

## Cautious Consumers Await Fourth Fiscal Stimulus Bill

### IN REVIEW

- **U.S. new home sales** rose 13.8% M/M in June, much better than expected. **Pending home sales** jumped 16.6% M/M in June.
- **Conference Board consumer confidence** fell from 98.3 in June to 92.6 in July amid weakening expectations, while sentiment on current conditions improved.
- **U.S. 2Q GDP** collapsed a record 32.9% Q/Q annualized amid lockdowns.
- **Initial claims** rose 12,000 to 1.434 million in W/E July 25. Continuing claims increased 867,000 to 17.018 million in W/E July 18, as job separations remain elevated.
- **EZ unemployment rate** held relatively steady, up from 7.7% to 7.8% in June, as furlough schemes remain effective.
- **U.K. retail sales** excluding auto fuel rose 13.5% M/M in June to near pre-pandemic levels. However, there is much differentiation, as food sales are well above pre-crisis levels, while non-food sales continue to lag.
- The **German IFO business climate survey** beat expectations, rising from 86.3 to 90.5 in July, suggesting the recovery may be picking up. However, uncertainty has led companies to consider reducing payrolls instead of hiring.
- **Germany 2Q GDP** shrank 10.1% Q/Q, but this is likely the trough.
- **China industrial profits** rose 11.5% Y/Y in June, as government infrastructure outlays were a boon.
- **Japan retail sales** jumped a better-than-expected 13.1% M/M in June, aided by stimulus checks.

### WATCH LIST

Date		Consensus		Previous
<b>U.S.</b>				
Mon 8/3	ISM Manufacturing	53.6	▲	52.6
Mon 8/3	Vehicle Sales	14.00m	▲	13.05m
Tue 8/4	Factory Orders	4.8%	▼	8.0%
Wed 8/5	MBA Mortgage Applications			-0.8%
Wed 8/5	ISM Non-Manufacturing	55.0	▼	57.1
Wed 8/5	Trade Balance	-\$50.3b	▲	-\$54.6b
Thu 8/6	Initial Claims			1434k
Fri 8/7	Change in Nonfarm Payrolls	1875k	▼	4800k
Fri 8/7	Unemployment Rate	10.5%	▼	11.1%
<b>Europe</b>				
Thu 8/6	BOE Bank Rate	0.100%	-	0.100%
Fri 8/7	Germany Industrial Production	7.2% M/M	▼	7.8% M/M
Fri 8/7	EZ Retail Sales	8.4% M/M	▼	17.8% M/M
<b>Asia Pacific</b>				
Mon 8/3	Japan 1Q GDP (final estimate)	-0.7% Q/Q	▼	-0.6% Q/Q
Mon 8/3	Caixin China Manufacturing PMI	51.2	-	51.2
Wed 8/5	Caixin China Services PMI	57.9	▼	58.4
Fri 8/7	Japan Household Spending	-8.3% Y/Y	▲	-16.2% Y/Y
Fri 8/7	China Exports	-0.9% Y/Y	▼	0.5% Y/Y
Fri 8/7	China Imports	1.9% Y/Y	▼	2.7% Y/Y

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

### U.S.

- Congress is scheduled to begin its recess on August 10 (through September 7), meaning pressure is mounting for passage of the **fourth fiscal bill** next week.
- There is rising evidence that the **July employment report** will be weak and possibly negative due to rising uncertainty, cautious consumers and greater restrictive measures; the consensus estimate is for a 1.875 million increase. If employment takes a step back, it will likely be temporary before resuming its more moderate and wavy recovery, assuming a fourth fiscal bill is passed with sufficient income support for those without work—which we will continue to monitor.

### Europe

- **Next week's BoE MPC** will remain bearish. Inflation hovers at 0.6%, well below the 2% target, and there are downside risks related to virus recovery uncertainty and Brexit. The option exists to cut the policy rate into negative territory (currently at the effective lower bound), but benefits are unclear. The BoE may choose to use this extra policy space only if necessary, and with more data in hand.

### Asia Pacific

- The **Caixin China PMIs** are expected to remain in expansion territory, but data point to a more modest pace of recovery after the release of pent-up demand.

