

Unemployment Claiming Year's Only Gold Medal

IN REVIEW

- Demand for U.S. housing is quickly dissipating as **U.S. weekly mortgage applications** fell 29.4% Y/Y for the week of March 20.
- **Initial claims** rose to 3.3 million in W/E March 21—the highest level on record. Continuing claims rose 101,000 to 1.8 million in W/E March 14—the most since April 2018.
- **Johnson Redbook same store sales index** rose 9.1% Y/Y in W/E March 21, as people stockpile ahead of mass shutdowns.
- The **U.S. flash composite PMI** signals the U.S. is likely in recession, sinking 9.1 points to 40.5 in March. Services were hammered, as the **services PMI** tumbled from 49.4 to 39.1—a record low—while the **manufacturing PMI** fell to 49.2.
- EZ business activity fell even further in March than it did during the Global Financial Crisis, as the **EZ flash composite PMI** hit a new low, falling from 51.6 to 31.4. Consumer-facing industries were hit the hardest, with the **services PMI** down 24.2 points to 28.4.
- **U.K. flash composite PMI** sank from 53 to 37.1 in March, the fastest decline in U.K. private sector activity on record. The **services PMI** fell 17.5 points to 35.7, despite the survey being conducted prior to the U.K. ordering businesses to close.
- The **BOE** left the Bank Rate unchanged at 0.1%.
- **Japan flash composite PMI** slid from 47 to 35.8. The decline was led by services, as the **services PMI** fell 14.1 points to 32.7.

WATCH LIST

Date		Consensus		Previous
U.S.				
Mon 3/30	Pending Home Sales	-2.5% M/M	▼	5.2% M/M
Mon 3/30	Dallas Fed Manufacturing Activity	-7.0	▼	1.2
Tue 3/31	Consumer Confidence	119.0	▼	130.7
Wed 4/1	MBA Mortgage Applications			-29.4% Y/Y
Wed 4/1	ISM Manufacturing	45.5	▼	50.1
Thu 4/2	Challenger Job Cuts			-26.3% Y/Y
Thu 4/2	Initial Claims			3283k
Fri 4/3	Change in Nonfarm Payrolls	-61k	▼	273
Fri 4/3	Unemployment Rate	3.9%	▲	3.5%
Fri 4/3	Average Hourly Earnings	0.2% M/M	▼	0.3% M/M
Europe				
Mon 3/30	EZ CPI (Prelim)			0.2% M/M
Wed 4/1	EZ Unemployment Rate	7.4%	-	7.4%
Fri 4/3	EZ Retail Sales			0.6% M/M
Asia Pacific				
Tue 3/31	China's Official Manufacturing PMI	44.8	▲	35.7
Wed 4/1	Caixin China Manufacturing PMI	46.0	▲	40.3
Wed 4/1	Tankan Large Manufacturing Index	-11	▼	0

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

U.S.

- **Initial claims** will likely remain near record-highs. Despite fiscal policy measures aimed to keep employees on payrolls, many companies will be forced to lay off workers as stores are shuttered and demand falters.
- Real-time **consumer spending** indicators, such as weekly box office ticket sales, restaurant bookings, and hotel occupancy rates, are set to continue to weaken.

Europe

- **Italy is working on another fiscal package**, which the Prime Minister noted would be worth at least €25 billion—the amount of the first stimulus bill. This would bring fiscal stimulus to about 3% of GDP.
- **EA finance ministers** are debating whether to provide a precautionary credit line to member states from the region's bailout fund, the European Stability Mechanism. Alternatives are to set up a common budget to fight the economic impact of the crisis or to issue a common bond. Talks are ongoing and unlikely to be resolved soon.

Asia Pacific

- We watch to see if the **PBOC** will cut the deposit rate as they aim to encourage banks to loan to struggling businesses, reduce lending rates, and increase bad debt tolerance. This would be the first deposit rate cut by the PBOC since 2015.

THE HIGHLIGHTS

Initial Claims Reach Record High

Initial claims surged to a record 3.283 million in W/E March 21—more than four times the record set in October 1982. Increases were broad-based across states—with no states registering a decline—and nearly every state providing comments cited COVID-19. Industries most impacted this week include: accommodation and food services, health care and social assistance, arts, entertainment and recreation, transportation and warehousing, and manufacturing.

