

## Gross Domestic Product Just Needs More Product

### IN REVIEW

- **U.S. Q1 GDP** fell 4.8% annualized, according to the advance estimate, led by consumer spending.
- **Pending home sales**—a leading indicator—sank 20.8% M/M in March, signaling a sharper fall in residential investment in Q2.
- **U.S. consumer confidence** fell to 86.9 in April amid a 90.3 point fall in the present situation index. Expectations for income prospects sharply deteriorated, suggesting a weaker consumer spending outlook.
- **Initial claims** slid from 4.442 million to 3.839 million in W/E April 25—the fourth-consecutive decline. While the peak has passed, continuing claims rose 2.174 million to a new high of 17.992 million in W/E April 18.
- **Personal spending** sank 7.5% M/M in March—the largest recorded monthly drop—while the **personal savings rate** jumped to 13.1%.
- The **Core PCE deflator** slid 0.1% M/M in March and slowed to 1.7% Y/Y, amid disinflationary pressures.
- **EU Q1 GDP** shrank 3.8% Q/Q—the worst in eurozone history; many countries saw post-war records.
- **Japan retail sales** sank 4.6% Y/Y in March while **industrial production** fell 5.2% Y/Y—lowest since 2013—as COVID-19 weighs on internal and external demand.
- **China's official manufacturing PMI** slid from 52.0 to 50.8 as the economy continued modest improvements. The production component held up, but new export orders dropped to 33.5 as demand weakened.

### WATCH LIST

Date		Consensus		Previous
<b>U.S.</b>				
Tue 5/5	Trade Balance	-\$35.0b	▼	-\$39.9b
Tue 5/5	ISM Non-Manufacturing Index	41.0	▼	52.5
Wed 5/6	MBA Mortgage Applications			-3.3%
Thu 5/7	Nonfarm Productivity 1Q (Prelim)	-5.4%	▼	1.2%
Thu 5/7	Initial Claims			3839k
Fri 5/8	Change in Nonfarm Payrolls	-21m	▼	-701k
Fri 5/8	Unemployment Rate	16.3%	▲	4.4%
Fri 5/8	Average Hourly Earnings	0.3% M/M	▼	0.4% M/M
<b>Europe</b>				
Tue 5/5	EZ Producer Price Index	-2.6% Y/Y	▼	-1.3% Y/Y
Wed 5/6	EZ Retail Sales	-11.3% M/M	▼	0.9% M/M
Wed 5/6	Germany Factory Orders	-10% M/M	▼	-1.4% M/M
Thu 5/7	BoE Bank Rate	0.1%	—	0.1%
Thu 5/7	Germany Industrial Production	-7.3% M/M	▼	0.3% M/M
<b>Asia Pacific</b>				
Thu 5/7	China Exports	-9.5% Y/Y	▼	-6.6% Y/Y
Thu 5/7	China Imports	-10% Y/Y	▼	-0.9% Y/Y
Thu 5/7	Caixin China Services PMI	50.5	▲	43.0

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

### U.S.

- The April **Employment Report** will show an unprecedented rise in unemployment but is set to understate the pain. Despite data irregularities—such as misclassifications, as seen in March, and changes to UI benefits resulting in many not being counted in the labor force—the unemployment rate will likely jump close to 15%. The consensus forecast is for a 21 million decline in employment—by far the largest decline in recorded history. However, the consensus forecast is less meaningful than normal, as projections span from -840 thousand to -28 million.

### Europe

- The **BoE monetary policy committee meets on Tuesday**. Similar to the Fed and the ECB, given already announced interventions and the extreme uncertainty surrounding forecasts, the Bank is expected to leave policy rates unchanged and take stock of the unorthodox measures' effect on money, credit and financial conditions.
- **EZ retail sales** for March are out on Wednesday. Following dismal numbers from various eurozone countries, the eurozone aggregate is expected to drop by 10% M/M. Unfortunately this is in line with sales contractions seen in other major economies such as the U.S., where sales dropped 8.7% in the month of March.

### Asia Pacific

- **China trade data** for April will likely deteriorate amid weaker global demand. While weak external demand will weigh on China's recovery, China is less reliant on the world for growth than was historically the case.

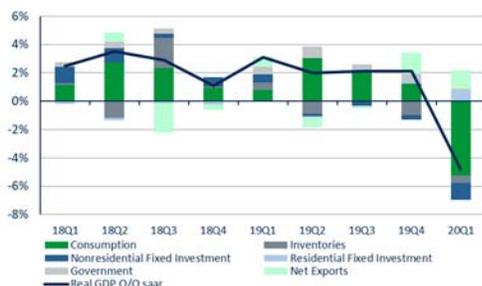
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## THE HIGHLIGHTS

### U.S. GDP Will Go From Bad to Worse

U.S. GDP contracted 4.8% annualized in the first quarter, according to the advanced estimate—the steepest fall since 4Q2008. All components of GDP fell sharply, with import declines making the current account a net contributor to growth. The contraction was particularly marked in consumption, as expected. Given the timing of lockdowns and fiscal stimulus bills, the impact on Q1 GDP growth was small. Consumer spending and investment data should deteriorate more, causing Q2 GDP growth to fall at a double-digit pace.

