

Is This the Start of a Labor Force Liftoff?

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 12/14	NFIB Small Business Optimism	Nov	98.3	▲	98.2
Tue 12/14	Producer Price Index	Nov	0.5% M/M	▼	0.6% M/M
Wed 12/15	Retail Sales	Nov	0.8% M/M	▼	1.7% M/M
Wed 12/15	NAHB Housing Market Index	Dec	84	▲	83
Wed 12/15	FOMC Meeting	Dec	0-0.25%	—	0-0.25%
Thu 12/16	Housing Starts	Nov	1570 K	▲	1520 K
Thu 12/16	Industrial Production	Nov	0.7% M/M	▼	1.6% M/M
Thu 12/16	Markit Manufacturing PMI (Preliminary Estimate)	Dec			58.3
Thu 12/16	Markit Services PMI (Preliminary Estimate)	Dec			58.0
Europe					
Tue 12/14	EA Industrial Production	Oct	1.5% M/M	▲	-0.2% M/M
Tue 12/14	U.K. Unemployment Rate	Oct	4.2%	▼	4.3%
Wed 12/15	U.K. Consumer Price Index	Nov	4.7% Y/Y	▲	4.2% Y/Y
Thu 12/16	Bank of England Bank Rate	Dec	0.1%	—	0.1%
Thu 12/16	ECB Monetary Policy Meeting	Dec	0.0%	—	0.0%
Thu 12/16	EA Markit Manufacturing PMI (Preliminary Estimate)	Dec	57.7	▼	58.4
Thu 12/16	EA Markit Services PMI (Preliminary Estimate)	Dec	54.5	▼	55.9
Thu 12/16	U.K. Markit Manufacturing PMI (Preliminary Estimate)	Dec	57.6	▼	58.1
Thu 12/16	U.K. Markit Services PMI (Preliminary Estimate)	Dec	57.5	▼	58.5
Asia Pacific					
Wed 12/15	China Retail Sales	Nov	4.8% Y/Y	▼	4.9% Y/Y
Wed 12/15	China Industrial Production	Nov	3.8% Y/Y	▲	3.5% Y/Y
Wed 12/15	China Fixed Assets ex Rural (YTD)	Nov	5.4% Y/Y	▼	6.1% Y/Y
Wed 12/15	China Property Investment (YTD)	Nov	5.9% Y/Y	▼	7.2% Y/Y
Thu 12/16	Jibun Bank Japan Mfg. PMI (Preliminary Estimate)	Dec			54.5
Thu 12/16	Jibun Bank Japan Services PMI (Preliminary Estimate)	Dec			53.0
Fri 12/17	Bank of Japan Policy Rate	Dec			-0.10%

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

U.S.

- We will watch the December **FOMC meeting** amid rising inflation concerns and expectations for an accelerated pace of tapering.
- We will also watch for legislation that could help **avert a government shutdown**.

Europe

- **The ECB meeting** will be key as QE programs' future will be announced.
- **The BOE meets** among uncertainty on rate hikes after U.K. officials declared new COVID restrictions.
- **December PMIs** will give early hints of Omicron's effect on the economy.

Asia Pacific

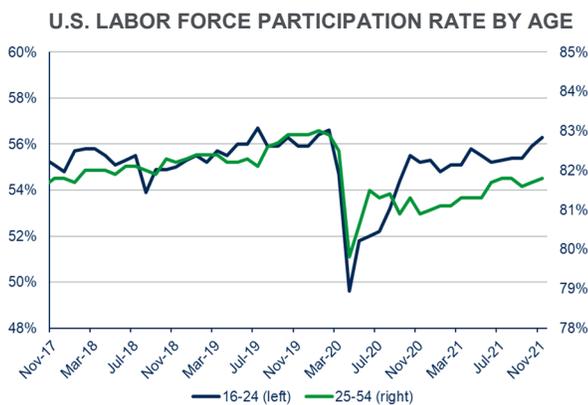
- **China activity data** for November could show a recovery amid government intervention.
- **The BOJ will likely keep the status quo** but should make adjustments to its pandemic programs amid variant risks.

