

07 May 2021

THE WEEK AHEAD

Up, Up, but Not (Run) Away Inflation

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 5/11	NFIB Small Business Optimism Index	Apr	101.0	▲	98.2
Tue 5/11	JOLTS Job Openings	Mar	7500K	▲	7367K
Wed 5/12	Consumer Price Index	Apr	3.6% Y/Y	▲	2.6% Y/Y
Thu 5/13	Producer Price Index	Apr	5.8% Y/Y	▲	4.2% Y/Y
Fri 5/14	Retail Sales	Apr	1.0% M/M	▼	9.8% M/M
Fri 5/14	Industrial Production	Apr	1.3% M/M	▼	1.4% M/M
Fri 5/14	University of Michigan Sentiment (Preliminary Estimate)	May	90.1	▲	88.3
Europe					
Wed 5/12	EZ Industrial Production	Mar	1.0% M/M	▲	-1.0% M/M
Wed 5/12	UK GDP (Preliminary Estimate)	1Q21	-1.7% Q/Q	▼	1.3% Q/Q
Wed 5/12	UK Industrial Production	Mar			1.0% M/M
Asia Pacific					
5/8-5/15	China Aggregate Financing	Apr	2250.0B	▼	3340.0B
Tue 5/11	China Consumer Price Index	Apr	1.0% Y/Y	▲	0.4% Y/Y
Tue 5/11	China Producer Price Index	Apr	6.5% Y/Y	▲	4.4% Y/Y
Tue 5/11	Japan Household Spending	Mar	0.9% Y/Y	▲	-6.6% Y/Y

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

U.S.

- **The consumer price index is set to rise further in April** due to base effects, higher energy prices, and continued reopening of the economy. We will watch market reaction, particularly if there is a surprise to the upside.
- **April retail sales are expected to moderate from March** as the boost from one-off stimulus checks fade. However, spending should remain strong in the near-term, given healthy consumer finances and the easing of restrictions.

Europe

- **U.K. Q1 GDP will show the combined impact of renewed COVID restrictions and trade frictions** imposed by Brexit. Consensus is expecting a very sharp contraction: -1.7% Q/Q. The composition of GDP (exports vs. internal demand) will be particularly interesting to gauge the impact of Brexit.

Asia Pacific

- **China aggregate financing likely eased** amid slower household loan growth and a decline in off-balance sheet financing.
- With commodity prices and transportation costs remaining high, **China PPI is expected to stay at high levels**, though moderation in sequential M/M growth is consistent with a decline in PMI price indices. **China CPI should also edge higher**, driven by a modest rise in non-food inflation and a recovery in services inflation.

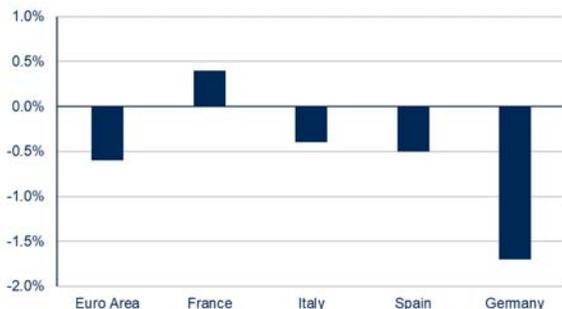
Institute's Central Scenario

The latest round of euro area lockdowns caused less damage than initially feared, and positive data for the beginning of Q2 supports our brightening outlook in the region. Earnings on both sides of the Atlantic continue to beat expectations amid the favorable economic backdrop. Meanwhile, fiscal stimulus, a recovering labor market, and easing restrictions boosted U.S. personal spending and income. Elevated savings should support the near-term consumption boom in the U.S. as restrictions ease further. Meanwhile, in China, PMIs suggest that the growth driver may be shifting to consumption as vaccination campaigns ramp up. Please see our [Monthly Macro Dashboard](#).

IN REVIEW

Outlook Turns Brighter in Europe

Eurozone GDP fell by 0.6% Q/Q in the first quarter, confirming the double-dip recession induced by COVID second and third waves. The contraction was however considerably smaller than expected by consensus when restrictions were announced (-1% Q/Q), showing that renewed restrictions caused less damage than feared. The main surprise came from positive GDP growth in France and Italy. German GDP dropped 1.7% Q/Q, slightly more than expected, on the back of one-offs (VAT increase and COVID restrictions tighter than elsewhere).