CONTRIBUTIONS TO PERCENT CHANGE IN US GDP



Source: Bloomberg. As of April 30, 2020.

The personal savings rate jumped to 9.6% from 7.6% in 4Q2019 and will likely rise further in Q2. Odds are that a higher rate will be sustained longer-term, keeping a lid on the pace of the recovery.

### Central Bank Meetings

The **FOMC** held rates and current policy steady at their meeting this week. Chairman Jerome Powell noted that the economy will likely need more monetary and fiscal support and reiterated that the Fed is committed to using its full range of tools to support the economy and ensure a robust recovery. The fed funds rate will likely remain at its zero lower bound for several quarters and they could do more in terms of their credit policies, which have no dollar limit. Meanwhile, the **ECB** has intensified its response by lowering rates on its targeted bank lending program, unveiled a new series of non-targeted pandemic emergency longer-term refinancing operations, and committed to continuing its asset purchase program at least until the crisis ends. Echoing the Fed, the ECB also urged governments to provide more fiscal support. The **BOJ** promised to buy as many government bonds as needed and more-than-doubled the size of corporate bond and commercial paper purchases to 20 trillion yen to support the real economy. They will also offer to pay a 0.1% interest rate on loans under a new fund supplying operation and household debt to be used as collateral for the funding operation.

### Earnings Season

With about 39% of the S&P 500 reporting Q1 results, earnings growth is tracking at -14% Y/Y, with surprises tilted slightly to the downside. The real estate sector is the best performer so far while financials are the worst. With

37% having reported, Euro Stoxx 600 earnings growth is tracking at -21% Y/Y, with surprises generally tilted to the upside. The real estate sector has been the best performer while consumer discretionary names have significantly lagged. Equity market price action in both markets has generally been positive regardless of the reported earnings growth.

### Policy

**Easing Restrictions:** Reopening and recovery will vary by country and be gradual. **Italy** will ease lockdown restrictions on May 4. Construction and manufacturing wholesalers will be the first to reopen; retailers and museums follow two weeks later with restaurants and barbers potentially on June 1. Schools will not reopen until September. **Georgia, South Carolina and Oklahoma** have already lifted stay-at-home restrictions; though they have not seen a full recovery, travel, health care and entertainment were among the largest spikes in consumer spending, all increasing by at least 50% over last weekend. **Texas** announced that retail stores, restaurants, movie theaters and malls could reopen with limited capacity on Friday. **New York** will allow low-risk upstate businesses to reopen by mid-May. **Florida's** stay-at-home orders expired Thursday but the governor will leave it to cities to reopen. Other states are set to ease restrictions in the coming weeks. **France** is preparing to ease restrictions on May 11. Restaurants will be allowed to reopen June 2, students will start returning to school on May 11, and working from home will be encouraged for at least three more weeks. **Spain** will remove most restrictions over the next eight weeks. Schools will not return until September. On May 2, outdoor exercise and family walks will be allowed. **Greece** will allow small retailers such as bookshops, sports stores and beauty salons to reopen May 4. The rest of retail will open May 11; malls and hotels will open June 1.

**EU Leverage Restrictions:** The European Commission proposed relaxing leverage ratio rules, allowing banks to postpone some of its provisions and hold less capital for funds they keep at central banks. The Eurostoxx Banks index was trading 6% higher amid the announcement, though it remains down about 40% for the year.

**Food Tension:** President Donald Trump exercised the Defense Production Act, ordering meat processing plants to stay open amid fears of a growing supply disruption. Australia is calling for the end of wildlife sales in so-called wet markets, which was one of the first places in Wuhan where the virus was detected. China remains Australia's largest export destination, with sales of iron ore, coal and food at the heart of their A\$213 billion (\$137 billion) trading relationship. Australia raised tensions with Beijing by calling for an independent probe into the origins of the coronavirus, worrying businesses in the world's most China-dependent developed economy. Supply chain disruptions could affect food prices and may bring inflationary pressures.

**EU Airlines:** Government bailouts for the European airline industry are taking shape after France and the Netherlands pledged as much as 11 billion euros (\$11.9 billion) to save Air France-KLM, and German rival Deutsche Lufthansa AG heads into a crucial week to work out a similar-sized rescue.

