

To Trade or Not to Trade? That is the Question...

IN REVIEW

- The **ISM surveys** were buoyed by longer supplier delivery times. The **manufacturing index** fell from 49.1 in March to 41.5 in April, while the **nonmanufacturing index** sank into contractionary territory, falling from 52.5 to 41.8.
- **U.S. exports** fell a record 9.6% M/M in March. **Imports** slid 6.2% M/M, widening the trade deficit to \$44.4 billion as demand faltered.
- **Initial claims** fell, 3.846 million to 3.169 million for W/E May 2. Continuing claims rose 4.6 million to 22.647 million W/E April 25, a record high.
- **U.S. weekly mortgage applications** changed little in W/E May 1, but purchase applications rose for the third straight week, up 5.8%, suggesting home sales may rebound after sinking in April.
- **U.S. Q1 productivity** fell 2.5% annualized, while unit labor costs rose 4.8% annualized—weighing on corporate profit margins.
- The **BoE** held policy steady at their May meeting, though further asset purchases are likely in June.
- **EZ retail sales** were worse than expected, down a record 11.2% M/M in March. While most sectors fell, food and non-store retail sales rose 5% and 2.6% M/M, respectively.
- **Japan vehicle sales** sank 25.5% Y/Y in April to the lowest since 2011.
- **China's exports** surprised to the upside, rising 3.5% Y/Y in April, signaling a faster rebound in production and likely working through a backlog of orders. **Imports** fell 14.2% Y/Y.

WATCH LIST

Date		Consensus		Previous
U.S.				
Tue 5/12	NFIB Small Business Optimism	88.0	▼	96.4
Tue 5/12	Consumer Price Index	-0.7% M/M	▼	-0.4% M/M
Wed 5/13	MBA Mortgage Applications			0.1%
Wed 5/13	Producer Price Index	-0.4% M/M	▼	-0.2% M/M
Thu 5/14	Initial Claims			3169k
Fri 5/15	Advance Retail Sales	-10.4% M/M	▼	-8.7% M/M
Fri 5/15	Empire Manufacturing	-62.5	▲	-78.2
Fri 5/15	Industrial Production	-11.0% M/M	▼	-5.4% M/M
Fri 5/15	U Mich. Sentiment (Prelim)	67.5	▼	71.8
5/11-5/15	MBA Q1 National Delinquency Survey			3.77%
Europe				
Wed 5/13	EZ Industrial Production	-12.0% M/M	▼	-0.1% M/M
Wed 5/13	U.K. Industrial Production	-5.6% M/M	▼	0.1% M/M
Wed 5/13	U.K. 1Q GDP (Prelim)	-1.9% Y/Y	▼	1.1% Y/Y
Fri 5/15	EZ 1Q GDP (Prelim)	-3.3% Y/Y	■	-3.3% Y/Y
Asia Pacific				
Tue 5/12	China Producer Price Index	-2.6% Y/Y	▼	-1.5% Y/Y
Tue 5/12	China Consumer Price Index	3.7% Y/Y	▼	4.3% Y/Y
Thu 5/14	Japan Prelim Machine Tool Orders			-40.7% Y/Y
Fri 5/15	China Industrial Production (YTD)	-4.8% Y/Y	▲	-8.4% Y/Y
Fri 5/15	China Retail Sales (YTD)	-12.0% Y/Y	▲	-19.0% Y/Y
Fri 5/15	China Property Investment (YTD)	-3.8% Y/Y	▲	-7.7% Y/Y
Fri 5/15	China Fixed Assets ex Rural (YTD)	-9.0% Y/Y	▲	-16.1% Y/Y
Fri 5/15	Japan Producer Price Index	-1.4% Y/Y	▼	-0.4% Y/Y

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

U.S.

- **Retail sales** for April will likely be worse than March, given lockdown timing. Nonstore retail results amid closed storefronts will be a good e-commerce indicator.
- Downward pressure from weakening demand and lower oil prices will likely lead to soft **inflation data** in April.

Europe

- **EZ Industrial production** will likely show unprecedented drops in March. Data last week for the two biggest EU economies (Germany and France) showed the biggest drops ever recorded. Meanwhile, **U.K. and EZ Q1 GDP** figures are set to follow suit and contract sharply. However, GDP will likely worsen in Q2.

Asia Pacific

- **China activity data** should improve in April as the economy moves slowly back towards normality. The pickup in consumer spending is likely to continue lagging the return to offices and much of manufacturing. Meanwhile, we watch for China's **inflation data** as external demand weakens as internal demand is improving.

