

Shoppers Jump-Start an Early Q4 Pickup

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Mon 11/1	ISM Manufacturing	Oct	60.3	▼	61.1
Tue 11/2	Wards Total Vehicle Sales	Oct	12.30 M	▲	12.18 M
Wed 11/3	ADP Employment Change	Oct	400 K	▼	568 K
Wed 11/3	ISM Services Index	Oct	61.9	-	61.9
Wed 11/3	FOMC Meeting	Nov	0%-0.25%	-	0-0.25%
Thu 11/4	Nonfarm Productivity (Preliminary Estimate)	3Q21	-1.3%	▼	2.1%
Fri 11/5	Change in Nonfarm Payrolls	Oct	400 K	▲	194 K
Fri 11/5	Unemployment Rate	Oct	4.7%	▼	4.8%
Fri 11/5	Consumer Credit	Sep	\$16.2 B	▲	\$14.379 B
Europe					
10/31-11/12	COP26 Climate Change Summit		--		--
Wed 11/3	EZ Unemployment Rate	Sep			7.5%
Thu 11/4	EZ Producer Price Index	Sep			1.1% M/M
Thu 11/4	Bank of England Bank Rate	Nov	0.175%	▲	0.100%
Thu 11/4	OPEC+ Meeting	Nov	--		--
Fri 11/5	EZ Retail Sales	Sep			0.3% M/M
Asia Pacific					
Sun 10/31	Japan General Election		--		--
Mon 11/1	South Korea Exports	Oct	29.4% Y/Y	▲	16.7% Y/Y
Mon 11/1	China Non-manufacturing PMI	Oct	53.0	▼	53.2
Mon 11/1	China Manufacturing PMI	Oct	49.7	▲	49.6
Mon 11/1	Caixin China Manufacturing PMI	Oct	50.0	-	50.0
Wed 11/3	Caixin China Services PMI	Oct	53.5	▲	53.4
Fri 11/5	Japan Household Spending	Sep	-4.0% Y/Y	▼	-3.0% Y/Y

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

U.S.

- Watch the **FOMC meeting** for a tapering announcement Wednesday. We will also listen for rhetoric around stickier price pressures and labor struggles.
- The **October employment report** should improve, but pay attention to constraints on labor supply.

Europe

- **The Bank of England** kept its record-low interest rate in September, but many people expect a hike next week.
- World leaders at **COP26** are planning to combat global warming, while, separately, **OPEC+ members** will show their intentions about oil supply, given elevated demand.

Asia Pacific

- **China October PMIs** should improve as the energy crunch is addressed.
- The ruling Liberal Democratic Party should hold its majority in **Japan's general election**, but the margin of victory will help determine Prime Minister Fumio Kishida's claim to a mandate for his new policies.

What This Week Means For Markets

Stickier price pressures continue to stoke fears of U.S. inflation and an early FOMC lift off. Markets are currently pricing in 2.5 rate hikes by the end of 2022—more aggressive than Federal Reserve Chairman Jerome Powell is signalling, which has led to increases in the short-end of the U.S. Treasury curve. The simultaneous downward movement in the long-end suggests markets may be worried about a policy mistake weighing on growth. While inflation and corresponding market responses remain a key risk to our outlook, our baseline position calls for the Fed to refrain from tightening too early. Please see our [Monthly Macro Dashboard](#).

IN REVIEW
U.S. Q3 GDP Slows, but Consumers View a Better Q4

U.S. GDP slowed more than expected in Q3, rising 2% Q/Q at an annualized pace, compared with consensus for 2.6% and the strong 6.7% Q/Q growth in Q2. A sharp deceleration in consumer spending, due largely to autos, drove the slowdown, as did supply chain bottlenecks and the Delta variant weighing on goods and services spending. Declines in fixed investment outside of intellectual property and a wider trade deficit also weighed on the headline. On a positive note, inventories supported headline growth and should continue to do so. As COVID cases decline in Q4, growth is set to pick up.

The Conference Board Consumer Confidence Index rose from 109.8 to 113.8 in October, with increases in the present situation and expectations components. Confidence was supported by declining COVID cases as well as improving sentiment around employment. The labor market differential hit a new high, which provides support for improvement in the labor market recovery. While COVID and elevated energy prices pose risks to the outlook, overall, this release suggests that consumers are set to help drive better growth in the final quarter of the year.

