

A Vaccine to End All Lockdowns?

IN REVIEW

- **NFIB small business optimism** held steady at 104 in October. More firms expect higher sales and plan to increase inventory. However, there was much uncertainty and firms' hiring plans took a step back.
- **U.S. CPI** was unchanged in October, as inflation remains at bay. Higher prices for airfares and new cars offset declines in gasoline, clothing and medical care.
- **Initial claims** slid 48,000 to 709,000 in W/E November 7, as the labor market recovers. Continuing claims fell 436,000 to 6.786 million in W/E October 31 due in part to individuals shifting to PEUC claims as regular benefits exhaust.
- **U.K. 3Q20 GDP** grew 15.5% Q/Q, in line with expectations but 9.6% below a year ago—twice the decline seen in other major EU economies such as Germany, France and Italy.
- **U.K. unemployment rate** rose 0.3% to 4.8% in the three months leading to September. Extending furlough schemes to March 2021 should limit further increases.
- **German ZEW survey expectations** fell from 56.1 in October to 39 in November amid new lockdowns, suggesting a negative GDP print is likely for Q4.
- **China exports** accelerated to 11.4% Y/Y in October, proving some resilience in the face of rising COVID cases. However, headwinds could intensify in the near-term.
- **China CPI** slowed sharply to 0.5% Y/Y in October due to easing food prices and weak core inflation.

WATCH LIST

Date		Consensus		Previous
U.S.				
Mon 11/16	Empire Manufacturing	13.8	▲	10.5
Tue 11/17	Retail Sales	0.5% M/M	▼	1.9% M/M
Tue 11/17	Industrial Production	1.0% M/M	▲	-0.6% M/M
Tue 11/17	NAHB Housing Market Index	85	—	85
Wed 11/18	Building Permits	1568K	▲	1553K
Wed 11/18	Housing Starts	1445K	▲	1415K
Thu 11/19	Initial Claims			709K
Thu 11/19	Philadelphia Fed Business Outlook	22.0	▼	32.3
Thu 11/19	Existing Home Sales	6.44M	▼	6.54M
Europe				
Wed 11/18	U.K. Consumer Price Index	0.1% M/M	▼	0.4% M/M
Thu 11/19	EU Summit	--		--
Thu 11/19	ECB Meeting Minutes	--		--
Fri 11/20	U.K. Retail Sales	-0.2% M/M	▼	1.5% M/M
Asia Pacific				
Mon 11/16	Japan 3Q20 GDP (Prelim)	4.4% Q/Q	▲	-7.9% Q/Q
Mon 11/16	China Industrial Production (YTD)	1.8% Y/Y	▲	1.2% Y/Y
Mon 11/16	China Retail Sales (YTD)	-5.9% Y/Y	▲	-7.2% Y/Y
Mon 11/16	China Fixed Assets ex Rural (YTD)	1.6% Y/Y	▲	0.8% Y/Y
Fri 11/20	PBOC Meeting	--		--
Fri 11/20	Japan Consumer Price Index	-0.4% Y/Y	▼	0.0% Y/Y
Fri 11/20	Japan Markit Mfg. PMI (Prelim)			48.7
Fri 11/20	Japan Markit Services PMI (Prelim)			47.7

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

U.S.

- **Retail sales** are expected to expand at a more moderate pace in October as government support to consumers fades.
- **Housing data** should continue to strengthen. We watch for supply indicators, as limited inventories are putting upward pressure on prices.

Europe

- **October ECB monetary policy meeting minutes** released on November 19 will gauge accommodations the central bank announces at its December 10 meeting.

Asia Pacific

- Expect the **PBOC** to keep policy steady at its November meeting amid a recovering economy, though we watch for comments about weak October inflation data.
- **China activity data** in October should show ongoing recovery amid weak CPI data.
- **Japan 3Q20 GDP** is expected to rebound following lockdowns, but to a lesser extent than that seen in the U.S. and Europe.

THE HIGHLIGHTS

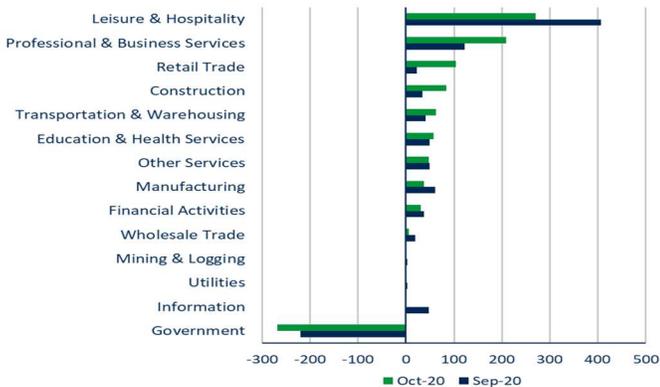
Vaccine Progress Signals Hope

Pfizer and BioNTech can apply for emergency-use authorization of their promising two-dose vaccine in the U.S. once interim analysis of 164 cases are complete—encouraging news for other experimental vaccines with similar technology (mRNA). Several unknowns remain, including safety, efficacy and lasting immunity. Storage and transportation are also concerns, as the vaccine must be kept at -70C. Widespread vaccination remains possible by end of 2Q2021 if there is more than one vaccine. Vaccine progress led a big rally in stocks and sell-off in core DM government bonds, amid a risk-on sentiment. However, with higher case counts in the U.S. and Europe this winter, markets could be in for some volatility until broad-based vaccination is a reality.

