

The U.S. Grabs the Global Recovery Baton...

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Mon 3/22	Existing Home Sales	Feb	6.52M	▼	6.69M
Tue 3/23	New Home Sales	Feb	890K	▼	923K
Wed 3/24	Durable Goods Orders (Preliminary Estimate)	Feb	0.7% M/M	▼	3.4% M/M
Wed 3/24	Markit Manufacturing PMI (Preliminary Estimate)	Mar	58.8	▲	58.6
Wed 3/24	Markit Services PMI (Preliminary Estimate)	Mar	60.0	▲	59.8
Thu 3/25	GDP, annualized (Third Estimate)	4Q20	4.1% Q/Q	-	4.1% Q/Q
Fri 3/26	Personal Income	Feb	-7.4% M/M	▼	10.0%
Fri 3/26	Personal Spending	Feb	-0.2% M/M	▼	2.4% M/M
Fri 3/26	PCE Deflator	Feb	0.3% M/M	-	0.3% M/M
Europe					
Tue 3/23	U.K. Unemployment Rate	Jan	5.2%	▲	5.1%
Wed 3/24	EZ Markit Manufacturing PMI (Preliminary Estimate)	Mar	57.5	▼	57.9
Wed 3/24	EZ Markit Services PMI (Preliminary Estimate)	Mar	45.5	▼	45.7
Wed 3/24	U.K. Markit Manufacturing PMI (Preliminary Estimate)	Mar	55.0	▼	55.1
Wed 3/24	U.K. Markit Services PMI (Preliminary Estimate)	Mar	50.0	▲	49.5
Wed 3/24	U.K. Consumer Price Index	Feb	0.8% Y/Y	▲	0.7% Y/Y
Fri 3/26	U.K. Retail Sales	Feb	2.2% M/M	▲	-8.2% M/M
Asia Pacific					
Mon 3/22	PBOC Meeting	Mar	--		--
Mon 3/22	South Korea Exports 20 Days	Mar			16.7% Y/Y
Wed 3/24	Jibun Bank Japan Mfg. PMI (Preliminary Estimate)	Mar			51.4
Wed 3/24	Jibun Bank Japan Services PMI (Preliminary Estimate)	Mar			46.3

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

U.S.

- **Flash PMIs** for March are expected to improve as restrictions ease, fiscal stimulus reaches consumers, and vaccine roll out picks up.
- **Personal income and spending** for February are set to ease as the boost from January stimulus checks fades and weather weighs on spending. However, prepare for a jump in March.

Europe

- **Flash PMIs** are expected to show continued manufacturing resilience and some improvement in service sectors. Renewed COVID-related restrictions in some EU countries could however hurt services sectors again.

Asia Pacific

- **Japan's March flash PMIs** should show that the damage on consumers and business from the latest lockdown has been smaller than that seen a year ago. Lockdowns are set to be lifted in Tokyo and three neighboring prefectures on Monday. Separately in China, we will watch **the PBOC meeting** on Monday.

Institute's Central Scenario

In Europe, slow vaccination programs and delayed delivery of doses continue to delay the reopening of economies. The ECB reacted, announcing a faster pace of bond purchases to counter the increase in interest rates. In the U.S., the Fed showed that even with better growth and inflation outlooks, it remains committed to its accommodative stance, as the recovery still has a ways to go. Meanwhile, severe weather conditions in February weighed on U.S. activity data, but our baseline outlook calls for a quick reversal in March as stimulus is disbursed and vaccine rollout picks up. Elsewhere, China activity data this year shows the uneven recovery continues, with a jump in industrial production, while restrictions weighed on consumer activity. Please see our [Monthly Macro Dashboard](#).

IN REVIEW

European Recovery Risks Delay

As more EU countries go back into lockdown and others temporarily banned use of the AstraZeneca (AZ) vaccine this week, the key ingredients of a delayed economic recovery seem to be in place for Europe.

There may be a silver lining, though. Vaccination programs across Europe were already shifting to predominant use of other vaccines (Pfizer and Moderna) after AZ announced it would not honor its contract to provide the EU with 90 million doses by end of March, instead delivering fewer than 20 million doses. So even the worst-case scenario of short-term suspension of AZ doses will cause limited delays in inoculation schedules.

