

You're Gonna Need a Bigger Stimulus

IN REVIEW

- **U.S. retail sales** were worse than expected, but March's record 8.7% M/M drop likely minimizes the pain.
- **U.S. industrial production** fell 5.6% M/M in March—the most since 1946—with broad-based declines.
- Regional manufacturing surveys suggest a record low for April's ISM. The **Empire State survey** sank 56.7 points to -78.2 in April, and the **Philly Fed survey** saw the lowest reading in 40 years at -56.6. Capex plans and employment components were weak in both surveys.
- **NAHB housing market index** plunged from 72 to 30 in April. Prospective buyer traffic was nearly nonexistent, while the 39-point drop in the index for sentiment over the next six months suggests builders expect the pain to last. Home building tumbled, with **starts** down 22.3% M/M in March.
- **U.S. CPI** fell 0.4% M/M in March and slowed to 1.5% Y/Y. Energy prices fell the most in five years, while the core CPI saw its first decline since 2010.
- **EZ industrial production** fell 0.1% M/M in February, prior to shutdowns, and is set to weaken.
- **China CPI** slowed from 5.2% Y/Y to 4.3% Y/Y in March, while the **PPI** fell from -0.4% Y/Y to -1.5% Y/Y, showing demand remains meager.
- The **PBOC** cut the one-year MLF rate by 20 bps to 2.95% as it offered CNY100 billion in new loans.
- **China exports and imports** were better than expected, though it likely overstates improvement due to deliveries on pre-pandemic orders.

WATCH LIST

Date		Consensus		Previous
U.S.				
Mon 4/20	Chicago Fed Nat Activity Index	-0.62	▼	0.16
Tue 4/21	Existing Home Sales	5.39M	▼	5.77M
Wed 4/22	MBA Mortgage Applications			7.3%
Wed 4/22	FHFA House Price Index	0.4% M/M	▲	0.3% M/M
Thu 4/23	Initial Claims			5245k
Thu 4/23	Markit Manufacturing PMI (Prelim)	38.5	▼	48.5
Thu 4/23	Markit Services PMI (Prelim)	39.0	▼	39.8
Fri 4/24	Advance Durable Goods Orders	-11% M/M	▼	1.2% M/M
Europe				
Tue 4/21	German ZEW Survey Expectations	-60.0	▼	-49.5
Wed 4/22	EZ Consumer Confidence (Advanced)	-15.0	▼	-11.6
Thu 4/23	E.U. Summit	—		—
Thu 4/23	Markit EZ Manufacturing PMI (Prelim)	40.0	▼	44.5
Thu 4/23	Markit U.K. Manufacturing PMI (Prelim)			47.8
Thu 4/23	U.K. Retail Sales			-0.3% M/M
Fri 4/24	German IFO Business Climate	80.0	▼	86.1
Asia Pacific				
Mon 4/20	Japan Exports	-9.2% Y/Y	▼	-1.0% Y/Y
Mon 4/20	Japan Imports	-10.0% Y/Y	▲	-14.0% Y/Y
Thu 4/23	Jibun Bank Japan Mfg PMI (Prelim)			44.8
Fri 4/24	Japan CPI	0.4% Y/Y	—	0.4% Y/Y

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

U.S.

- **Initial jobless claims** have likely peaked, but the labor market remains a dire situation. Small business loans are being accepted, but many still lack cash and the small-business loan fund is dry. More jobs will be lost without additional funding.

Europe

- The **EU video summit** on April 23 will include four COVID-19 initiatives: pan-EU unemployment benefits; the EU Investment Bank's loan guarantee program; a new ESM credit line for health care; and financing a Recovery Fund. The first two items are considered agreed, while the other two are still controversial.

Asia Pacific

- The **PBOC** will likely ease more. The one-year MLF rate drop suggests further reduction in the corporate loan reference rate. Weak inflation data emphasizes demand remains meager, adding pressure for more support from the PBOC.
- Further **fiscal and monetary stimulus measures** are expected in Japan, including Prime Minister Shinzo Abe's plan to give \$1,000 to every person. An earlier plan would have restricted payments to struggling households.

