on these regional PMIs, suggesting downside risk for next week's ISM Manufacturing index.

U.S. REGIONAL MANUFACTURING PMIS



Source: Bloomberg. As of February 27, 2020.

However, other regional PMIs showed improvement; Philly Fed manufacturing activity index rose from 17 to 36.7; New York Empire State manufacturing index rose from 4.8 to 12.9; the Dallas Fed manufacturing index rose from -0.2 to 1.2 in February, signaling a likely improvement before the virus. U.S. manufacturing faces a bumpy ride from Boeing and COVID-19.

Policy

India Trade Deal: President Donald Trump and Prime Minister Narendra Modi unveiled agreements aimed at boosting American exports of liquefied natural gas, pointing to Exxon Mobil Corp. and Chart Industries. The agreement also included the sale of \$3 billion of U.S.-made military helicopters while supporting hope of a larger trade deal soon.

Digital Taxes are on the docket in talks by the U.S. and Europe. Several European countries, led by France, are rolling out digital services taxes, which would hit American companies like Amazon, Google and Facebook. Italy, Spain, Austria and the U.K. have all announced plans for digital services taxes, which assess a levy on online activity in those countries, regardless of whether the company has a physical presence. A year-end deadline looms to set international standards for how and where online activity may be taxed. A global minimum tax deterring multinational corporations from shifting profits to countries like Ireland and Bermuda to minimize tax bills is also in discussion. European countries may collect levies without an agreement, which could spark retaliatory tariffs from the U.S.

The White House is requesting \$2.5 billion in emergency funding from Congress to combat COVID-19 and already transferred \$136 million from other health programs to pay for immediate needs. The package will allocate around \$1 billion to expedite vaccine development by companies such as Moderna, which expects to begin vaccine trials in April.

