

## Deal or No Deal?

### IN REVIEW

- **ISM services index** rose 0.9 points to 57.8 in September, as the services sector continues to recover. New orders saw faster growth but comments were mixed, signaling caution going into winter. The employment subindex rose, but the increase was due entirely to fewer job cuts, rather than greater hires.
- **JOLTS job openings** took a modest step back in August, sliding from 6.7 million to 6.49 million amid exhaustion of PPP loans and uncertainty on fiscal support. This suggests that the labor market recovery may continue to moderate.
- **Initial claims** remained elevated in W/E October 3. Continuing claims fell a solid 1 million in W/E September 26, in part due to the exhausting of regular benefits. PEUC claims (13-week extension) rose 153,712 in W/E September 19.
- **EZ inflation** continued trending downward, reaching -0.3% Y/Y in September. Core inflation, excluding food and energy, also declined to 0.2%, from 0.5% in August.
- **EZ retail sales** surprised on the upside, growing 4.4% M/M (expected 2.4%) and 3.7% Y/Y.
- **Germany industrial production** contracted 0.2% M/M in August, down 10% Y/Y, pointing to a moderating recovery in Europe (*see Highlights for details*).
- **Japan economy watchers survey** improved sharply in September. The future conditions Diffusion Index (DI), an indicator of future growth, rose to its highest level since February 2019.

### WATCH LIST

Date		Consensus		Previous
<b>U.S.</b>				
Mon–Sun	IMF World Economic Outlook	—		—
Tue 10/13	NFIB Small Business Optimism	101.2	▲	100.2
Tue 10/13	Consumer Price Index	0.2% M/M	▼	0.4% M/M
Wed 10/14	Producer Price Index	0.1% M/M	▼	0.3% M/M
Thu 10/15	Initial Claims			840K
Thu 10/15	Empire Manufacturing	12.0	▼	17.0
Thu 10/15	Philadelphia Fed Business Outlook	14.5	▼	15.0
Thu 10/15	Second Presidential Debate (tentative)	—		—
Fri 10/16	Retail Sales	0.7% M/M	▲	0.6% M/M
Fri 10/16	Industrial Production	0.6% M/M	▲	0.4% M/M
Fri 10/16	U. of Michigan Sentiment (Prelim)	80.3	▼	80.4
<b>Europe</b>				
Tue 10/13	German ZEW Survey Expectations	74.8	▼	77.4
Tue 10/13	U.K. Unemployment Rate	4.3%	▲	4.1%
Tue 10/13	U.K. Claimant Count Rate			7.6%
Wed 10/14	EZ Industrial Production	0.2% M/M	▼	4.1% M/M
Thu–Fri	EU Council Meeting	—		—
<b>Asia Pacific</b>				
Mon 10/12	Japan Producer Price Index	-0.5% Y/Y	—	-0.5% Y/Y
Mon 10/12	Japan Core Machine Orders	-1.0% M/M	▼	6.3% M/M
Tue 10/13	China Exports	10.0% Y/Y	▲	9.5% Y/Y
Tue 10/13	China Imports	-0.3% Y/Y	▲	-2.1% Y/Y
Thu 10/15	China Producer Price Index	-1.8% Y/Y	▲	-2.0% Y/Y
Thu 10/15	China Consumer Price Index	2.0% Y/Y	▼	2.4% Y/Y

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

### U.S.

- **Inflation data** is expected to continue to remain soft, aligning with the FOMC's projection for remaining at their zero lower bound through 2023.
- **Retail sales** are expected to post another modest rise in September, aided by the labor market recovery and consumers spending pent-up savings. Meanwhile, eyes are on the October preliminary **University of Michigan consumer sentiment**.

### Europe

- Brexit was supposed to take top billing when **the EU Council meets October 15 and 16 in Brussels**, but agreement delays have made it clear that negotiations will continue, making COVID and the 2050 carbon neutrality agenda the new priority.

### Asia Pacific

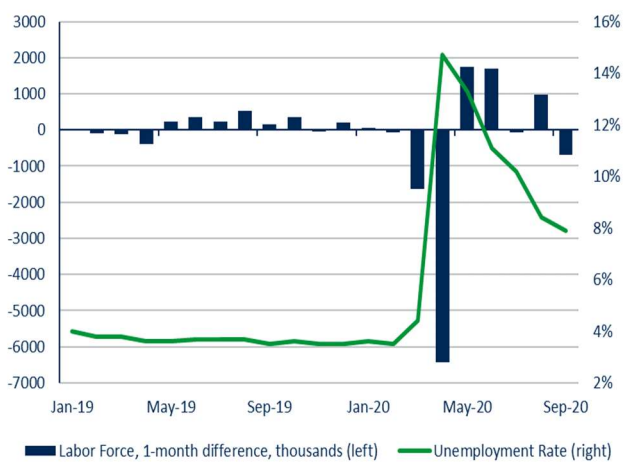
- **China and Japan inflation data** are expected to remain contained in September. **China exports** will likely increase in September as external demand improves.