What This Week Means For Markets

Volatility amid the Omicron variant continues to dominate; new restrictions in the U.K. led the pound to hit new YTD lows. Rising U.S. inflation concerns and hawkish comments from FOMC leadership suggest the pace of taper is likely to increase next year, supporting the rally in the U.S. two-year yield. Our baseline outlook now calls for faster U.S. monetary policy normalization, but growth is set to remain strong amid healthy household balance sheets, while inflation should ease in 2H22. Please see our [Monthly Macro Dashboard](#).

IN REVIEW
A Positive Surprise in U.S. Labor Supply

While headline job growth underwhelmed in November, better-than-expected improvement in the labor force was an encouraging sign. Nonfarm payrolls rose 210,000 in November (cons. 550,000), though the average job growth is an impressive 555,000 per month, year-to-date. Across industries, gains were greatest in professional and business services, transportation and warehousing, and construction. Less upbeat was the deceleration in leisure and hospitality and the decline in retail trade employment.



Source: Bloomberg. As of December 9, 2021.

Despite an initially disappointing headline number, the Household Survey—which is used to calculate the unemployment rate—was much more upbeat. In addition to a significantly more robust rise in employment, the survey showed the labor force participation rate rose 0.2 ppt. to 61.8%, finally breaking out of the range it had been stuck in for the past seven months. The unemployment rate fell 0.4 ppt. to 4.2% for the right reasons, and improvements were also seen for many minority groups. Demand for labor continues to outpace the available supply, which has resulted in rising wage pressures.

One data point does not make a trend, and the one-month gain in labor supply is not enough to close the gap. However, the increase in the labor force could signal more improvement is on the way as consumers spend down their savings in the absence of further supplemental unemployment insurance benefits. Encouragingly, looking across age groups, the labor force participation rate increased for those ages 16-24, as well as for prime-age workers (ages 25-54). While there is still a great deal of uncertainty on the labor supply recovery path—made more murky by the emergence of the Omicron variant—the return of

more supply will help slow the pace of wage growth. In fact, sequential M/M growth in average hourly earnings decelerated for the second-consecutive month in November.

The November employment report supports our baseline outlook (see the link on page 1) for a solid labor market recovery amid a return of job seekers and inflation pressures that ease in the second half of 2022. However, the emergence of new variants may lead to some volatility in the coming months.

China's Pro-Growth Pivot

The People's Bank of China announced a 50 bps reserve requirement ratio (RRR) cut, reiterating it would maintain prudent monetary policy, aiming to keep policy consistent, stable, and sustainable without flooding the market with excess liquidity. While this aligns with our expectations of incremental stimulus for now, it nevertheless underscores the sizable downside risks to growth amid regulatory tightening efforts in the property sector.

A similar dovish shift was evident in the latest Politburo meeting, which emphasized overall growth stabilization and reiterated the need to keep a proactive fiscal stance while focusing on expanding domestic demand. It also hinted at a further fine-tuning of property market policy, easing constraints on affordable housing construction. Together with the RRR cut, the policy tone adjustment within the Politburo statement signaled that authorities are increasingly trying to limit downside risks to the economy, likely aiming to put a floor on GDP growth. As a result, further policy easing is likely, though broad-based stimulus, like policy rate cuts, remains a high bar.

Steady Recovery Continues in Europe, Omicron Permitting

Economic activity measures released in early December have delivered further (moderate) upside surprises. Euro area retail sales grew at 1.4% Y/Y (cons. 1.2% Y/Y) in October, while November PMIs showed resilience, particularly in Italy, France, and Spain, where the composite indices posted significant increases since November and went back to the 56-58 range associated with strong expansions. Tourist arrivals in Spain, a key metric for the country most dependent on tourism as a source of income in the EU, grew at 402% Y/Y (not a typo), reaching levels well above the same period in 2019. These data did not catch the impact of the new Omicron variant but at least show EU economies are facing it from a solid recovery position.

