

Gold at the End of the Government's Rainbow

IN REVIEW

- The **FOMC** cut the fed funds rate by 100bps to a range of 0.00%-0.25%. This is likely the last cut, and the Committee said it will maintain this range until they are confident the economy has weathered the shock.
- **U.S. retail sales** slid 0.5% M/M in February—prior to the ramp up in COVID-19 cases in the U.S. Discretionary spending slowed, while non-store sales accelerated – a trend that is likely to hold as impact from the virus expands.
- **U.S. industrial production** rose 0.6% M/M in February, boosted by a 7.1% M/M gain in utilities as seasonal weather normalized. Weak oil prices led mining to slide 1.5%. The near-term is bleak for IP amid the virus and USD appreciation.
- Sentiment plummeted in Germany, with the **ZEW** recording the largest decline on record, while the **IFO business climate index** fell to the lowest level since 2009—according to its first advanced print for responses between March 8-18.
- At a surprise meeting, the **BOE** cut its Bank Rate to 0.1%, announced it would expand government and corporate bond purchases, as well as the TFSME lending program.
- **China activity data** saw massive declines in February. Industrial production sank 13.5% Y/Y, retail sales fell 20.5% Y/Y, and fixed asset investment growth slid 24.5% Y/Y.
- The **BOJ** moved its meeting forward, announcing a new loan program and increasing asset purchases, while leaving the policy rate unchanged.

WATCH LIST

Date		Consensus		Previous
U.S.				
Tue 3/24	Markit Manufacturing PMI (Prelim)	48.0	▼	50.7
Tue 3/24	New Home Sales	750k	▼	764k
Wed 3/25	Advance Durable Goods Orders	-0.9% M/M	▼	-0.2% M/M
Wed 3/25	FHFA House Price Index	0.4% M/M	▼	0.6% M/M
Thu 3/26	Initial Claims			281k
Thu 3/26	GDP 4Q (Third Estimate)	2.1%	—	2.1%
Fri 3/27	Personal Spending	0.3% M/M	▲	0.2% M/M
Fri 3/27	U Mich. Sentiment (Final)	94.0	▼	95.9
Europe				
Mon 3/23	EZ Consumer Confidence (Advanced)			-6.6
Tue 3/24	Markit EZ Manufacturing PMI (Prelim)	41.0	▼	42.9
Tue 3/24	Markit U.K. Manufacturing PMI (Prelim)	49.0	▼	51.7
Wed 3/25	U.K. Consumer Price Index	1.7% Y/Y	▼	1.8% Y/Y
Thu 3/26	U.K. Retail Sales	0.1% M/M	▼	0.9% M/M
Thu 3/26	BOE Bank Rate			0.100%
Fri 3/27	Italy Consumer Confidence			111.4
Asia Pacific				
Mon 3/23	South Korean Exports 20 Days			12.4% Y/Y
Tue 3/24	Jibun Bank Japan Mfg PMI (Prelim)			47.8
Fri 3/27	South Korea Consumer Confidence			96.9

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

U.S.

- **Initial claims** will likely increase next week as the COVID-19 outbreak weighs on the U.S. labor market. Moreover, as the government strengthened unemployment insurance benefits in the U.S., this will add upward pressure to this data going forward, as those impacted apply for benefits.
- **Personal spending** likely held up well in February, particularly as this was prior to the escalation in COVID-19 cases in the U.S., but should drop off after that.

Europe

- The **March flash Markit PMIs** will shed light on the magnitude of the impact the COVID-19 outbreak is having across European economies.

Asia Pacific

- **Japan's preliminary manufacturing PMI** is likely to deteriorate further, as the economy—which was already hurting—is weighed down by the virus.

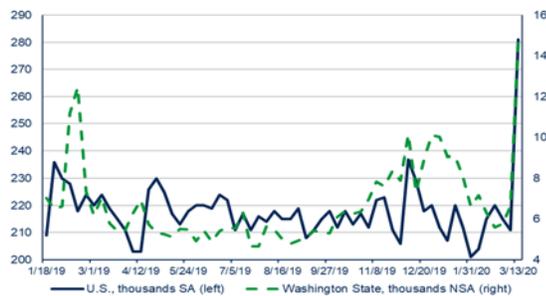
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THE HIGHLIGHTS

Initial COVID-19 Impact on the U.S. Labor Market

Initial claims for unemployment insurance benefits jumped as COVID-19 takes its first hit on the U.S. labor market. Several states blamed the virus for layoffs. Service-related industries experienced increased layoffs, particularly accommodation and food services and transportation and warehousing.

