

## Consumers Are Betting On Herd Immunity

### IN REVIEW

- **U.S. retail sales** surprised to the upside, jumping 17.7% M/M in May but are 8% below February levels, as consumption is set to weigh on Q2 GDP.
- **U.S. weekly home purchase applications** rose 3.5% in W/E June 12, bringing applications to the highest level since 2008.
- **U.S. housing starts** rose 4.3% M/M in May, led by multifamily. **Permits** jumped 14.4% and the **NAHB housing market index** is up a record 21 points to 58 in June, as the housing recovery is underway.
- **Initial claims** slid 58,000 to 1.508 million in W/E June 13. Continuing claims fell 62,000 to 20.544 million in W/E June 6.
- **U.S. industrial production** rose 1.4% M/M in May, led by motor vehicles and parts.
- Improvement in **German ZEW survey current conditions and expectations** suggest we have passed the trough and economic data should recover in 2H20.
- **U.K. unemployment rate** held steady at 3.9% for the three months to April aided by furloughs. Risks are that it may jump in August as the furlough program winds down.
- **U.K. CPI** slowed from 0.8% Y/Y in April to 0.5% Y/Y in May, weighed down by energy, giving the BOE more room for further stimulus.
- **China activity data** improved amid strengthening domestic demand, but by less than expected.
- The **BOJ** held the policy rate steady at -0.1% but reinforced it will do whatever it takes.

### WATCH LIST

Date		Consensus		Previous
<b>U.S.</b>				
Mon 6/22	Existing Home Sales	4.13m	▼	4.33m
Tue 6/23	Markit Manufacturing PMI (Prelim)	45.9	▲	39.8
Tue 6/23	Markit Services PMI (Prelim)	43.5	▲	37.5
Tue 6/23	New Home Sales	630k	▲	623k
Wed 6/24	MBA Mortgage Applications			8.0%
Wed 6/24	FHFA House Price Index			0.1% M/M
Thu 6/25	Advance Durable Goods Orders	10.0%	▲	-17.7%
Thu 6/25	GDP 1Q (Third Estimate)	-5.0%	-	-5.0%
Thu 6/25	Initial Claims			1508k
Fri 6/26	Personal Spending	8.5% M/M	▲	-13.6% M/M
Fri 6/26	Personal Income	-5.7% M/M	▼	10.5% M/M
Fri 6/26	Core PCE Deflator	0.9% Y/Y	▼	1.0% Y/Y
<b>Europe</b>				
Tue 6/23	EZ Markit Manufacturing PMI (Prelim)	43.0	▲	39.4
Tue 6/23	EZ Markit Services PMI (Prelim)	40.0	▲	30.5
Tue 6/23	U.K. Markit Manufacturing PMI (Prelim)	45.5	▲	40.7
Tue 6/23	U.K. Markit Services PMI (Prelim)	40.0	▲	29.0
Wed 6/24	Germany IFO Business Climate	84.8	▲	79.5
<b>Asia Pacific</b>				
Mon 6/22	PBOC Meeting	--		--
Tue 6/23	Jibun Bank Japan Mfg PMI (Prelim)			38.4
Tue 6/23	Japan Machine Tool Orders			-52.8% Y/Y
Thu 6/25	Japan All Industry Activity Index	-6.8% M/M	▼	-3.8% M/M

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

### U.S.

- **Markit flash PMIs** will give a glimpse of how the recovery is unfolding in June. High frequency data has pointed to faster-than-expected rebounds in consumer spending and the auto sector.
- **Personal spending**, along with positive retail sales and daily card data, is expected to improve in May. However, **personal income** should take a step back given the timing of stimulus checks and elevated unemployment.

### Europe

- **Markit flash PMIs** across most of developed Europe are expected to rebound amid economies reopening and activity moving from their depressed levels.

### Asia Pacific

- The **PBOC** is expected to keep the one- and five-year loan prime rates steady at their meeting on Monday, but stimulus measures are likely as China deals with weak external demand.
- **Japan flash PMIs** should indicate how services and manufacturing sectors are performing following the lifting of restrictions across the country.

