BARINGS INVESTMENT INSTITUTE

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Each Country Packs its Own Map for the Road to Recovery

MONTHLY MACRO DASHBOARD

BARINGS

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Summary

The global economy is experiencing a shock unlike we've ever seen before, and long gone are the tales of a V-shaped recovery**. Looking ahead, the recovery will be differentiated and gradual.** As seen in China, while the return to offices and manufacturing can experience a faster snap back, retail, auto sales, and leisure/hospitality are seeing weaker resumptions. This trend will likely hold true in other regions as they lift restrictions at varying times. **While China is the first to enter the recovery phase, many European countries will likely be next, followed by the U.S., U.K., and Japan**—following a similar path to that of the virus's spread**. Markets remained bifurcated, seemingly pricing in more than one view of the outlook.** While it appears the rest of 2020 is largely expected to be lost from an earnings perspective, one thing is clear: central banks are no longer just providers of liquidity as they also now expand into the territory of backstopping corporate, and even sovereign, risks.

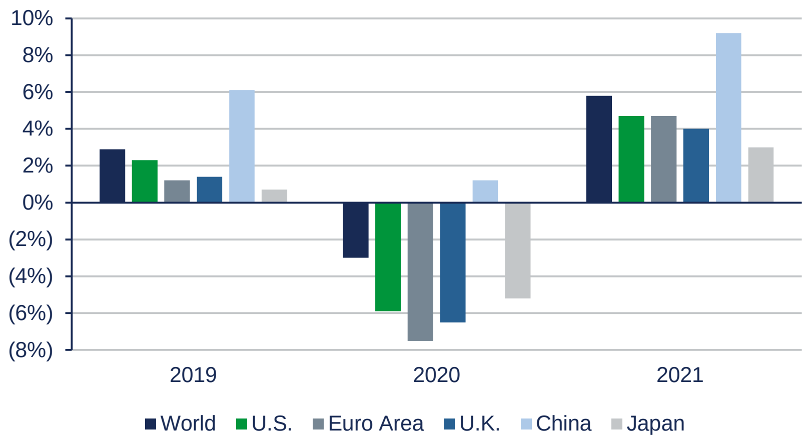
The U.S. economy has fallen rapidly into the steepest recession in recorded history. The path forward will be gradual and is fraught with downside risks. The labor market is in a dire situation with unprecedented millions of Americans filing for unemployment insurance. Layoffs, shutdowns, and wariness among consumers is dragging down overall retail sales, despite a large surge in spending on groceries and necessities. Meanwhile the housing market is hurting from almost nonexistent demand, but limited supply, low mortgage rates, and pent-up demand will keep the housing market well positioned for a recovery once restrictions ease. **Many states have announced plans to lift restrictions. But without a widely available vaccine or effective treatments, social distancing will voluntarily remain and, combined with a higher personal savings rate, keep the recovery on a gradual path, rather than a V-shaped recovery.** Banks have largely gone blameless this crisis amid a much more capitalized banking system, but **the situation on the ground is much less homogenous than the aggregate tier 1 capital statistics may suggest**.

The European economy is experiencing a very sharp contraction. While flash PMIs suggested continued deterioration in economic conditions in April, **announced plans to lift restrictions in some European economies is shining a dim light on the path forward—however the roadmap varies by country.** The road to recovery will be differentiated and gradual, as timelines to lift restrictions differ from country-to-country. Without a vaccine, social distancing measures will keep a lid on consumers' return to store fronts and leisure/hospitality activities. That said, **the risks from the corporate sector appear limited; it is much less levered and more liquid than in the past.** A coordinated fiscal response is in preparation but it will take time to be crafted, as is usual in the Union of 27 countries. In the meantime, focus will be on the ECB to provide bridge funding through the crisis.

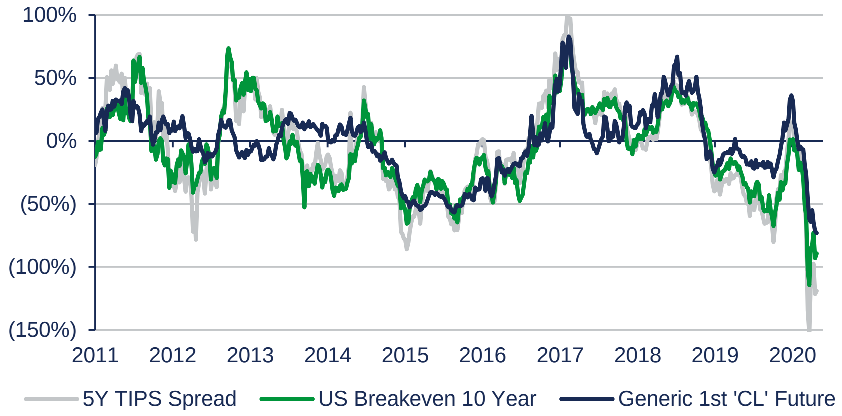
The path forward in Asia diverges greatly. China's economy, after contracting by a record 6.8% Y/Y in Q1, is on the path to recovery. **While there has been a quick recovery in the return to offices and within the manufacturing sector, the recovery in retail and leisure/hospitality is lagging, suggesting the hopes of a V-shaped recovery are gone**. While weak external demand will weigh on the recovery, China is less reliant on the world to grow than was historically the case. Indeed, China appears unique in the regard that positive earnings growth is still expected for the year. **On the other hand, Japan only implemented a country-wide state of emergency in mid-April, and the worst impact on the economy is yet to come.** Weaker domestic and external demand will reduce production and consumer spending. Overall, as the U.S. dollar continues to strengthen, scope for additional capital flight could be an issue, especially given the sizable stock of U.S. dollar denominated corporate debt in some parts of the region.

The global economy is in the midst of an unprecedented recession, and the oil price war does nothing but add fuel to the fire.