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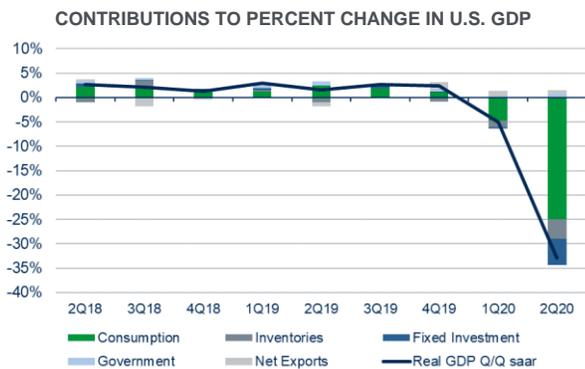
## THE HIGHLIGHTS

### U.S. Consumers Turn More Cautious

The Conference Board consumer confidence index took a bigger step back than anticipated in July. Sentiment about current conditions improved, but the expectations component regressed its progress since March, falling from 106.1 in June to 91.5 in July. Rising COVID-19 cases, greater restrictions in many states, and uncertainty around the fourth fiscal spending bill are weighing on consumer expectations of economic activity, employment and financial conditions. The impact of weaker consumer confidence has become apparent in high-frequency data, which have shown consumer spending trending sideways since mid-June. With the unemployment rate in double digits, a fourth fiscal bill is crucial to sustain income replacement and keep confidence and spending on the road to recovery.

### History Recorded: Second Quarter GDP Collapses

U.S. 2Q GDP sank 32.9% Q/Q annualized, according to the advanced estimate, as lockdowns shutdown the economy. While this is likely the trough, the collapse can now be quantified, as can the starting point for recovery.



Source: Bloomberg. As of July 30, 2020.

The collapse was led by a 34.6% Q/Q annualized contraction in consumer spending, led by declines in health care services spending, as well as clothing and footwear. Capital goods weighed on exports, while motor vehicle dealers led the decline in private inventory investment and transportation equipment dragged nonresidential fixed investment lower. Services fared much worse, accounting for over two-thirds of the decline, and will face a tough recovery.

### U.S. Housing Market Set to Sustain Strength

The U.S. housing market has rebounded since restrictions eased amid pent-up demand and record low mortgage rates, and leading indicators suggest this strength is set to continue. Accompanying home purchase applications, which are above January highs, other leading indicators such as new home sales and pending home sales rose in June. New home sales have surpassed pre-pandemic levels and are at an almost 13-year high. Separately, pending home sales jumped to their highest level since February 2006. Meanwhile, the U.S.

homeownership rate in 2Q20 rose to its highest level since 2008—while this may be distorted by lower response rates, it is clear demand is rising. Despite record unemployment, the pandemic has disproportionately affected lower-income workers, who are more likely to rent, while higher-wage workers who are more likely to own and buy homes have held up better, which is helping to support strength in the housing market. Housing is set to drive growth during this recovery, and confidence among homebuilders and consumers is strong.

### Policy

**Fiscal Stimulus:** Democrats and Republicans will negotiate the next fiscal package in the coming weeks. House Democrats passed a \$3 trillion relief bill in May. With many provisions protecting millions of unemployed expiring July 31, Senate Republicans unveiled their \$1 trillion stimulus package this week—a big difference being slashed unemployment benefits. Delays could weigh on consumer confidence, spending, forbearance and loan payments.

**The Fed:** The Federal Reserve announced it would extend several domestic emergency lending facilities that were set to expire at the end of September to the end of the year. Foreign central bank dollar swap lines and international repurchase facilities will also be extended through March of next year. While take-up on these facilities has been fairly modest to-date, it is nevertheless a bid to ensure a liquidity backstop exists amid increased uncertainty about the pandemic.

**Drug Prices:** President Trump issued four executive orders containing several previously discussed ideas about lowering prescription drug costs. Most changes would not take effect until after the election—though many are similar to what Joe Biden and other Democrats have proposed. Some specific changes relate to EpiPens and insulin, which must now be based on the lower rebated price, and allow wholesalers and pharmacies to import prescription drugs from Canada and other countries.

**Mifid II:** Changes to EU markets rules are expected to ease trading and help the region's economic recovery. These include allowing banks to combine the research and trading fees they charge asset managers when it comes to debt and small-cap stocks. Under Mifid II, the original regulation was intended to reduce conflicts of interest but was believed to curtail activity in some areas.

**Trade Deal:** At a time of tit-for-tat accusations of spying, consulate closures and tense government rhetoric, the Trump trade deal remains a key anchor between Beijing and Washington. While Chinese purchases have picked up M/M, China has so far bought about 23% of the total target for goods in 2020. Purchases increased from May's 19%, but China still needs to buy around \$130 billion this year to comply with the original trade agreement.

**EU Restrictions:** The EU moved closer to a more hawkish stance on Beijing through sanctions on China for its treatment of Hong Kong, including limiting equipment exports that could be used for repression, and is reassessing extradition arrangements following Beijing's new national security law.