18 June 2020 / The Week Ahead

## THE HIGHLIGHTS

### May Retail Sales Rebound, Aided By Fiscal Stimulus

The U.S. consumer began recovering in May, aided by stimulus checks and increased unemployment insurance, boosting lower incomes. Retail sales surprised to the upside; after collapsing 14.7% M/M in April, sales jumped 17.7% M/M in May. Retail sales are down 8% from pre-crisis levels, suggesting consumer spending will drag on Q2 GDP.



Source: Bloomberg. As of June 18, 2020.

Apparel jumped 188% M/M and food services and drinking places were up 29% M/M but remain down 63% and 41% from February, respectively.

### BoE Meeting

The BoE left its key Bank Rate unchanged and expanded its asset purchase target by £100 billion to £745 billion. The pace of purchases is set to slow as liquidity conditions stabilize and should last through the end of the year. The bank's pre-existing £645 billion envelope was due to run out in early July. Further stimulus is likely, though negative rates were not discussed.

### Policy

**Second Wave?** Beijing reported 137 new cases, with infections linked to spreads far from the city. School closures and domestic flight cancellations are disrupting what was a strong recovery in the country's domestic market. Elsewhere, Brazil posted a record 34,918 new cases. U.S. hospitalizations rose, in Florida by 191 to 12,206, while Texas posted a rise of 2,518 or 11%, the biggest daily increase since June 4. States could slow or even halt reopenings as numbers rise, though stay-at-home orders will not likely return.

**Fed Lending Facilities:** The Fed announced a loosening of eligibility rules to its Secondary Market Corporate Credit Facility to finally begin buying corporate bonds based on a custom diversified index created for the facility, which has yet to ramp up beyond ETFs until now. The move is in tandem with the Fed broadening rules for the Main Street lending program, along with calls from lawmakers for the Fed to ease terms on its Muni lending facility.

**Foreign acquisitions in the EU:** The EU announced a new proposal to revise its merger guidelines, as European firms are allegedly increasingly fighting against foreign players that received substantial state support. Last

Wednesday's proposal would give the European Commission, the executive body of the EU, more say in purchases of European companies by foreign state-backed firms. The Commission could prohibit M&A it deems could create market distortions. The EU hopes to support cash-strapped local industries that could fall prey to acquisitions funded by foreign state finance.

**Infrastructure:** The Trump administration is preparing a 10-year, \$1 trillion infrastructure proposal to help revive the American economy. Traditional work, like roads and bridges, would see most of the money; 5G wireless setup and rural broadband would also be included. The existing U.S. infrastructure funding law, known as the FAST Act, authorizes \$305 billion over five years and is up for renewal September 30. House Democrats have offered their own \$500 billion proposal to renew infrastructure funding over five years.

**Tech:** The European Commission announced antitrust investigations on the App Store and Apple Pay, following allegations of restrictive rules for developers and complaints about use of Apple Pay. The U.S. is pulling out of negotiations with European countries over new international tax rules on digital firms, citing no progress. France, with or without Washington, intends to apply a 3% levy on revenue from digital services earned above €25 million in France and €750 million globally. The U.S. threatened to tariff French goods in response while the USTR recently launched a Section 301 investigation into digital services taxes already implemented or under consideration by many US trading partners. The U.S. Justice Department proposed a rollback this week of parts of Section 230—legal protections for online platforms—and would need Congressional approval.

**Trade Deal:** More trade talks between the U.S. and U.K. kicked off this week as Britain also prepares for formal talks between Australia and New Zealand, including a focus on technology, innovation and research and development; objectives for the New Zealand talks reference the need to protect both countries' climate change commitments. These discussions are in addition to those with the U.S., the EU and Japan as it looks to define an independent trade policy once it leaves the EU in January 2021. The EU-U.K. parties agreed to intensify Brexit talks in July, aiming to ratify a deal on their future relationship before the end of the year; it remains unclear how much closer the two parties have moved on contentious issues. British Prime Minister Boris Johnson told EU leaders he wants a Brexit deal by autumn to provide more certainty to companies affected by the U.K.'s exit from the EU. The U.K. is still expected to leave the EU Single Market on December 31 and formally told the EU it would not seek an extension to the transition period.

