

Will U.S. Stimulus Arrive Too Late?

WATCH LIST

| Date | | Period | Consensus | | Previous |
|---------------------|--------------------------------------|--------|-----------|---|-----------|
| U.S. | | | | | |
| Tue 12/22 | Conference Board Consumer Confidence | Dec. | 97.8 | ▲ | 96.1 |
| Tue 12/22 | Existing Home Sales | Nov. | 6.70M | ▼ | 6.85M |
| Wed 12/23 | Personal Income | Nov. | -0.3% M/M | ▲ | -0.7% M/M |
| Wed 12/23 | Personal Spending | Nov. | -0.1% M/M | ▼ | 0.5% M/M |
| Wed 12/23 | PCE Deflator | Nov. | 0.1% M/M | ▲ | 0.0% M/M |
| Wed 12/23 | New Home Sales | Nov. | 990K | ▼ | 999K |
| Fri 12/25 | Markets Closed for Christmas | | -- | | -- |
| Europe | | | | | |
| Thu 12/24 | ECB Economic Bulletin | | -- | | -- |
| Fri 12/25 | Markets Closed for Christmas | | -- | | -- |
| Thu 12/31 | Brexit Deal Deadline | | -- | | -- |
| Asia Pacific | | | | | |
| Mon 12/21 | PBOC Meeting | | -- | | -- |
| Mon 12/21 | South Korea Exports 20 Days | Dec. | | | 11.1% Y/Y |
| Fri 12/25 | Japan Retail Sales | Nov. | -0.9% M/M | ▼ | 0.4% M/M |

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

U.S.

- **Personal income is set to decline further in November** as fiscal support fades and employment gains slow amid rising cases and restrictions. This is set to **weigh on consumer spending** despite support from a draw-down of pent-up savings.
- **Housing data are expected to remain strong** as demand is robust amid migration to suburbs and record-low mortgage rates.

Europe

- **A Brexit deal must be found** by midnight on Sunday, December 20, according to the EU negotiator, and that seems possible. Negotiations on the U.K.-EU relationship will however continue next year, in particular for services, as those are excluded from the current deal. Higher trading costs will impact 2021 U.K. inflation.

Asia Pacific

- **The PBOC will likely keep rates steady** when it meets on December 21. The bank has been injecting liquidity when needed to support market conditions, but it remains firmly engaged on a policy normalization path as the economic recovery is steady.
- **South Korea exports** for the first 20 days of December are expected to **signal that global trade remains robust**.

Institute's Central Scenario

Data this week on U.S. retail sales and initial claims are in line with our central scenario of the "Not Quite Recovery," which foresees slowing momentum amid rising cases and delayed government stimulus in the U.S., before progress picks up next year. Central Banks across the globe this week showed that they remain accommodative and committed to aiding the recovery. Fiscal policy in Europe and Asia remains supportive; however, questions persist about U.S. fiscal support in 2021, even after the current stimulus package, to keep near-term weakness from becoming permanent scarring. Please see our [Monthly Macro Dashboard](#).

IN REVIEW

Advanced Economies' PMIs Flash a Cautious Signal

While Markit flash PMIs showed differentiation by region in December, rising COVID cases and restrictions are weighing more heavily on services than manufacturing across the board, and rising cases remain a prominent near-term threat.

DECEMBER MARKIT FLASH PMIS

| Region | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| U.S. Manufacturing | 39.8 | 49.8 | 50.9 | 53.1 | 53.2 | 53.4 | 56.7 | 56.5 |
| U.S. Services | 37.5 | 47.9 | 50.0 | 55.0 | 54.6 | 56.9 | 58.4 | 55.3 |
| EZ Manufacturing | 39.4 | 47.4 | 51.8 | 51.7 | 53.7 | 54.8 | 53.8 | 55.5 |
| EZ Services | 30.5 | 48.3 | 54.7 | 50.5 | 48.0 | 46.9 | 41.7 | 47.3 |
| UK Manufacturing | 40.7 | 50.1 | 53.3 | 55.2 | 54.1 | 53.7 | 55.6 | 57.3 |
| UK Services | 29.0 | 47.1 | 56.5 | 58.8 | 56.1 | 51.4 | 47.6 | 49.9 |
| Japan Manufacturing | 38.4 | 40.1 | 45.2 | 47.2 | 47.7 | 48.7 | 49 | 49.7 |
| Japan Services | 26.5 | 45.0 | 45.4 | 45.0 | 46.9 | 47.7 | 47.8 | 47.2 |

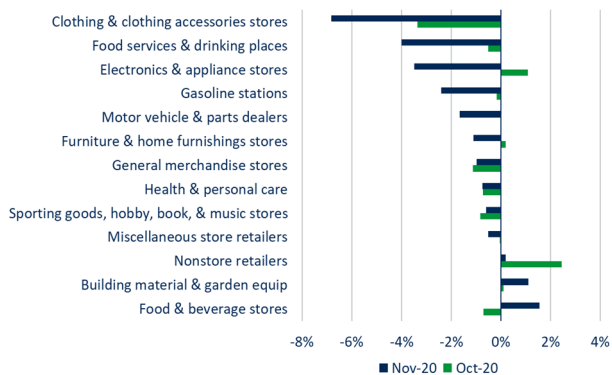
Source: Bloomberg. As of December 17, 2020.

