

## Too Hot? Too Cold? Maybe Just Right

### WATCH LIST

Date		Period	Consensus		Previous
<b>U.S.</b>					
Mon 5/17	NAHB Housing Market Index	May	83	-	83
Tue 5/18	Building Permits	Apr	1770K	▲	1766K
Tue 5/18	Housing Starts	Apr	1705K	▼	1739K
Wed 5/19	FOMC Meeting Minutes	Apr	--		--
Fri 5/21	Markit Manufacturing PMI (Preliminary Estimate)	May	60.5	-	60.5
Fri 5/21	Markit Services PMI (Preliminary Estimate)	May	64.7	-	64.7
Fri 5/21	Existing Home Sales	Apr	6.05M	▲	6.01M
<b>Europe</b>					
Tue 5/18	EZ GDP (Preliminary Estimate)	1Q21	-0.6% Q/Q	-	-0.6% Q/Q
Tue 5/18	UK Unemployment Rate	Mar			4.9%
Wed 5/19	UK CPI	Apr			0.7% Y/Y
Fri 5/21	UK Retail Sales (ex auto fuel)	Apr			4.9% M/M
Fri 5/21	EZ Markit Manufacturing PMI (Preliminary Estimate)	May	62.3	▼	62.9
Fri 5/21	EZ Markit Services PMI (Preliminary Estimate)	May	52.0	▲	50.5
<b>Asia Pacific</b>					
Mon 5/17	China Industrial Production (YTD)	Apr	21.1% Y/Y	▼	24.5% Y/Y
Mon 5/17	Fixed Assets ex Rural (YTD)	Apr	19.8% Y/Y	▼	25.6% Y/Y
Mon 5/17	Property Investment (YTD)	Apr	20.0% Y/Y	▼	25.6% Y/Y
Mon 5/17	Retail Sales (YTD)	Apr	31.9% Y/Y	▼	33.9% Y/Y
Mon 5/17	Japan Producer Price Index	Apr	3.1% Y/Y	▲	1.0% Y/Y
Tue 5/18	Japan GDP (Preliminary Estimate)	1Q21	-1.1% Q/Q	▼	2.8% Q/Q
Wed 5/19	Hong Kong Markets Closed for National Day		--		--
Thu 5/20	PBOC Meeting	May	--		--
Fri 5/21	Japan Consumer Price Index	Apr	-0.5% Y/Y	▼	-0.2% Y/Y
Fri 5/21	Jibun Bank Japan Mfg. PMI (Preliminary Estimate)	May			53.6
Fri 5/21	Jibun Bank Japan Services PMI (Preliminary Estimate)	May			49.5

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

#### U.S.

- **Housing market data** should remain strong as demand continues to outstrip supply.
- **Expect May Flash PMIs** to remain robust with reopenings and a consumer boom.
- **Republicans and Democrats** have until May 31 to reach a stimulus deal.

#### Europe

- **EZ Flash PMIs** for May will show how strong Q2 will be in Europe. After very solid numbers (and positive surprises) in March and April, another strong number is needed for the eurozone to show it is turning the corner.

#### Asia Pacific

- **China activity data** for April should moderate amid fading base-effects. Expect **retail sales to improve** on a two-year CAGR basis as consumption recovers.
- **Japan 1Q21 GDP** should decline given renewed restrictions while **Flash PMIs** will show how Q2 is faring.

#### Institute's Central Scenario

In the U.S., inflation surprised to the upside, driven by factors beyond base effects and energy prices, though markets view these pressures as temporary. The underwhelming April jobs report supported the Fed's stance that a full labor market recovery still has a ways to go. In Europe, while U.K. 1Q21 GDP showed concerning signs, the outlook is turning brighter. Elsewhere, while commodity prices are boosting producer prices in China, it does not warrant any aggressive monetary tightening. Please see our [Monthly Macro Dashboard](#).

