

## No Debating the Economic Recovery

### IN REVIEW

- **U.S. core capital goods orders** rose 1.8% M/M in August, besting pre-crisis levels, suggesting a capex rebound will boost 3Q20 GDP.
- **Consumer confidence** beat expectations, rising from 86.3 to 101.8 in September. While there is still room for improvement, a boost to labor market and financial prospects is a boon for near-term consumer spending.
- **U.S. personal income** fell 2.7% M/M in August as extra \$600/week UI benefits ended. **Consumer spending** rose 1% M/M. The **core PCE deflator** rose from 1.4% Y/Y to 1.6% Y/Y in August.
- **Initial claims** slid 36,000 to 837,000 in W/E September 26. Continuing claims fell 980,000 to 11.8 million in W/E September 19 as regular benefits start to exhaust. PEUC claims (13-week extension) rose 197,000 in W/E September 12.
- **U.S. 2Q20 GDP** was upwardly revised from -31.7% Q/Q annualized to -31.4%, according to the final estimate. PCE was upwardly revised, partially offset by lower exports and nonresidential fixed investment.
- **EZ unemployment rate** ticked up 0.1% to 8.1% in August, the fourth-consecutive increase, and was greatly moderated by the extensive use of furlough schemes.
- **China PMIs** were better-than-expected in September as China's recovery broadens.
- **Japan's industrial production** rose for a third-consecutive month in August, suggesting a rebound in manufacturing.

### WATCH LIST

Date		Consensus		Previous
<b>U.S.</b>				
Mon 10/5	ISM Services Index	56.3	▼	56.9
Tue 10/6	Trade Balance	-\$65.6B	▼	-\$63.6B
Tue 10/6	JOLTS Job Openings	6500	▼	6618
Wed 10/7	FOMC Meeting Minutes	--		--
Wed 10/7	Consumer Credit	\$15.0B	▲	\$12.25B
Wed 10/7	Vice Presidential Debate	--		--
Thu 10/8	Initial Claims			837k
<b>Europe</b>				
Mon 10/5	EZ Retail Sales			-1.3% M/M
Mon 10/5	EZ Sentix Investor Confidence			-8.0
Wed 10/7	Germany Industrial Production	1.0% M/M	▼	1.2% M/M
Thu 10/8	ECB Minutes	--		--
Fri 10/9	U.K. Industrial Production			5.2% M/M
<b>Asia Pacific</b>				
Thu 10/8	Caixin China Services PMI	54.2	▲	54.0
Fri 10/9	Japan Household Spending	-6.9% Y/Y	▲	-7.6% Y/Y

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

#### U.S.

- As the U.S. labor market continues its impressive recovery, we look for the **JOLTS job openings** report on Tuesday to see how job openings—rather than simply being recalled back into the same position—and hiring recovered in August, following an impressive jump in openings in July.
- The **FOMC Meeting Minutes** for September will be released on Wednesday, October 7 and should provide greater detail on changes to forward guidance, information surrounding average inflation targeting, and new economic projections the FOMC previously discussed at its September 16 press conference.

#### Europe

- **German industrial production** numbers for August will be released on Wednesday, October 7. This will be an important gauge of the health of the recovery during the summer in the biggest EU economy.

#### Asia Pacific

- Eyes are on the **Caixin China Services PMI**, which will be released on Thursday, October 8, to measure the magnitude of recovery in the services sector. The services sector has bared the brunt of the crisis and retail sales have been lagging. However, the official China PMI the previous week beat expectations, suggesting the pickup in services could be mounting.

## THE HIGHLIGHTS

### Pent-Up Savings Fuels U.S. Consumer Spending in August

U.S. personal income fell 2.7% M/M in August amid expiring extra \$600/week unemployment insurance in August, but despite an encouraging rise in spending amid a savings drawdown, the pace could slow without additional fiscal support. While the labor market recovery led compensation of employees to increase, it is still down 3.6% from February and was not enough to offset the reduction in government aid. Despite a pull-back in income, consumer spending rose 1% M/M in August, as consumers spent their elevated savings. The rise in consumer spending was led by a rebound in services most impacted by lockdowns, and a more modest—and decelerating—rise in goods. While services led gains, spending on services is down 7.4% from February while goods is still up 5.6%.



Source: Bloomberg. As of October 1, 2020.

The personal savings rate fell from 17.7% in July to a still-elevated 14.1% in August. While the elevated savings rate should buffer spending in coming months, the pace of gains will likely moderate without income replacement.