## THE HIGHLIGHTS

### U.S. Employment Gains Abate in September

The pace of U.S. job gains continued to moderate in September, as much of the easy job gains have been attained, and the education system played a major role. Nonfarm payrolls rose 661,000 in September, underperforming an expected 859,000 increase. Employment gains were fairly broad-based across sectors, though government weighed on the headline, with state and local government education employment falling by 280,500.

U.S. UNEMPLOYMENT RATE VS. LABOR FORCE



Source: Bloomberg. As of October 8, 2020.

The unemployment rate fell from 8.4% to 7.9% while the labor force participation rate fell 0.3 percentage points to 61.4%—compared with 63.4% in February. If the labor force hadn't contracted, the unemployment rate would have slid only 0.1 percentage points. The labor force decline was greater for women than men, particularly those ages 35-44—with participation rate of women falling below the crisis-low in May. Much of this can be traced to lack of childcare, as many schools remain remote. While this has wide implications, it shows that until there is adequate childcare—much of which depends on the education system—the recovery here cannot be complete.

### German Industrial Production

After staging a spectacular rebound out of lockdowns in June and July, activity has shown signs of moderation in Europe. Evidence of this was provided by German industrial production, which contracted for the first time since May (-0.2% M/M) in August. While a normalization was expected after record-breaking increases in June and July, a contraction was not. Industrial production in the EU's biggest economy remains exactly 10% below last year's levels. More worryingly, high-frequency data show mobility and shopping area foot traffic softening in September, possibly due to a return of COVID contagion. The recovery seems to be progressing but remains fragile.

### FOMC Minutes

Minutes from the September FOMC meeting highlighted that outcome-based forward guidance was not an unconditional commitment to any particular path for policy rates, stressing the need to maintain some flexibility despite specifying the criteria for any future hike. Moreover, while the future of its asset purchase program was brought up, there was no commitment on whether the size or weighted-average maturity of purchases would be imminently changed. The program may be assessed at coming meetings as a way to support any slowing of the recovery, especially as additional fiscal aid remains part of the Fed's baseline forecast.

### Policy

**U.S. Fiscal Stimulus:** Though President Trump said he was scrapping pre-election talks on a fifth coronavirus relief bill, House Speaker Nancy Pelosi and Treasury Secretary Steven Mnuchin remain in contact. Both sides agreed to continue discussions, with the administration's focus on a standalone airline-relief bill. The market also continues to expect additional fiscal support, with a sizable package likely if Democrats sweep in November. Furloughing of employees at U.S. airlines will likely continue without further legislation.

**Brexit:** Prime Minister Boris Johnson and European Commission President Ursula von der Leyen agreed to additional Brexit negotiations after assessing that progress justifies a last push to reach a deal on trade and security. An agreement this month would leave little time for ratification by EU national parliaments before the December 31 deadline for a final Brexit trade deal.

**China-EU Relations:** EU leaders will hold a special summit in Berlin on November 16 to discuss the complex relationship between Europe and China, as member nations struggle to unite behind a more assertive stance toward Beijing; several members have expressed similar concerns to the U.S. on matters including Hong Kong and minorities. Germany is especially eager to clinch a EU-China investment deal by year-end, and the Berlin summit could help unite the European position. British Finance Minister Rishi Sunak this week called for a more transactional approach to the Sino-U.K. relationship.

**Tech:** Following a 16-month investigation into competitive practices at some of America's largest technology companies (Amazon, Alphabet, Apple and Facebook), House Democrats released a widely anticipated report that concluded the four big tech companies enjoy monopoly power and Congress should implement changes to antitrust laws to reverse this concentration. Proposed changes include requiring online marketplaces to be independently run businesses (structural separation), prohibiting online platforms from giving themselves preferential treatment, requiring platforms to make their services compatible with competing networks, and shifting the burden of proof on acquisitions. These aggressive measures lack Republican support and the market still seems more focused on leverage to structural growth themes.

