The Blue Wave Receded Before Reaching Shore

IN REVIEW

- **U.S. personal income** rose 0.6% M/M in September amid executive order payments and labor market recovery. Greater income and spending of pent-up savings led **consumer spending** to rise 1.4% M/M. The **personal savings rate** edged lower from 14.8% to 14.3%.
- **Initial claims** remained elevated, edging lower just 7,000 to 751,000 in W/E October 31. Continuing claims fell 538,000 to 7.285 million in W/E October 24, due in part to the exhausting of regular benefits as some shift to the 13-week extension.
- **EA 3Q20 GDP** beat expectations, rising 12.7% Q/Q. Of the four major EA economies, Italy, Germany and France are about 4-5% below 4Q19 levels; Spain lags 9% below due to a larger reliance on tourism. Q4 EA GDP is likely to contract with more COVID cases and restrictions.
- **EZ inflation** remained subdued at -0.3% Y/Y in October (according to flash estimates). Core inflation, the measures most closely followed by the ECB, remained stable at +0.2% Y/Y. While one-offs (e.g. VAT cuts) are exerting downward pressures, demand weakness is doing the same.
- **China PMIs** showed a continued strong economic recovery.
- **South Korea exports** fell 3.6% Y/Y in October, partially due to fewer calendar days compared with a year ago and a longer Golden Week holiday in China. Demand for semiconductors and a strong China rebound will aid the export recovery, but the pace may slow amid greater COVID cases in Europe and the U.S.

WATCH LIST

Date		Consensus		Previous
U.S.				
Tue 11/10	NFIB Small Business Optimism	104.2	▲	104.0
Tue 11/10	JOLTS Job Openings	6500	▲	6493
Thu 11/12	Consumer Price Index	0.2% M/M	-	0.2% M/M
Thu 11/12	Initial Claims			751k
Fri 11/13	Producer Price Index	0.2% M/M	▼	0.4% M/M
Fri 11/13	U. of Michigan Sentiment (Prelim)	82.0	▲	81.8
Europe				
Mon 11/9	EZ Sentix Investor Confidence			-8.3
Tue 11/10	German ZEW Survey Expectations	45.0	▼	56.1
Tue 11/10	U.K. Claimant Count Rate			7.6%
Tue 11/10	U.K. Unemployment Rate	4.7%	▲	4.5%
Tue 11/12	U.K. 3Q GDP (Prelim)	15.8% Q/Q	▲	-19.8% Q/Q
Thu 11/12	EZ Industrial Production	0.9% M/M	▲	0.7% M/M
Thu 11/12	U.K. Industrial Production			0.3% M/M
Asia Pacific				
Sat 11/7	China Exports	8.9% Y/Y	▼	9.9% Y/Y
Sat 11/7	China Imports	8.8% Y/Y	▼	13.2% Y/Y
Tue 11/10	China Consumer Price Index	0.8% Y/Y	▼	1.7% Y/Y
Tue 11/10	China Producer Price Index	-1.9% Y/Y	▲	-2.1% Y/Y
Thu 11/12	Japan Core Machine Orders	-13.1% Y/Y	▲	-15.2% Y/Y

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

U.S.

- We continue to watch the unfolding **election results** amidst narrowing margins. If court fights ensue and the timeline until an official victor is declared lengthens, the longer-term damage to confidence in U.S. institutions may prove lasting. In the near term, however, the chances for a sizeable fiscal package remain high.
- **Preliminary consumer sentiment** for November will be released Friday, November 13 and should give a glimpse into how election results and the lack of a Phase Four deal are impacting the U.S. consumer.

Europe

- **Brexit negotiations** continue. Both the EU and the U.K. expressed confidence in the possibility of a deal by mid-month. As ever with Brexit, deadlines remain pretty elusive, however. More details are included in the Policy section on page 2.

Asia Pacific

- **China trade data** for October is expected to show continued recovery amid a broadening economic recovery within China and a rebound in global trade. However, higher COVID cases and restrictions in Europe and the U.S. threaten to slow the export recovery in the months ahead.

THE HIGHLIGHTS

U.S. 2020 Election

Joe Biden and Kamala Harris reached the 270 electoral votes needed to claim victory on November 5. While the Senate still seems favored to remain in Republican control, it is not certain given runoff races in Georgia slotted for January 5. While Biden can now claim victory, Trump is seeking every avenue to dispute the results, which may lengthen the time until there is a secure election result. If this continues for weeks, the longer-term damage to confidence in U.S. institutions may prove lasting. While anything is possible, it seems most likely that Biden will remain the victor. That said, there are different policy scenarios investors should prepare for pending Senate results. If the Senate remains in Republican control, this would significantly reduce the likelihood of tech regulations, drug pricing action, and the public option; it would also likely take tax increases off the table. A Biden White House and Republican Senate appears favorable for financial markets (though not necessarily to households, which may see more limited stimulus), as Biden would reduce uncertainty, particularly around tariffs and trading relationships. But a Republican Senate would limit a tax overhaul and tech and health care regulations. On the other hand, if Democrats claims control—possibly with the help of a tie-breaking VP vote—this would allow for passage of a watered-down Democratic agenda with greater stimulus expected.