U.S. INITIAL CLAIMS

Date	Peak
October 1982	695,000
2 Weeks after 9/11	517,000
December 2008	587,000
March 2009	665,000
March 21, 2020	3,283,000

Source: Bloomberg. As of March 26, 2020.

Continuing claims rose 101,000 to 1.803 million for W/E March 14—the highest level since April 2018. Continuing claims are set to increase substantially as workers remain unemployed during the pandemic. The sharp jump in initial claims will correspond with a rise in the unemployment rate. However, the reference week for calculating the unemployment rate is the calendar week including the 12th of the month, which corresponds with last week's initial claims report for March. This means most layoff increases will be captured in the April Employment Report; unemployment rates should increase several percentage points over the next few months.

Policy

U.S. Stimulus Package: The Trump administration struck a deal with Democrats and Republicans on a \$2 trillion package, \$500 billion that can be used to back loans and assistance to companies, including \$50 billion for loans to U.S. airlines, as well as state and local governments, and \$350 billion for small businesses. Hospitals and providers of health care equipment and supplies will receive \$150 billion. Unemployment insurance will be extended to four months, benefits bolstered to \$600 weekly and coverage eligibility expanded. The bill provides a tax credit for companies who retain employees even if they have seen a significant drop in business. Student loan borrowers who get employer payback assistance will not pay income tax on the aid. Any company receiving a government loan will not be allowed to conduct stock buybacks through the loan

term plus one year. Executive bonuses would be limited. Lower to middle-income individuals get up to \$1,200 and married couples will get up to \$2,400, including \$500 per child. The legislation totals \$2 trillion stimulus or about 10% of GDP.

U.S. airlines will be eligible to receive federal loans and direct cash assistance—if they are willing to give an ownership stake to the government. The bill provides \$25 billion in loans to air carriers, \$25 billion in strings-attached aid to passenger carriers and \$3 billion to airline contractors providing ground staff such as caterers. Cargo haulers would be offered \$4 billion in strings-attached aid. The stimulus deal also includes \$17 billion in loans for companies critical to national security, which is likely intended for Boeing.

TSA TRAVEL NUMBERS FOR 2020 AND 2019 (IN MILLIONS)



Source: Transportation Security Administration. As of March 25, 2020.

Germany announced a fiscal stimulus package of €750B, including a stabilization fund worth €600B for loans to struggling businesses and direct stakes in companies and around a €100B loan to its state development bank, KfW.

ECB: The ECB removed limits on sovereign bonds it can buy, unleashing its power to reduce sovereign spreads. It also applies to its purchase of corporate bonds.

The 2020 Tokyo Olympics will be delayed a year and likely trigger 641 billion yen (\$5.8 billion) in economic losses, according to Kansai University. Japan spent \$26 billion to prepare for the games.

Hubei, China, the pandemic epicenter, will allow most of its 60 million residents to leave, ending nearly two months of lockdown. Wuhan remains sealed off until April 8, though public transportation will resume. Cases are climbing among people arriving from overseas.

India: With four hours' notice, Prime Minister Narendra Modi announced home confinement for 21 days—the most severe coronavirus step anywhere. Every state, district, lane and village will be under lockdown.