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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	0.09%	1 bps	0 bps	-1 bps	8 bps	-174 bps	-146 bps
3 Month USD Libor	0.23%	0 bps	-2 bps	-4 bps	-109 bps	-178 bps	-168 bps
3 Month Euribor	-0.51%	-1 bps	-3 bps	-7 bps	-22 bps	-9 bps	-13 bps
3 Month U.S. T-Bill	0.10%	0 bps	-1 bps	-5 bps	-4 bps	-162 bps	-145 bps
2-Year U.S. Treasury	0.15%	2 bps	-1 bps	-1 bps	-14 bps	-131 bps	-142 bps
10-Year U.S. Treasury	0.79%	11 bps	7 bps	13 bps	6 bps	-76 bps	-113 bps
10-Year German Bund	-0.49%	3 bps	-2 bps	-7 bps	-15 bps	9 bps	-31 bps
10-Year U.K. Gilt	0.30%	8 bps	5 bps	11 bps	-7 bps	-15 bps	-52 bps
10-Year JGB	0.03%	1 bps	0 bps	0 bps	3 bps	26 bps	5 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.55%	N/A	-0.7%	-0.4%	-0.7%	6.4%	8.1%
Barclays Capital U.S. TIPS	0.77%	N/A	-0.4%	0.0%	2.0%	8.7%	8.8%
Barclays Capital U.S. Aggregate	1.22%	56	-0.3%	-0.3%	-0.1%	6.0%	6.4%
Barclays Capital Global Aggregate	0.92%	47	-0.2%	-0.2%	2.1%	5.4%	5.6%
Barclays Capital U.S. ABS	0.57%	41	0.0%	0.1%	0.7%	4.2%	4.1%
Barclays Capital U.S. MBS	1.30%	54	0.0%	-0.1%	0.1%	4.1%	3.6%
Barclays Capital U.S. Corporate Investment Grade	2.02%	128	-0.1%	-0.4%	0.3%	7.1%	6.5%
BAML Euro Corporate Investment Grade	0.47%	111	0.3%	0.3%	2.0%	0.5%	1.0%
Barclays Capital U.S. Corporate High Yield	5.42%	479	1.0%	0.1%	4.3%	4.7%	1.6%
BAML European Currency High Yield Non-Financial	4.16%	467	0.9%	-0.2%	2.8%	1.1%	-1.7%
CS U.S. Leveraged Loans	5.95%	569	10.0%	13.9%	-1.0%	1.7%	-0.5%
CS Western European Leveraged Loans Non-USD	5.44%	537	8.6%	15.7%	-1.0%	0.3%	-0.4%
JPM CEMBI Broad Diversified	4.57%	392	0.3%	-0.5%	2.6%	4.8%	2.9%
JPM EMBI Global Diversified	5.09%	415	0.6%	-2.2%	1.7%	1.6%	0.1%
JPM GBI-EM Global Diversified	4.49%	N/A	0.6%	-1.4%	0.6%	-1.7%	-5.8%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,419.45	1.69%	1.7%	-0.1%	9.2%	18.6%	7.4%
Euro STOXX 600 (Local)	365.45	2.13%	1.2%	-0.7%	-1.0%	-4.6%	-12.1%
U.K. FTSE 100 (Local)	5,946.25	4.47%	1.4%	0.1%	-3.9%	-17.4%	-21.2%
Japan Nikkei 225 (Local)	23,422.82	2.22%	1.0%	1.4%	3.6%	9.6%	-1.0%
China Shanghai Composite (Local)	3,218.05	2.20%	-1.9%	-5.5%	7.8%	10.8%	5.5%
MSCI AC World (Local)	575.64	2.05%	1.8%	0.8%	6.2%	14.3%	3.5%
MSCI Emerging Markets (Local)	1,107.90	2.27%	2.0%	0.7%	3.3%	16.2%	5.0%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	353.48	0.9%	1.8%	5.5%	30.6%	-11.5%	-19.0%
WTI Crude (\$/bbl)	39.96	-0.2%	0.7%	-1.6%	69.8%	-24.3%	-34.6%
Copper (\$/lb)	3.03	0.2%	-0.4%	8.9%	32.6%	18.0%	8.6%
Gold (\$/oz)	1,884.50	-0.1%	-2.2%	5.3%	14.3%	25.5%	24.4%
U.S. Dollar Index	93.63	-0.3%	1.0%	-3.4%	-6.3%	-5.4%	-2.9%
Euro (USD/EUR)	1.18	0.3%	-0.5%	4.2%	8.1%	7.0%	4.8%
British Pound (USD/GBP)	1.29	-0.2%	-2.1%	2.6%	4.8%	4.7%	-2.6%
Japanese Yen (Yen/USD)	106.03	0.5%	-0.2%	-1.4%	-2.7%	-0.9%	-2.4%
Chinese Yuan (CNY/USD)	6.81	0.0%	-0.3%	-3.0%	-3.5%	-4.6%	-2.2%

Source: FactSet and Bloomberg. As of October 7, 2020.

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