EURO AREA 1Q21 GDP, Q/Q%


Source: Bloomberg. As of May 6, 2021.

Solid positive surprises in European data point to a strong rebound starting in Q2: euro area March retail sales were up 2.7% M/M (consensus 2.5%), and February numbers have been revised up. This suggests the latest restrictions did not dent consumers' moods. Expedited EU vaccinations (now comparable to rates in the U.S. and U.K., and enough to accommodate vulnerable populations by the start of tourism season) should improve the mood further.

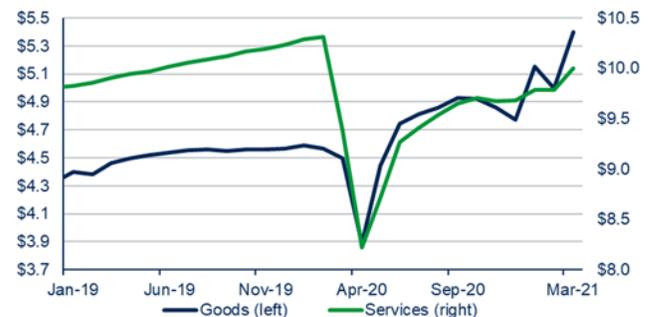
U.S. and European Earnings Continue to Impress

The blended S&P 500 earnings growth rate for Q1 now stands at 45.8%, up from 24.5% at the start of earnings season. As of May 3, 86% of those reporting have surpassed consensus EPS expectations above the historical average of 65% and are on pace for the highest share since Refinitiv began tracking the metric in 1990s. In aggregate, companies are beating earnings expectations by nearly 23%, better than the 14.5% one-year average positive surprise rate. Upside surprises have been driven by outsized estimate cuts early in the pandemic, a resilient macro backdrop underpinned by massive fiscal and monetary stimulus, and elevated profit margins (despite all the concerns about input cost pressures). The first quarter also benefitted from big reserve releases out of the financials.

European companies are also delivering one of the best earnings seasons on record, with both sales and earnings surprises near all-time highs. All sectors have outperformed, with exposure to rising commodities prices determining the extent of the better results.

Stimulus and Jobs Boost U.S. Income

Personal income, spending, and savings all jumped in March as stimulus checks were sent out, restrictions eased, and job gains accelerated. Personal income soared a record 21.1% M/M in March. While the \$1,400 stimulus checks were the main driver, contributions from wages is improving as more Americans return to work. The sharp rise in income supported greater spending, which rose 4.2% M/M—bringing spending to 3.5% above pre-crisis levels. While goods have so far benefited the most, spending on services is set to accelerate as restrictions ease across the country.

U.S. PERSONAL SPENDING, USD BILLIONS, SAAR


Source: Haver. As of May 6, 2021.

While a lot of money was spent, a fraction was also saved, which drove the savings rate from 13.9% in February to 27.6% in March. Elevated savings will help support the near-term consumption boom as restrictions lift. Looking ahead, personal income is set to decline in April as stimulus fades, and the next leg of the recovery will rely on the transition from government transfers to income from wages and salaries as the labor market rebounds.

China PMIs Highlight Shift in Growth Drivers

The government's official manufacturing PMI declined to 51.1 in April, from 51.9 prior, with the non-manufacturing PMI also moderating to 54.9 in April from 56.3 prior. Despite coming in below market expectations, both are still in expansionary territory and likely reflect a shift of growth drivers to consumption as vaccinations ramp up. Small enterprises also outperformed large- and medium-sized firms, which helps explain the latest divergence with the private Caixin PMI.

