

Global Supply & Demand Curves Shift to the Left

IN REVIEW

- **U.S. employment** fell a record 20.537 million in April, while the unemployment rate hit 14.7%, a record high.
- **Initial claims** slid from 3.176 million to 2.981 million in W/E May 9, as the worst is likely behind us. Continuing claims rose 456,000 to 22.833 million in W/E May 2.
- The **NFIB small business optimism index** fell 5.5 points to 90.9 in April. While nine of the 10 subcomponents fell, economic expectations over the next 6 months improved amid reopening measures.
- **U.S. weekly mortgage purchase applications** rose 10.6% in W/E May 8, bringing the index to its highest level since W/E March 13, signaling home sales should tick higher after plummeting in April.
- **U.S. CPI** fell 0.8% M/M in April, while core CPI slid 0.4% M/M. The **PPI** fell 1.3% M/M, with the core rate down 0.3% M/M, as lower demand weighs on prices.
- **UK Q1 GDP** fell 2% Q/Q, according to the preliminary estimate. This was better than expected, but Q2 GDP will likely be much worse.
- **EZ industrial production** sank 11.3% M/M in March, but varied greatly by country and will likely worsen in April due to the timing of lockdowns.
- **China CPI** decelerated from 4.3% Y/Y in March to 3.3% Y/Y in April. Food prices were up 14.8% Y/Y but slowed for the second month amid lower pork prices. The **PPI** fell 3.1% Y/Y. Weak global demand should continue to weigh on inflation.

WATCH LIST

Date		Consensus		Previous
U.S.				
Mon 5/18	NAHB Housing Market Index	35	▲	30
Tue 5/19	Housing Starts	950k	▼	1216k
Tue 5/19	Building Permits	1000k	▼	1353k
Wed 5/20	MBA Mortgage Applications			0.3%
Wed 5/20	FOMC Meeting Minutes	-		-
Thu 5/21	Initial Claims			2981k
Thu 5/21	Philadelphia Fed Manufacturing Survey	-40.0	▲	-56.6
Thu 5/21	Markit Manufacturing PMI (Prelim)	37.5	▲	36.1
Thu 5/21	Markit Services PMI (Prelim)			26.7
Thu 5/21	Existing Home Sales	4.33m	▼	5.27m
Europe				
Tue 5/19	German ZEW Survey Expectations	30.0	▲	28.2
Tue 5/19	U.K. Jobless Claims Change			12.2k
Tue 5/19	U.K. Unemployment Rate	4.6%	▲	4.0%
Wed 5/20	EZ Consumer Price Index	0.3% M/M	▬	0.3% M/M
Wed 5/20	U.K. Consumer Price Index	0.1% M/M	▲	0.0% M/M
Thu 5/21	U.K. Markit Composite PMI (Prelim)	15.5	▲	13.8
Fri 5/22	EZ Markit Composite PMI (Prelim)	20.0	▲	13.6
Fri 5/22	U.K. Retail Sales	-12.5% M/M	▼	-5.1% M/M
Asia Pacific				
Mon 5/18	Japan 1Q GDP (Prelim)	-1.1% Q/Q	▲	-1.8% Q/Q
Wed 5/20	PBOC Meeting	-		-
Thu 5/21	Jibun Bank Japan Mfg PMI (Prelim)			41.9
Fri 5/22	Japan Consumer Price Index	0.2% Y/Y	▼	0.4% Y/Y
Fri 5/22	National People's Congress Meeting	-		-

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

U.S.

- **Housing data** will likely come in weak for April as demand nearly vanished amid lockdowns. However, rising weekly mortgage purchase applications indicate there should be a modest rebound in home sales in May or June, after a collapse in April.

Europe

- Eurozone and U.K. **inflation** will likely remain soft in April amid low oil prices and weak global demand. **Markit flash PMIs** for May should indicate how services and manufacturing sectors are performing as reopening measures began across Europe.

Asia Pacific

- **Japan's Q1 GDP** preliminary estimate should show a modest contraction. However, given social distancing did not begin in Japan until April, Q2 will be much worse.
- China's annual **National People's Congress Meeting** will begin on May 22, symbolizing China believes the virus is contained. We watch for discussions on economic targets, national budget, and plans for major policies over the year ahead.