IMF WORLD ECONOMIC OUTLOOK



CRUDE OIL VS INFLATION EXPECTATIONS 1YR CHG



The IMF projects global growth will fall 3% in 2020, much worse than the -0.1% contraction in 2009 during the Global Financial Crisis. Their baseline assumption is that containment measures peak in Q2, recede in the second half of 2020, and policy actions taken will prevent widespread firm bankruptcies, extended job losses, and system-wide financial strains. After the largest recorded contraction, the IMF expects a strong rebound in 2021. However, economic activity in 2021 should be lower than pre-virus projections, and risks to the outlook are tilted to the downside given heightened uncertainty.

The global COVID-19 shock, combined with a price war, have caused crude oil prices to deteriorate massively since the beginning of the year. While the U.S. benchmark briefly traded negative this month, blame can mostly be placed on localized conditions, specifically a lack of storage and takeaway capacity. Indeed, the widening spread between WTI Crude compared to Brent can be somewhat traced back to this dynamic. Overall, this decline in the energy complex should likely lead to additional disinflationary pressures, and to the extent it is sustained, could lead to inflation expectations taking another leg down. Despite near-term prospects of the OPEC+ deal, which goes into effect in May and should take some excess supply off the market, the true driver of any recovery in either energy prices or inflation expectations will likely depend on a resumption of global economic activity.

Source: IMF, Bloomberg and Factset. As of 04/23/2020.

Global

OUTLOOK

The global economy is experiencing a shock unlike we've ever seen before and long gone are the tales of a V-shaped recovery. Looking ahead, the recovery will be differentiated and gradual. As seen in China, while the return to offices and manufacturing can experience a faster snap back, retail, auto sales, and leisure/hospitality are seeing weaker resumptions. This trend will likely hold true in other regions as they lift restrictions at varying times. **While China is the first to enter the recovery phase, many European countries will likely be next, followed by the U.S., U.K., and Japan**—following a similar path to that of the virus's spread. **Markets remained bifurcated, seemingly pricing in more than one view of the outlook.** While it appears the rest of 2020 is largely expected to be lost from an earnings perspective, one thing is clear: central banks are no longer just providers of liquidity as they also now expand into the territory of backstopping corporate, and even sovereign, risks.

Economic Activity	2016	2017	2018	2019	2020 (E)	2021 (E)
Real GDP (Y/Y %)	3.4	3.9	3.6	2.9	-1.5 ▼	3.6 ▲
CPI (Y/Y %)	2.8	3.2	3.6	3.6	2.6 ▼	2.6 ▼
Trade Volume (Y/Y%)	2.3	5.7	3.7	1.0	2.9 --	3.7 --
Inter-Bank Rates						
3-Month USD Libor	1.00	1.69	2.81	1.91	0.73 ▲	0.95 ▼
3-Month Euribor	-0.32	-0.33	-0.31	-0.39	-0.45 ▲	-0.41 ▲
3-Month GBP Libor	0.37	0.52	0.91	0.79	0.27 --	0.30 ▼
3-Month JPY Libor	-0.05	-0.02	-0.07	-0.05	-0.08 ▲	-0.06 ▼

Arrows indicate consensus estimate change compared to one month ago

Source: Bloomberg and IMF as of 04/27/2020. (E)—Bloomberg private market consensus estimates for GDP, CPI and rates. Full-year 2019 trade volume data is a projected figure from the IMF.

CENTRAL BANKS continue to be accommodative to support their economies around the globe.

Economy	Policy Rate (%)	Next CB Meeting	Implied Policy Rate (%)		
			3M	6M	1Y
U.S.	0.13	04/29/20	0.16	0.15	0.15
Eurozone	-0.50	04/30/20	-0.53	-0.54	-0.56
U.K.	0.10	05/07/20	0.11	0.12	0.10
Japan	-0.05	04/27/20	-0.07	-0.11	-0.16
China	2.20	—	1.93	2.14	2.13

- The **FOMC** has unveiled an alphabet soup of measures to shore up domestic and foreign dollar liquidity. With the policy rate cut to the lower bound, the focus has turned to credit facilities and asset purchases. The measures, so far, have appeared to dampen market volatility and lower U.S. funding costs across major DM economies.
- With coordinated fiscal response still an obstacle, the **ECB**, in a further attempt to backstop troubled sovereigns in the region, has eased a variety of collateral requirements, including accepting junk-rated debt as collateral.
- The **BoE** has begun providing temporary and short-term direct financing to the central government, completely bypassing the bond market. While the amount is undisclosed, it is all but a public acceptance of MMT policy.
- The **BOJ** has signaled its intent to discuss unlimited bond buying at its next meeting.
- The **PBOC** has cut RRR by 100 bps for small banks, cut the MLF by 20 bps and cut its 1-year and 5-year LPRs by 20 bps and 10 bps, respectively.

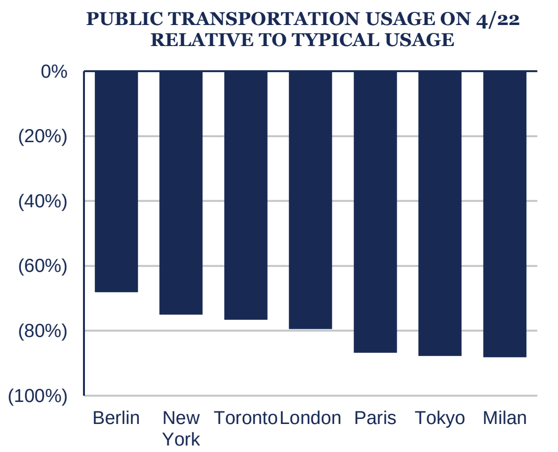
UPSIDE/DOWNSIDE RISKS TO THE OUTLOOK

Upside	Downside
Fiscal stimulus	COVID-19 unable to be contained or re-intensifies in later quarters
Accommodative monetary policy	Relatively slower rebound in consumer spending
Quick containment of COVID-19	Higher personal savings rate keeps lid on pace of recovery
OPEC+ agreement	Fiscal and monetary stimulus ends too soon
Re-opening of economies	A rise in protectionism following the recession

Source: Bloomberg and Factset. As of 04/27/2020.