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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	-150 bps	-150 bps	-175 bps	-225 bps	-150 bps
U.S. SOFR	0.01%	-9 bps	-158 bps	-151 bps	-200 bps	-239 bps	-154 bps
3 Month USD Libor	1.27%	15 bps	-37 bps	-69 bps	-83 bps	-134 bps	-64 bps
3 Month Euribor	-0.37%	4 bps	4 bps	3 bps	3 bps	-6 bps	1 bps
3 Month U.S. T-Bill	-0.03%	-4 bps	-152 bps	-160 bps	-193 bps	-247 bps	-158 bps
2-Year U.S. Treasury	0.30%	-23 bps	-90 bps	-132 bps	-137 bps	-195 bps	-127 bps
10-Year U.S. Treasury	0.84%	-41 bps	-50 bps	-106 bps	-89 bps	-158 bps	-108 bps
10-Year German Bund	-0.32%	-5 bps	20 bps	-7 bps	29 bps	-31 bps	-13 bps
10-Year U.K. Gilt	0.43%	-33 bps	-7 bps	-34 bps	-8 bps	-60 bps	-39 bps
10-Year JGB	0.04%	0 bps	14 bps	4 bps	30 bps	13 bps	6 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.72%	N/A	3.2%	3.4%	7.4%	12.5%	7.4%
Barclays Capital U.S. TIPS	0.98%	N/A	6.9%	-0.6%	2.3%	7.4%	2.2%
Barclays Capital U.S. Aggregate	1.81%	103	2.1%	-1.3%	1.8%	7.5%	1.7%
Barclays Capital Global Aggregate	1.38%	86	0.7%	-3.5%	-1.9%	1.7%	-2.4%
Barclays Capital U.S. ABS	3.56%	314	-2.3%	-3.5%	-2.0%	0.7%	-2.1%
Barclays Capital U.S. MBS	1.37%	49	2.1%	1.6%	3.0%	7.0%	2.8%
Barclays Capital U.S. Corporate Investment Grade	4.09%	324	0.8%	-10.6%	-7.3%	1.1%	-7.4%
BAML Euro Corporate Investment Grade	1.97%	241	-0.7%	-8.3%	-7.3%	-4.0%	-7.1%
Barclays Capital U.S. Corporate High Yield	11.00%	1025	-2.7%	-17.9%	-17.6%	-11.9%	-17.7%
BAML European Currency High Yield Non-Financial	7.95%	829	1.4%	-17.5%	-16.7%	-12.1%	-16.8%
CS U.S. Leveraged Loans	12.56%	1196	-4.2%	-18.7%	-18.0%	-14.6%	-18.1%
CS Western European Leveraged Loans Non-USD	11.60%	1142	-3.5%	-18.1%	-17.5%	-15.3%	-17.6%
JPM CEMBI Broad Diversified	6.92%	615	-1.8%	-14.0%	-11.6%	-5.0%	-11.8%
JPM EMBI Global Diversified	7.21%	635	2.2%	-17.0%	-14.6%	-8.1%	-14.7%
JPM GBI-EM Global Diversified	5.69%	N/A	0.5%	-15.5%	-15.9%	-9.0%	-16.7%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,475.56	2.32%	3.3%	-20.7%	-22.8%	-9.8%	-23.0%
Euro STOXX 600 (Local)	313.38	2.97%	12.1%	-22.5%	-25.2%	-16.3%	-24.6%
U.K. FTSE 100 (Local)	5,688.20	5.82%	12.0%	-18.9%	-25.5%	-20.8%	-24.6%
Japan Nikkei 225 (Local)	19,546.63	2.33%	16.9%	-13.5%	-17.8%	-6.8%	-17.4%
China Shanghai Composite (Local)	2,781.59	2.39%	1.9%	-7.7%	-6.7%	-8.6%	-8.8%
MSCI AC World (Local)	427.57	3.07%	6.4%	-24.1%	-22.1%	-11.5%	-22.1%
MSCI Emerging Markets (Local)	836.54	3.34%	6.5%	-19.7%	-19.8%	-12.9%	-20.1%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	273.38	8.9%	-28.6%	-37.3%	-33.6%	-37.1%	-37.3%
WTI Crude (\$/bbl)	24.49	-9.2%	-50.8%	-60.0%	-56.6%	-58.3%	-59.9%
Copper (\$/lb)	2.23	3.4%	-14.0%	-21.3%	-13.9%	-21.6%	-20.0%
Gold (\$/oz)	1,605.45	7.2%	-2.7%	8.3%	5.0%	21.7%	6.0%
U.S. Dollar Index	101.05	-0.1%	2.1%	3.5%	2.0%	4.6%	4.8%
Euro (USD/EUR)	1.08	0.0%	-0.3%	-2.3%	-1.1%	-4.3%	-3.5%
British Pound (USD/GBP)	1.18	0.0%	-9.6%	-9.3%	-5.0%	-10.9%	-11.2%
Japanese Yen (Yen/USD)	111.44	2.7%	1.2%	1.9%	3.4%	1.2%	2.5%
Chinese Yuan (CNY/USD)	7.10	1.1%	1.2%	1.3%	-0.3%	5.8%	1.9%

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

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