

## Policy Makers Keep the Pedal to the Metal

### IN REVIEW

- The **NFIB small business optimism index** fell 8.1 points to 96.4 in March—the largest drop on record—and expectations sank as the pandemic crushes confidence among U.S. small businesses. Further declines are likely in the April report as shutdowns continue.
- **U.S. weekly mortgage applications** fell 17.9% in the W/E April 3. Purchase applications slid 12.2% and the volume is the weakest since October 2015, indicating home sales will fall sharply in Q2.
- **Initial claims** slid only slightly from 6.648 million to 6.606 million in the W/E April 4, while continuing claims reached a record high of 7.455 million for W/E March 28.
- **U.S. PPI** fell 0.2% M/M in March amid weak energy prices. Headline PPI decelerated from 1.3% Y/Y to 0.7% Y/Y—the slowest since 2016.
- **U. of Michigan preliminary consumer sentiment** notched a record drop in April amid the virus.
- Confidence among EZ investors plummeted, as the **EZ Sentix** fell from -17.1 to -42.9 in April—its lowest level on record.
- U.K. consumer confidence plunged at the end of March. A special flash report showed the GfK **consumer confidence index** fell 25 points to -34 in the last two weeks of March—the largest decline on record.
- **Japan preliminary machine tool orders** fell 40.8% Y/Y in March—the most since the GFC.
- **China's daily coal consumption** is increasing, but remains below levels of the last few years.

### WATCH LIST

Date		Consensus	Previous
<b>U.S.</b>			
Wed 4/15	MBA Mortgage Applications		-17.9%
Wed 4/15	Advance Retail Sales	-6.0% M/M	▼ -0.5% M/M
Wed 4/15	Empire Manufacturing	-30.0	▼ -21.5
Wed 4/15	Industrial Production	-4.0% M/M	▼ 0.6% M/M
Wed 4/15	NAHB Housing Market Index	59	▼ 72
Thu 4/16	Initial Claims		6606k
Thu 4/16	Housing Starts	1320k	▼ 1599k
Thu 4/16	Building Permits	1300k	▼ 1464k
<b>Europe</b>			
Thu 4/16	EZ Industrial Production	-0.1% M/M	▼ 2.3% M/M
Fri 4/17	EU27 New Car Registrations		-7.4% Y/Y
Fri 4/17	EZ Consumer Price Index	0.5% M/M	▬ 0.5% M/M
<b>Asia Pacific</b>			
Tue 4/14	China Exports	-17.5% Y/Y	
Tue 4/14	China Imports	-6.8% Y/Y	
Fri 4/17	China Q1 GDP	-6.0% Y/Y	▼ 6.0% Y/Y
Fri 4/17	China Industrial Production (YTD)	-8.1% Y/Y	▲ -13.5% Y/Y
Fri 4/17	China Retail Sales (YTD)	-12.3% Y/Y	▲ -20.5% Y/Y
Fri 4/17	China Property Investment (YTD)		-16.3% Y/Y
Fri 4/17	China Fixed Assets ex Rural (YTD)	-15.0% Y/Y	▲ -24.5% Y/Y

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

### U.S.

- **Initial jobless claims** will likely remain elevated. States are still working through a backlog of initial claims and volumes remain high as companies continue to reduce payrolls amid expanding mass shutdowns. The continuing rise in initial claims suggests the April unemployment rate will reach a record high well over 10%.
- **Regional manufacturing PMIs** will likely dwindle further as the U.S. manufacturing sector feels the pain of weaker demand.

### Europe

- The **New Car Registrations** for March will provide a measure of how deep discretionary spending has dropped in Europe, while February's **Industrial Production** numbers should be soft as virus-related shutdowns just started then.

### Asia Pacific

- **China's activity data**, such as retail sales, property investment, fixed assets, and industrial production, will likely show large declines for March. However, there should be some improvement in daily coal consumption and property sales as the economy slowly re-opens.