07 May 2021 | The Week Ahead

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%	0 bps	0 bps	-1 bps	-10 bps	-4 bps	-6 bps
3 Month USD Libor	0.17%	-2 bps	-3 bps	-2 bps	-4 bps	-30 bps	-7 bps
3 Month Euribor	-0.53%	0 bps	1 bps	0 bps	-1 bps	-23 bps	1 bps
3 Month U.S. T-Bill	0.02%	1 bps	0 bps	-1 bps	-8 bps	-11 bps	-6 bps
2-Year U.S. Treasury	0.16%	-1 bps	-1 bps	6 bps	1 bps	-2 bps	4 bps
10-Year U.S. Treasury	1.59%	-4 bps	-12 bps	42 bps	81 bps	93 bps	67 bps
10-Year German Bund	-0.23%	1 bps	10 bps	23 bps	41 bps	35 bps	35 bps
10-Year U.K. Gilt	0.82%	2 bps	2 bps	34 bps	59 bps	60 bps	62 bps
10-Year JGB	0.09%	0 bps	-3 bps	4 bps	7 bps	12 bps	7 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.93%	N/A	0.3%	0.9%	-1.7%	-3.8%	-3.2%
Barclays Capital U.S. TIPS	1.01%	N/A	0.8%	2.4%	0.8%	7.2%	0.9%
Barclays Capital U.S. Aggregate	1.50%	31	0.3%	0.8%	-1.3%	0.2%	-2.4%
Barclays Capital Global Aggregate	1.12%	32	-0.1%	1.2%	-1.5%	4.6%	-3.1%
Barclays Capital U.S. ABS	0.48%	30	0.1%	0.2%	0.0%	3.2%	0.0%
Barclays Capital U.S. MBS	1.68%	10	0.1%	0.5%	-0.7%	-0.2%	-0.6%
Barclays Capital U.S. Corporate Investment Grade	2.15%	89	0.4%	1.1%	-1.5%	5.5%	-3.2%
BAML Euro Corporate Investment Grade	0.32%	85	0.1%	-0.1%	-0.5%	5.1%	-0.6%
Barclays Capital U.S. Corporate High Yield	3.95%	290	0.2%	0.9%	1.1%	19.7%	2.1%
BAML European Currency High Yield Non-Financial	2.69%	311	0.1%	0.5%	1.1%	16.5%	2.2%
CS U.S. Leveraged Loans	4.84%	451	0.6%	1.2%	3.6%	16.5%	2.5%
CS Western European Leveraged Loans Non-USD	4.23%	413	0.6%	1.4%	2.7%	14.0%	2.3%
JPM CEMBI Broad Diversified	4.36%	299	0.3%	0.6%	-0.2%	14.3%	-0.1%
JPM EMBI Global Diversified	5.04%	344	0.4%	2.0%	-1.4%	15.0%	-2.3%
JPM GBI-EM Global Diversified	4.93%	N/A	-0.2%	2.2%	-3.7%	11.7%	-4.5%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,167.59	1.35%	-0.4%	2.3%	7.6%	47.7%	11.5%
Euro STOXX 600 (Local)	441.55	2.72%	0.4%	2.2%	7.8%	31.6%	10.7%
U.K. FTSE 100 (Local)	7,039.30	3.05%	1.1%	4.5%	8.5%	20.3%	9.0%
Japan Nikkei 225 (Local)	28,812.63	N/A	-0.8%	-4.2%	0.1%	46.9%	5.0%
China Shanghai Composite (Local)	3,446.86	N/A	-0.3%	-1.1%	-1.4%	20.5%	-0.8%
MSCI AC World (Local)	699.63	1.72%	-0.7%	2.4%	6.3%	44.6%	9.6%
MSCI Emerging Markets (Local)	1,333.05	1.92%	-2.2%	-0.8%	-3.7%	45.9%	4.6%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	519.21	2.8%	11.8%	15.2%	46.3%	89.4%	26.8%
WTI Crude (\$/bbl)	65.63	2.9%	11.7%	15.5%	70.2%	167.2%	35.7%
Copper (\$/lb)	4.54	0.0%	9.4%	24.7%	46.2%	93.9%	29.2%
Gold (\$/oz)	1,782.25	0.6%	3.3%	-1.1%	-8.1%	4.9%	-5.6%
U.S. Dollar Index	91.31	0.8%	-1.4%	0.3%	-1.3%	-8.4%	1.5%
Euro (USD/EUR)	1.20	-0.7%	1.8%	-0.2%	1.5%	10.7%	-1.9%
British Pound (USD/GBP)	1.39	0.0%	0.1%	1.3%	6.1%	11.7%	1.8%
Japanese Yen (Yen/USD)	109.22	0.3%	-0.8%	3.6%	5.4%	2.4%	5.8%
Chinese Yuan (CNY/USD)	6.47	-0.2%	-1.5%	-0.1%	-2.5%	-8.2%	-1.0%

Source: FactSet and Bloomberg. As of May 5, 2021

07 May 2021 | *The Week Ahead*

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*As of December 31, 2020
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