U.S. Employment Improves But Risks Remain

The U.S. labor market continued solid, yet moderating improvement in October, but near- and longer-term risks weigh on the outlook. Nonfarm payrolls rose 638,000 and job gains were broad-based across sectors, despite a drag from government payrolls. The unemployment rate slid from 7.9% to 6.9% for the right reason, as the labor force rose. Encouragingly, seasonal hiring was better-than-expected, lending upside to the holiday season outlook.

CHANGE IN U.S. NONFARM PAYROLLS, THOUSANDS



Source: Bloomberg. As of November 12, 2020.

Near-term risks are mounting amid rising COVID cases (and greater restrictions or self-imposed limitations) across the U.S. A full recovery in the labor force participation rate isn't likely until childcare is widely available, as many parents, particularly women, dropped out of the labor force to care for children. Longer-term, permanent scarring risks remain, as permanent layoffs outnumbered temporary layoffs for the first time this crisis, and the duration of layoffs is lengthening. If this trend continues, it could slow the pace of job gains, leading to a longer timeline to fully recoup all jobs lost.

Bank of Japan's Nudge to Reshape the Financial Sector

The BOJ will exempt regional banks from negative rates if they agree to merge or cut costs. Regional banks with approved restructuring plans can earn an additional 0.1% of interest on their deposits at the BOJ, a move that follows

Prime Minister Yoshihide Suga saying there are too many regional banks. Large-scale mergers are not expected due to the limited and temporary nature of the program, though it could incentivize cost-cutting.

Policy

U.S. Senate Race: Republicans currently have a 50–48 lead in the Senate, though runoffs for two remaining seats in Georgia are scheduled for January 5. If Democrats get both seats and Joe Biden is confirmed as president, they will effectively control the Senate via the Vice President's tie-breaker, and the blue wave scenario could occur. Betting odds currently favor Republicans winning both seats. If Republicans gain majority control of the Senate with one of the two Georgia seats, the threat of raising corporate and income taxes in 2021 goes down significantly, as do any major revisions to the Affordable Care Act (ACA). There would be little chance Congress will enact a public option to keep the status quo ACA in place, which would benefit managed care, hospitals, and equipment makers. Drug pricing regulations would also be more challenging. Infrastructure spending will be determined by whichever party controls the Senate. Under a Republican Senate, infrastructure spending may be more modest going into 2021. Taxing fossil fuels and subsidizing climate spending will likely be more difficult, too. Biden can still regulate and mandate to a certain extent, while looking for deals to extend wind and solar tax credits.

Brexit: Talks will likely miss the mid-November deadline as agreed text is now expected by the middle of next week. With the unusual rebellion of more than 40 conservative peers against their own government, the U.K.'s House of Lords rejected government plans to break international law over Brexit this week. The Upper House voted to remove the most controversial parts of the Internal Market Bill, giving ministers power to rewrite parts of Prime Minister Boris Johnson's Withdrawal Agreement with the EU, making a deal easier.

Affordable Care Act: Obamacare likely survived its third major legal challenge. At least five Supreme Court justices suggested the individual mandate was severable from the rest of the law; there have been concerns about Obamacare's fate under the court's enhanced conservative majority. This development has driven the outperformance of managed care (particularly managed Medicare) and hospital stocks.

EU Tariffs: The EU imposed tariffs on \$4 billion of U.S. goods, escalating an ongoing trans-Atlantic fight over illegal aid to Boeing and Airbus. The tariffs target various Boeing models with a 15% duty, as well as an additional 25% on goods ranging from spirits to tractors to video games, in retaliation of 2019 duties the U.S. imposed on \$7.5 billion of EU products.

Antitrust Charges: European Competition Commissioner Margrethe Vestager announced antitrust charges against Amazon over how it uses merchants' data. The two-year probe addresses alleged abuse by Amazon of data it collects and uses against competing merchants, and the formal charges reinforce her reputation after previous action taken against Google and Apple.