EU countries have administered 80% of the doses they have received, which suggests that inoculations will increase rapidly if vaccine providers eventually honor their contracts. Various estimates quantify the damage of AZ delays as 0.25% of 2021 growth, with a deeper contraction in Q2, followed by a stronger rebound in the second half of the year as vaccinations pick up speed (assuming that doses are provided).

Connecting the Dots

The FOMC doubled down on its accommodative stance Wednesday, noting that the recovery still has a ways to go, even with better growth prospects this year. Projections were revised materially higher following passage of the \$1.9 trillion stimulus bill, showing 6.5% GDP growth for 2021 and inflation projections at and above 2% through 2023. Despite inflation over 2%, the median dot shows no rate hikes through the end of 2023, as the Fed is committed to achieving maximum employment and would rather be behind inflation than preemptively hike. Fed Chair Jay Powell reaffirmed the Fed's view that it is still too early to think about tapering and will instead wait for actual data to show improvement before thinking about acting. The news, or lack thereof, was received well by markets, with a steady 10-year and a rise in equities.

FOMC SUMMARY OF ECONOMIC PROJECTIONS

Variable	2021	2022	2023	Longer run
GDP	6.5%	3.3%	2.2%	1.8%
Unemployment Rate	4.5%	3.9%	3.5%	4.0%
PCE Inflation	2.4%	2.0%	2.1%	2.0%
Federal Funds Rate	0.1%	0.1%	0.1%	2.5%

Source: Federal Reserve. As of March 18, 2021.

While the monetary policy path was spelled out by the Fed, attention turns to fiscal policy, which is less certain given a deeply divided Congress with a large tab to foot. An infrastructure bill may garner support across the aisle, but agreeing on how to actually pay for it will prove to be a sizable obstacle. Instead, many expect a modest bipartisan surface transportation bill to pass this summer, followed by \$1 trillion in infrastructure spending and a broader reconciliation package that includes tax hikes this fall; spending from an infrastructure bill would likely be spread out across many years.

Separately, tax increases look likely to pass, though they won't take effect until next year, at the earliest. President Joe Biden is set to propose that Congress raise the global minimum tax on multinational corporations, as well as increasing taxes on the wealthiest households. An increase to 28% for corporations has been suggested, though negotiations could reduce that number.

Winter Weather Weighs on U.S. Data

Severe winter weather weighed on U.S. high-frequency data in February, with retail sales, housing starts, and industrial production all declining more than expected. However, this is noise rather than signal – activity data is expected to jump as weather improves in March, vaccine rollout picks up, and stimulus checks from the American Rescue Plan Act of 2021 reach wallets. Fiscal stimulus that is giving the lowest 60% of households more income than before the pandemic should boost spending above pre-crisis levels, according to our baseline outlook. Moreover, solid fundamentals in the housing market should keep it as a consistent source of strength this year.

China's Domestic Demand Lags

China activity data for January and February came in better than expected, showing big headline surges, but a mixed picture comes into view when accounting for base effects. Industrial production and exports surged, benefited by the "stay put" campaign. Retail sales continue to face headwinds as pandemic uncertainty and capacity restrictions weigh on consumer-related activity. Surveyed unemployment also ticked higher in February, likely a reflection of the recent viral resurgence, as well as seasonal factors. Policymakers are cautious given an unbalanced recovery; fiscal policy is turning less supportive while a more neutral monetary policy stance focuses on policy normalization to address financial system risks and leverage. The government's growth target should be easily met, with domestic consumption recovery the key to continued growth momentum this year.