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THE HIGHLIGHTS

U.S. Employment: Small vs. Large Firms

U.S. private sector employment lost 20.236 million jobs in April, per the ADP National Employment Report - more than double the cumulative employment drop during the Great Recession. Job losses were broad, with goods producers down over 4 million and service providers an unprecedented 16 million. Unlike the official BLS statistic, ADP data breaks out job losses by firm size. Small firms (less than 50 employees) saw larger declines than large firms (500 or more employees)—the opposite of that seen during the Great Recession.

ADP PRIVATE SECTOR EMPLOYMENT BY FIRM SIZE, Y/Y%



Source: ADP. As of May 7, 2020.

The record small firm losses emphasize the need for aid to small businesses that lack access public companies have to Federal Reserve credit and aid, compounded by the smaller cash buffer these firms have. While job losses spiked at record speed, the unemployment rate will take longer to drop if small business cannot reopen, as they are the engine of U.S. growth.

Earnings Season

With 81% of the S&P 500 reporting Q1 results, earnings growth is tracking at -7% Y/Y, with surprises tilted to the upside. Health care has performed the best; financials, the worst. With 71% having reported, Euro Stoxx 600 earnings growth is tracking at -22% Y/Y, with surprises tilted to the upside. Consumer staples performed the best while consumer discretionary continued to lag. Price reaction in U.S. markets has been mixed. European markets generally rewarded equities, regardless of earnings growth.

Policy

China Trade Deal: Despite rising tensions over allegations China mishandled the outbreak, the U.S. signaled they won't tear up the Phase One deal if Beijing abides by earlier trade deal commitments. The U.S. has already tightened export controls curbing semiconductor sales to China, opened the door for the government pension funds to stop investing in some Chinese companies and limited imports of electrical equipment for the U.S. power grid. Several bills in Congress seek to strip China of its sovereign immunity protection in U.S. courts, potentially leaving China open to lawsuits seeking billions of dollars in compensation for its handling of the outbreak.

Another Trade Deal: The U.K. and the U.S. will start work this week on a free trade agreement that both governments hope will help support growth through the global downturn.

Easing Restrictions: In **Florida**, state parks reopened along with restaurants and retail in most of the state. **California** starts loosening its lockdown today, allowing stores to sell books, clothes, flowers and other items through curbside pickup. The **U.K.** will give companies guidance this weekend on returning to work safely and likely take a gradual path out of the lockdown. High-frequency data show some improvement: OpenTable reservations in Texas improved the most (still -86% Y/Y); Florida, Georgia, and South Carolina have also risen.

ECB Bond Buying: The German high court ruled that the ECB QE program likely violated the German constitution. The ruling said the purchases may not be backed by European treaties, and ordered Bundesbank to stop participation in the program and sell its holdings should the ECB fail to satisfy the court's demands for an explanation as to how the purchases are proportional within the next three months. The ECB released a statement taking note of the ruling and recalling that the European Court of Justice, the only body the ECB responds to, had previously ruled the QE program lawful.

ETFs: The Federal Reserve is close to setting up two corporate lending programs that could buy up to \$750 billion in debt and ETFs under its emergency virus actions. Expect to see shares of eligible ETFs purchased soon through its Secondary Market Corporate Credit Facility. Lending through the Fed's primary- and secondary-market corporate credit facilities via purchases of corporate bonds will begin soon after.

Funding Unemployment: California became the first state to borrow money from the federal government to continue paying unemployment benefits, using \$348 million in federal funds after receiving approval for up to \$10 billion through July. The U.S. also approved loans of \$12.6 billion for Illinois and \$1.1 billion for Connecticut through July to replenish state funds, though the two states had not started borrowing through April.

EU Airlines: Airlines made progress to bolster their finances, with Deutsche Lufthansa AG nearing a deal for state aid, and Norwegian Air Shuttle ASA winning bondholders over to a debt-to-equity swap for part of a plan to meet terms set by Norway to give the airline access to a 3 billion-kroner (\$290 million) package of loan guarantees. German, Swiss, Austrian and Belgian governments have looked at a rescue plan that could top 10 billion euros (\$11 billion). Iceland may look at a loan to Icelandair Group, contingent on financial restructuring by the carrier.

The U.S. Treasury expects to boost the net amount of marketable Treasury debt outstanding by \$3 trillion in Q2 as efforts to stimulate the struggling economy drive up borrowing. The increase is primarily driven by the impact of the outbreak, with effects flowing from both new stimulus spending that has been legislated and tax receipt deferrals.