While **Euro Area flash PMIs** beat expectations in December, survey results were collected before mobility restrictions tightened; monthly activity will likely have weakened. In the **U.S.**, the pace of growth slowed—more notably for the pandemic-sensitive service sector—as new restrictions were implemented. In **Japan**, PMIs remain in contractionary territory as business conditions continue to deteriorate. The readings are in line with our baseline for a weaker winter of Lockdown 2.0 ahead of mass vaccine deployment.

Winter Headwinds Weigh on U.S. Spending

Rising cases, new restrictions and a deadlocked Congress have begun to weigh on consumer spending. November U.S. retail sales fell a higher-than-expected 1.1% M/M, following a downwardly revised 0.1% M/M decline in October.

U.S. RETAIL SALES, M/M % CHANGE



Source: Bloomberg. As of December 17, 2020.

Weakness was broad-based and showed a shift in spending patterns towards necessities and at-home purchases—seen in the rise in grocery stores and building materials. Non-store retailers rose a modest 0.2% amid weaker demand and an early start to holiday deals. Ten of the 13 major categories fell over the month, led by apparel and dining out. We watch for December spending data to see if sales are being pushed to December, or if demand is ending the year much weaker than expected. Despite near-term weakness, Barings investment professionals look ahead to greater consumer spending in 2021 in tandem with the vaccine roll-out and additional fiscal support as pent-up consumer demand is released.

Initial Claims Point to Labor Market Weakness

Initial claims continue to creep higher, signaling deterioration in the U.S. labor market in December. Initial claims rose 23,000 to 885,000 in the W/E December 12—the week corresponding with the payroll reference week for the Employment Report. While data is less reliable according to the Government Accountability Office, initial claims rose 137,000 between the November and December payroll reference weeks, signaling weaker payrolls.

While continuing claims slid in the W/E December 5, this is partially attributable to regular claims expiring and people shifting to Pandemic Emergency Unemployment Compensation (PEUC), which provides a 13-week extension. Including PEUC claims, continuing claims increase for the W/E November 28, and those filing for Pandemic Unemployment Assistance (PUA), for self-employed and gig workers, rose. The PEUC and PUA programs are set to expire at year-end in the absence of a stimulus deal—accounting for over 14 million recipients. While the labor market recovery is set to weaken over the winter months, the recovery should continue as the vaccine and additional fiscal support are distributed in 2021.

China Leads the Global Recovery

China's November activity data confirmed the country leads the global recovery. Industrial production continued to outperform and retail sales rose 5% Y/Y, signaling a steady recovery in internal demand. While public fixed investment accelerated over the month, more encouraging was the rise in private investment, up 0.2% YTD Y/Y. While the PBOC has been injecting liquidity when needed to support market conditions, improvement in the activity data suggests they are set to remain committed to policy normalization at their December 21 meeting.

