

Green Light to Fiscal Expansion

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 3/9	NFIB Small Business Optimism	Feb	96.0	▲	95.0
Wed 3/10	Consumer Price Index	Feb	0.4% M/M	▲	0.3% M/M
Thu 3/11	JOLTS Job Openings	Jan	6600K	▼	6646K
Thu 3/11	Household Change in Net Worth	4Q20			\$3817B
Fri 3/12	Producer Price Index	Feb	0.4% M/M	▼	1.3% M/M
Fri 3/12	U of Michigan Consumer Sentiment (Prelim Estimate)	Mar	77.7	▲	76.8
Europe					
Tue 3/9	OECD Interim Economic Outlook		--		--
Tue 3/9	EZ GDP (Final Estimate)	4Q20	-0.6% Q/Q	-	-0.6% Q/Q
Thu 3/11	ECB Monetary Policy Meeting		0.0%	-	0.0%
Fri 3/12	EZ Industrial Production	Jan	-0.2% M/M	▲	-1.6% M/M
Asia Pacific					
Sun 3/7	China Exports (YTD)	Feb	38.5% Y/Y		
Sun 3/7	China Imports (YTD)	Feb	15.5% Y/Y		
Tue 3/9	Japan GDP, annualized (Final Estimate)	4Q20	12.6% Q/Q	▼	12.7% Q/Q
Tue 3/9	Japan Machine Tool Orders (Preliminary Estimate)	Feb			9.7% Y/Y
Wed 3/10	China Consumer Price Index	Feb	-0.3% Y/Y	-	-0.3% Y/Y
Wed 3/10	China Producer Price Index	Feb	1.4% Y/Y	▲	0.3% Y/Y

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

U.S.

- We **watch for February inflation**, particularly given the weather-induced surge in utility prices in Texas. While underlying inflationary pressures should not be cause for concern, any upside surprise would likely lead to a market reaction.
- **Consumer sentiment has remained depressed** since the crisis began. However, we will watch the extent of improvement in March as stimulus is disbursed, additional aid looks set to pass, vaccine news improves, and some restrictions ease.

Europe

- **The ECB Meeting scheduled for Thursday is expected to show how the central bank's reaction to rising interest rates** plays out within the Governing Council. President Christine Lagarde will likely build a consensus around a very supportive policy, as the ECB is focused on maintaining financial conditions favorable for European economies still waiting to fully reopen.

Asia Pacific

- **China inflation is expected to remain muted** in February. Commodity prices may push the Producer Price Index higher, but falling food prices and the weaker February services PMI suggest the Consumer Price Index should remain in deflationary territory.
- **Eyes are on Japan's final estimate of 4Q20 GDP**, given risks of downward revisions due to weaker demand-side capex data.

Institute's Central Scenario

EU fiscal rules are set to not restrain governments from spending what is necessary before economies fully recover. In the U.S., fiscal stimulus is boosting spending, particularly among lower-income consumers. Meanwhile, a rise in pent-up savings among the higher-income cohort supports our stronger short-term outlook. In China, elevated COVID cases and restrictions over the winter weighed on the pace of the recovery, but we expect weakness to be temporary. However, global consumer demand will be key to China's recovery. Please see our [Monthly Macro Dashboard](#).

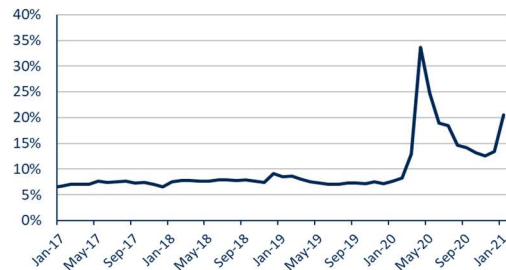
IN REVIEW**Europe Extends Fiscal Support**

Guidelines published by the European Commission (EC) this week hint at a forthcoming decision to suspend EU fiscal rules until eurozone GDP recovers to end-2019 levels; this is currently projected to take place by mid-2022 but will differ by country. It is unclear whether the EC will re-establish rules for 2023 for the EU as a whole or by individual countries. The EU has given itself more time to discuss what post-pandemic fiscal framework it wants when large fiscal spending needs remain—but debt levels do as well. Germany is expected to extend the suspension of the debt limit embedded in its constitution to 2022, which should open the door for the EC to extend the fiscal rules suspension for the EU as a whole for 2022. In the meantime, the decision demonstrates the EU understands how important it is to avoid a fiscal tightening next year. These moves in effect help close the fiscal austerity debate, confirming EU governments can spend as needed to ensure the recovery takes hold.