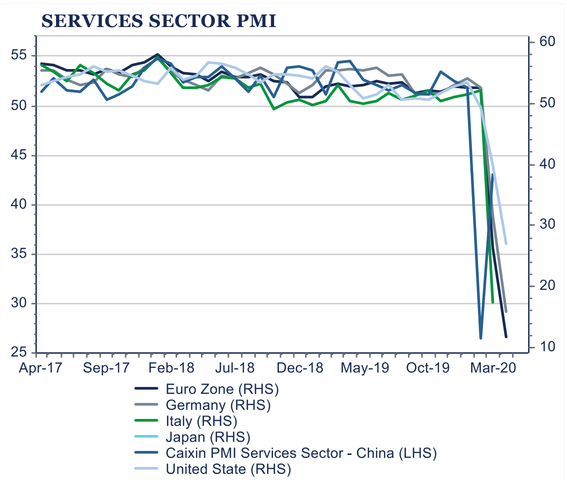
Global

GLOBAL GROWTH is set to see the most severe contraction in recorded history, as lockdowns span the globe.



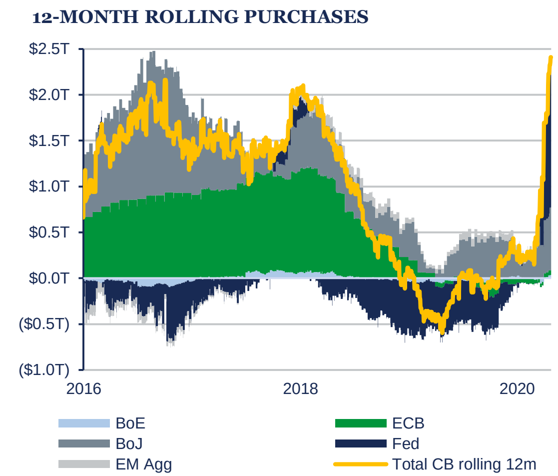
- The global economy is in the sharpest recession in recorded history. The IMF forecasts world GDP growth to contract by 3% in 2020. This is much worse than the -0.1% GDP growth during the Global Financial Crisis in 2009.
- Mobility statistics are depressed in the U.S., Europe, and Japan amid lockdowns and social distancing restrictions, while they have begun to improve in China as the economy opens up.
- The depth and length of the recession will depend on how quickly and effectively the pandemic can be contained around the globe.

The road to RECOVERY will be differentiated by region as the spread of the virus and removal of restrictions varies.



- While the sharp contraction is being felt around the world, the path to recovery will vary by region, as different countries lift restrictions on different timelines.
- China was first-in and is first-out, and the world watches as a possible path forward. Restrictions have begun to lift and they are on the road to recovery, albeit at a moderate pace.
- Europe will be the next to exit, but will vary by country, followed by the U.S., U.K., and Japan—which was among the last to implement restrictive measures.

CENTRAL BANK PURCHASES have skyrocketed to provide bridge liquidity and backstop corporate risk.



- Global Central Banks have unleased a war chest totaling $9.5 trillion, roughly 10% of global GDP, to jumpstart market liquidity and provide bridge funding amid the all-but-complete halt of economic activity.
- The Federal Reserve's balance sheet has already increased by $2.2 trillion since the beginning of the crisis and is steadily pivoting from its role of stabilizing credit and funding markets to backstopping credit risk via facilities that would directly buy Corporate and Municipal debt, and provide lending to SMEs.
- The ECB follows the Fed, injecting $742 billion since the start of the crisis.

Source: Bloomberg and Factset. As of 04/27/2020. Moovit As of 04/22/2020.

OUTLOOK

The U.S. economy has fallen rapidly into the steepest recession in recorded history. **The path forward will be gradual and is fraught with downside risks.** The labor market is in a dire situation with unprecedented millions of Americans filing for unemployment insurance. Layoffs, shutdowns, and wariness among consumers is dragging down overall retail sales, despite a large surge in spending on groceries and necessities. Meanwhile the housing market is hurting from almost nonexistent demand but limited supply, low mortgage rates, and pent-up demand will keep the housing market well positioned for a recovery once restrictions ease. Many states have announced plans to lift restrictions, but without a widely available vaccine or effective treatments, social distancing will voluntarily remain and, combined with a higher personal savings rate, keep the recovery on a gradual path rather than a V-shaped recovery. **Banks have largely gone blameless this crisis amid a much more capitalized banking system, but the situation on the ground is much less homogenous than the aggregate tier 1 capital statistics may suggest.**

Economic Growth	04/27/2020	12/31/2017	12/31/2018	12/31/2019	2020 (E)	2021 (E)
Real GDP (Y/Y %)	2.3	2.4	2.9	2.3	-3.5 ▼	3.8 ▲
Inflation						
CPI (Y/Y %)	1.5	2.1	2.5	1.8	1.1 ▼	1.7 ▼
Core PCE (Y/Y %)	1.8	1.6	2.0	1.6	1.4 ▼	1.5 ▼
Labor Market						
Unemployment (%)	4.4	4.3	3.9	3.7	8.4 ▲	6.8 ▲
Rates						
Fed Funds	0.13	1.38	2.38	1.63	0.30 ▼	0.50 ▼
2Y Treasury	0.23	1.89	2.52	1.57	0.49 ▼	0.86 ▼
10Y Treasury	0.65	2.41	2.72	1.92	0.98 ▼	1.44 ▼

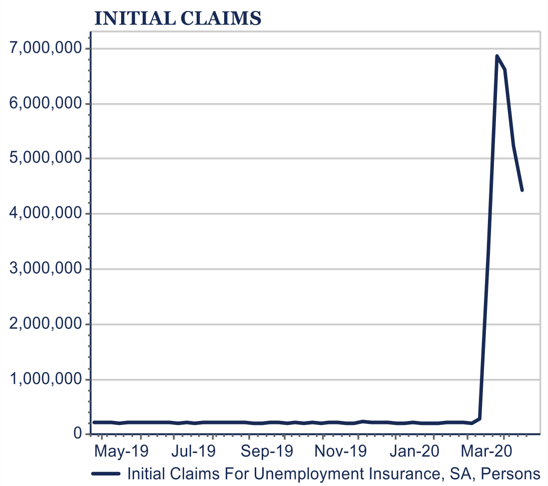
Arrows indicate consensus estimate change compared to one month ago