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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	0 bps	0 bps
U.S. SOFR	0.01%	-1 bps	-5 bps	-8 bps	-9 bps	-53 bps	-6 bps
3 Month USD Libor	0.19%	1 bps	1 bps	-5 bps	-4 bps	-86 bps	-5 bps
3 Month Euribor	-0.54%	0 bps	0 bps	0 bps	-6 bps	-13 bps	0 bps
3 Month U.S. T-Bill	0.02%	-3 bps	-3 bps	-7 bps	-8 bps	-17 bps	-6 bps
2-Year U.S. Treasury	0.13%	-3 bps	2 bps	-1 bps	0 bps	-33 bps	1 bps
10-Year U.S. Treasury	1.63%	12 bps	33 bps	71 bps	95 bps	67 bps	72 bps
10-Year German Bund	-0.29%	2 bps	8 bps	30 bps	21 bps	17 bps	28 bps
10-Year U.K. Gilt	0.84%	12 bps	26 bps	59 bps	66 bps	33 bps	64 bps
10-Year JGB	0.09%	-3 bps	0 bps	8 bps	8 bps	10 bps	7 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.95%	N/A	-0.7%	-2.0%	-3.9%	-2.3%	-4.1%
Barclays Capital U.S. TIPS	1.06%	N/A	-0.2%	-1.0%	-1.0%	12.4%	-1.5%
Barclays Capital U.S. Aggregate	1.57%	33	-0.6%	-1.9%	-3.1%	2.1%	-3.4%
Barclays Capital Global Aggregate	1.14%	34	-0.4%	-2.0%	-3.7%	6.0%	-3.9%
Barclays Capital U.S. ABS	0.50%	31	0.0%	-0.1%	0.0%	3.6%	-0.1%
Barclays Capital U.S. MBS	1.76%	13	-0.2%	-0.7%	-0.8%	1.3%	-0.9%
Barclays Capital U.S. Corporate Investment Grade	2.28%	97	-0.8%	-3.2%	-4.5%	9.1%	-5.1%
BAML Euro Corporate Investment Grade	0.35%	90	-0.1%	-0.6%	-0.7%	6.5%	-0.8%
Barclays Capital U.S. Corporate High Yield	4.44%	332	-0.1%	-1.0%	0.9%	23.1%	0.3%
BAML European Currency High Yield Non-Financial	2.79%	322	0.3%	0.0%	1.4%	22.9%	1.3%
CS U.S. Leveraged Loans	4.80%	448	0.0%	0.2%	2.3%	18.1%	2.0%
CS Western European Leveraged Loans Non-USD	4.27%	417	0.1%	0.4%	2.1%	19.3%	1.9%
JPM CEMBI Broad Diversified	4.45%	305	0.1%	-1.2%	-0.4%	14.8%	-0.7%
JPM EMBI Global Diversified	5.20%	353	0.5%	-3.3%	-3.6%	15.0%	-4.1%
JPM GBI-EM Global Diversified	4.90%	N/A	0.2%	-5.3%	-5.0%	12.8%	-5.4%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,974.12	1.41%	2.0%	1.2%	7.2%	59.9%	6.2%
Euro STOXX 600 (Local)	424.91	2.20%	0.7%	2.1%	7.0%	46.0%	6.5%
U.K. FTSE 100 (Local)	6,762.67	3.09%	0.6%	0.8%	3.2%	27.7%	4.7%
Japan Nikkei 225 (Local)	29,914.33	1.38%	3.0%	-1.2%	11.6%	75.8%	9.0%
China Shanghai Composite (Local)	3,445.55	2.05%	2.6%	-5.7%	1.2%	24.0%	-0.8%
MSCI AC World (Local)	678.19	1.75%	1.8%	0.3%	7.6%	58.8%	6.2%
MSCI Emerging Markets (Local)	1,342.80	1.90%	1.1%	-4.9%	8.0%	61.3%	5.7%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	488.61	0.6%	3.3%	20.8%	37.2%	78.4%	19.3%
WTI Crude (\$/bbl)	64.60	0.2%	5.7%	33.6%	57.6%	139.6%	33.6%
Copper (\$/lb)	4.13	2.1%	7.6%	14.8%	34.6%	78.3%	17.5%
Gold (\$/oz)	1,729.65	0.8%	-2.9%	-8.5%	-10.7%	12.6%	-8.4%
U.S. Dollar Index	91.44	-0.4%	0.5%	1.8%	-1.6%	-8.2%	1.7%
Euro (USD/EUR)	1.19	0.1%	-1.1%	-2.8%	0.8%	8.5%	-2.7%
British Pound (USD/GBP)	1.39	-0.1%	0.2%	2.2%	7.2%	15.6%	1.6%
Japanese Yen (Yen/USD)	109.22	0.5%	3.1%	6.0%	4.3%	1.7%	5.8%
Chinese Yuan (CNY/USD)	6.50	-0.1%	1.0%	-0.5%	-3.9%	-7.3%	-0.6%

Source: FactSet and Bloomberg. As of March 17, 2021.

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