

Yesterday's News and Tomorrow's Guidance

IN REVIEW

- **Initial claims** slid from 5.237 million to 4.427 million W/E April 18. Continuing claims rose 4.064 million to a new high of 15.976 million W/E April 11.
- **U.S. weekly mortgage applications** fell 0.3% in W/E April 17, amid weak demand.
- **FHFA house price index** rose from 5.3% Y/Y to 5.7% Y/Y in February. Though this preceded lockdowns, limited supply could help keep a floor under prices.
- **Existing home sales** fell 8.5% M/M in March as the pandemic weighed on demand. Existing home sales is a lagging indicator and will likely fall sharply in Q2. **New home sales** dropped 15.4% Y/Y in March.
- The **German ZEW Survey** showed investor sentiment on current conditions worsened, but expectations for 6 months from now rebounded strongly on the back of announcements to lift restrictions.
- **U.K. CPI** slowed to 1.5% Y/Y in March amid low energy prices and weaker demand related to the lockdown. Inflation will likely fall below 1% over the next few months.
- **Japan exports** sank 11.7% Y/Y in March, amid weakening external demand, while imports fell 5% Y/Y.
- **China GDP** fell 6.8% Y/Y in Q1—the first decline since the data began in 1992.
- **China activity data** showed improvement in retail sales and industrial production in March, but weak foreign demand and a slow resumption in consumer spending will elongate the recovery.

WATCH LIST

Date		Consensus		Previous
U.S.				
Mon 4/27	Dallas Fed Manufacturing Activity	-71.5	▼	-70.0
Tue 4/28	Consumer Confidence	90.0	▼	120.0
Tue 4/28	Richmond Fed Manufacturing Index	-35	▼	2
Wed 4/29	MBA Mortgage Applications			-0.3%
Wed 4/29	GDP 1Q (Advanced Estimate)	-3.7%	▼	2.1%
Wed 4/29	Pending Home Sales	-10.0% M/M	▼	2.4% M/M
Wed 4/29	FOMC Rate Decision	0%-0.25%	▬	0%-0.25%
Thu 4/30	Initial Claims			4427k
Thu 4/30	Personal Spending	-3.3% M/M	▼	0.2% M/M
Thu 4/30	Core PCE Deflator	-0.2% M/M	▼	0.2% M/M
Fri 5/1	ISM Manufacturing	39.1	▼	49.1
Fri 5/1	Wards Total Vehicle Sales	6.50m	▼	11.37m
Europe				
Thu 4/30	EZ Unemployment Rate			7.3%
Thu 4/30	EZ 1Q GDP (Advanced Estimate)			1.0% Y/Y
Thu 4/30	EZ CPI (Prelim)			0.5% M/M
Thu 4/30	ECB Monetary Policy Meeting	0.0%	▬	0.0%
Asia Pacific				
Tue 4/28	BOJ Rate Decision			-0.1%
Thu 4/30	Japan Retail Sales	-6.0% M/M	▼	0.6% M/M
Thu 4/30	Japan Industrial Production (Prelim)	-5.2% Y/Y	▼	-0.3% M/M
Thu 4/30	China's Official Manufacturing PMI	51.0	▼	52.0
Fri 5/1	Japan Vehicle Sales			-10.2% Y/Y

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

U.S.

- The **Q1 GDP advance estimate** will show the pandemic's economic impact, with Q2 expected to be worse. Meanwhile, we watch for the **FOMC meeting** Wednesday.

Europe

- **Advance EU GDP Q1 numbers** are due on Wednesday and Thursday and will show the first extent of the virus's damage. Lockdowns and social distancing in EU countries in place since mid-March means the full impact will not be clear.
- The **ECB meeting** on Thursday will size up PEPP (a QE program with expanded envelope and relaxed rules on country distribution of purchases) and accepting sub-IG bonds in its collateral framework. EU bond markets skittishness could force the ECB's hand to expand existing programs, but we do not consider this our base case.

Asia Pacific

- **BOJ meeting discussions** could include purchasing corporate bonds, commercial paper and unlimited government bonds, as well as a revised economic forecast.
- **China's official PMI** for April will likely show moderate economic recovery as it begins to reopen.

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THE HIGHLIGHTS

Flash PMIs Show Economic Impact of Lockdowns

April Markit flash PMIs show global economic conditions deteriorating. Eurozone, U.K. and Japan PMIs suggest quarterly GDP contraction of 7.5%, 7% and 10%, respectively, per IHS Markit.