9 April 2020 / *The Week Ahead*

## THE HIGHLIGHTS

### Initial Claims Indicate Record Unemployment Rate

Initial claims for unemployment insurance benefits beat expectations and remained near a record high in the W/E April 4, sliding slightly from an upwardly revised 6.867 million to 6.606 million. This brings the cumulative rise in initial claims to 16.78 million over the past three weeks. A back of the envelope calculation indicates this would translate into an unemployment rate just shy of 15%—compared to the high of 10% during the GFC. Continuing claims reached a record high rising from 3.059 million to 7.455 million in the W/E March 28, as the record number of filers receive unemployment insurance. If the rollout of small business loans takes longer than expected, this could translate into a greater number of claims—and a higher unemployment rate—than anticipated, given the limited cash buffer small businesses have.

### Policy

The **Federal Reserve** has announced a \$2.3 trillion expansion of its lending program. Together with a sizable increase in most of its existing facilities, the new measure will also broaden the scope of asset purchases, which will now include municipal short-term notes, AAA-rated CLO tranches and some junk-rated corporate debt.

**Round 4** of the U.S. fiscal stimulus appears to be another fast-moving emergency package, designed to put more money behind the larger provisions of Phase 3 of the CARES Act. Discussions will likely include \$250 billion in assistance to small businesses, with \$125 billion channeled through community-based financial institutions that serve small businesses across the U.S., and improvements to ensure all eligible small businesses can access this critical funding. Other items may include \$100 billion for hospitals or community health centers and \$150 billion for state and local governments to manage the crisis and mitigate lost revenue, doubling down on the investment secured in the CARES Act. A 15 percent increase in food stamp levels was also proposed.

The **European Central Bank (ECB)** announced it will temporarily increase its risk tolerance and accept junk-rated government bonds used as collateral to ease lenders' access to liquidity. The package includes easier conditions for the use of additional credit claims, and a general reduction of haircuts. The act applies to all 19 euro-area nations but will particularly help Greece, as the nation's sovereign bonds had been ineligible to be used as collateral in exchange for refinancing loans. The new emergency bond-buying program is scheduled to run until at least December.

**Eurogroup:** The group of Eurozone finance ministries is trying to finalize a concerted response package to the coronavirus emergency. An EU-wide unemployment scheme, a loan guarantee program administered by the European Investment Bank aiming for €200 billion of loans to SMEs, has apparently been agreed upon; a matter of contention remains the possibility of issuing joint debt (so called "Eurobonds") to finance the emergency response. Northern European countries, led by Germany and the Netherlands, oppose this, preferring to use the European bailout fund ESM.

The **Bank of England (BOE)** will provide a short-term source of additional liquidity directly to the government, if needed, to help finance its COVID-19 spending plans. A temporary extension of the Ways and Means facility will support markets by minimizing the impact of raising additional funding in gilt and sterling money markets.

**Easing Restrictions (possibly):** Denmark and Austria became the first two European countries to announce "cautious" plans loosening restrictions as governments seek to gradually revive economies from the containment measures. Norway and Germany may also move to ease restrictions in the coming weeks. Denmark will cautiously reopen on April 15, starting with daycare and primary schools, if the virus numbers remain stable. Similarly conditional on the virus spread slowing, Austria announced it would allow small shops, hardware and gardening stores to reopen after Easter, to be followed by the opening of all retailers on May 1.

**Japan:** Japanese Prime Minister Shinzo Abe announced further measures for a much larger stimulus package of 108 trillion yen (\$988 billion) to support struggling households and businesses, including cash handouts of 200 million yen to small and mid-sized businesses. The emergency declaration will hand powers to local governments to try to contain the spread of the virus. The first phase of the package aims to stop job losses and bankruptcies. Once the virus is contained, a second round of aid will include steps to increase consumer spending and tourism, as well as subsidies for regional economies.

**OPEC:** Saudi Arabia and Russia have reached a deal in principle to cut oil production by about 10 million barrels per day. While the cut equates to a reduction of ~10% of global output, it is still only a fraction of the demand loss, estimates at 25-35 million barrels per day. Oil prices initially traded higher on hopes of a deeper cut, but pared those gains and started trading lower as meeting details surfaced.