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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	-150 bps	-150 bps
U.S. SOFR	0.10%	0 bps	1 bps	1 bps	4 bps	-146 bps	-145 bps
3 Month USD Libor	0.22%	-1 bps	0 bps	-3 bps	-21 bps	-168 bps	-169 bps
3 Month Euribor	-0.52%	0 bps	-1 bps	-4 bps	-26 bps	-12 bps	-14 bps
3 Month U.S. T-Bill	0.10%	0 bps	0 bps	0 bps	-2 bps	-145 bps	-145 bps
2-Year U.S. Treasury	0.18%	4 bps	3 bps	2 bps	1 bps	-148 bps	-139 bps
10-Year U.S. Treasury	0.98%	21 bps	20 bps	32 bps	26 bps	-96 bps	-94 bps
10-Year German Bund	-0.51%	14 bps	4 bps	-3 bps	2 bps	-25 bps	-32 bps
10-Year U.K. Gilt	0.41%	21 bps	14 bps	22 bps	16 bps	-39 bps	-41 bps
10-Year JGB	0.03%	0 bps	0 bps	1 bps	3 bps	10 bps	5 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.66%	N/A	-1.2%	-1.0%	-1.8%	7.8%	7.2%
Barclays Capital U.S. TIPS	0.87%	N/A	-0.5%	-0.8%	-0.1%	9.4%	8.3%
Barclays Capital U.S. Aggregate	1.28%	50	-0.7%	-0.3%	-1.0%	7.2%	6.2%
Barclays Capital Global Aggregate	0.94%	42	-0.3%	0.0%	0.3%	7.4%	6.1%
Barclays Capital U.S. ABS	0.56%	37	-0.1%	0.0%	0.4%	4.6%	4.1%
Barclays Capital U.S. MBS	1.41%	50	-0.2%	-0.1%	-0.2%	4.1%	3.5%
Barclays Capital U.S. Corporate Investment Grade	1.98%	111	-0.4%	0.4%	-0.8%	9.2%	7.2%
BAML Euro Corporate Investment Grade	0.32%	97	0.3%	0.7%	1.5%	2.1%	2.0%
Barclays Capital U.S. Corporate High Yield	4.73%	412	1.5%	2.2%	2.7%	6.4%	4.2%
BAML European Currency High Yield Non-Financial	3.61%	415	1.9%	2.1%	2.8%	2.2%	0.5%
CS U.S. Leveraged Loans	5.84%	559	0.4%	0.5%	2.3%	2.1%	0.1%
CS Western European Leveraged Loans Non-USD	5.42%	535	0.3%	0.3%	2.4%	0.9%	0.0%
JPM CEMBI Broad Diversified	4.44%	363	0.7%	0.7%	1.1%	5.6%	4.1%
JPM EMBI Global Diversified	4.87%	378	1.1%	1.2%	0.0%	4.4%	2.2%
JPM GBI-EM Global Diversified	4.35%	N/A	3.1%	2.9%	3.4%	1.6%	-1.9%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,572.66	1.62%	3.8%	2.9%	7.6%	17.9%	12.3%
Euro STOXX 600 (Local)	388.56	1.85%	6.9%	4.9%	4.8%	-4.1%	-6.6%
U.K. FTSE 100 (Local)	6,382.10	3.95%	8.5%	6.1%	3.7%	-12.9%	-15.4%
Japan Nikkei 225 (Local)	25,349.60	2.22%	7.0%	7.3%	11.4%	8.6%	7.2%
China Shanghai Composite (Local)	3,342.20	2.13%	2.0%	2.1%	0.1%	14.9%	9.6%
MSCI AC World (Local)	605.09	1.95%	4.4%	3.4%	6.1%	12.4%	8.5%
MSCI Emerging Markets (Local)	1,178.86	2.16%	2.9%	4.1%	6.0%	15.6%	10.4%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	369.68	4.2%	2.5%	6.5%	34.9%	-11.2%	-15.3%
WTI Crude (\$/bbl)	41.42	5.8%	2.4%	-0.3%	72.4%	-26.8%	-32.3%
Copper (\$/lb)	3.13	0.9%	1.6%	8.9%	31.4%	17.6%	12.0%
Gold (\$/oz)	1,860.95	-2.1%	-3.2%	-4.1%	9.3%	27.6%	22.9%
U.S. Dollar Index	93.04	-0.4%	0.0%	-0.6%	-7.2%	-5.3%	-3.5%
Euro (USD/EUR)	1.18	0.4%	-0.5%	-0.1%	8.6%	6.6%	4.7%
British Pound (USD/GBP)	1.32	1.6%	1.5%	0.9%	6.8%	2.5%	-0.4%
Japanese Yen (Yen/USD)	105.63	1.1%	0.0%	-0.8%	-1.8%	-3.2%	-2.8%
Chinese Yuan (CNY/USD)	6.62	-1.4%	-1.4%	-4.8%	-6.6%	-5.5%	-5.0%

Source: FactSet and Bloomberg. As of November 11, 2020.

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