MARKIT FLASH MANUFACTURING PMIS

Region	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
United States	52.4	51.9	50.7	48.5	36.9
Eurozone	46.3	47.9	49.2	44.5	33.6
United Kingdom	47.5	50	51.7	47.8	32.9
Germany	43.7	45.3	48	45.4	34.4
Japan	48.4	48.8	47.8	44.8	43.7

Source: Bloomberg. As of April 23, 2020.

The U.S. composite Markit flash PMI points to the quickest contraction in private sector output since the data's inception in 2009, falling from 40.9 in March to 27.4. Lockdown concerns and resilience of businesses bred pessimism for the first time since the series began in 2012. The EZ composite flash PMI plummeted from 29.7 to 13.5 in April. The service sector took the largest hit, but manufacturing demand also worsened. The U.K. composite flash PMI sank to 12.9 from 36 in March. Pricing power buckled amid weakening demand, as the average prices for goods and services saw the largest drop on record. In Japan, the composite flash PMI fell from 36.2 to 27.8 in April—the first insight into Japan's state-of-emergency, as data collection began the day it was announced.

EU Summit

The European Commission is discussing a 2 trillion-euro (\$2.2 trillion) plan for economic recovery. As losses mount, the northern EU members have been resisting new financing structures to help the southern countries hardest hit by the virus. The compromise proposal would partially use the EU's existing seven-year budget and also establish a new financing mechanism.

Initial Claims Preview the April Employment Report

Initial claims for unemployment insurance benefits have declined for three-consecutive weeks—confirming we have likely passed the peak—but remain unfathomably high. Initial claims slid from a downwardly revised 5.237 million to 4.427 million W/E April 18. This week's report coincides with the April payroll reference week, and we have seen a cumulative 26.7 million rise in claims between the March and April reference weeks. A back-of-the-envelope calculation suggests a 21% unemployment rate, assuming the labor force remains at March levels and those unemployed in March remain unemployed. However, not all who apply for unemployment insurance receive it; continuing claims, which lag initial claims by one week, rose 4 million to a record-high 15.976 million in W/E

April 11. Many will not be counted as being in the labor force with new regulations strengthening UI benefits and indicating recipients need not be looking for a job. The April unemployment rate will likely reach a record high well over 10% but numbers will not tell the full story of the dire labor market conditions.

Policy

Another U.S. Fiscal Deal: Congress struck a deal on a new \$484 billion rescue bill, with another \$310 billion for the small business aid program, \$25 billion for COVID-19 testing, and \$75 billion for hospitals. President Donald Trump said he would sign the bill.

ECB: The European Central Bank adopted temporary measures to accept junk-rated debt as collateral from lenders, so long as the debt held an investment grade rating on April 7, the date the easing measures were initially put in place. "Appropriate" haircuts are said to apply. The measures will be in effect until September 2021.

Easing Restrictions: Denmark has returned younger children to school; hairdressers and judges will resume work next week. Germany announced steps to allow smaller shops to reopen next week, with schools gradually opening in early May. Italy aims for a restart program beginning May 4. The U.S. issued a three-stage process of guidelines for states to decide whether to relax stay-at-home orders and other social-distancing measures. Trump said 29 of 50 states qualified to begin his administration's reopening process. In the best case, a state could abandon all but minimal social distancing practices within a month.

U.S. Immigration Halt: President Trump signed an executive order closing the United States to people trying to immigrate into the country to live and work in hopes of protecting American workers. The order will temporarily halt new green cards and work visas for 60 days and includes exceptions for people seeking jobs in food production and health care professionals.

Singapore will extend its partial lockdown for another four weeks until June 1 to reduce coronavirus cases within the community, and will provide an additional S\$3.8 billion (\$2.7 billion) to support businesses affected by the fallout.

Australia: The central bank is scaling back its quantitative easing program in money markets as dislocations from the coronavirus ease and the bank's bond-buying program has lowered interest rates across the economy. The Reserve Bank of Australia has purchased more than A\$47 billion (\$29.7 billion) of federal and state government securities. The purchasing program began March 20 and has declined to one-tenth of the buying level in recent days.

