

Markets Paging Dr. Powell

IN REVIEW

- The **ISM manufacturing index** slid 0.8 points to 50.1 in February. New orders fell into contractionary territory and supplier deliveries leapt amid supply chain disruptions. The **ISM nonmanufacturing index** rose from 55.5 to 57.3 in February, as the services sector is resilient amid COVID-19 thus far.
- The **U.S. PCE deflator** rose 0.1% M/M in January. The headline was up 1.7% Y/Y while the core PCE rose 1.6% Y/Y.
- The **FOMC** unexpectedly cut the fed funds rate by 50 bps to a range of 1%-1.25% on Tuesday, ahead of the March meeting.
- **U.S. weekly mortgage applications** surged 26% in the week of February 28, as the average 30-year fixed-rate mortgage rate slid to its lowest level in eight years. The FOMC rate cut should further buoy demand for refinancing.
- **Initial claims** slid 3,000 to 216,000 in the week-ending February 29—near its lowest level since 1969, showing the U.S. labor market is resilient despite the virus.
- **EZ CPI** slowed from 1.4% Y/Y in January to 1.2% Y/Y in February on the back of lower energy prices. The core CPI accelerated from 1.1% Y/Y to 1.2% Y/Y. The ECB has signaled they will remain accommodative.
- **EZ unemployment rate** held steady at 7.4% in January, its lowest level since May 2008.
- The **Caixin manufacturing PMI** slid from 51.1 to 40.3 in February, and the services PMI sank from 51.8 to 26.5, amid the virus outbreak.

WATCH LIST

Date		Consensus		Previous
U.S.				
Tue 3/10	NFIB Small Business Optimism	103.0	▼	104.3
Tue 3/10	ID, MI, MS, MO, ND & WA Primaries	--		--
Wed 3/11	Consumer Price Index	0.0% M/M	▼	0.1% M/M
Thu 3/12	Producer Price Index	-0.1% M/M	▼	0.5% M/M
Fri 3/13	Import Prices	-0.9% M/M	▼	0.0% M/M
Fri 3/13	U Mich. Sentiment (Prelim)	96.4	▼	101.0
Europe				
Mon 3/9	EZ Sentix Investor Confidence	-13.1	▼	5.2
Tue 3/10	EZ GDP Q4 (Final)	0.1% Q/Q	—	0.1% Q/Q
Wed 3/11	U.K. Industrial Production	0.6% M/M	▲	0.1% M/M
Wed 3/11	U.K. 2020 Budget Announcement	--		--
Wed 3/11	Spain Retail Sales			1.9% Y/Y
Thu 3/12	ECB Monetary Policy Meeting	0.0%	—	0.0%
Thu 3/12	EZ Industrial Production	1.2% M/M	▲	-2.1% M/M
Asia Pacific				
Tue 3/10	China Producer Price Index	-0.3% Y/Y	▼	0.1% Y/Y
Tue 3/10	China Consumer Price Index	5.2% Y/Y	▼	5.4% Y/Y
Thu 3/12	Japan Producer Price Index	1.0% Y/Y	▼	1.7% Y/Y

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

U.S.

- **Inflation measures** are likely to remain tempered in February, giving the FOMC more wherewithal to be accommodative. Along with the first intermeeting rate cut since 2008, the FOMC signaled it will act to support the economy. Despite the 50 bps cut, real yields are less than zero and markets are pricing in another cut in March.
- With Super Tuesday narrowing the race to Joe Biden and Bernie Sanders, this week's **Democratic primary elections** will show who is gaining more momentum. So far, markets are more at ease with the prospect of a Biden nominee versus Sanders.

Europe

- The **U.K. 2020 budget** is set to be announced on March 11. Markets expect to see solid fiscal stimulus measures, especially as the economy faces COVID-19.
- The **ECB monetary policy meeting** is garnering attention as markets expect accommodative policy action to support the economy amid the outbreak. However, given the possibility of fiscal measures being prepared, it is uncertain whether or not they will deliver a rate cut.

Asia Pacific

- **China's inflation** is likely to come in weak in February, and pressure is mounting for the PBOC to cut rates along with other central banks.