U.S. INITIAL CLAIMS



Source: Bloomberg. As of March 19, 2020.

Looking at the state-level data, claims in Washington state, home to Seattle—among the first U.S. cities impacted by the virus—soared. The virus has spread to all 50 states, and mass closures of stores, bars, and restaurants as well as a government bill to strengthen unemployment benefits, will flood filings.

U.S. Housing Market About Face

Despite recent upbeat performance in the U.S. housing market, the near-term looks dim. The NAHB housing market index held up well in March, falling only 2 points to 72 – largely tied to early survey responses. Next month's release will show more of an impact from deteriorating U.S. conditions. Notably, 21% of builders surveyed reported some virus-related supply disruptions in other countries, a number that rose to 33% in responses after March 6—indicating the issue is intensifying. Separately, U.S. mortgage applications fell 8.4% this week after jumping 55.5% the prior week, signaling demand is quickly diminishing. The housing market faces supply- and demand-side disruptions because of the virus but should be well positioned after the impact subsides, due to low interest rates, pent-up demand, and low inventory. Timing remains a huge unknown.

Policy

Tariffs: U.S. trade officials temporarily removed tariffs on some medical items imported from China – tariffs first imposed in September 2018 at 10% and since raised to 25%. Protective gowns, masks, exam gloves, and surgical drapes among them.

U.S. Presidential Race: Joe Biden has become the all-but-certain Democratic nominee for the U.S. presidential election. Biden won in all three states that voted this week, pushing his delegate count seemingly beyond the reach of Bernie Sanders.

President Donald Trump signed the **2nd U.S. Stimulus package**. The roughly \$100 billion bill provides paid sick leave, food assistance for vulnerable populations, financial help for virus testing, and increased unemployment insurance benefits.

The Federal Reserve has implemented a barrage of extraordinary monetary policy support not seen since the Great Financial Crisis, most notably the announcement of funding facilities for Commercial Paper, Primary Dealers and Money Market Mutual Funds under Section 13(3) of the Federal Reserve Act. While applauded, key to judging the facilities' effectiveness depends on the take-up. These measures come amid building risk in the banking and capital markets, where funding spreads and various cross-currency basis have started widening to levels that suggest growing system illiquidity.

European & U.K. policy response: France and Germany have announced a 10% of GDP spending program, covering state guarantees on companies' debt and salaries for unemployed workers. Italy and Spain announced significant packages to support their paralyzed economies and locked-down populations. The ECB announced a 750 billion euro Pandemic Emergency Purchase Program, which together with existing programs, adds up to 1.1 trillion of QE by year end. The new purchases will target all euro area sovereign debt, including Greece, and non-financial corporate paper. The ECB said it was fully prepared to increase the size of the program as necessary and for as long as possible. The U.K. ministers pledged to help with mortgage payments, support for airlines, shops and the hospitality industry, with 330 billion pounds (\$398 billion) worth of government-backed loans for struggling companies.

Saudi Arabia will boost oil exports by 250,000 barrels per day (bpd) from April to May, a record of more than 10 million bpd as the kingdom taps a new field. Saudi Arabia told refiners it would supply 12.3 million bpd in April, a record, although how much oil it will export during the month is unknown. According to the International Energy Agency, Saudi Arabia consumes an average of 3.15 million bpd, suggesting that exports would be capped at slightly above 9.15 million bpd.