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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	0 bps	-150 bps	-175 bps	-225 bps	-150 bps
U.S. SOFR	0.01%	-2 bps	-3 bps	-153 bps	-186 bps	-245 bps	-154 bps
3 Month USD Libor	1.02%	-11 bps	-18 bps	-78 bps	-92 bps	-156 bps	-89 bps
3 Month Euribor	-0.19%	6 bps	18 bps	20 bps	21 bps	12 bps	19 bps
3 Month U.S. T-Bill	0.11%	-6 bps	8 bps	-144 bps	-155 bps	-233 bps	-144 bps
2-Year U.S. Treasury	0.21%	1 bps	-17 bps	-130 bps	-139 bps	-219 bps	-136 bps
10-Year U.S. Treasury	0.62%	-2 bps	-34 bps	-115 bps	-115 bps	-197 bps	-130 bps
10-Year German Bund	-0.44%	4 bps	-12 bps	-16 bps	-6 bps	-46 bps	-25 bps
10-Year U.K. Gilt	0.31%	1 bps	-23 bps	-34 bps	-39 bps	-89 bps	-51 bps
10-Year JGB	-0.01%	-3 bps	-9 bps	0 bps	13 bps	3 bps	1 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	0.1%	2.5%	8.0%	15.1%	9.0%
Barclays Capital U.S. TIPS	0.76%	N/A	-0.8%	5.8%	3.5%	9.9%	4.3%
Barclays Capital U.S. Aggregate	1.42%	82	0.0%	4.8%	3.9%	11.3%	4.8%
Barclays Capital Global Aggregate	1.12%	75	-0.4%	3.7%	0.1%	5.5%	0.3%
Barclays Capital U.S. ABS	1.96%	172	0.2%	1.5%	0.2%	3.8%	0.7%
Barclays Capital U.S. MBS	1.29%	59	0.0%	2.3%	2.8%	7.8%	3.2%
Barclays Capital U.S. Corporate Investment Grade	2.76%	211	0.0%	13.0%	-0.3%	10.2%	1.1%
BAML Euro Corporate Investment Grade	1.48%	203	-0.4%	2.3%	-4.8%	-1.7%	-4.3%
Barclays Capital U.S. Corporate High Yield	8.26%	761	-1.1%	10.9%	-9.7%	-4.2%	-9.2%
BAML European Currency High Yield Non-Financial	6.30%	673	-0.7%	10.0%	-10.6%	-6.8%	-10.2%
CS U.S. Leveraged Loans	8.84%	827	0.1%	12.8%	-10.2%	-6.9%	-9.5%
CS Western European Leveraged Loans Non-USD	7.97%	780	0.4%	11.5%	-9.7%	-7.2%	-9.2%
JPM CEMBI Broad Diversified	6.15%	560	0.4%	5.0%	-8.4%	-0.8%	-7.2%
JPM EMBI Global Diversified	7.04%	637	-1.6%	5.2%	-13.8%	-6.6%	-13.0%
JPM GBI-EM Global Diversified	4.96%	N/A	0.0%	4.4%	-13.9%	-5.7%	-13.9%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,799.31	2.06%	0.6%	21.6%	-15.3%	-1.8%	-12.8%
Euro STOXX 600 (Local)	330.14	2.46%	2.2%	12.7%	-22.0%	-15.4%	-20.6%
U.K. FTSE 100 (Local)	5,770.63	5.34%	3.1%	11.2%	-23.8%	-22.6%	-23.5%
Japan Nikkei 225 (Local)	19,137.95	2.24%	-2.1%	15.6%	-20.4%	-13.9%	-19.1%
China Shanghai Composite (Local)	2,843.98	2.33%	1.2%	3.6%	-7.1%	-11.5%	-6.8%
MSCI AC World (Local)	469.13	2.77%	0.6%	17.5%	-17.0%	-7.1%	-14.8%
MSCI Emerging Markets (Local)	888.64	3.09%	0.6%	11.3%	-16.4%	-10.7%	-14.6%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	236.80	-12.6%	-9.5%	-43.4%	-41.8%	-48.1%	-45.7%
WTI Crude (\$/bbl)	14.23	-28.7%	-27.0%	-74.9%	-73.8%	-78.3%	-76.7%
Copper (\$/lb)	2.32	0.2%	5.8%	-16.2%	-11.6%	-20.3%	-17.1%
Gold (\$/oz)	1,710.55	-0.5%	14.5%	9.9%	15.2%	34.1%	12.9%
U.S. Dollar Index	100.39	0.9%	-2.4%	2.9%	2.9%	3.2%	4.1%
Euro (USD/EUR)	1.08	-0.7%	1.3%	-2.2%	-2.7%	-3.8%	-3.5%
British Pound (USD/GBP)	1.23	-1.4%	5.0%	-6.2%	-4.5%	-5.0%	-6.9%
Japanese Yen (Yen/USD)	107.80	0.4%	-3.2%	-1.9%	-0.7%	-3.7%	-0.8%
Chinese Yuan (CNY/USD)	7.08	0.3%	0.3%	2.7%	0.0%	5.5%	1.7%

Source: FactSet and Bloomberg. As of April 22, 2020.

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