9 April 2020 / The Week Ahead

## KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	0.25%	0 bps	-100 bps	-150 bps	-175 bps	-225 bps	-150 bps
U.S. SOFR	0.01%	0 bps	-109 bps	-154 bps	-184 bps	-245 bps	-154 bps
3 Month USD Libor	1.31%	-13 bps	42 bps	-52 bps	-70 bps	-127 bps	-60 bps
3 Month Euribor	-0.25%	9 bps	22 bps	14 bps	16 bps	6 bps	13 bps
3 Month U.S. T-Bill	0.21%	12 bps	-28 bps	-133 bps	-149 bps	-221 bps	-134 bps
2-Year U.S. Treasury	0.26%	4 bps	-24 bps	-132 bps	-116 bps	-209 bps	-131 bps
10-Year U.S. Treasury	0.77%	14 bps	5 bps	-111 bps	-77 bps	-175 bps	-115 bps
10-Year German Bund	-0.32%	15 bps	39 bps	-5 bps	28 bps	-32 bps	-13 bps
10-Year U.K. Gilt	0.38%	7 bps	12 bps	-41 bps	-3 bps	-76 bps	-44 bps
10-Year JGB	0.01%	0 bps	16 bps	2 bps	22 bps	6 bps	3 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.62%	N/A	-0.5%	0.0%	7.9%	13.7%	8.1%
Barclays Capital U.S. TIPS	0.87%	N/A	1.4%	-1.7%	3.6%	9.5%	3.8%
Barclays Capital U.S. Aggregate	1.57%	87	0.1%	-2.2%	3.3%	9.6%	3.4%
Barclays Capital Global Aggregate	1.23%	78	-0.4%	-4.8%	-0.4%	4.3%	-0.6%
Barclays Capital U.S. ABS	2.15%	184	0.0%	-2.2%	0.1%	3.3%	0.2%
Barclays Capital U.S. MBS	1.20%	40	0.5%	1.0%	3.2%	7.7%	3.3%
Barclays Capital U.S. Corporate Investment Grade	3.30%	253	1.1%	-8.1%	-2.7%	6.2%	-2.8%
BAML Euro Corporate Investment Grade	1.76%	224	0.3%	-6.5%	-6.1%	-3.1%	-5.8%
Barclays Capital U.S. Corporate High Yield	9.39%	871	1.2%	-11.0%	-12.9%	-7.4%	-12.6%
BAML European Currency High Yield Non-Financial	6.91%	728	2.1%	-10.2%	-12.7%	-8.7%	-12.7%
CS U.S. Leveraged Loans	9.64%	903	2.4%	-7.6%	-11.8%	-8.4%	-11.4%
CS Western European Leveraged Loans Non-USD	9.12%	894	2.3%	-10.2%	-12.7%	-10.3%	-12.5%
JPM CEMBI Broad Diversified	6.61%	591	0.7%	-11.7%	-10.2%	-3.3%	-9.7%
JPM EMBI Global Diversified	7.06%	625	1.2%	-14.7%	-13.6%	-7.1%	-13.3%
JPM GBI-EM Global Diversified	5.39%	N/A	1.5%	-12.5%	-15.0%	-7.9%	-15.2%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,749.98	2.09%	11.4%	-7.3%	-15.0%	-3.1%	-14.4%
Euro STOXX 600 (Local)	326.67	2.97%	5.1%	-10.9%	-21.9%	-15.7%	-21.4%
U.K. FTSE 100 (Local)	5,677.73	5.45%	4.1%	-12.1%	-25.0%	-23.8%	-24.7%
Japan Nikkei 225 (Local)	19,353.24	2.22%	7.1%	-6.7%	-16.6%	-11.1%	-18.2%
China Shanghai Composite (Local)	2,815.37	2.36%	3.0%	-7.2%	-8.2%	-13.2%	-7.7%
MSCI AC World (Local)	462.28	2.82%	8.7%	-8.5%	-16.6%	-7.0%	-16.1%
MSCI Emerging Markets (Local)	873.85	3.15%	5.3%	-10.7%	-16.6%	-12.6%	-16.5%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	277.08	12.1%	-19.7%	-35.7%	-30.6%	-38.6%	-36.5%
WTI Crude (\$/bbl)	25.09	23.7%	-39.0%	-57.9%	-52.3%	-61.0%	-59.0%
Copper (\$/lb)	2.28	3.9%	-11.5%	-19.2%	-11.1%	-22.2%	-18.5%
Gold (\$/oz)	1,647.80	4.5%	-2.1%	4.8%	9.4%	26.8%	8.8%
U.S. Dollar Index	100.12	0.4%	4.3%	2.9%	1.0%	3.2%	3.9%
Euro (USD/EUR)	1.09	-0.6%	-4.0%	-2.3%	-0.8%	-3.5%	-3.2%
British Pound (USD/GBP)	1.24	-0.3%	-5.0%	-5.5%	1.4%	-5.1%	-6.5%
Japanese Yen (Yen/USD)	108.75	1.5%	3.2%	0.1%	1.5%	-2.4%	0.1%
Chinese Yuan (CNY/USD)	7.07	-0.5%	1.8%	1.8%	-0.9%	5.2%	1.5%