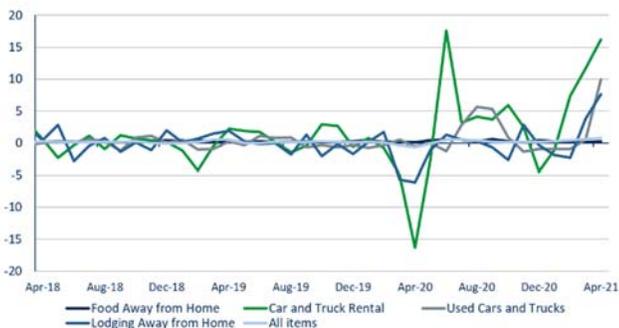
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## IN REVIEW

### U.S. Data Too Hot and Too Cold

U.S. data is coming in both too hot and too cold—does that make monetary policy and our baseline outlook just right? In April, U.S. CPI surprised to the upside. While base effects and higher energy prices contributed to the 4.2% Y/Y rise in headline CPI, prices are also rising M/M. While this may raise concerns about our Inflation Anxiety scenario, supply chain issues and the U.S. reopening are driving much of the pickup elsewhere. Nearly 60% of the increase was from airfares, food away from home, car rentals, used cars, and lodging away from home amid the reopening boom. These are temporary factors, or so the Fed should say. Nonetheless, we will watch both inflation pressures in more sustainable core indices and inflation expectations to see if persistent inflation, or expectations of it, takes shape. Following the upward surprise, the 10-year yield edged higher, but the inflation expectations component held largely steady. With longer-term inflation expectations stable, one- and two-year expectations rose, suggesting markets see upside to near-term inflation but view these pressures as temporary.

U.S. CPI, M/M%



Source: Bloomberg. As of May 13, 2021.

While inflation overshot expectations, the Fed is putting less weight on inflation and more on the inclusive labor market recovery. In April, employment greatly underwhelmed. Nonfarm payrolls rose a mere 266,000 over the month, compared with estimates of nearly 1 million job gains, and the previous two months were revised lower by 78,000. With many factors at play, the data support the Fed's view that labor market pains mean it has a ways to recover before reaching full employment.

Job gains were driven by the reopening, with a rise in leisure and hospitality, but the breadth of industries adding jobs declined over the month. Even taking into account those making more on unemployment benefits than wages, and supply chain shortages weighing on manufacturing labor demand,

employment is still well below pre-crisis levels. The need for family/child care, health concerns, and skills mismatch are also likely contributing to the shortfall.

Meanwhile, the unemployment rate rose from 6% to 6.1% in April, due in part to a rise in the labor force as more people re-enter to look for work. While the report was disappointing, one data point does not make a trend, so use caution when putting emphasis on this, particularly as the CPI data show a strong reopening boom unfolding in the U.S.

### European Commission Spring Forecast Brightened

In the first quarter of her post-EU life, the U.K. economy showed concerning signs of weakness. Sizeable drops in consumption (-3.8% Q/Q) and investment (-10% Q/Q) were only offset by a positive contribution from trade as imports fell more than exports; this was driven the unwinding of a massive pre-Brexit stockpiling in 2020. The mix of huge offsetting one-offs makes it hard to distinguish the temporary from the structural. High-frequency data show clear signs of momentum building, so the short-term rebound should not be in doubt. Things become much harder to predict further ahead, though.

The strong rebound is expected to last for the eurozone, at least according to the European Commission (EC) spring forecast published this week. The EC revised up its forecast for eurozone growth this year to 4.3% (from 3.8% in the winter forecast published in February) and 4.4% in 2022 (up from 3.8%). The recession is expected to close in Q1, with GDP growing 1.2% Q/Q (4.8% annualized) in Q2 before surging 3.0% (12% annualized) in Q3.

### Commodities Pushing Prices Higher In China

CPI inflation rose 0.9% Y/Y in April (versus 0.4% prior, 1% consensus), lifted by non-food inflation. Tourism, transportation and miscellaneous goods and services saw price hikes as services consumption continued to recover. Meanwhile, PPI inflation surged 6.8% Y/Y in April (versus 4.4% prior, 6.5% consensus), fueled by base effects and a steady rise in non-oil commodity prices. Other than global factors, such as demand and supply bottlenecks, decarbonization (sizable production cuts in steel, aluminum, and other base metals) also played a role. In the near-term, the government may fine tune its policy to alleviate these pressures. The pass-through to CPI has also been limited in recent years, suggesting no need for aggressive tightening. Nevertheless, while the PBOC's normalization bias was evident in lower-than-expected money and credit growth, medium- and long-term loans remained resilient, indicating continued recovery for corporate capex.