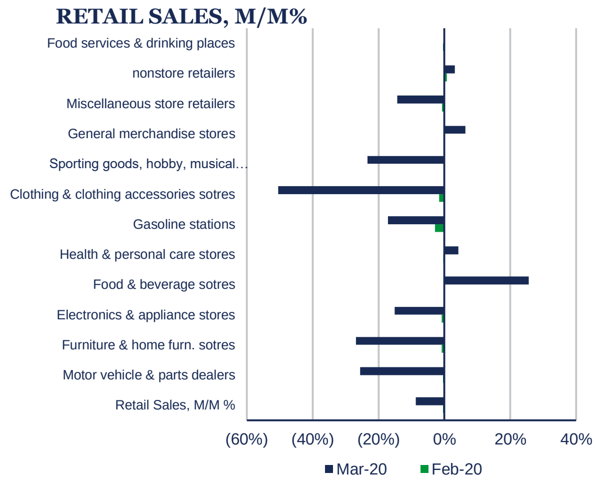
Source: Bloomberg and IMF as of 04/27/2020. (E)—Bloomberg private market consensus estimates for GDP, CPI and rates. IMF estimate for trade volume.

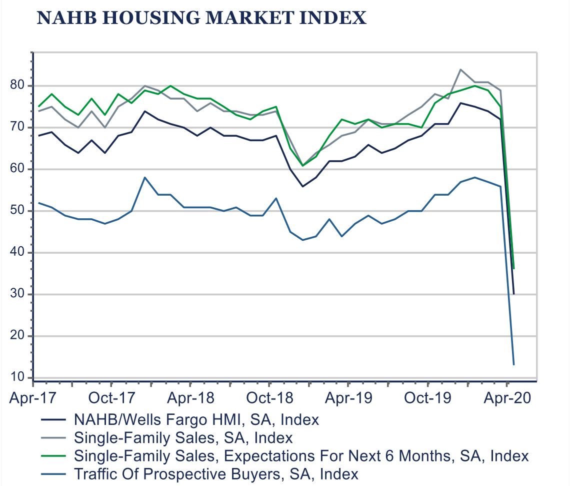
THE LABOR MARKET is in a dire situation, and the recovery will be gradual once restrictions are lifted.

RETAIL SALES suggest a large contraction in overall consumer spending, but some sectors are faring better than others.

The HOUSING MARKET is restrained by plunging demand, but limited inventories should keep a floor under prices.







- Initial claims have peaked but remain unfathomably high. Not all who apply for claims receive benefits, but continuing claims hit a record high of almost 16 million. While the unemployment rate will likely reach a new high in April, data irregularities will keep the numbers from telling the full story.
- New regulations allowing people to receive benefits without looking for a job will leave many who would otherwise be unemployed out of the labor force, and misreporting, as seen in March, is likely to continue.
- Support to SMEs is key to helping displaced workers return to work when the economy reopens. But the recovery will be gradual and it will likely be a matter of quarters or years before the unemployment rate could return to 2019 levels.

- Retail sales sank a record 8.7% M/M in March, and this likely underestimates the contraction due to seasonal adjustment issues and store closures leading to reporting irregularities.
- Some sectors fared better than others. Consumers increased spending on food and essential medical and health products, as well as spending at non-store retailers—such as online shopping. The surge in grocery and necessities was not enough to make up for losses in other sectors such as apparel, motor vehicles, and sporting goods and hobby stores.
- The recovery in spending will likely be gradual as the timing of restrictions across states varies, consumers are wary as seen in China, and the personal savings rate will likely increase.

- The housing market is facing both supply- and demand-side constraints during the usual spring buying season.
- On the demand side, the traffic of prospective buyers was nearly nonexistent in April, according to the NAHB housing market index. Meanwhile, U.S. weekly purchase applications are down over 30% Y/Y. However, limited inventories will likely keep a floor under prices.
- Low interest rates, pent-up demand, and limited supply will leave the housing market well positioned for recovery once the economy opens back up.

Source: Bloomberg and Factset. As of 04/23/2020.

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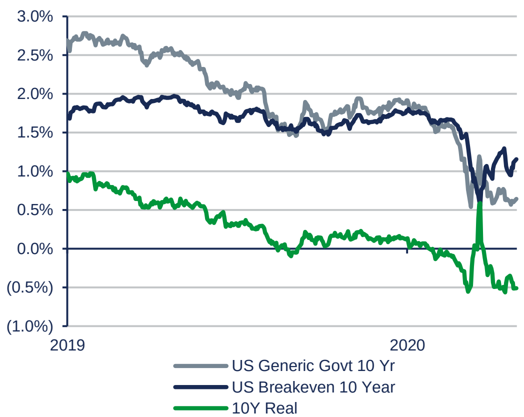
U.S.

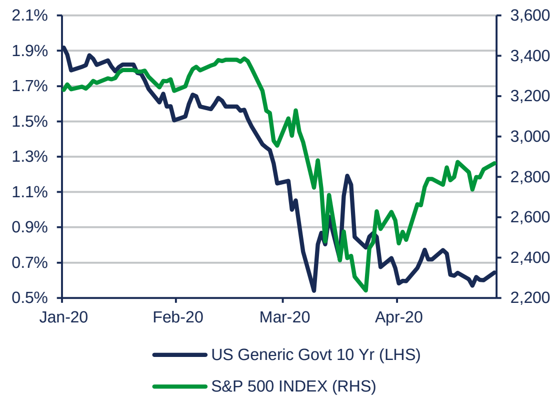
REAL YIELDS continue their structural decline as inflation expectations hold nominal 10-year yields steady, for now.	**MARKET DIVERGENCE** between bonds and equities suggest more than one view of the world is being priced in.	The **BANKING SYSTEM** is not to blame this time around, but that's not to say they're completely clear of all the risks.