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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%	0 bps	0 bps	-152 bps	-180 bps	-247 bps	-154 bps
3 Month USD Libor	0.69%	-33 bps	-76 bps	-109 bps	-124 bps	-189 bps	-122 bps
3 Month Euribor	-0.26%	-7 bps	9 bps	14 bps	14 bps	5 bps	12 bps
3 Month U.S. T-Bill	0.11%	0 bps	11 bps	-145 bps	-152 bps	-231 bps	-144 bps
2-Year U.S. Treasury	0.20%	-2 bps	-7 bps	-123 bps	-145 bps	-210 bps	-138 bps
10-Year U.S. Treasury	0.62%	1 bps	-10 bps	-97 bps	-121 bps	-191 bps	-130 bps
10-Year German Bund	-0.51%	-7 bps	-3 bps	-13 bps	-15 bps	-50 bps	-32 bps
10-Year U.K. Gilt	0.27%	-4 bps	-9 bps	-27 bps	-44 bps	-92 bps	-55 bps
10-Year JGB	-0.05%	-4 bps	-6 bps	-1 bps	7 bps	0 bps	-3 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%	0.7%	6.8%	14.5%	8.9%
Barclays Capital U.S. TIPS	0.72%	N/A	0.7%	2.8%	3.3%	10.1%	5.0%
Barclays Capital U.S. Aggregate	1.36%	79	0.1%	2.2%	3.2%	11.0%	5.0%
Barclays Capital Global Aggregate	1.04%	71	0.9%	1.4%	0.5%	6.4%	1.2%
Barclays Capital U.S. ABS	1.83%	160	0.3%	3.2%	0.3%	3.9%	1.1%
Barclays Capital U.S. MBS	1.17%	52	0.2%	0.5%	2.7%	7.7%	3.4%
Barclays Capital U.S. Corporate Investment Grade	2.68%	204	0.4%	6.9%	-0.7%	10.1%	1.5%
BAML Euro Corporate Investment Grade	1.28%	188	1.2%	3.3%	-4.0%	-0.9%	-3.1%
Barclays Capital U.S. Corporate High Yield	8.18%	758	0.0%	5.6%	-9.3%	-4.5%	-9.1%
BAML European Currency High Yield Non-Financial	6.07%	654	0.9%	6.7%	-9.5%	-5.8%	-9.3%
CS U.S. Leveraged Loans	8.90%	846	-0.1%	7.1%	-10.1%	-7.2%	-9.6%
CS Western European Leveraged Loans Non-USD	7.76%	763	1.0%	9.2%	-8.8%	-6.4%	-8.3%
JPM CEMBI Broad Diversified	6.10%	555	0.4%	3.7%	-8.2%	-0.6%	-6.8%
JPM EMBI Global Diversified	6.96%	629	0.8%	1.5%	-13.3%	-5.9%	-12.3%
JPM GBI-EM Global Diversified	4.95%	N/A	1.4%	2.5%	-12.1%	-3.5%	-12.6%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,939.51	1.96%	5.0%	15.8%	-9.7%	1.9%	-8.5%
Euro STOXX 600 (Local)	347.06	2.46%	5.1%	11.6%	-17.3%	-11.3%	-16.5%
U.K. FTSE 100 (Local)	6,115.25	5.04%	6.0%	11.0%	-18.3%	-17.8%	-18.9%
Japan Nikkei 225 (Local)	19,771.19	2.20%	3.3%	2.0%	-15.4%	-11.2%	-16.4%
China Shanghai Composite (Local)	2,822.44	2.35%	-0.8%	1.8%	-5.2%	-7.8%	-7.5%
MSCI AC World (Local)	492.60	2.64%	4.7%	13.1%	-11.7%	-2.8%	-10.8%
MSCI Emerging Markets (Local)	919.66	3.03%	2.8%	9.6%	-11.6%	-7.7%	-12.2%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	246.03	3.9%	-5.9%	-38.3%	-40.6%	-44.7%	-43.6%
WTI Crude (\$/bbl)	15.06	10.4%	-2.7%	-71.7%	-72.8%	-76.2%	-75.4%
Copper (\$/lb)	2.37	2.5%	8.1%	-7.0%	-11.5%	-18.0%	-15.0%
Gold (\$/oz)	1,703.35	-0.4%	5.3%	8.3%	14.6%	33.1%	12.5%
U.S. Dollar Index	99.57	-0.8%	1.2%	1.6%	1.9%	1.7%	3.3%
Euro (USD/EUR)	1.09	0.2%	-1.8%	-1.3%	-2.4%	-2.8%	-3.3%
British Pound (USD/GBP)	1.24	0.9%	0.7%	-4.3%	-3.6%	-3.8%	-6.1%
Japanese Yen (Yen/USD)	106.60	-1.1%	-1.5%	-2.4%	-2.1%	-4.7%	-1.9%
Chinese Yuan (CNY/USD)	7.07	-0.1%	-0.2%	2.1%	0.2%	5.1%	1.6%

Source: FactSet and Bloomberg, As of April 29, 2020.

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