THE HIGHLIGHTS
COVID-19 Weekly Checkup

Fiscal stimulus: So far, China, Singapore, Hong Kong, South Korea, Japan, and Italy responded with government spending packages, and countries in Europe and North America should follow. The U.S. House and Senate passed an \$8.3 billion spending deal to combat COVID-19. A statement from EU finance ministers noted they are ready to act using all appropriate policy tools, in a coordinated response. It also stated that the “fiscal rules framework provides for flexibility to cater to ‘unusual events outside the control of government.’” While this would allow countries to push deficits beyond the 3% of GDP-level, there is still plenty of fiscal space among major economies. Moreover, we expect U.K.’s 2020 budget, to be announced March 11, will contain fiscal stimulus measures.

2019 FISCAL DEFICIT % OF GDP

Country	2019 Fiscal Deficit % of GDP
Spain	-2.3%*
Italy	-1.7%
France	-3.1%*
Germany	1.5%*
*expected value	

Source: EC and national releases. As of March 5, 2020.

Monetary stimulus: Central banks around the globe have also started to respond, with seven cutting interest rates so far – including the FOMC’s first intermeeting rate cut since 2008, in which they unexpectedly lowered interest rates 50 bps. The Bank of Canada followed suit on Wednesday, lowering their target rate by 50 bps to a range of 1.25%-1.75%. This has raised pressure for the ECB and BoE to act. The ECB and BoE have signaled willingness to remain accommodative, though they have stopped short of suggesting a rate cut. While rates are cut to stimulate economies, note that the direct impact from rate cuts on the economy will be limited this time, given the already-low level rates are starting from and the dynamic of headwinds facing the economy. Central bank action will not reduce fears of the virus outbreak, mend disrupted supply chains, encourage people to travel, or create a vaccine. However, central banks are aware that the more the outbreak weighs on markets, the more it will likely bleed through to consumer confidence and spending,

the drivers of most major economies. Lower interest rates are more impactful through this consumer spending channel as well as the housing market, rather than on the supply-side. However, lowering rates from the already-low level will keep that boost measured. Monetary action can also be effective in helping financial conditions, ensuring there is enough liquidity for markets to clear. By loosening financial conditions, the Fed may be boosting the odds of a longer and stronger cyclical recovery after the virus impact wanes. Accommodative action is expected to continue as the outbreak spreads across the globe.

Policy

Super Tuesday brought Joe Biden a remarkable comeback in the U.S. primaries, drawing him close to a dead heat for the nomination with Bernie Sanders in terms of delegate count. Democratic Party supporters appear to be crowding around Biden. Neither Elizabeth Warren nor Michael Bloomberg made any headway, with Bloomberg dropping out Wednesday and Warren withdrawing Thursday. Equity investors appear to be bullish with Joe Biden’s improving chances of grabbing the Democratic nomination over Sanders, helping sentiment, as a Sanders nomination was more priced into markets than originally thought.

A U.S. Funding Package is in the works as the Democratic House and the Republican Senate came to a compromise deal that will likely provide around \$8.3 billion to combat the coronavirus spread. The package includes over \$3 billion for research and vaccine development, \$3.1 billion to stockpile medical supplies and at least \$1 billion for state responses.

OPEC+ gathered this week for production talks as OPEC, led by Saudi Arabia, hopes to reduce output up to 1.5 million barrels per day (bpd) in Q2 of 2020 due to falling demand from the coronavirus. This would be in addition to the existing cuts of 2.1 million bpd it hopes to extend through year-end. The reduction is contingent on agreement from a reluctant Russia; their decision is expected to be made at the last minute.

Bank Capital Rules: The Fed finalized the “stress capital buffer” rule, which simplifies the capital rules banks are tested against annually. It effectively ends the “pass-fail” nature of the CCAR process and replaces with it a buffer based on results from the stress test. While Fed estimates show the new rule will increase capital minimums for the largest banks, overall, it should lead to a decrease of required capital across the banking system. The enhanced rules will take effect for the 2020 round of stress tests.