10 YEAR U.S. TREASURY DECOMPOSITION



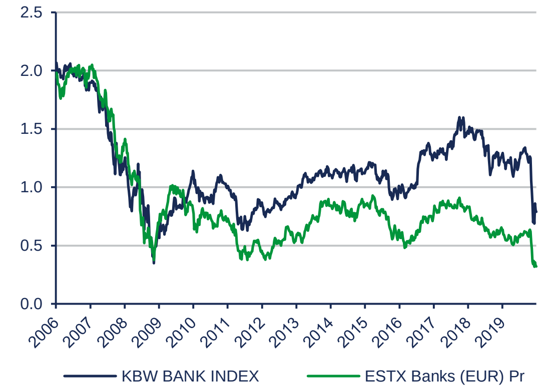
- U.S. 10-year yields continue to grind lower, despite seeing a temporary jump in March amid optimism about monetary and fiscal policy's stimulus impact on the economy.
- Similarly, inflation expectations have bounced back, although have held somewhat steadier. However, this has not been enough to prevent nominal yields from grinding down close to its lows.
- With increasing doubt about a V-shaped global recovery and wholesale demand destruction occurring across the commodity complex, the near-term balance of risks appear to tilt toward disinflation and nominal bond yields breaking lower.

10 YEAR U.S. TREASURY VS. S&P 500



- Equities trend higher despite conflicting signals from bonds, which seem to be pricing in a less optimistic outlook. For equities, forward earnings expectations call for -17% Y/Y earnings growth in 2020, followed by a sharp V-shaped recovery of 23% Y/Y growth in 2021.
- While this upbeat future earnings environment appears to be pushing equities higher, there is still great uncertainty whether these lofty expectations will actually be met, especially as companies have yet to release formal guidance on the matter.
- Also in play are central bank purchases, which could be distorting fundamentals and depressing risk premiums, driving risk assets higher.

BANK PRICE TO BOOK RATIO



- A robust regulatory regime post-2008 crisis has led to a well capitalized and liquid banking system. That said, a prolonged economic lockdown does pose risks to bank solvency, especially through a rise in NPLs and corporate bankruptcies.
- The banking system is far from homogenous and while aggregate tier 1 capital ratios remain high by historical standards, institutions smaller than $500 billion in total assets remain the riskiest.
- Loan default risk is certainly being priced into U.S. bank equities, with price-to-book now trading below one. That said, pricing in of default risks appear to favor U.S. banks over European ones.

Source: Bloomberg and Factset. As of 04/27/2020.

OUTLOOK

The European economy is experiencing a very sharp contraction. While flash PMIs suggested continued deterioration in economic conditions in April, **announced plans to lift restrictions in some European economies is shining a dim light on the path forward—however the roadmap varies by country.** The road to recovery will be differentiated and gradual, as timelines to lift restrictions differ from country-to-country. Without a vaccine, social distancing measures will keep a lid on consumers' return to store fronts and leisure/hospitality activities. That said, **the risks from the corporate sector appear limited; it is much less levered and more liquid than in the past.** A coordinated fiscal response is in preparation but it will take time to be crafted, as is usual in the Union of 27 countries. In the meantime, focus will be on the ECB to provide bridge funding through the crisis.

Economic Growth	04/27/2020	12/31/2017	12/31/2018	12/31/2019	2020 (E)	2021 (E)
EZ Real GDP (Y/Y %)	1.0	2.5	1.9	1.2	-5.3 ▼	4.5 ▲
U.K. Real GDP (Y/Y %)	1.1	1.9	1.3	1.4	-5.0 ▼	3.9 ▲
Inflation						
EZ CPI (Y/Y %)	0.7	1.5	1.8	1.2	0.5 ▼	1.3 ▼
U.K. CPI (Y/Y %)	1.5	2.7	2.5	1.8	1.0 ▼	1.6 ▼
Labor Market						
EZ Unemployment (%)	7.3	9.1	8.2	7.6	9.2 ▲	8.5 ▲
U.K. Unemployment (%)	4.0	4.4	4.1	3.8	6.0 ▲	5.5 ▲
Rates						
EZ Central Bank	0.00	0.00	0.00	0.00	0.00 --	0.00 --
EZ 2Y Note	-0.68	-0.64	-0.62	-0.61	-0.63 ▲	-0.44 ▲
EZ 10Y Bond	-0.45	0.42	0.24	-0.19	-0.34 ▲	-0.04 ▲
U.K. Central Bank	0.10	0.50	0.75	0.75	0.10 ▼	0.15 ▼
U.K. 2Y Gilts	0.07	0.43	0.74	0.53	0.28 ▼	0.55 ▲
U.K. 10Y Gilts	0.30	1.19	1.27	0.82	0.54 ▲	0.84 ▲
Currencies						
EUR/USD	1.08	1.20	1.14	1.12	1.12 ▼	1.15 ▼
GBP/USD	1.24	1.35	1.27	1.33	1.26 ▼	1.31 ▼

Arrows indicate consensus estimate change compared to one month ago

Source: Bloomberg. As of 04/27/2020. (E)—Bloomberg private market consensus estimates.
*Represents actual data

Europe

REOPENING plans have begun to be announced, but varying timelines will lead to a differentiated recovery within Europe.

Reopening plans led EZ INVESTOR EXPECTATIONS to rebound, but BUSINESS CONFIDENCE remains weak.