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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 | 0.09% | 1 bps | -1 bps | -1 bps | 0 bps | -153 bps | -146 bps |
| 3 Month USD Libor | 0.24% | 2 bps | 2 bps | 0 bps | -7 bps | -166 bps | -167 bps |
| 3 Month Euribor | -0.54% | 1 bps | -2 bps | -5 bps | -17 bps | -14 bps | -16 bps |
| 3 Month U.S. T-Bill | 0.08% | 1 bps | 0 bps | -3 bps | -9 bps | -148 bps | -147 bps |
| 2-Year U.S. Treasury | 0.11% | -4 bps | -7 bps | -3 bps | -10 bps | -153 bps | -146 bps |
| 10-Year U.S. Treasury | 0.92% | -2 bps | 2 bps | 24 bps | 17 bps | -97 bps | -100 bps |
| 10-Year German Bund | -0.57% | 4 bps | -2 bps | -8 bps | -16 bps | -27 bps | -38 bps |
| 10-Year U.K. Gilt | 0.29% | 2 bps | -6 bps | 8 bps | 6 bps | -51 bps | -54 bps |
| 10-Year JGB | 0.00% | -1 bps | -2 bps | -1 bps | -2 bps | 3 bps | 2 bps |
| Fixed Income | Yield | OAS | 1W Return | 1M Return | 3M Return | 12M Return | YTD Return |
| Barclays Capital U.S. Government-Treasury | 0.58% | N/A | 0.2% | 0.1% | -0.9% | 7.8% | 7.8% |
| Barclays Capital U.S. TIPS | 0.75% | N/A | 0.4% | 1.6% | 1.1% | 10.5% | 10.4% |
| Barclays Capital U.S. Aggregate | 1.17% | 46 | 0.3% | 0.5% | 0.2% | 7.3% | 7.2% |
| Barclays Capital Global Aggregate | 0.85% | 38 | 0.5% | 1.7% | 2.2% | 9.0% | 8.7% |
| Barclays Capital U.S. ABS | 0.47% | 34 | 0.1% | 0.3% | 0.3% | 4.6% | 4.4% |
| Barclays Capital U.S. MBS | 1.31% | 45 | 0.1% | 0.1% | 0.1% | 4.0% | 3.7% |
| Barclays Capital U.S. Corporate Investment Grade | 1.81% | 102 | 0.5% | 1.2% | 1.7% | 9.5% | 9.2% |
| BAML Euro Corporate Investment Grade | 0.23% | 92 | -0.2% | 0.5% | 1.8% | 2.3% | 2.6% |
| Barclays Capital U.S. Corporate High Yield | 4.40% | 379 | 0.2% | 2.2% | 4.7% | 7.1% | 6.4% |
| BAML European Currency High Yield Non-Financial | 3.01% | 363 | -0.1% | 2.3% | 4.1% | 3.0% | 2.8% |
| CS U.S. Leveraged Loans | 5.16% | 492 | 0.3% | 1.5% | 2.7% | 2.9% | 2.5% |
| CS Western European Leveraged Loans Non-USD | 4.68% | 462 | 0.0% | 1.3% | 3.0% | 2.8% | 2.6% |
| JPM CEMBI Broad Diversified | 4.06% | 331 | 0.5% | 2.2% | 3.3% | 7.2% | 6.8% |
| JPM EMBI Global Diversified | 4.62% | 358 | 0.6% | 1.9% | 2.7% | 5.0% | 4.7% |
| JPM GBI-EM Global Diversified | 4.26% | N/A | 0.8% | 4.4% | 6.0% | 3.7% | 2.3% |
| Equities | Price | Div Yield | 1W Return | 1M Return | 3M Return | 12M Return | YTD Return |
| S&P 500 | 3,701.17 | 1.56% | 0.8% | 2.2% | 9.8% | 18.1% | 16.6% |
| Euro STOXX 600 (Local) | 396.08 | 2.02% | 0.3% | 1.6% | 6.2% | -5.2% | -4.8% |
| U.K. FTSE 100 (Local) | 6,570.91 | 3.64% | 0.1% | 2.3% | 8.1% | -12.6% | -12.9% |
| Japan Nikkei 225 (Local) | 26,757.40 | 2.22% | -0.2% | 3.3% | 14.0% | 11.7% | 13.1% |
| China Shanghai Composite (Local) | 3,366.98 | 2.11% | -0.1% | 0.6% | 2.5% | 12.8% | 10.4% |
| MSCI AC World (Local) | 637.10 | 1.86% | 0.8% | 4.3% | 10.1% | 14.1% | 13.3% |
| MSCI Emerging Markets (Local) | 1,263.82 | 1.99% | 0.7% | 4.9% | 10.8% | 18.0% | 16.9% |
| Commodities/Currencies | Price | 1W Change | 1M Change | 3M Change | 6M Change | 12M Change | YTD Change |
| S&P GS Commodity Index | 400.13 | 3.4% | 8.4% | 13.7% | 24.1% | -7.2% | -8.3% |
| WTI Crude (\$/bbl) | 47.82 | 5.1% | 16.2% | 19.0% | 25.0% | -20.6% | -21.8% |
| Copper (\$/lb) | 3.55 | 1.3% | 10.4% | 16.2% | 38.5% | 26.0% | 27.2% |
| Gold (\$/oz) | 1,851.95 | 0.6% | -1.8% | -5.6% | 7.7% | 25.3% | 22.3% |
| U.S. Dollar Index | 90.45 | -0.7% | -2.4% | -3.0% | -6.7% | -6.8% | -6.2% |
| Euro (USD/EUR) | 1.22 | 0.9% | 3.0% | 3.0% | 8.4% | 9.4% | 8.6% |
| British Pound (USD/GBP) | 1.35 | 0.8% | 2.4% | 3.8% | 7.4% | 1.2% | 1.9% |
| Japanese Yen (Yen/USD) | 103.52 | -0.7% | -1.0% | -1.3% | -3.6% | -5.6% | -4.7% |
| Chinese Yuan (CNY/USD) | 6.54 | 0.0% | -0.6% | -3.3% | -7.7% | -6.7% | -6.2% |

Source: FactSet and Bloomberg. As of December 16, 2020.

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*As of September 30, 2020

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