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THE HIGHLIGHTS

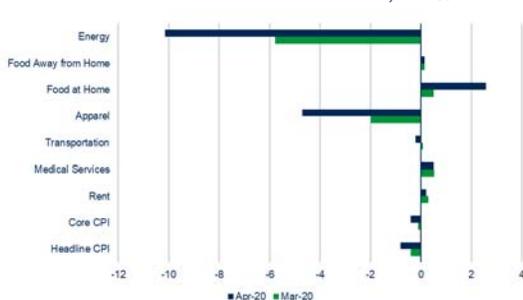
U.S. Employment Report

The U.S. April employment report made history for all the wrong reasons. Nonfarm payrolls plummeted 20.537 million in April—more than double that lost during the financial crisis. While leisure and hospitality saw the largest decline, down 7.653 million, job losses were broad-based, as illustrated by the diffusion index, which fell to a record low of 4.8. The unemployment rate jumped to 14.7%, the highest since the series began in 1948. However, the unemployment rate could have been almost 5 percentage points higher if not for misclassifications. Because people can receive unemployment insurance without actively looking for a job, the number of previously employed people leaving the labor market rose to a record high. One glimmer of hope is that the percent of unemployed who classified themselves as on temporary layoffs jumped to a series high of 78.3%. While this is a positive forward-looking indicator, this data is self-reported, and not all companies will reopen or rehire those “temporarily” laid off. While the unemployment rate should trend lower in 2H20, it will take quarters or years to return to pre-pandemic levels.

U.S. Inflation Comes in Soft but Varies by Component

U.S. inflation came in soft in April amid low oil prices and weak global demand. CPI fell 0.8% M/M in April—the largest decline since 2008—and slowed to 0.3% Y/Y. A 20.6% decline in the gasoline index contributed the most, but core CPI fell 0.4% M/M.

U.S. CONSUMER PRICE INDEX, M/M%



Source: Bloomberg. As of May 14, 2020.

While energy, apparel and transportation prices fell, food, medical services, and rent prices rose. Food at home was up 2.6% M/M, led by a 4.3% rise in the index for meats, poultry, fish and eggs. While overall inflation will likely remain subdued due to weak demand, elevated internal demand for food, disrupted food supply chains, and greater agricultural purchases from China per the Phase One deal will likely keep upward pressure on food prices.

Policy

U.S. Stimulus: House Democrats offered legislation for another round of fiscal stimulus that could top \$3 trillion, though \$500million-1 trillion is more likely. The bill is expected to include more relief for businesses, such as liability protections, state and local relief provisions, the enhanced employee

retention credit, as well as extensions to unemployment insurance. There may also be a tax cut or payment to households. Enhanced unemployment benefits end June 30, likely making it the hard deadline for another package. For the monetary stimulus side, the Federal Reserve, which cut its primary interest rate to near zero March 15, is not anticipating the use of negative rates like in Europe and Japan.

Easing Restrictions: The Trump administration cited success stories in South Korea and Austria in its call for Americans to return to work. Austria began reopening on April 14 amid rules such as mandatory face masks in public places; Chancellor Sebastian Kurz will reverse course if the numbers spike. The **U.K.** announced this week people can leave their homes to exercise as often as they like (formerly once a day). People can visit parks to sit or have household groupings if they remain 2 meters (6.6 feet) apart. Beaches are set to open as well. Shops and primary schools are expected to open June 1. **Germany, France, Austria and Switzerland** will roll back all travel restrictions by June 15 and will discuss the same with **Poland** and the **Czech Republic**. **Poland** extended its inter-EU travel restrictions until June 12.

Airport Arrivals: The **U.K.** is planning a 14-day air passenger arrival quarantine for the end of May. The plan will likely exclude France and threatens the airline industry’s timetable for a resumption in flying this summer. Any significant rebound in revenue for airlines is likely delayed until summer 2021. **Spain and Iceland** also ordered a 14-day quarantine for all people arriving from abroad, a blow to many countries’ tourism.

Trade: U.S.-China trade deal movement continues despite virus activity. China announced new waivers for tariffs of some U.S. imports while also increasing agricultural purchases, while the U.S. renewed an order restricting Huawei and ZTE Corp. from selling equipment in the U.S. for another year.

U.S. Airlines: Regulators will allow carriers to suspend flights to more cities. Under the change, airlines can seek exemptions for as many as five airports or 5% of the locations they are required to fly to, whichever is greater.

Sweden: Will adjust its strategy for dealing with COVID-19 after nursing home deaths spiked. The government plans to spend 2.2 billion kronor (\$224 million) to increase staff levels to help protect the country’s older population. Another 2 billion kronor will compensate local authorities for virus costs.

Saudi Arabia: Announced plans to cut oil production by an additional 1 million barrels a day, easing concerns over storage capacity limits worldwide. The move to reduce output by more than required under the OPEC+ deal was followed by similar pledges from the U.A.E. and Kuwait. While the government says overall expenditure will remain in-line with the 1 trillion riyals (\$266 billion) outlined in the 2020 budget, the VAT will increase from 5% to 15% as of July 1, while the monthly 1,000 riyals (\$267) cost of living allowance to state employees will be suspended June 1. This will likely damage consumption and hurt the private sector that is key to Crown Prince Mohammed Bin Salman’s vision to diversify the economy away from oil.