Source: FactSet and Bloomberg. As of April 8, 2020.

**9 April 2020 / The Week Ahead**

*Barings is a \$338+ billion\* global financial services firm dedicated to meeting the evolving investment and capital needs of our clients and customers. Through active asset management and direct origination, we provide innovative solutions and access to differentiated opportunities across public and private capital markets. A subsidiary of MassMutual, Barings maintains a strong global presence with business and investment professionals located across North America, Europe and Asia Pacific.*

#### IMPORTANT INFORMATION

Any forecasts in this document are based upon Barings opinion of the market at the date of preparation and are subject to change without notice, dependent upon many factors. Any prediction, projection or forecast is not necessarily indicative of the future or likely performance. Investment involves risk. The value of any investments and any income generated may go down as well as up and is not guaranteed by Barings or any other person. **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.** Any investment results, portfolio compositions and or examples set forth in this document are provided for illustrative purposes only and are not indicative of any future investment results, future portfolio composition or investments. The composition, size of, and risks associated with an investment may differ substantially from any examples set forth in this document. No representation is made that an investment will be profitable or will not incur losses. Where appropriate, changes in the currency exchange rates may affect the value of investments. Prospective investors should read the offering documents, if applicable, for the details and specific risk factors of any Fund/Strategy discussed in this document.

Barings is the brand name for the worldwide asset management and associated businesses of Barings LLC and its global affiliates. Barings Securities LLC, Barings (U.K.) Limited, Barings Global Advisers Limited, Barings Australia Pty Ltd, Barings Japan Limited, Baring Asset Management Limited, Baring International Investment Limited, Baring Fund Managers Limited, Baring International Fund Managers (Ireland) Limited, Baring Asset Management (Asia) Limited, Baring SICE (Taiwan) Limited, Baring Asset Management Switzerland Sarl, and Baring Asset Management Korea Limited each are affiliated financial service companies owned by Barings LLC (each, individually, an "Affiliate").

**NO OFFER:** The document is for informational purposes only and is not an offer or solicitation for the purchase or sale of any financial instrument or service in any jurisdiction. The material herein was prepared without any consideration of the investment objectives, financial situation or particular needs of anyone who may receive it. This document is not, and must not be treated as, investment advice, an investment recommendation, investment research, or a recommendation about the suitability or appropriateness of any security, commodity, investment, or particular investment strategy, and must not be construed as a projection or prediction.

Unless otherwise mentioned, the views contained in this document are those of Barings. These views are made in good faith in relation to the facts known at the time of preparation and are subject to change without notice. Individual portfolio management teams may hold different views than the views expressed herein and may make different investment decisions for different clients. Parts of this document may be based on information received from sources we believe to be reliable. Although every effort is taken to ensure that the information contained in this document is accurate, Barings makes no representation or warranty, express or implied, regarding the accuracy, completeness or adequacy of the information.

Any service, security, investment or product outlined in this document may not be suitable for a prospective investor or available in their jurisdiction.

#### Copyright and Trademark

Copyright © 2020 Barings. Information in this document may be used for your own personal use, but may not be altered, reproduced or distributed without Barings' consent.

The BARINGS name and logo design are trademarks of Barings and are registered in U.S. Patent and Trademark Office and in other countries around the world. All rights are reserved.

\*As of December 31, 2019  
20-1147324