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THE HIGHLIGHTS

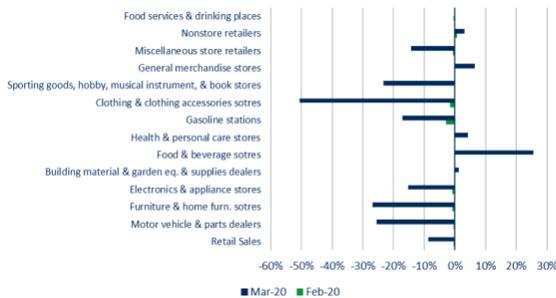
Initial Claims Have Likely Peaked

Initial claims for unemployment insurance benefits have likely peaked, sliding from an upwardly revised 6.615 million to 5.245 million in W/E April 11. The labor market is dire, as continuing claims hit a record high of almost 12 million in W/E April 4 and will rise. Initial claims rose a cumulative 22 million in four weeks, roughly calculating to a 17% unemployment rate. New provisions now allow people to collect benefits without looking for work, introducing irregularities into the April Employment Report. The April unemployment rate will still reach a record high of over 10%.

U.S. Retail Sales Suggest Drop in Q1 Consumption

U.S. retail sales were worse than expected, but the record 8.7% M/M drop in March likely understates the decline. The Census Bureau applied a smaller seasonal adjustment factor for the month, lessening the severity. The fall in retail sales suggests a large drop in consumer spending in 1Q20, and a likely negative Q1 GDP print.

U.S. RETAIL SALES, M/M%



Source: Bloomberg. As of April 16, 2020.

Consumers concentrated purchases towards food and essential medical and health products. However, the surge in grocery and necessities was not enough to make up for losses in other sectors.

IMF Cuts World GDP Forecast

The IMF projects global growth will fall 3% in 2020, much worse than 2009's -0.1% contraction. The baseline assumption is that containment measures peak in Q2, recede in the 2H20, and policy actions taken will prevent widespread firm bankruptcies, extended job losses, and system-wide financial strains. GDP growth is expected to rebound a strong 5.8% in 2021, though economic activity in 2021 should be lower than pre-virus projections.

Policy

Easing Restrictions: The European Commission has drafted proposals to coordinate easing restrictions across the continent and

cautioned leaders to be prepared to re-impose lockdowns if infections spike. Small retail stores in Italy were allowed to open this week if they could maintain the same social-distancing and sanitary measures required in supermarkets. Germany will also take steps to reopen some shops next week and schools beginning May 4. The news also comes as the U.K. extends their lockdown until May 11.

U.S. CARES Act: Secretary Steven Mnuchin said 80 million Americans should receive \$250 billion in tax rebates this week.

India: Prime Minister Narendra Modi extended a nationwide lockdown for nearly three more weeks until May 3.

WHO: President Donald Trump temporarily halted funding to the World Health Organization as retaliation for taking China's claims about the coronavirus "at face value" and failing to share information about the pandemic's spread. The U.S. contributed \$893 million to WHO operations in its current funding cycle—22% of the overall budget.

U.S. Airlines: The Trump administration reached an agreement in principle with U.S. airlines for a \$25 billion bailout; 70 percent will be in the form of grants to airlines and the remaining 30 percent would be repaid as a loan over a period of 10 years. Airlines that accept the money are prohibited from major staffing or pay cuts through September. The airlines must also refrain from buying back shares or paying dividends through September 2021.

OPEC: Prodded by President Trump, OPEC, Russia and other oil producers agreed to reduce output by 9.7 million barrels a day in May and June, close to 10 percent of the world's production. Oil demand is down about 35 percent since the start of the crisis. Market reaction has been less positive than expected, with crude trading little changed as the cuts were not enough to offset demand destruction. The U.S., Brazil and Canada will contribute an additional 3.7 million barrels in nominal production reductions as their output declines, and other G-20 nations will cut 1.3 million more. The deal takes effect May 1, potentially leaving some OPEC+ countries that have significantly increased production over the last month to continue flooding the market. Saudi Arabia, Kuwait and the United Arab Emirates indicated they would not pump about 2.7 million barrels a day of extra crude originally planned for April. The International Energy Agency (IEA) announced an oil storage risk and predicted global demand would fall 9% for 2020. Despite the agreement, the IEA's outlook put further pressure on oil, with a barrel of West Texas Intermediate for May delivery trading below \$20 as the report was released.