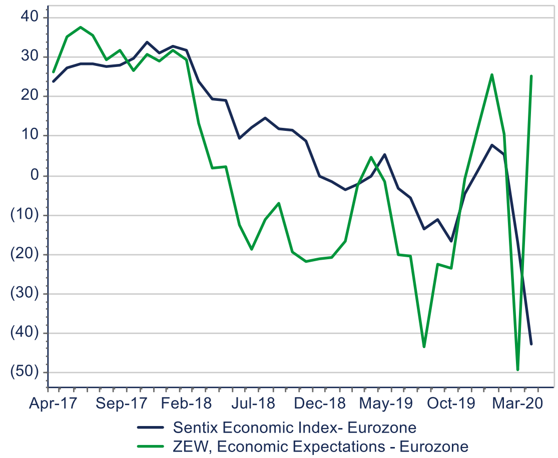
The region is entering the crisis with a very solid FISCAL POSITION.

POTENTIAL DATES LOCKDOWNS COULD END

Country	End of Announced Lockdown
Italy	May 3
Germany	May 3
U.K.	May 7
Spain	May 9
France	May 11

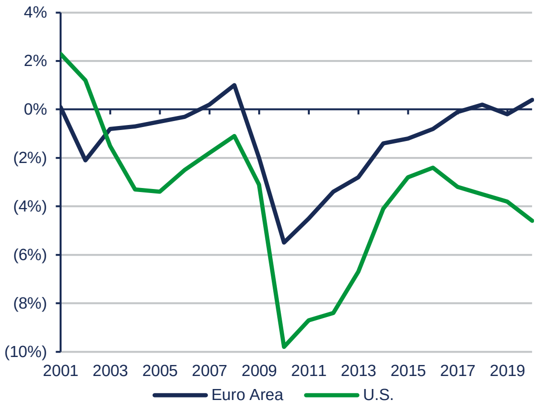
- Some European countries have begun to lift restrictions and announced plans to end lockdowns. However, the path to re-opening and recovery will be gradual—rather than V-shaped.
- Timelines to reopen economies vary by country, which will lead the recovery to be differentiated within Europe.
- Though lagging Asia, the recovery in Europe should lead the U.S., similar to the path of the virus.

EUROZONE BUSINESS AND INVESTOR CONFIDENCE



- Announcements of plans to reopen economies led eurozone investor sentiment for six months from now to rebound sharply. However, sentiment of current conditions remains in the doldrums.
- Investor and business confidence appears to be diverging.
- The EU summit, resulted in giving the EU Commission two weeks to draft details of a Recovery Fund. Its size will likely be large and it will likely be funded by bond issuance by the European Commission. The goal is to implement it to stimulate demand when the economy is back on its feet, at the start of 2021.

GOVERNMENT BUDGET SURPLUS OR DEFICIT AS A % OF GDP



- In the wake of the financial crisis, the Euro Area tightened its fiscal position more quickly than U.S., with Germany determined to balance its budget in spite of calls for more spending to support a faster recovery.
- While Germany has already committed to much more spending to respond to the crisis, European leaders have been discussing how to finance as much as €1.5 trillion in new spending from bonds backed by the European Union's budget.
- The details of the plan remain under discussion as are the terms on which they will be made available.

Source: Bloomberg, Factset, and Deutsche Bank. As of 04/27/2020.

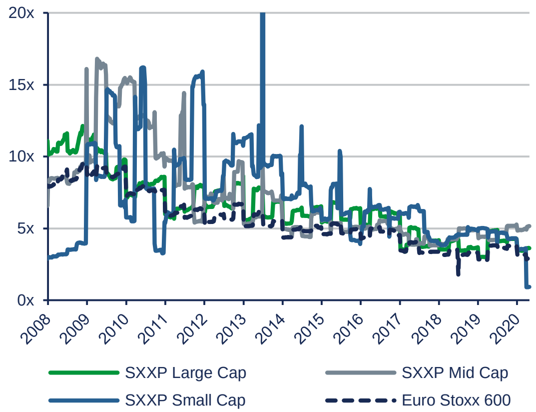
Europe

CORPORATE DEBT has been on a steady decline since 2008, with the phenomenon evident across company sizes.

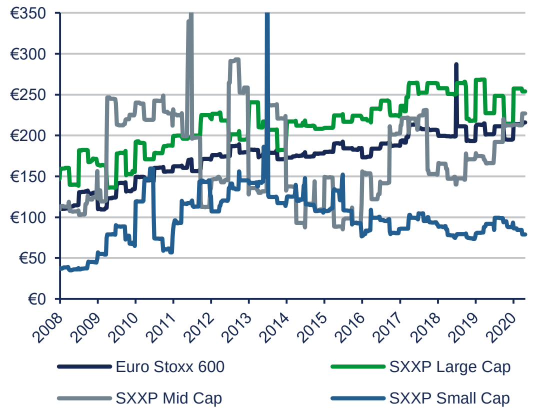
CASH POSITIONS have been elevated, especially as high corporate savings rates have led to cash hoarding.

MONETARY POLICY TRANSMISSION is evident as the ECB's balance sheet rapidly expands to ensure credit availability.

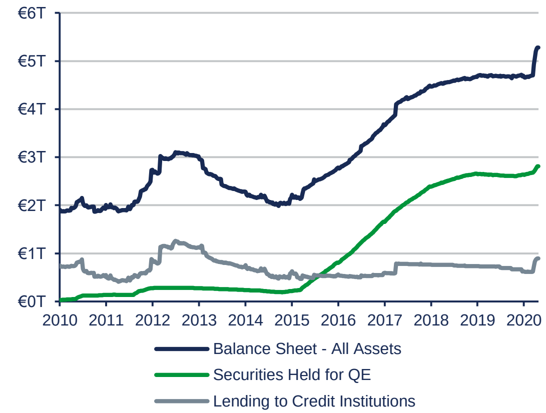
NET DEBT TO EBITDA



CASH & CASH EQUIVALENT PER SHARE



EUROPEAN CENTRAL BANK BALANCE SHEET



- The European corporate sector is much less leveraged now than they have been since the Global Financial Crisis and is entering the slowdown in a much better position.
- The distribution of debt across small, medium or large companies also appears to be much more balanced now, even when compared to the U.S, which is much more bifurcated.
- The composition of debt is also skewed towards bank loans, compared to capital market debt elsewhere in the developed world. As such, financial markets have seen a smaller degree of tightening despite increasing credit risk.