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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%	0 bps	0 bps	-4 bps	-8 bps	-5 bps	-6 bps
3 Month USD Libor	0.15%	-2 bps	-3 bps	-4 bps	-7 bps	-27 bps	-8 bps
3 Month Euribor	-0.54%	-1 bps	0 bps	1 bps	-3 bps	-29 bps	1 bps
3 Month U.S. T-Bill	0.02%	0 bps	0 bps	-3 bps	-8 bps	-12 bps	-6 bps
2-Year U.S. Treasury	0.16%	1 bps	0 bps	6 bps	-1 bps	1 bps	5 bps
10-Year U.S. Treasury	1.70%	11 bps	3 bps	50 bps	81 bps	101 bps	78 bps
10-Year German Bund	-0.13%	9 bps	16 bps	29 bps	40 bps	37 bps	44 bps
10-Year U.K. Gilt	0.87%	5 bps	8 bps	34 bps	51 bps	63 bps	67 bps
10-Year JGB	0.07%	-2 bps	-3 bps	1 bps	5 bps	8 bps	5 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.99%	N/A	-0.7%	-0.1%	-2.3%	-4.4%	-3.9%
Barclays Capital U.S. TIPS	1.08%	N/A	-0.2%	2.0%	0.6%	7.1%	0.6%
Barclays Capital U.S. Aggregate	1.58%	30	-0.7%	-0.1%	-1.8%	-0.2%	-3.0%
Barclays Capital Global Aggregate	1.17%	32	-0.2%	0.4%	-2.0%	4.7%	-3.3%
Barclays Capital U.S. ABS	0.48%	28	0.0%	0.1%	-0.1%	2.9%	0.0%
Barclays Capital U.S. MBS	1.79%	11	-0.4%	-0.2%	-0.9%	-0.5%	-1.0%
Barclays Capital U.S. Corporate Investment Grade	2.23%	87	-1.0%	-0.2%	-2.3%	5.3%	-4.1%
BAML Euro Corporate Investment Grade	0.39%	84	-0.4%	-0.5%	-0.9%	5.1%	-1.0%
Barclays Capital U.S. Corporate High Yield	4.15%	302	-0.2%	0.4%	0.6%	18.4%	1.9%
BAML European Currency High Yield Non-Financial	2.77%	311	-0.2%	0.0%	0.7%	15.8%	2.0%
CS U.S. Leveraged Loans	4.84%	452	0.1%	0.2%	1.0%	15.4%	2.6%
CS Western European Leveraged Loans Non-USD	4.22%	412	0.1%	0.4%	1.1%	13.0%	2.4%
JPM CEMBI Broad Diversified	4.39%	292	0.1%	0.6%	-0.4%	13.4%	0.0%
JPM EMBI Global Diversified	5.05%	333	0.0%	1.4%	-1.5%	13.1%	-2.3%
JPM GBI-EM Global Diversified	4.96%	N/A	1.0%	2.1%	-3.2%	11.9%	-3.5%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,063.04	1.35%	-2.5%	-1.5%	3.6%	43.9%	8.7%
Euro STOXX 600 (Local)	437.93	2.80%	-0.8%	0.6%	5.8%	28.6%	9.7%
U.K. FTSE 100 (Local)	7,004.63	3.02%	-0.5%	1.7%	6.3%	16.8%	8.4%
Japan Nikkei 225 (Local)	28,147.51	1.52%	-2.3%	-4.7%	-4.6%	38.2%	2.6%
China Shanghai Composite (Local)	3,462.75	2.04%	0.5%	1.5%	-5.3%	19.8%	-0.3%
MSCI AC World (Local)	686.77	1.76%	-2.0%	-1.5%	2.1%	40.4%	7.5%
MSCI Emerging Markets (Local)	1,315.25	1.96%	-1.6%	-2.1%	-7.0%	41.3%	2.9%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	526.65	1.4%	12.0%	13.5%	43.0%	90.2%	28.6%
WTI Crude (\$/bbl)	66.08	0.7%	10.7%	11.1%	61.6%	156.5%	36.7%
Copper (\$/lb)	4.75	4.7%	17.9%	25.0%	51.2%	101.3%	35.2%
Gold (\$/oz)	1,830.70	2.7%	5.6%	0.8%	-2.4%	7.5%	-3.0%
U.S. Dollar Index	90.71	-0.7%	-1.5%	0.3%	-2.4%	-9.2%	0.9%
Euro (USD/EUR)	1.21	0.6%	1.4%	-0.4%	2.2%	11.0%	-1.3%
British Pound (USD/GBP)	1.41	1.3%	2.6%	1.8%	7.4%	14.3%	3.1%
Japanese Yen (Yen/USD)	109.38	0.1%	0.0%	4.2%	4.0%	2.0%	5.9%
Chinese Yuan (CNY/USD)	6.44	-0.5%	-1.7%	0.1%	-2.8%	-9.1%	-1.5%

Source: FactSet and Bloomberg. As of May 14, 2021.

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