### PMIs Signal Rebound

**Official China PMIs** were better-than-expected in September and showed the recovery is broadening. Within the manufacturing PMI, which rose from 51.0 to 51.5, new export orders notably increased into expansionary territory as external demand improves. Improving global demand will provide additional aid to China's recovery, which continues to lead. The services PMI was a positive beat. While the service sector and retail sales had been lagging in China's recovery, the jump from 55.2 to 55.9—above that of the manufacturing PMI—suggests that the recovery in services could be picking up. Eyes will remain on China's services and consumer demand recovery. The **U.S. ISM manufacturing index** was encouraging despite falling 0.6 points to a still-expansionary 55.4 in September. Employment rose from 46.4 to 49.6—the strongest since July 2019. New orders and production moderated slightly and remain strong at 60.2 and 61, respectively.

### Policy

**U.S. Fiscal Stimulus:** Chances of a new fiscal stimulus package ahead of the election are still alive. Treasury Secretary Steven Mnuchin raised the White House's offer to just over \$1.6 trillion, up from \$1.5 trillion, including \$250 billion for state and local governments. It also features \$400/week of

additional unemployment benefits, up from \$300/week, but still below the \$600 Democrats sought. Mnuchin doesn't expect any stand-alone relief for airlines, though more money may be critical as the industry is vulnerable to layoffs.

**Brexit:** European negotiators are prepared to start drafting a trade agreement with the U.K. as Brussels is believed to have dropped demands to address all outstanding areas of dispute before a final agreement is reached. In return, the U.K. is expected to engage in detailed discussions on post-Brexit fishing quotas and the government's future subsidy policy. In other news, British MPs approved the Internal Market Bill, giving ministers power to break its divorce bill with the EU. The bill governs the trading relationship between England, Scotland, Wales and Northern Ireland after the Brexit transition ends. It does include clauses allowing the U.K. to override parts of the Northern Ireland protocol. Passage by the House of Lords is not expected until December. U.K. Trade Secretary Liz Truss also wants a U.S. trade deal by mid-2021. While the U.S. remains a top trading partner with the U.K., this deal is critical if Brexit negotiations end poorly.

**U.S. Chip Making:** The U.S. is discussing \$25 billion in subsidies to encourage companies to return chip production facilities back to the U.S. amid rising competition with China. The federal government would provide up to \$3 billion per investment project to semiconductor factories and research facilities. Congress is also considering providing the Department of Defense with \$5 billion to manufacture chips specifically used in national security and another \$5 billion for research and development. State and municipal governments will likely offer chipmakers tax breaks and other incentives.

**EU Tariffs:** The World Trade Organization recently ruled that the EU can now impose tariffs on about \$4 billion of U.S. exports annually in retaliation for government aid to Boeing deemed illegal by the WTO—one-third of the EU's original \$12 billion request and half the \$7.5 billion retaliation judgment the WTO granted the U.S. last year in a parallel dispute against Boeing's European rival, Airbus. A decision will be published in coming weeks, and the ruling marks a milestone in the WTO's longest-running dispute that could affect any future trade agreements between the EU and U.S. Awarding the EU less than the U.S. gives Washington some leverage in negotiations to resolve the case.

**EU Recovery fund:** The final stage of agreement on the EU recovery fund is being held up by a rule of law mechanism in the EU budget, which would enable Brussels to delay disbursement of funds if it thought a member state had broken the law. Germany proposed to suspend payouts of the budget if a weighted majority of nations assessed a rule of law breach. The proposal is seen as watering-down the approval conditions for EU funding with respect to the rule of law to reach a compromise to unlock the bloc's €750 billion (\$881 billion) coronavirus recovery fund. The move has faced backlash from several northern European member states.