- The corporate sector has become a net leader across most major economies since the 2000s. While the use of net lending is mixed across major economies, European corporates primarily allocated their surpluses to cash hoarding.
- Unlike 2008, which saw a prolonged growth slowdown, the recent experience is likely to be much more temporary. The near-death experience for corporates amid a drying up of revenues should only last a few months versus several quarters. As such, those with enough cash will likely be able to survive.
- That said, while larger corporates appear to have elevated cash positions, small caps are lagging.

- The ECB's balance sheet has expanded by roughly €600 billion, now totaling 46% of GDP. The rise is primarily fueled by securities purchases for QE and lending operations through TLTROs.
- The rate of central bank expansion has been the fastest seen since any time in history. Ensuring adequate credit availability through the banking system is crucial for the corporate sector as they rely heavily on bank loans, versus capital markets.
- As a coordinated and large-scale fiscal package will take time to be put in place, it appears the ECB is the only game in town in backstopping now rising sovereign credit risks.

Source: Bloomberg and Factset. As of 04/27/2020.

OUTLOOK

The path forward in Asia diverges greatly. China's economy, after contracting by a record 6.8% Y/Y in Q1 is on the path to recovery. **While there has been a quick recovery in the return to offices and within the manufacturing sector, the recovery in retail and leisure/hospitality is lagging, suggesting the hopes of a V-shaped recovery are gone.** While weak external demand will weigh on the recovery, China is less reliant on the world for growth than was historically the case. Indeed, China appears unique in the regard that positive earnings growth is still expected for the year. **On the other hand, Japan only implemented a country-wide state of emergency in mid-April, and the worst impact on the economy is yet to come.** Weaker domestic and external demand will reduce production and consumer spending. Overall, as the U.S. dollar continues to strengthen, scope for additional capital flight could be an issue, especially given the sizable stock of U.S. dollar denominated corporate debt in some parts of the region.

Economic Growth	04/27/2020	12/31/2017	12/31/2018	12/31/2019	2020 (E)	2021 (E)
Japan Real GDP (Y/Y %)	-0.7	2.2	0.3	0.7	-3.4 ▼	1.6 ▲
China Real GDP (Y/Y %)	-6.8	6.9	6.7	6.1	2.0 ▼	8.0 ▲
Inflation	0	0	0	0.0	0.0	0.0
Japan CPI (Y/Y %)	0.4	0.5	1.0	0.5	0.0 ▼	0.4 ▼
China CPI (Y/Y %)	4.3	1.6	2.1	2.9	3.2 --	2.1 ▼
Labor Market	0	0	0	0.0	0.0	0.0
Japan Unemployment (%)	2.4	2.8	2.4	2.4	2.8 ▲	2.8 ▲
China Unemployment (%)	3.6	3.9	3.8	3.6	4.2 ▲	4.2 ▲
Rates						
Japan Central Bank	-0.10	-0.10	-0.10	-0.10	0.00 ▲	0.00 --
Japan 2Y Note	-0.16	-0.14	-0.15	-0.13	-0.13 ▲	-0.09 ▼
Japan. 10Y Bond	-0.02	0.04	-0.01	-0.02	-0.04 ▲	0.00 ▼
China Central Bank	4.35	4.35	4.35	4.35	4.30 ▲	4.25 ▲
China 2Y Note	1.32	2.40	2.75	2.75	1.48 ▼	1.50 ▼
China 10Y Bond	2.47	3.88	3.30	3.14	2.44 ▼	2.62 ▼
Currencies						
USD/JPY	107.46	112.69	110.27	108.61	107.00 --	110.00 ▲
USD/CNY	7.08	6.53	6.86	6.98	7.00 ▲	6.90 ▲

Arrows indicate consensus estimate change compared to one month ago

Source: Bloomberg. As of 04/27/2020. (E)—Bloomberg private market consensus estimates.

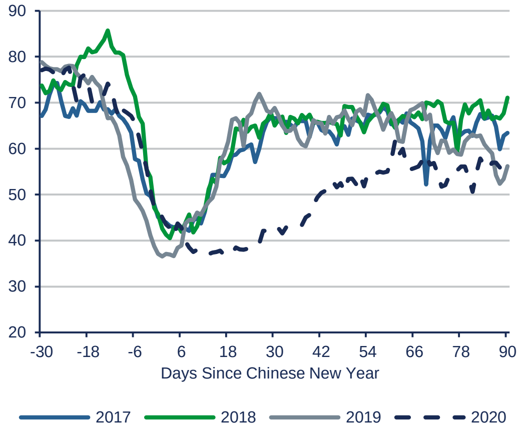
Asia Pacific

CHINA'S ECONOMY is on the path to recovery. Offices and manufacturing are improving, but the timing differs by sector.

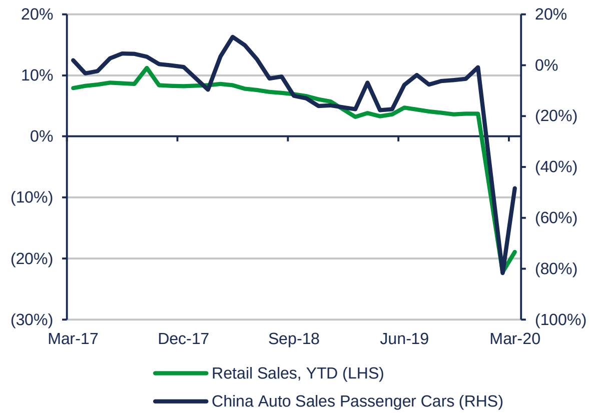
CONSUMER SPENDING IN CHINA is seeing a more measured rebound, and will keep the pace of recovery gradual.

Recent social distancing measures and weakening external demand will weigh on JAPAN'S ECONOMY.