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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%	0 bps	0 bps	0 bps	4 bps	-2 bps	-2 bps
3 Month USD Libor	0.20%	3 bps	5 bps	8 bps	7 bps	-3 bps	-4 bps
3 Month Euribor	-0.57%	0 bps	0 bps	-3 bps	-3 bps	-4 bps	-3 bps
3 Month U.S. T-Bill	0.07%	1 bps	2 bps	2 bps	5 bps	-2 bps	-1 bps
2-Year U.S. Treasury	0.68%	11 bps	23 bps	46 bps	53 bps	53 bps	56 bps
10-Year U.S. Treasury	1.51%	7 bps	1 bps	17 bps	-2 bps	60 bps	59 bps
10-Year German Bund	-0.32%	1 bps	-6 bps	1 bps	-10 bps	30 bps	26 bps
10-Year U.K. Gilt	0.76%	-9 bps	-10 bps	13 bps	-1 bps	51 bps	56 bps
10-Year JGB	0.05%	-2 bps	-1 bps	1 bps	-3 bps	3 bps	3 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.24%	N/A	-0.9%	-0.4%	-0.9%	-2.3%	-2.5%
Barclays Capital U.S. TIPS	1.37%	N/A	0.0%	-0.6%	0.8%	6.1%	5.2%
Barclays Capital U.S. Aggregate	1.77%	36	-0.6%	-0.6%	-0.9%	-1.4%	-1.8%
Barclays Capital Global Aggregate	1.28%	36	-0.3%	-0.9%	-2.0%	-3.7%	-4.5%
Barclays Capital U.S. ABS	1.09%	36	-0.2%	-0.4%	-0.8%	-0.2%	-0.4%
Barclays Capital U.S. MBS	1.99%	29	-0.2%	-0.6%	-0.9%	-0.9%	-1.2%
Barclays Capital U.S. Corporate Investment Grade	2.36%	95	-0.5%	-1.0%	-0.9%	-0.7%	-1.4%
BAML Euro Corporate Investment Grade	0.43%	98	0.3%	-0.4%	-0.6%	-0.7%	-0.5%
Barclays Capital U.S. Corporate High Yield	4.40%	294	1.0%	-0.5%	-0.2%	5.5%	4.6%
BAML European Currency High Yield Non-Financial	3.11%	349	0.5%	-0.2%	-0.7%	3.2%	3.1%
CS U.S. Leveraged Loans	5.28%	441	0.3%	0.1%	0.9%	5.8%	5.1%
JPM CEMBI Broad Diversified	4.61%	314	0.3%	-0.4%	-1.5%	1.6%	0.8%
JPM EMBI Global Diversified	5.24%	363	1.2%	-0.9%	-2.4%	-0.5%	-1.7%
JPM GBI-EM Global Diversified	5.64%	N/A	0.8%	-1.8%	-5.4%	-7.9%	-9.0%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,701.21	1.23%	4.2%	0.1%	4.5%	28.8%	26.8%
Euro STOXX 600 (Local)	477.36	3.06%	1.4%	-1.3%	2.0%	21.3%	19.6%
U.K. FTSE 100 (Local)	7,337.05	3.36%	2.3%	0.5%	3.4%	11.9%	13.6%
Japan Nikkei 225 (Local)	28,860.62	1.66%	3.3%	-2.2%	-4.4%	9.0%	5.2%
China Shanghai Composite (Local)	3,637.57	1.99%	1.7%	4.0%	-1.0%	6.7%	4.7%
MSCI AC World (Local)	748.11	1.77%	3.3%	-0.5%	2.1%	22.4%	20.4%
MSCI Emerging Markets (Local)	1,241.01	2.51%	1.2%	-1.3%	-3.8%	3.7%	0.6%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	547.27	5.0%	-6.1%	3.5%	2.7%	42.0%	33.7%
WTI Crude (\$/bbl)	72.36	10.6%	-11.7%	4.3%	3.2%	58.5%	49.7%
Copper (\$/lb)	4.39	3.4%	-0.3%	3.8%	-3.8%	25.7%	25.0%
Gold (\$/oz)	1,783.80	-0.3%	-2.1%	-0.1%	-5.8%	-4.5%	-5.5%
U.S. Dollar Index	95.89	-0.1%	2.0%	3.5%	6.5%	5.4%	6.6%
Euro (USD/EUR)	1.13	0.0%	-2.2%	-4.1%	-7.0%	-6.4%	-7.4%
British Pound (USD/GBP)	1.32	-0.8%	-2.6%	-3.8%	-6.6%	-1.1%	-3.3%
Japanese Yen (Yen/USD)	113.91	0.8%	0.6%	3.2%	4.1%	9.4%	10.3%
Chinese Yuan (CNY/USD)	6.35	-0.3%	-0.7%	-1.7%	-0.7%	-2.7%	-2.9%

Source: FactSet and Bloomberg. As of December 8, 2021.

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