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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	-150 bps	-225 bps	-150 bps
U.S. SOFR	0.05%	4 bps	4 bps	-154 bps	-152 bps	-237 bps	-150 bps
3 Month USD Libor	0.45%	-24 bps	-90 bps	-129 bps	-146 bps	-211 bps	-146 bps
3 Month Euribor	-0.27%	-1 bps	5 bps	13 bps	14 bps	4 bps	12 bps
3 Month U.S. T-Bill	0.13%	2 bps	3 bps	-144 bps	-143 bps	-229 bps	-142 bps
2-Year U.S. Treasury	0.17%	-3 bps	-10 bps	-127 bps	-143 bps	-214 bps	-140 bps
10-Year U.S. Treasury	0.71%	9 bps	4 bps	-94 bps	-110 bps	-179 bps	-121 bps
10-Year German Bund	-0.51%	-1 bps	-9 bps	-16 bps	-19 bps	-51 bps	-32 bps
10-Year U.K. Gilt	0.24%	-3 bps	-9 bps	-39 bps	-50 bps	-98 bps	-58 bps
10-Year JGB	-0.03%	2 bps	-3 bps	-2 bps	6 bps	2 bps	-1 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.56%	N/A	-0.7%	-0.2%	6.4%	13.5%	8.2%
Barclays Capital U.S. TIPS	0.76%	N/A	-1.0%	0.0%	2.6%	9.1%	4.0%
Barclays Capital U.S. Aggregate	1.39%	76	-0.5%	1.1%	2.9%	10.2%	4.4%
Barclays Capital Global Aggregate	1.06%	70	-0.4%	1.7%	0.4%	5.6%	0.8%
Barclays Capital U.S. ABS	1.70%	147	0.3%	1.0%	0.6%	4.1%	1.4%
Barclays Capital U.S. MBS	1.10%	42	0.1%	0.4%	2.8%	7.6%	3.5%
Barclays Capital U.S. Corporate Investment Grade	2.78%	207	-1.2%	4.2%	-1.7%	8.6%	0.2%
BAML Euro Corporate Investment Grade	1.23%	187	-0.1%	3.2%	-4.1%	-1.1%	-3.2%
Barclays Capital U.S. Corporate High Yield	7.99%	736	0.6%	6.7%	-9.1%	-3.8%	-8.5%
BAML European Currency High Yield Non-Financial	6.25%	678	-0.4%	5.5%	-10.1%	-5.8%	-9.7%
CS U.S. Leveraged Loans	8.89%	854	0.2%	3.7%	-9.9%	-7.1%	-9.4%
CS Western European Leveraged Loans Non-USD	7.55%	745	0.9%	7.5%	-8.1%	-5.7%	-7.5%
JPM CEMBI Broad Diversified	5.99%	536	0.6%	4.3%	-7.8%	-0.2%	-6.3%
JPM EMBI Global Diversified	6.68%	590	1.9%	3.8%	-12.0%	-4.2%	-10.6%
JPM GBI-EM Global Diversified	4.81%	N/A	-0.4%	5.3%	-12.6%	-3.1%	-12.9%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,848.42	2.03%	-3.1%	7.1%	-14.4%	-0.9%	-11.3%
Euro STOXX 600 (Local)	334.34	2.46%	-3.7%	4.3%	-21.4%	-13.6%	-19.6%
U.K. FTSE 100 (Local)	5,853.76	5.25%	-4.3%	4.9%	-22.0%	-20.7%	-22.4%
Japan Nikkei 225 (Local)	19,619.35	2.22%	-0.8%	5.6%	-17.8%	-11.9%	-17.1%
China Shanghai Composite (Local)	2,878.14	2.30%	2.0%	4.1%	0.4%	-1.0%	-5.6%
MSCI AC World (Local)	478.02	2.66%	-2.8%	12.1%	-15.2%	-3.7%	-13.2%
MSCI Emerging Markets (Local)	898.70	3.06%	-1.8%	7.9%	-12.8%	-7.7%	-13.8%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	268.76	9.2%	-1.1%	-30.6%	-35.5%	-38.9%	-38.4%
WTI Crude (\$/bbl)	24.09	60.2%	-8.1%	-52.7%	-57.1%	-61.3%	-60.6%
Copper (\$/lb)	2.35	-0.9%	5.3%	-9.5%	-11.6%	-17.1%	-15.8%
Gold (\$/oz)	1,691.50	-0.7%	2.6%	8.2%	13.8%	32.3%	11.7%
U.S. Dollar Index	100.09	0.5%	-0.6%	1.6%	2.2%	2.6%	3.8%
Euro (USD/EUR)	1.08	-0.5%	0.1%	-1.6%	-2.5%	-3.6%	-3.8%
British Pound (USD/GBP)	1.24	-0.6%	0.9%	-4.4%	-4.0%	-5.6%	-6.7%
Japanese Yen (Yen/USD)	106.05	-0.5%	-2.8%	-3.6%	-2.7%	-4.4%	-2.4%
Chinese Yuan (CNY/USD)	7.10	0.3%	0.1%	1.8%	1.4%	4.9%	1.9%

Source: FactSet and Bloomberg. As of May 6, 2020.

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