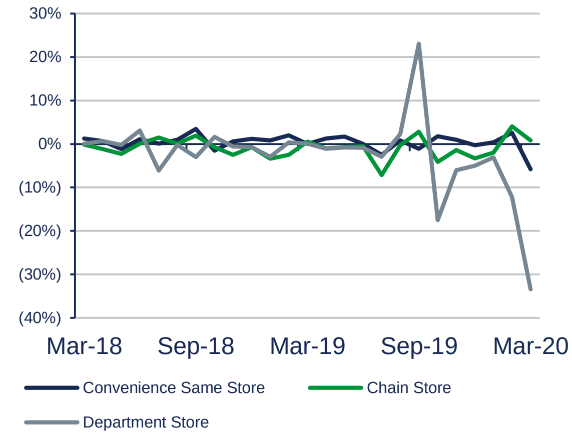
CHINA DAILY COAL CONSUMPTION



CHINA RETAIL AND AUTO SALES, Y/Y%



JAPAN SAME STORE SALES, Y/Y%



- China's economy is on the path to recovery as restrictions are lifted, however it is uneven among sectors and will be gradual, rather than a V-shaped recovery.
- Many are returning to work, and electronics and other manufacturing production are seeing a relatively stronger recovery, while coal consumption has returned to closer-to-normal levels.
- Weaker external demand will weigh on the recovery, but China is less dependent on the world to grow than it has historically been.

- Retail and auto sales in China are seeing a much more measured rebound compared with other sectors.
- A weaker rebound in consumer spending and a slower return to shops and leisure/hospitality will keep the Chinese economy from recovering quickly.
- Social distancing measures will likely be voluntarily followed until a vaccine or effective treatments are widely available.

- Japan only expanded their state of emergency to the entire country on April 17 as COVID-19 cases rise, suggesting the worst is yet to come for Japan.
- Same store sales have retrenched and will likely worsen amid rising social distancing and restrictive measures.
- Weaker external and internal demand will hold back production, as both domestic and foreign machine tool orders took a step back.

Source: Bloomberg, Factset, and UBS. As of 04/22/2020.

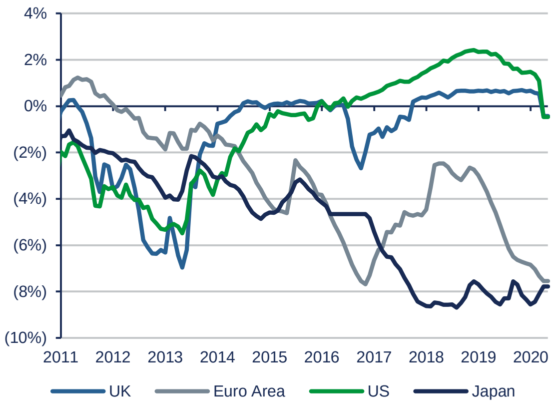
Asia Pacific

SHADOW SHORT RATES signal limited room for additional effective stimulus in Japan and Euro Area.

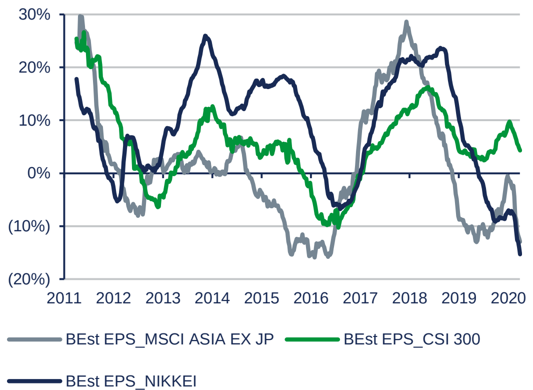
EARNINGS GROWTH is set to decline for much of Asia Pacific, with the exception of China.

Muted COMMODITY PRICES give policymakers a free pass, but a WEAK CURRENCY is a double-edged sword.

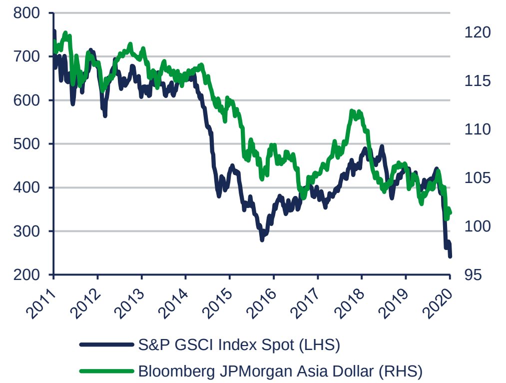
CENTRAL BANK SHADOW RATE



ASIA PACIFIC EPS Y/Y% GROWTH



COMMODITIES VS. ASIA DOLLAR INDEX



- Already trending close to the lowest it's been post-2008 crisis, Japan's shadow short rate implies an already maximum mix of ultra-accommodative policy and may be approaching the "reversal rate."
- From here, additional monetary policy stimulus via unconventional policy may no longer be as effective as they once were, and may actually lead to more restrictive financial conditions overall.
- As the economy enters the COVID-19 crisis already weakened by a consumption tax hike last year, the onus continues to be on fiscal policy to provide any additional support to the economy.

- With earnings in the region only recently troughing amid a turn in the tech cycle in mid-2019, consensus estimates have turned lower, with further earnings contraction expected for the next 12 months.
- The exception, however, appears to be the Chinese market, which, despite seeing earnings growth expectations decline from a recent peak of 10%, is still expected to print positive growth. This market stands in contrast to much of the world as well.
- Despite this rosy near-term earnings picture, net debt to EBITDA levels are also the highest in China, compared to the rest of the region, and could pose a risk to long-term earnings sustainability.

- Commodity prices in decline should keep inflationary pressures at bay and give policymakers more room to extend both monetary and fiscal policy. This is especially true for net energy-importer southeast Asia, as most of the decline in the commodity complex can be traced back to the decline in oil.
- A weakening currency is a double-edged sword, which could be a boon to the region's terms of trade once the crisis ends. However, in the near-term, the weak global demand and trade environment could increase capital flight risk, especially given the sizable stock of U.S. dollar denominated corporate debt in some parts of the region.

Source: Bloomberg and Factset. As of 04/27/2020.

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