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KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	1.25%	-50 bps	-50 bps	-50 bps	-100 bps	-125 bps	-50 bps
U.S. SOFR	1.23%	-35 bps	-37 bps	-31 bps	-98 bps	-115 bps	-32 bps
3 Month USD Libor	1.00%	-61 bps	-74 bps	-89 bps	-111 bps	-161 bps	-91 bps
3 Month Euribor	-0.47%	-5 bps	-7 bps	-8 bps	-3 bps	-16 bps	-9 bps
3 Month U.S. T-Bill	0.71%	-79 bps	-86 bps	-84 bps	-124 bps	-172 bps	-84 bps
2-Year U.S. Treasury	0.63%	-52 bps	-78 bps	-94 bps	-80 bps	-191 bps	-94 bps
10-Year U.S. Treasury	0.99%	-32 bps	-61 bps	-79 bps	-47 bps	-173 bps	-92 bps
10-Year German Bund	-0.63%	-14 bps	-23 bps	-30 bps	3 bps	-79 bps	-44 bps
10-Year U.K. Gilt	0.38%	-13 bps	-21 bps	-35 bps	-13 bps	-97 bps	-45 bps
10-Year JGB	-0.15%	-4 bps	-9 bps	-11 bps	14 bps	-14 bps	-13 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	1.8%	3.9%	5.3%	13.0%	5.9%
Barclays Capital U.S. TIPS	1.15%	N/A	1.6%	3.0%	4.4%	11.9%	4.5%
Barclays Capital U.S. Aggregate	1.54%	53	1.3%	2.8%	4.3%	12.3%	4.4%
Barclays Capital Global Aggregate	0.98%	47	2.0%	2.2%	3.4%	9.4%	3.0%
Barclays Capital U.S. ABS	1.10%	41	0.8%	1.4%	2.3%	6.1%	2.3%
Barclays Capital U.S. MBS	1.74%	60	0.6%	1.3%	2.2%	7.7%	1.9%
Barclays Capital U.S. Corporate Investment Grade	2.28%	124	1.0%	2.5%	4.9%	16.6%	4.5%
BAML Euro Corporate Investment Grade	0.39%	115	-0.1%	-0.2%	1.0%	5.3%	1.0%
Barclays Capital U.S. Corporate High Yield	5.64%	464	-0.1%	-0.3%	2.0%	7.5%	0.0%
BAML European Currency High Yield Non-Financial	3.58%	420	-0.9%	-1.1%	0.0%	4.9%	-1.1%
CS U.S. Leveraged Loans	5.81%	501	-0.9%	-1.2%	0.7%	3.4%	-0.6%
CS Western European Leveraged Loans Non-USD	4.78%	455	-0.8%	-1.0%	0.1%	2.5%	-0.4%
JPM CEMBI Broad Diversified	4.52%	358	0.1%	0.9%	3.4%	11.6%	2.4%
JPM EMBI Global Diversified	4.71%	356	0.7%	1.1%	4.9%	12.6%	2.7%
JPM GBI-EM Global Diversified	4.67%	N/A	0.7%	-0.4%	1.8%	7.5%	-1.6%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,130.12	1.84%	0.5%	-4.9%	1.0%	14.3%	-2.8%
Euro STOXX 600 (Local)	386.30	3.36%	-4.5%	-7.7%	-4.2%	3.0%	-7.1%
U.K. FTSE 100 (Local)	6,815.59	4.83%	-3.2%	-8.4%	-5.2%	-4.5%	-9.6%
Japan Nikkei 225 (Local)	21,100.06	2.16%	-5.9%	-8.6%	-8.8%	-3.3%	-10.8%
China Shanghai Composite (Local)	3,011.67	2.21%	0.8%	8.2%	4.6%	-0.5%	-1.3%
MSCI AC World (Local)	536.20	2.51%	-1.1%	-3.7%	-0.7%	9.4%	-4.2%
MSCI Emerging Markets (Local)	1,037.81	2.79%	-0.6%	-1.3%	1.3%	3.8%	-4.6%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	370.11	-1.6%	-2.7%	-11.6%	-8.3%	-12.5%	-15.2%
WTI Crude (\$/bbl)	47.20	-3.0%	-4.8%	-19.3%	-16.0%	-16.6%	-22.8%
Copper (\$/lb)	2.59	0.6%	1.8%	-1.9%	0.5%	-10.9%	-7.2%
Gold (\$/oz)	1,641.85	0.4%	5.4%	11.3%	6.2%	27.7%	8.4%
U.S. Dollar Index	97.34	-1.7%	-0.6%	-0.3%	-1.1%	0.7%	1.0%
Euro (USD/EUR)	1.11	2.5%	0.9%	0.5%	1.0%	-1.6%	-0.7%
British Pound (USD/GBP)	1.28	-0.8%	-1.6%	-2.2%	5.1%	-2.7%	-3.2%
Japanese Yen (Yen/USD)	107.29	-3.0%	-1.9%	-1.4%	1.0%	-4.1%	-1.3%
Chinese Yuan (CNY/USD)	6.93	-1.2%	-0.8%	-1.9%	-3.1%	3.5%	-0.5%

Source: FactSet and Bloomberg. As of March 4, 2020.

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