Overall, chances of a sizable fiscal package remain high, as both parties acknowledge more support is needed. However, until election results are clear, it is likely stimulus will remain on hold. Overall, financial markets are set to continue being supported by the Fed.

U.K. Stimulus Flashing Green

Monetary and fiscal policymakers moved in lockstep on Thursday to push more stimulus into the economy as lockdowns were imposed. The **Bank of England** (BoE) approved £150 billion more for U.K. sovereign bond purchases (above the expected £100 billion). The Committee will also increase the pace of purchases if market functioning worsens. The BoE left the policy interest rate unchanged at 0.1%. Sterling reacted positively, gaining on the dollar and the euro. Following this announcement, U.K. Chancellor Rishi Sunak extended **furlough schemes** to March to protect jobs through winter, meaning the government will pay up to 80% of wages, and self-employed grant will be up to 80% of profits to £7,500. Upfront guarantee funding for devolved administrations will increase by £2 billion to £16 billion and £500 million to support local public health.

China & U.S. PMIs

U.S. ISM: The ISM surveys remained in expansionary territory but pointed to much differentiation between services and manufacturing. The **ISM services index** showed a slowing pace of improvement in employment, orders and business activity sentiment in October. Respondents remained "cautiously optimistic," though uncertainty surrounding rising COVID cases remained prominent, as the services sector stands to feel a bigger adverse impact than manufacturing. Conversely, the ISM manufacturing index expanded at a faster clip in October, rising from 55.4 to 59.3, showing manufacturing is more resilient amid rising cases. Every sub-component rose over the month. Low customer inventories, order backlogs and greater new orders position manufacturing well to increase output over the months ahead. **China PMIs**: The story was slightly different in China—where the virus is relatively contained—as both the official and Caixin services PMIs expanded at a faster clip in October. Meanwhile the official manufacturing PMI held relatively steady—edging down just 0.1 ppt to 51.4. The Golden Week holiday in China typically leads the manufacturing PMI to decline between September and October, however the impact this year was much smaller than usual despite a longer holiday break. On the other hand, the Golden Week holiday may have provided support to the non-manufacturing index via greater consumer spending on services. Overall, China's economic recovery continues to strengthen and broaden, which lowers the odds of additional fiscal policy support this year.

U.S. Productivity Strong but Moderating

Following a record 10.6% jump in 2Q20, U.S. nonfarm productivity moderated to a still-elevated pace of 4.9% Q/Q annualized in the third quarter; the second-quarter surge was a result of employment falling more sharply than output. In the third quarter, the output jump was accompanied by a significant rise in hours worked. During the early phase of a recovery, productivity growth usually spikes, and this recovery is following suit. Quarterly productivity data remains volatile, though the underlying trend will likely ease in the near-term. It will likely take some time before any long-term shift in the productivity trend following the crisis becomes apparent.

Policy

Brexit: U.K. and EU officials may break their eight-month trade deal deadlock by mid-month, but cautioned that negotiations could breakdown. EU fishing vessel access to U.K. waters would help their efforts. Expect talks to resume this weekend in the U.K. Any trade deal will not cover services, including financial services, and would not eliminate the need for border checks, paperwork accompanying goods in transit, and delays. Trade experts warn that EU-U.K. trade will be affected no matter what happens.

China Tension: Australia stopped sending various commodities to China after new Chinese customs inspections were imposed on select products; Australian officials are looking for clarification from Beijing. This latest China trade salvo follows Canberra's calls for an investigation into coronavirus origins. China earlier this year imposed tariffs on Australian barley over allegations from Beijing of Australia's aggressive use of anti-dumping measures against Chinese steel and aluminum. China indicated a ban on wine, coal, cotton, lobster, timber and barley could be enforced this week; copper and sugar may be added. The bans do not cover materials such as iron ore or natural gas that could damage China's own economy.

OPEC: Additional oil cuts are one of several options being considered by the alliance. OPEC + is increasingly likely to delay output increases as rising COVID-19 cases in the West and European lockdowns are impacting demand. Initially reluctant, Russia now appears open to keeping curbs in place.