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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	0 bps	-150 bps	-225 bps	-150 bps
U.S. SOFR	0.09%	-1 bps	1 bps	8 bps	-144 bps	-231 bps	-146 bps
3 Month USD Libor	0.26%	0 bps	-4 bps	-43 bps	-152 bps	-199 bps	-165 bps
3 Month Euribor	-0.46%	0 bps	-5 bps	-20 bps	-6 bps	-9 bps	-8 bps
3 Month U.S. T-Bill	0.11%	-2 bps	-3 bps	1 bps	-144 bps	-199 bps	-144 bps
2-Year U.S. Treasury	0.13%	0 bps	-3 bps	-7 bps	-129 bps	-172 bps	-144 bps
10-Year U.S. Treasury	0.58%	-2 bps	-6 bps	-5 bps	-102 bps	-148 bps	-134 bps
10-Year German Bund	-0.50%	0 bps	-3 bps	1 bps	-12 bps	-9 bps	-31 bps
10-Year U.K. Gilt	0.12%	0 bps	-4 bps	-15 bps	-43 bps	-65 bps	-70 bps
10-Year JGB	0.01%	0 bps	0 bps	6 bps	5 bps	16 bps	3 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.44%	N/A	0.2%	0.7%	0.6%	11.7%	9.6%
Barclays Capital U.S. TIPS	0.65%	N/A	0.3%	1.7%	2.8%	10.2%	8.0%
Barclays Capital U.S. Aggregate	1.10%	60	0.1%	1.3%	2.4%	10.0%	7.5%
Barclays Capital Global Aggregate	0.84%	52	0.9%	2.9%	4.8%	7.8%	6.0%
Barclays Capital U.S. ABS	0.74%	60	0.1%	0.3%	2.6%	4.9%	3.7%
Barclays Capital U.S. MBS	1.16%	61	0.0%	0.1%	0.3%	5.4%	3.6%
Barclays Capital U.S. Corporate Investment Grade	1.90%	132	0.0%	3.1%	6.5%	12.3%	8.1%
BAML Euro Corporate Investment Grade	0.61%	125	0.1%	1.3%	3.3%	-0.3%	0.1%
Barclays Capital U.S. Corporate High Yield	5.46%	494	0.6%	4.3%	10.4%	3.7%	0.3%
BAML European Currency High Yield Non-Financial	4.57%	509	0.2%	1.8%	6.8%	-0.7%	-3.2%
CS U.S. Leveraged Loans	6.50%	627	0.1%	1.8%	7.3%	-1.2%	-3.0%
CS Western European Leveraged Loans Non-USD	6.03%	597	0.1%	0.6%	6.0%	-1.5%	-2.8%
JPM CEMBI Broad Diversified	4.64%	416	0.4%	2.0%	9.4%	5.0%	1.9%
JPM EMBI Global Diversified	5.13%	443	0.3%	3.3%	14.5%	2.7%	0.5%
JPM GBI-EM Global Diversified	4.42%	N/A	0.3%	3.3%	10.2%	-0.2%	-3.7%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,258.44	1.79%	-0.5%	6.8%	11.4%	10.0%	2.0%
Euro STOXX 600 (Local)	367.45	2.07%	-1.6%	2.1%	5.9%	-6.0%	-11.6%
U.K. FTSE 100 (Local)	6,131.46	4.84%	-1.2%	-1.5%	0.3%	-20.2%	-18.7%
Japan Nikkei 225 (Local)	22,397.11	2.22%	-1.6%	1.8%	13.3%	3.6%	-5.3%
China Shanghai Composite (Local)	3,294.55	2.17%	-1.2%	11.2%	16.7%	12.0%	8.0%
MSCI AC World (Local)	555.47	2.20%	-0.6%	6.6%	11.4%	6.6%	-0.6%
MSCI Emerging Markets (Local)	1,086.62	2.43%	0.9%	8.5%	17.2%	10.9%	2.9%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	343.38	-0.1%	5.8%	39.6%	-13.9%	-18.0%	-21.3%
WTI Crude (\$/bbl)	41.28	-1.4%	4.1%	174.5%	-22.5%	-27.4%	-32.5%
Copper (\$/lb)	2.91	-0.1%	8.4%	22.4%	13.8%	7.2%	4.0%
Gold (\$/oz)	1,950.90	5.3%	10.1%	14.5%	24.0%	37.5%	28.8%
U.S. Dollar Index	93.45	-1.6%	-4.2%	-6.1%	-4.6%	-4.7%	-3.0%
Euro (USD/EUR)	1.18	1.6%	4.7%	8.5%	7.1%	5.8%	4.9%
British Pound (USD/GBP)	1.30	1.8%	5.7%	4.2%	-0.3%	6.0%	-2.1%
Japanese Yen (Yen/USD)	105.11	-1.9%	-2.4%	-1.4%	-3.7%	-3.4%	-3.3%
Chinese Yuan (CNY/USD)	7.00	0.0%	-1.1%	-1.1%	1.0%	1.6%	0.5%

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

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