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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	0.04%	-1 bps	2 bps	-153 bps	-153 bps	-234 bps	-151 bps
3 Month USD Libor	0.39%	-6 bps	-83 bps	-130 bps	-152 bps	-213 bps	-152 bps
3 Month Euribor	-0.25%	1 bps	-3 bps	16 bps	15 bps	6 bps	13 bps
3 Month U.S. T-Bill	0.13%	0 bps	-11 bps	-145 bps	-144 bps	-228 bps	-142 bps
2-Year U.S. Treasury	0.16%	-1 bps	-7 bps	-130 bps	-147 bps	-203 bps	-142 bps
10-Year U.S. Treasury	0.65%	-7 bps	-10 bps	-97 bps	-123 bps	-176 bps	-127 bps
10-Year German Bund	-0.53%	-1 bps	-18 bps	-13 bps	-22 bps	-48 bps	-34 bps
10-Year U.K. Gilt	0.22%	-2 bps	-9 bps	-45 bps	-53 bps	-97 bps	-61 bps
10-Year JGB	-0.01%	2 bps	-1 bps	3 bps	5 bps	4 bps	1 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.51%	N/A	0.5%	0.6%	6.7%	13.4%	8.8%
Barclays Capital U.S. TIPS	0.68%	N/A	0.4%	-0.3%	2.6%	9.1%	4.4%
Barclays Capital U.S. Aggregate	1.35%	78	0.2%	0.4%	2.9%	10.0%	4.7%
Barclays Capital Global Aggregate	1.04%	71	0.1%	0.4%	0.5%	5.1%	0.8%
Barclays Capital U.S. ABS	1.57%	137	0.3%	1.3%	0.8%	4.1%	1.7%
Barclays Capital U.S. MBS	1.08%	45	0.0%	0.4%	2.6%	7.2%	3.5%
Barclays Capital U.S. Corporate Investment Grade	2.75%	211	0.1%	0.1%	-2.0%	8.5%	0.3%
BAML Euro Corporate Investment Grade	1.27%	191	-0.2%	1.7%	-4.4%	-1.0%	-3.4%
Barclays Capital U.S. Corporate High Yield	7.96%	735	0.4%	0.4%	-9.2%	-2.7%	-8.2%
BAML European Currency High Yield Non-Financial	6.23%	676	0.2%	1.8%	-10.2%	-5.2%	-9.6%
CS U.S. Leveraged Loans	8.51%	821	1.0%	1.4%	-9.1%	-6.0%	-8.5%
CS Western European Leveraged Loans Non-USD	7.32%	723	0.7%	5.4%	-7.5%	-4.9%	-6.9%
JPM CEMBI Broad Diversified	5.83%	528	1.0%	4.0%	-7.2%	0.9%	-5.4%
JPM EMBI Global Diversified	6.52%	580	1.3%	3.0%	-11.0%	-2.6%	-9.4%
JPM GBI-EM Global Diversified	4.70%	N/A	0.9%	1.8%	-11.4%	-2.7%	-12.1%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,820.00	2.04%	-0.9%	2.3%	-16.0%	2.3%	-12.1%
Euro STOXX 600 (Local)	333.97	2.30%	-0.1%	0.7%	-22.5%	-10.4%	-19.7%
U.K. FTSE 100 (Local)	5,904.05	5.22%	0.9%	1.1%	-20.8%	-17.6%	-21.7%
Japan Nikkei 225 (Local)	20,267.05	2.22%	3.3%	6.4%	-14.9%	-4.4%	-14.3%
China Shanghai Composite (Local)	2,898.05	2.29%	0.7%	4.1%	-0.3%	-0.2%	-5.0%
MSCI AC World (Local)	476.76	2.66%	-0.1%	1.9%	-16.5%	-2.0%	-13.4%
MSCI Emerging Markets (Local)	909.20	3.02%	1.2%	3.3%	-13.5%	-3.1%	-12.8%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	272.90	1.5%	-2.6%	-30.7%	-34.7%	-36.8%	-37.4%
WTI Crude (\$/bbl)	25.29	5.9%	13.1%	-50.8%	-55.5%	-58.5%	-58.6%
Copper (\$/lb)	2.35	-0.1%	1.2%	-10.3%	-10.9%	-13.9%	-15.9%
Gold (\$/oz)	1,708.40	1.0%	1.7%	8.5%	16.8%	31.9%	12.8%
U.S. Dollar Index	100.24	0.2%	0.9%	1.2%	1.9%	3.0%	4.0%
Euro (USD/EUR)	1.08	0.4%	-0.6%	-0.1%	-1.5%	-3.6%	-3.4%
British Pound (USD/GBP)	1.22	-1.1%	-2.2%	-6.3%	-4.8%	-5.9%	-7.7%
Japanese Yen (Yen/USD)	107.12	1.0%	-0.6%	-2.5%	-1.5%	-1.8%	-1.4%
Chinese Yuan (CNY/USD)	7.09	0.0%	0.6%	1.6%	1.1%	3.2%	1.8%

Source: FactSet and Bloomberg. As of May 13, 2020.

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