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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	-100 bps	-150 bps	-175 bps	-225 bps	-150 bps
U.S. SOFR	0.03%	2 bps	-107 bps	-153 bps	-197 bps	-244 bps	-152 bps
3 Month USD Libor	1.13%	-18 bps	29 bps	-70 bps	-87 bps	-145 bps	-77 bps
3 Month Euribor	-0.25%	0 bps	18 bps	14 bps	17 bps	6 bps	13 bps
3 Month U.S. T-Bill	0.16%	-5 bps	-10 bps	-141 bps	-151 bps	-225 bps	-139 bps
2-Year U.S. Treasury	0.20%	-6 bps	-30 bps	-135 bps	-141 bps	-219 bps	-137 bps
10-Year U.S. Treasury	0.64%	-13 bps	-31 bps	-115 bps	-113 bps	-191 bps	-128 bps
10-Year German Bund	-0.48%	-16 bps	10 bps	-27 bps	-4 bps	-54 bps	-29 bps
10-Year U.K. Gilt	0.30%	-9 bps	-8 bps	-37 bps	-38 bps	-95 bps	-52 bps
10-Year JGB	0.02%	1 bps	4 bps	1 bps	20 bps	6 bps	4 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.52%	N/A	0.8%	2.7%	8.1%	14.8%	8.9%
Barclays Capital U.S. TIPS	0.72%	N/A	1.2%	5.6%	4.2%	10.7%	5.1%
Barclays Capital U.S. Aggregate	1.41%	81	1.4%	2.4%	4.1%	11.1%	4.8%
Barclays Capital Global Aggregate	1.11%	75	1.3%	0.2%	0.7%	5.7%	0.7%
Barclays Capital U.S. ABS	2.04%	181	0.3%	-1.2%	0.2%	3.6%	0.5%
Barclays Capital U.S. MBS	1.24%	55	-0.1%	2.2%	2.9%	7.7%	3.2%
Barclays Capital U.S. Corporate Investment Grade	2.74%	209	4.0%	3.0%	0.3%	10.0%	1.1%
BAML Euro Corporate Investment Grade	1.41%	200	2.0%	-1.7%	-4.1%	-1.2%	-3.9%
Barclays Capital U.S. Corporate High Yield	8.02%	740	5.1%	0.8%	-8.7%	-3.2%	-8.1%
BAML European Currency High Yield Non-Financial	6.10%	656	3.6%	0.7%	-9.8%	-5.9%	-9.5%
CS U.S. Leveraged Loans	8.85%	829	2.1%	0.7%	-10.2%	-6.8%	-9.5%
CS Western European Leveraged Loans Non-USD	8.03%	787	3.4%	0.7%	-9.9%	-7.5%	-9.6%
JPM CEMBI Broad Diversified	6.20%	565	2.4%	-3.7%	-8.6%	-1.0%	-7.6%
JPM EMBI Global Diversified	6.78%	608	2.0%	-3.0%	-12.2%	-4.9%	-11.5%
JPM GBI-EM Global Diversified	5.15%	N/A	1.6%	-3.3%	-13.8%	-6.2%	-13.9%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,783.36	2.07%	1.2%	2.8%	-14.9%	-2.3%	-13.3%
Euro STOXX 600 (Local)	323.06	2.46%	-1.1%	8.0%	-23.0%	-16.8%	-22.3%
U.K. FTSE 100 (Local)	5,597.65	5.51%	-1.4%	4.3%	-26.8%	-24.7%	-25.8%
Japan Nikkei 225 (Local)	19,550.09	2.19%	1.0%	12.2%	-18.3%	-11.8%	-17.4%
China Shanghai Composite (Local)	2,811.17	2.36%	-0.1%	-2.6%	-9.0%	-11.5%	-7.8%
MSCI AC World (Local)	467.40	2.79%	0.9%	4.2%	-16.9%	-7.0%	-15.3%
MSCI Emerging Markets (Local)	888.14	3.11%	1.7%	1.6%	-17.0%	-11.2%	-15.1%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	270.95	-2.2%	-9.2%	-36.3%	-32.8%	-39.8%	-37.9%
WTI Crude (\$/bbl)	19.87	-20.4%	-37.4%	-65.7%	-62.4%	-68.7%	-67.5%
Copper (\$/lb)	2.31	1.5%	-6.5%	-19.4%	-11.2%	-21.2%	-17.2%
Gold (\$/oz)	1,718.65	4.3%	10.0%	11.0%	15.5%	33.7%	13.5%
U.S. Dollar Index	99.46	-0.7%	0.7%	2.3%	1.2%	2.6%	3.2%
Euro (USD/EUR)	1.09	0.4%	-1.5%	-2.2%	-1.2%	-3.6%	-2.9%
British Pound (USD/GBP)	1.25	0.9%	0.8%	-4.0%	-2.2%	-4.7%	-5.7%
Japanese Yen (Yen/USD)	107.42	-1.2%	0.2%	-2.3%	-1.3%	-4.1%	-1.2%
Chinese Yuan (CNY/USD)	7.06	-0.1%	1.0%	2.6%	-0.2%	5.3%	1.4%

Source: FactSet and Bloomberg. As of April 15, 2020.

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