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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	0 bps	-175 bps	-150 bps
U.S. SOFR	0.08%	2 bps	1 bps	-2 bps	7 bps	-227 bps	-147 bps
3 Month USD Libor	0.23%	1 bps	-1 bps	-7 bps	-120 bps	-185 bps	-167 bps
3 Month Euribor	-0.50%	0 bps	-2 bps	-8 bps	-15 bps	-8 bps	-12 bps
3 Month U.S. T-Bill	0.10%	0 bps	0 bps	-6 bps	4 bps	-172 bps	-145 bps
2-Year U.S. Treasury	0.13%	-1 bps	-2 bps	-2 bps	-10 bps	-148 bps	-144 bps
10-Year U.S. Treasury	0.68%	0 bps	-5 bps	3 bps	2 bps	-100 bps	-124 bps
10-Year German Bund	-0.53%	-1 bps	-11 bps	-5 bps	2 bps	6 bps	-34 bps
10-Year U.K. Gilt	0.22%	1 bps	-9 bps	7 bps	-9 bps	-24 bps	-60 bps
10-Year JGB	0.02%	2 bps	-3 bps	0 bps	3 bps	24 bps	4 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.48%	N/A	-0.1%	0.4%	0.2%	8.0%	8.9%
Barclays Capital U.S. TIPS	0.68%	N/A	0.3%	0.2%	3.0%	10.1%	9.2%
Barclays Capital U.S. Aggregate	1.18%	60	-0.1%	0.2%	0.6%	7.0%	6.8%
Barclays Capital Global Aggregate	0.90%	50	0.1%	-0.2%	2.7%	6.2%	5.7%
Barclays Capital U.S. ABS	0.54%	41	0.0%	0.2%	0.8%	4.5%	4.1%
Barclays Capital U.S. MBS	1.29%	61	0.1%	-0.1%	0.1%	4.4%	3.6%
Barclays Capital U.S. Corporate Investment Grade	2.01%	136	-0.5%	0.1%	1.5%	7.9%	6.6%
BAML Euro Corporate Investment Grade	0.53%	118	0.0%	0.3%	2.2%	0.2%	0.7%
Barclays Capital U.S. Corporate High Yield	5.77%	517	0.2%	-1.0%	4.6%	3.3%	0.6%
BAML European Currency High Yield Non-Financial	4.39%	491	-0.5%	-0.6%	2.4%	-0.6%	-2.6%
CS U.S. Leveraged Loans	6.02%	579	-0.3%	0.8%	4.0%	0.9%	-0.8%
CS Western European Leveraged Loans Non-USD	5.55%	549	-0.2%	1.0%	2.7%	-0.2%	-0.8%
JPM CEMBI Broad Diversified	4.59%	404	-0.2%	-0.4%	2.7%	4.8%	2.6%
JPM EMBI Global Diversified	5.15%	432	0.0%	-1.7%	2.0%	1.3%	-0.5%
JPM GBI-EM Global Diversified	4.48%	N/A	0.0%	-1.9%	0.0%	-1.0%	-6.3%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,363.00	1.72%	3.9%	-4.0%	8.9%	15.1%	5.6%
Euro STOXX 600 (Local)	361.09	2.13%	0.4%	-2.1%	0.2%	-8.2%	-13.2%
U.K. FTSE 100 (Local)	5,866.10	4.72%	-0.6%	-1.6%	-4.9%	-20.8%	-22.2%
Japan Nikkei 225 (Local)	23,185.12	2.22%	-0.7%	1.3%	4.0%	6.6%	-2.0%
China Shanghai Composite (Local)	3,218.05	2.20%	-1.9%	-5.5%	7.8%	10.8%	5.5%
MSCI AC World (Local)	565.15	2.08%	2.4%	-3.0%	6.7%	10.5%	1.6%
MSCI Emerging Markets (Local)	1,082.00	2.28%	0.5%	-3.3%	8.4%	12.9%	2.9%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	350.18	0.7%	-2.7%	7.6%	37.5%	-13.2%	-19.7%
WTI Crude (\$/bbl)	40.21	0.7%	-6.4%	2.4%	185.2%	-25.7%	-34.2%
Copper (\$/lb)	3.03	1.2%	1.1%	11.6%	40.1%	18.1%	8.4%
Gold (\$/oz)	1,886.90	0.7%	-3.6%	6.7%	16.6%	27.0%	24.6%
U.S. Dollar Index	93.89	-0.5%	1.6%	-3.6%	-5.3%	-5.5%	-2.6%
Euro (USD/EUR)	1.17	0.5%	-1.4%	4.4%	6.3%	7.6%	4.5%
British Pound (USD/GBP)	1.29	1.3%	-3.0%	4.6%	4.2%	4.9%	-2.4%
Japanese Yen (Yen/USD)	105.53	0.2%	0.2%	-2.2%	-2.4%	-2.4%	-2.9%
Chinese Yuan (CNY/USD)	6.81	0.3%	-0.8%	-3.7%	-4.0%	-4.6%	-2.2%

Source: FactSet and Bloomberg. As of September 30, 2020.

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