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	-150 bps	-150 bps
U.S. SOFR	0.10%	1 bps	0 bps	0 bps	7 bps	-148 bps	-145 bps
3 Month USD Libor	0.23%	2 bps	0 bps	-2 bps	-27 bps	-168 bps	-168 bps
3 Month Euribor	-0.52%	-1 bps	-1 bps	-5 bps	-23 bps	-12 bps	-13 bps
3 Month U.S. T-Bill	0.11%	1 bps	1 bps	0 bps	0 bps	-143 bps	-144 bps
2-Year U.S. Treasury	0.15%	0 bps	2 bps	4 bps	-2 bps	-144 bps	-142 bps
10-Year U.S. Treasury	0.77%	-2 bps	7 bps	26 bps	13 bps	-102 bps	-115 bps
10-Year German Bund	-0.65%	-3 bps	-11 bps	-9 bps	-9 bps	-30 bps	-46 bps
10-Year U.K. Gilt	0.20%	-2 bps	-4 bps	14 bps	-4 bps	-50 bps	-62 bps
10-Year JGB	0.03%	1 bps	2 bps	2 bps	6 bps	22 bps	6 bps
Fixed Income	**Yield**	**OAS**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
Barclays Capital U.S. Government-Treasury	0.54%	N/A	0.2%	-0.3%	-1.5%	8.1%	8.5%
Barclays Capital U.S. TIPS	0.73%	N/A	-0.2%	-0.3%	0.0%	9.4%	8.8%
Barclays Capital U.S. Aggregate	1.18%	54	0.3%	0.2%	-0.9%	7.2%	6.9%
Barclays Capital Global Aggregate	0.87%	46	0.1%	0.7%	0.3%	6.6%	6.5%
Barclays Capital U.S. ABS	0.53%	39	0.0%	0.1%	0.4%	4.5%	4.2%
Barclays Capital U.S. MBS	1.27%	53	0.1%	0.0%	-0.1%	4.1%	3.7%
Barclays Capital U.S. Corporate Investment Grade	1.94%	122	0.6%	1.0%	-0.9%	8.8%	7.7%
BAML Euro Corporate Investment Grade	0.37%	113	0.2%	0.8%	1.5%	1.5%	1.7%
Barclays Capital U.S. Corporate High Yield	5.15%	457	1.4%	1.9%	1.7%	4.7%	2.6%
BAML European Currency High Yield Non-Financial	4.13%	477	0.5%	0.9%	1.6%	0.4%	-1.4%
CS U.S. Leveraged Loans	5.98%	573	0.2%	0.4%	2.4%	1.7%	-0.4%
CS Western European Leveraged Loans Non-USD	5.54%	548	-0.1%	0.2%	2.5%	0.6%	-0.3%
JPM CEMBI Broad Diversified	4.52%	389	0.2%	0.7%	0.6%	4.8%	3.4%
JPM EMBI Global Diversified	5.00%	410	1.2%	1.5%	-0.8%	2.8%	1.0%
JPM GBI-EM Global Diversified	4.44%	N/A	0.8%	1.4%	-0.8%	-3.0%	-4.8%
Equities	**Price**	**Div Yield**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
S&P 500	3,443.44	1.68%	5.3%	2.9%	4.6%	14.0%	8.2%
Euro STOXX 600 (Local)	363.31	2.12%	6.2%	0.2%	0.0%	-9.9%	-12.6%
U.K. FTSE 100 (Local)	5,883.26	4.34%	5.4%	-0.3%	-2.5%	-20.2%	-22.0%
Japan Nikkei 225 (Local)	23,695.23	2.22%	1.2%	2.9%	5.0%	3.7%	0.2%
China Shanghai Composite (Local)	3,277.44	2.18%	0.3%	1.8%	-2.8%	10.1%	7.5%
MSCI AC World (Local)	578.92	2.04%	4.3%	2.5%	3.1%	8.2%	4.0%
MSCI Emerging Markets (Local)	1,135.26	2.22%	1.3%	4.4%	2.5%	11.5%	7.3%
Commodities/Currencies	**Price**	**1W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
S&P GS Commodity Index	354.79	2.4%	5.1%	2.3%	36.9%	-15.4%	-18.7%
WTI Crude ($/bbl)	39.15	5.0%	6.1%	-6.0%	91.3%	-30.5%	-36.0%
Copper ($/lb)	3.10	1.4%	4.1%	7.3%	33.4%	16.3%	11.0%
Gold ($/oz)	1,900.15	1.6%	-0.2%	-3.9%	11.2%	25.9%	25.4%
U.S. Dollar Index	93.41	0.0%	-0.5%	0.0%	-6.1%	-4.2%	-3.1%
Euro (USD/EUR)	1.17	-0.4%	-0.1%	-0.4%	7.3%	5.0%	4.3%
British Pound (USD/GBP)	1.30	-0.1%	0.4%	-0.4%	4.6%	0.5%	-2.0%
Japanese Yen (Yen/USD)	104.49	0.1%	-0.8%	-1.4%	-2.3%	-3.7%	-3.9%
Chinese Yuan (CNY/USD)	6.71	0.0%	-1.4%	-3.9%	-4.8%	-4.5%	-3.6%

Source: FactSet and Bloomberg. As of November 4, 2020.

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*As of September 30, 2020
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