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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%	-100 bps	-150 bps	-150 bps	-200 bps	-225 bps	-150 bps
U.S. SOFR	0.10%	-105 bps	-150 bps	-143 bps	-245 bps	-231 bps	-145 bps
3 Month USD Libor	1.12%	34 bps	-58 bps	-79 bps	-104 bps	-152 bps	-79 bps
3 Month Euribor	-0.41%	7 bps	1 bps	-1 bps	-1 bps	-10 bps	-3 bps
3 Month U.S. T-Bill	0.01%	-38 bps	-156 bps	-155 bps	-195 bps	-243 bps	-154 bps
2-Year U.S. Treasury	0.54%	1 bps	-86 bps	-109 bps	-121 bps	-191 bps	-104 bps
10-Year U.S. Treasury	1.25%	42 bps	-30 bps	-67 bps	-53 bps	-135 bps	-67 bps
10-Year German Bund	-0.27%	50 bps	14 bps	-2 bps	24 bps	-34 bps	-8 bps
10-Year U.K. Gilt	0.76%	50 bps	13 bps	-2 bps	12 bps	-46 bps	-6 bps
10-Year JGB	0.03%	10 bps	9 bps	6 bps	20 bps	8 bps	5 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.08%	N/A	-2.8%	1.6%	4.2%	10.2%	4.1%
Barclays Capital U.S. TIPS	1.40%	N/A	-5.4%	-6.3%	-4.3%	1.3%	-4.4%
Barclays Capital U.S. Aggregate	2.23%	105	-4.0%	-2.4%	-0.1%	6.5%	-0.3%
Barclays Capital Global Aggregate	1.57%	86	-6.2%	-3.6%	-2.6%	2.0%	-3.1%
Barclays Capital U.S. ABS	2.13%	149	-2.2%	-0.7%	0.4%	3.7%	0.2%
Barclays Capital U.S. MBS	2.43%	99	-0.9%	-0.2%	0.9%	5.6%	0.7%
Barclays Capital U.S. Corporate Investment Grade	4.06%	285	-9.3%	-10.6%	-7.8%	1.7%	-8.1%
BAML Euro Corporate Investment Grade	1.74%	225	-5.8%	-7.5%	-6.6%	-3.1%	-6.4%
Barclays Capital U.S. Corporate High Yield	10.12%	904	-10.0%	-16.3%	-15.2%	-9.3%	-15.4%
BAML European Currency High Yield Non-Financial	8.18%	855	-12.2%	-18.5%	-17.7%	-13.4%	-17.9%
CS U.S. Leveraged Loans	11.15%	1042	-10.3%	-15.1%	-14.3%	-11.2%	-14.6%
CS Western European Leveraged Loans Non-USD	10.51%	1030	-11.5%	-15.2%	-14.5%	-12.3%	-14.6%
JPM CEMBI Broad Diversified	6.69%	555	-9.2%	-12.1%	-9.9%	-2.9%	-10.2%
JPM EMBI Global Diversified	7.55%	634	-12.6%	-18.3%	-16.3%	-9.6%	-16.5%
JPM GBI-EM Global Diversified	5.95%	N/A	-11.0%	-16.5%	-16.1%	-10.1%	-17.2%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,398.10	2.39%	-12.5%	-28.7%	-24.5%	-13.7%	-25.4%
Euro STOXX 600 (Local)	279.66	2.97%	-16.1%	-35.0%	-32.5%	-26.8%	-32.7%
U.K. FTSE 100 (Local)	5,080.58	6.54%	-13.5%	-31.2%	-32.6%	-30.4%	-32.6%
Japan Nikkei 225 (Local)	16,726.55	2.72%	-13.9%	-27.9%	-30.1%	-22.5%	-29.3%
China Shanghai Composite (Local)	2,728.76	2.44%	-8.1%	-8.6%	-9.6%	-11.9%	-10.5%
MSCI AC World (Local)	402.73	3.25%	-13.3%	-29.4%	-26.2%	-17.5%	-26.8%
MSCI Emerging Markets (Local)	787.81	3.49%	-14.8%	-25.4%	-24.7%	-19.5%	-25.0%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	251.02	-19.9%	-37.0%	-42.0%	-39.8%	-42.2%	-42.5%
WTI Crude (\$/bbl)	20.37	-38.5%	-60.9%	-66.6%	-65.0%	-65.5%	-66.7%
Copper (\$/lb)	2.16	-14.0%	-17.2%	-23.3%	-16.8%	-25.6%	-22.7%
Gold (\$/oz)	1,498.20	-9.4%	-5.8%	1.6%	-0.4%	14.8%	-1.1%
U.S. Dollar Index	101.16	4.8%	1.7%	3.9%	2.6%	4.8%	4.9%
Euro (USD/EUR)	1.08	-3.9%	0.1%	-2.6%	-2.0%	-4.4%	-3.5%
British Pound (USD/GBP)	1.18	-8.7%	-9.8%	-10.0%	-5.8%	-11.0%	-11.2%
Japanese Yen (Yen/USD)	108.49	3.5%	-1.2%	-1.0%	0.2%	-2.6%	-0.2%
Chinese Yuan (CNY/USD)	7.03	1.1%	0.3%	0.4%	-0.9%	4.7%	0.9%

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

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