ECB Keeps Cool, Says “See You in December”

The ECB kept rates and its vast bond-buying program unchanged, as widely expected. ECB President Christine Lagarde reiterated the long-held view that inflation will rise in the coming months before declining next year as energy prices fall, base effects fade away, and supply and demand balance out.

The ECB sees supply shortages and high prices slowing down the economy as balanced with risks of higher inflation. The idea of rate hikes after inflation hits the 2% target rate for the three-year horizon have been reiterated as well. In contrast to the ECB, both the BoE and the Fed have signaled a move towards less accommodative policies, which is also reflective of less-benign inflation dynamics in their jurisdictions.

Strong Demand Still Reflected in Global Flash PMIs

Supply chain issues continue to weigh on the recovery, but global flash Markit PMIs in October show demand is still strong.

In the U.S., flash PMIs suggest the service sector is picking up in Q4 as COVID cases decline. The index rose to a three-month high of 58.2 amid greater demand; encouragingly, the employment subcomponent increased at the quickest pace since June—a welcome sign as labor supply has been particularly

constrained for the in-person service sector. Improvement here supports a better October employment report, out November 5. Meanwhile, demand remained elevated for the manufacturing sector, but the index was weighed down by continued supply constraints. Protracted supply chain bottlenecks are keeping inflationary pressures elevated, with average input prices rising at a record pace over the month. Overall, this reading further supports our baseline outlook of a Brave New World, in which the economy wrestles with near-term supply chain bottlenecks and stickier price pressures, but strong growth remains intact, while inflation should abate as supply rebounds next year.

GLOBAL MARKIT PMIS

Region	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
U.S. Manufacturing	59.2	58.6	59.1	60.5	62.1	62.1	63.4	61.1	60.7	59.2
U.S. Services	58.3	59.8	60.4	64.7	70.4	64.6	59.9	55.1	54.9	58.2
EZ Manufacturing	54.8	57.9	62.5	62.9	63.1	63.4	62.8	61.4	58.6	58.5
EZ Services	45.4	45.7	49.6	50.5	55.2	58.3	59.8	59	56.4	54.7
UK Manufacturing	54.1	55.1	58.9	60.9	65.6	63.9	60.4	60.3	57.1	57.7
UK Services	39.5	49.5	56.3	61.0	62.9	62.4	59.6	55	55.4	58
Japan Manufacturing	49.8	51.4	52.7	53.6	53.0	52.4	53	52.7	51.5	53
Japan Services	46.1	46.3	48.3	49.5	46.5	48	47.4	42.9	47.8	50.7

Source: Bloomberg. As of October 28, 2021.

The eurozone composite PMI fell to 54.3 in October (consensus 55.2) from 56.2 in September, due to persistent supply bottlenecks, transportation problems, and COVID concerns. Manufacturing remained strong (58.5) while services declined to 54.7, more than expected.

Japan services PMI topped 50 for the first time since January 2020, as COVID cases dropped and the state of emergency ended, potentially reflecting a nascent recovery in domestic demand. The manufacturing PMI also moved higher as overseas demand remained robust, though supply shortages, particularly in autos, are likely to be a continued drag.

The BOJ is a Dove Among Hawks

The Bank of Japan held monetary policy steady across all parameters, as expected. The bank's increasingly divergent dovish policy stance, relative to other developed market central banks, has led to a weaker yen. The BOJ offered no pushback, citing that the net impact, particularly on exports and offshore profits, is positive. Growth and prices for FY2021 were downgraded in its outlook report, largely reflecting production issues from supply constraints for semiconductors and other products. FY2022 growth was upgraded, however, reflecting the optimism around the consumption recovery. With 70% of the population fully vaccinated and cases remaining low, September retail sales grew 2.7% M/M, above expectations. All categories except autos logged increases. If infections remain low, continued normalization of consumer spending can be expected in the coming months thanks to a slow unwind of forced savings.