If the fiscal policy stance is clear, the monetary position is less so. The strong increase in European sovereign yields (the German 10Y bond moved from -0.6 to -0.3 in a month) has created discord among the ECB Governing Council. Several prominent members have spoken for and against the ECB stepping up its bond purchases to counter the rate increases. The arguments are similar to those used by Fed Board members: on the hawkish side, rising rates are good as they reflect an improved economic outlook; on the dovish side, the recovery is not solid enough to allow an increase in the cost of funding for households and corporates. The economic reality is not so similar on the two sides of the Atlantic, with vaccine obstacles making the recovery slower in Europe. All this makes for an interesting ECB meeting Thursday, March 11. There are risks to markets with a confused message, but expect President Lagarde to build a consensus around supportive policy.

Stimulus Drives U.S. Spending and Savings Higher

December fiscal stimulus boosted personal income in January, leading spending and savings to increase strongly. Personal income beat expectations, rising 10% M/M, bringing income 12% above pre-crisis levels. Following the retail sales data trend earlier this month, consumer spending rose 2.4% M/M and is now back in line with pre-crisis levels. Spending on goods led the increase, though spending on food and accommodation and recreation services also nudged services spending higher as some restrictions eased over the month.

U.S. PERSONAL SAVINGS RATE

Source: Bloomberg. As of March 4, 2021.

The personal savings rate jumped from 13.4% to 20.5% in January. While the pent-up savings is concentrated among the higher-income cohorts, elevated savings provides further support for the medium-term spending outlook once vaccines are more widely distributed and restrictions lift.

Given that lower-income cohorts have spent almost all of the previous support, the expected additional stimulus should further boost near-term spending in the absence of jobs. Moreover, elevated savings among higher-income earners will support the medium-term spending outlook.

China February PMIs Show Temporary Weakness

The recovery in China's manufacturing and services sectors eased more than expected in February. Both the Caixin and official PMIs remained in expansionary territory, but the pace of growth slowed. While high-frequency data point to strong consumer spending during the Lunar New Year, PMIs suggest this wasn't enough to outweigh weakness from greater cases and restrictions earlier in February.

Our baseline outlook calls for this weakness to be temporary as COVID cases are contained and internal demand recovers. However, viral contagion and consumer demand across the globe will be key to the outlook in China.

Oil Prices Spike as OPEC+ Decision Surprises

The price of oil jumped sharply after OPEC decided to keep its output steady for April, contrary to expectations for an increase in production by as much as 1.5 million bpd. Russia and Kazakhstan, in contrast, will increase production by 130,000 and 20,000 bpd, respectively, in April. The aggressive supply management has helped drain inventories while global demand gains speed with vaccine rollout ramping up. Saudi Arabia has said it will phase in its self-imposed 1 million bpd supply cut starting in May. The next meeting is set for April 1.