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KEY FINANCIAL INDICATORS

| Rates | Yield | 1 W Change | 1M Change | 3M Change | 6M Change | 12M Change | YTD Change |
|--------------------------------------------------|-----------|------------|-----------|-----------|-----------|------------|------------|
| Fed Funds | 1.75% | 0 bps | 0 bps | 0 bps | -50 bps | -75 bps | 0 bps |
| U.S. SOFR | 1.58% | -1 bps | 5 bps | 4 bps | -52 bps | -80 bps | 3 bps |
| 3 Month USD Libor | 1.61% | -8 bps | -18 bps | -30 bps | -53 bps | -102 bps | -30 bps |
| 3 Month Euribor | -0.42% | -2 bps | -4 bps | -2 bps | -1 bps | -11 bps | -4 bps |
| 3 Month U.S. T-Bill | 1.50% | -9 bps | -3 bps | -10 bps | -49 bps | -95 bps | -5 bps |
| 2-Year U.S. Treasury | 1.15% | -27 bps | -33 bps | -41 bps | -40 bps | -134 bps | -42 bps |
| 10-Year U.S. Treasury | 1.31% | -25 bps | -36 bps | -42 bps | -24 bps | -132 bps | -61 bps |
| 10-Year German Bund | -0.49% | -7 bps | -16 bps | -11 bps | 18 bps | -58 bps | -30 bps |
| 10-Year U.K. Gilt | 0.50% | -10 bps | -8 bps | -13 bps | 2 bps | -75 bps | -32 bps |
| 10-Year JGB | -0.10% | -6 bps | -8 bps | -1 bps | 18 bps | -7 bps | -8 bps |
| Fixed Income | Yield | OAS | 1W Return | 1M Return | 3M Return | 12M Return | YTD Return |
| Barclays Capital U.S. Government-Treasury | 1.30% | N/A | 1.7% | 2.4% | 3.2% | 10.4% | 4.0% |
| Barclays Capital U.S. TIPS | 1.48% | N/A | 0.9% | 1.6% | 2.8% | 9.7% | 2.9% |
| Barclays Capital U.S. Aggregate | 1.85% | 46 | 1.1% | 1.8% | 2.9% | 10.6% | 3.1% |
| Barclays Capital Global Aggregate | 1.16% | 41 | 0.8% | 0.6% | 1.5% | 6.6% | 1.0% |
| Barclays Capital U.S. ABS | 1.50% | 31 | 0.5% | 0.8% | 1.5% | 5.2% | 1.5% |
| Barclays Capital U.S. MBS | 2.08% | 51 | 0.4% | 0.8% | 1.5% | 6.7% | 1.3% |
| Barclays Capital U.S. Corporate Investment Grade | 2.45% | 108 | 0.8% | 1.7% | 3.7% | 15.2% | 3.5% |
| BAML Euro Corporate Investment Grade | 0.35% | 98 | -0.1% | 0.3% | 1.0% | 5.5% | 1.1% |
| Barclays Capital U.S. Corporate High Yield | 5.67% | 425 | -1.2% | -0.2% | 2.2% | 7.8% | 0.1% |
| BAML European Currency High Yield Non-Financial | 3.28% | 376 | -1.1% | -0.6% | 1.0% | 6.3% | -0.2% |
| CS U.S. Leveraged Loans | 5.84% | 471 | -0.4% | -0.5% | 1.9% | 4.5% | 0.3% |
| CS Western European Leveraged Loans Non-USD | 4.53% | 421 | -0.2% | -0.2% | 1.1% | 3.6% | 0.4% |
| JPM CEMBI Broad Diversified | 4.57% | 330 | 0.0% | 0.8% | 3.3% | 11.5% | 2.3% |
| JPM EMBI Global Diversified | 4.77% | 333 | -0.4% | 1.0% | 3.9% | 11.3% | 1.9% |
| JPM GB-EM Global Diversified | 4.91% | N/A | -1.1% | -2.1% | 2.0% | 6.1% | -2.3% |
| Equities | Price | Div Yield | 1W Return | 1M Return | 3M Return | 12M Return | YTD Return |
| S&P 500 | 3,116.39 | 1.84% | -7.9% | -5.3% | -0.3% | 13.8% | -3.3% |
| Euro STOXX 600 (Local) | 404.62 | 3.36% | -6.7% | -4.5% | -0.9% | 8.3% | -2.7% |
| U.K. FTSE 100 (Local) | 7,042.47 | 4.66% | -5.6% | -7.2% | -4.9% | -1.5% | -6.6% |
| Japan Nikkei 225 (Local) | 22,426.19 | 2.03% | -4.2% | -5.9% | -4.1% | 4.6% | -5.2% |
| China Shanghai Composite (Local) | 2,987.93 | 2.23% | 0.4% | 0.4% | 2.8% | 1.6% | -2.0% |
| MSCI AC World (Local) | 539.82 | 2.48% | -6.8% | -5.1% | -1.1% | 10.7% | -3.2% |
| MSCI Emerging Markets (Local) | 1,043.31 | 2.79% | -4.7% | -5.0% | 0.3% | 3.7% | -4.0% |
| Commodities/Currencies | Price | 1W Change | 1M Change | 3M Change | 6M Change | 12M Change | YTD Change |
| S&P GS Commodity Index | 376.20 | -6.8% | -7.4% | -10.9% | -4.2% | -10.7% | -13.8% |
| WTI Crude (\$/bbl) | 48.65 | -8.7% | -10.1% | -16.5% | -9.1% | -12.2% | -20.4% |
| Copper (\$/lb) | 2.58 | -1.4% | -4.1% | -3.7% | 1.4% | -12.5% | -7.8% |
| Gold (\$/oz) | 1,634.90 | 1.9% | 4.5% | 12.4% | 8.7% | 23.4% | 7.9% |
| U.S. Dollar Index | 99.00 | -0.7% | 1.2% | 0.8% | 0.9% | 3.1% | 2.7% |
| Euro (USD/EUR) | 1.09 | 0.7% | -1.4% | -1.4% | -2.2% | -4.3% | -3.2% |
| British Pound (USD/GBP) | 1.29 | -0.3% | -1.2% | 0.6% | 5.7% | -2.4% | -2.5% |
| Japanese Yen (Yen/USD) | 110.58 | -0.3% | 1.0% | 1.4% | 4.3% | -0.2% | 1.7% |
| Chinese Yuan (CNY/USD) | 7.02 | 0.3% | 1.3% | -0.3% | -1.8% | 4.8% | 0.7% |

Source: FactSet and Bloomberg. As of February 26, 2020.

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