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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	0.05%	2 bps	0 bps	0 bps	4 bps	-4 bps	-2 bps
3 Month USD Libor	0.13%	0 bps	0 bps	0 bps	-5 bps	-8 bps	-11 bps
3 Month Euribor	-0.56%	-1 bps	-1 bps	-1 bps	-2 bps	-5 bps	-1 bps
3 Month U.S. T-Bill	0.06%	1 bps	3 bps	2 bps	5 bps	-4 bps	-2 bps
2-Year U.S. Treasury	0.48%	11 bps	20 bps	28 bps	31 bps	34 bps	37 bps
10-Year U.S. Treasury	1.53%	-11 bps	5 bps	29 bps	-9 bps	75 bps	61 bps
10-Year German Bund	-0.17%	-5 bps	5 bps	26 bps	8 bps	44 bps	40 bps
10-Year U.K. Gilt	1.00%	-15 bps	15 bps	43 bps	24 bps	76 bps	81 bps
10-Year JGB	0.10%	1 bps	5 bps	8 bps	2 bps	8 bps	8 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.12%	N/A	0.7%	-0.2%	-1.2%	-2.7%	-2.4%
Barclays Capital U.S. TIPS	1.30%	N/A	1.5%	2.1%	1.6%	7.5%	5.8%
Barclays Capital U.S. Aggregate	1.64%	32	0.7%	-0.2%	-0.9%	-0.7%	-1.4%
Barclays Capital Global Aggregate	1.25%	33	0.4%	-0.6%	-1.8%	-1.6%	-3.9%
Barclays Capital U.S. ABS	0.86%	34	-0.1%	-0.3%	-0.5%	0.2%	-0.1%
Barclays Capital U.S. MBS	1.88%	24	0.2%	-0.1%	-0.6%	-0.5%	-0.8%
Barclays Capital U.S. Corporate Investment Grade	2.19%	85	1.1%	-0.2%	-0.8%	1.6%	-0.8%
BAML Euro Corporate Investment Grade	0.41%	87	0.2%	-0.4%	-1.3%	0.3%	-0.6%
Barclays Capital U.S. Corporate High Yield	4.22%	289	0.0%	-0.4%	0.4%	9.7%	4.3%
BAML European Currency High Yield Non-Financial	2.98%	326	0.0%	-0.8%	-0.2%	7.4%	3.0%
CS U.S. Leveraged Loans	5.01%	439	0.0%	0.4%	1.3%	8.1%	4.9%
JPM CEMBI Broad Diversified	4.49%	304	0.1%	-0.7%	-0.3%	4.9%	1.2%
JPM EMBI Global Diversified	5.15%	360	0.6%	-0.7%	-0.7%	3.8%	-1.2%
JPM GBI-EM Global Diversified	5.61%	N/A	-0.9%	-1.7%	-2.7%	0.1%	-7.1%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,551.68	1.26%	0.4%	2.5%	3.8%	36.2%	22.6%
Euro STOXX 600 (Local)	474.04	2.74%	0.8%	2.5%	3.4%	34.4%	18.8%
U.K. FTSE 100 (Local)	7,253.27	3.40%	0.4%	2.7%	3.7%	26.6%	12.3%
Japan Nikkei 225 (Local)	29,098.24	1.56%	-0.5%	-3.8%	4.0%	23.9%	6.0%
China Shanghai Composite (Local)	3,562.31	2.05%	-0.7%	-0.6%	5.4%	9.5%	2.6%
MSCI AC World (Local)	741.75	1.76%	0.0%	1.8%	3.3%	32.6%	18.3%
MSCI Emerging Markets (Local)	1,282.89	2.36%	-1.3%	1.8%	2.2%	15.4%	3.3%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	590.00	-1.0%	5.6%	10.7%	17.5%	65.1%	44.1%
WTI Crude (\$/bbl)	84.65	0.3%	12.1%	18.1%	34.3%	115.2%	75.1%
Copper (\$/lb)	4.39	-7.8%	2.2%	-3.5%	-7.5%	42.0%	24.8%
Gold (\$/oz)	1,795.25	1.0%	2.3%	-0.3%	0.6%	-5.8%	-4.9%
U.S. Dollar Index	93.80	0.3%	0.4%	1.5%	3.2%	0.9%	4.3%
Euro (USD/EUR)	1.16	-0.4%	-0.9%	-1.9%	-4.0%	-2.0%	-5.2%
British Pound (USD/GBP)	1.37	-0.7%	0.1%	-1.2%	-1.5%	5.0%	0.3%
Japanese Yen (Yen/USD)	113.72	-0.5%	2.5%	3.6%	4.8%	8.9%	10.1%
Chinese Yuan (CNY/USD)	6.39	0.0%	-1.1%	-1.7%	-1.5%	-4.8%	-2.3%

Source: FactSet and Bloomberg. As of October 27, 2021.

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