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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	0 bps
U.S. SOFR	0.04%	2 bps	-3 bps	-4 bps	-6 bps	-160 bps	-3 bps
3 Month USD Libor	0.19%	0 bps	0 bps	-3 bps	-6 bps	-112 bps	-4 bps
3 Month Euribor	-0.55%	-1 bps	0 bps	-2 bps	-7 bps	-8 bps	0 bps
3 Month U.S. T-Bill	0.04%	1 bps	1 bps	-4 bps	-7 bps	-88 bps	-4 bps
2-Year U.S. Treasury	0.14%	2 bps	4 bps	0 bps	2 bps	-57 bps	3 bps
10-Year U.S. Treasury	1.47%	8 bps	34 bps	55 bps	86 bps	47 bps	56 bps
10-Year German Bund	-0.30%	-1 bps	18 bps	25 bps	19 bps	32 bps	28 bps
10-Year U.K. Gilt	0.78%	2 bps	42 bps	45 bps	55 bps	40 bps	58 bps
10-Year JGB	0.11%	0 bps	6 bps	9 bps	8 bps	22 bps	9 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.88%	N/A	-0.5%	-2.0%	-3.0%	-1.2%	-3.3%
Barclays Capital U.S. TIPS	0.97%	N/A	-0.1%	-1.6%	-0.3%	5.0%	-1.4%
Barclays Capital U.S. Aggregate	1.45%	32	-0.3%	-1.6%	-2.2%	0.5%	-2.5%
Barclays Capital Global Aggregate	1.08%	33	-0.5%	-1.3%	-1.9%	3.3%	-2.8%
Barclays Capital U.S. ABS	0.46%	28	-0.1%	-0.1%	0.2%	2.2%	0.0%
Barclays Capital U.S. MBS	1.60%	13	0.0%	-0.5%	-0.2%	1.4%	-0.5%
Barclays Capital U.S. Corporate Investment Grade	2.12%	91	-0.5%	-2.1%	-3.2%	1.5%	-3.7%
BAML Euro Corporate Investment Grade	0.33%	88	-0.1%	-0.6%	-0.4%	1.1%	-0.7%
Barclays Capital U.S. Corporate High Yield	4.19%	321	-0.2%	0.2%	2.2%	8.6%	0.9%
BAML European Currency High Yield Non-Financial	2.86%	329	-0.1%	0.8%	1.8%	5.4%	1.2%
CS U.S. Leveraged Loans	4.75%	443	0.0%	0.7%	3.0%	5.5%	2.0%
CS Western European Leveraged Loans Non-USD	4.23%	414	0.1%	0.9%	2.2%	5.0%	1.8%
JPM CEMBI Broad Diversified	4.30%	303	-0.3%	-0.1%	1.2%	4.8%	-0.1%
JPM EMBI Global Diversified	5.08%	354	-0.7%	-2.3%	-1.8%	-0.3%	-3.4%
JPM GBI-EM Global Diversified	4.74%	N/A	-2.3%	-3.2%	-1.8%	0.2%	-4.2%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,819.72	1.47%	-2.7%	-0.1%	4.5%	29.4%	2.0%
Euro STOXX 600 (Local)	413.42	2.05%	0.1%	1.5%	5.5%	8.5%	3.6%
U.K. FTSE 100 (Local)	6,675.47	3.22%	0.2%	2.6%	2.9%	-0.6%	3.3%
Japan Nikkei 225 (Local)	29,559.10	1.40%	-0.4%	3.2%	10.3%	40.2%	7.7%
China Shanghai Composite (Local)	3,576.90	1.97%	0.4%	1.7%	3.9%	19.5%	3.0%
MSCI AC World (Local)	662.80	1.77%	-1.5%	3.4%	6.1%	27.2%	3.3%
MSCI Emerging Markets (Local)	1,378.02	1.78%	0.7%	3.9%	12.7%	36.5%	7.9%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	474.61	-3.0%	6.5%	22.7%	35.3%	27.9%	15.9%
WTI Crude (\$/bbl)	61.28	-3.1%	10.1%	34.2%	48.1%	29.6%	26.7%
Copper (\$/lb)	4.15	-3.4%	16.1%	19.4%	40.4%	61.0%	18.2%
Gold (\$/oz)	1,711.40	-4.3%	-6.8%	-6.6%	-11.8%	5.9%	-9.3%
U.S. Dollar Index	90.95	0.9%	-0.2%	0.3%	-1.9%	-6.4%	1.1%
Euro (USD/EUR)	1.21	-0.4%	0.5%	-0.7%	2.0%	8.0%	-1.3%
British Pound (USD/GBP)	1.40	-0.9%	2.4%	3.5%	5.3%	9.0%	2.2%
Japanese Yen (Yen/USD)	106.96	1.0%	1.8%	3.1%	0.7%	-0.6%	3.6%
Chinese Yuan (CNY/USD)	6.46	0.1%	0.1%	-1.5%	-5.5%	-7.4%	-1.2%

Source: FactSet and Bloomberg. As of March 3, 2021.

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*As of December 31, 2020
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