**EU Recovery Fund:** German Chancellor Angela Merkel expects the EU to agree on a recovery plan in July. The European Commission proposed a €750 billion recovery fund in May featuring 500B Euros in grants and 250B Euros in loans. Money would be raised by selling bonds backed by all EU members. Most EU members back it, except less virus-infected nations such as Austria, Denmark, the Netherlands and Sweden. EU leaders will debate it June 19.

18 June 2020 / 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	-150 bps	-225 bps	-150 bps
U.S. SOFR	0.09%	2 bps	4 bps	-45 bps	-145 bps	-232 bps	-146 bps
3 Month USD Libor	0.32%	0 bps	-6 bps	-74 bps	-159 bps	-210 bps	-159 bps
3 Month Euribor	-0.40%	-5 bps	-13 bps	1 bps	0 bps	-8 bps	-1 bps
3 Month U.S. T-Bill	0.17%	0 bps	5 bps	-1 bps	-139 bps	-201 bps	-138 bps
2-Year U.S. Treasury	0.19%	1 bps	4 bps	-27 bps	-145 bps	-167 bps	-139 bps
10-Year U.S. Treasury	0.74%	-1 bps	10 bps	-23 bps	-115 bps	-135 bps	-118 bps
10-Year German Bund	-0.45%	-11 bps	9 bps	2 bps	-15 bps	-20 bps	-26 bps
10-Year U.K. Gilt	0.18%	-10 bps	-4 bps	-33 bps	-59 bps	-74 bps	-65 bps
10-Year JGB	0.01%	-1 bps	2 bps	2 bps	3 bps	14 bps	3 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.56%	N/A	0.0%	-0.8%	1.9%	10.3%	8.0%
Barclays Capital U.S. TIPS	0.76%	N/A	-0.3%	0.3%	7.9%	8.6%	5.0%
Barclays Capital U.S. Aggregate	1.32%	67	0.1%	0.9%	3.9%	9.2%	5.8%
Barclays Capital Global Aggregate	0.99%	58	-0.2%	2.1%	3.9%	5.6%	2.9%
Barclays Capital U.S. ABS	0.93%	71	0.3%	1.3%	2.2%	4.7%	3.1%
Barclays Capital U.S. MBS	1.47%	71	-0.3%	0.0%	1.9%	6.2%	3.5%
Barclays Capital U.S. Corporate Investment Grade	2.17%	145	0.4%	4.0%	9.6%	11.0%	4.8%
BAML Euro Corporate Investment Grade	0.82%	139	0.3%	2.7%	5.7%	0.2%	-1.1%
Barclays Capital U.S. Corporate High Yield	6.27%	561	0.1%	7.5%	12.4%	2.9%	-1.9%
BAML European Currency High Yield Non-Financial	4.81%	528	0.1%	6.7%	16.7%	-0.4%	-4.2%
CS U.S. Leveraged Loans	6.85%	657	-0.3%	5.1%	12.6%	-1.3%	-3.8%
CS Western European Leveraged Loans Non-USD	6.03%	595	-0.1%	4.3%	13.5%	-1.4%	-3.2%
JPM CEMBI Broad Diversified	5.02%	440	0.0%	5.0%	10.8%	4.3%	-0.5%
JPM EMBI Global Diversified	5.55%	469	-0.1%	6.7%	16.1%	1.1%	-3.1%
JPM GBI-EM Global Diversified	4.62%	N/A	-1.8%	6.3%	13.2%	0.3%	-6.2%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,113.49	1.86%	-2.4%	8.9%	23.7%	9.9%	-2.7%
Euro STOXX 600 (Local)	366.02	2.08%	-0.6%	11.5%	25.7%	-3.3%	-12.0%
U.K. FTSE 100 (Local)	6,253.25	4.80%	-1.2%	7.8%	18.1%	-15.0%	-17.1%
Japan Nikkei 225 (Local)	22,455.76	2.22%	-2.9%	12.1%	32.0%	6.3%	-5.1%
China Shanghai Composite (Local)	2,935.87	2.33%	-0.3%	2.4%	5.6%	1.7%	-3.7%
MSCI AC World (Local)	528.25	2.31%	-1.7%	9.5%	30.1%	5.0%	-4.7%
MSCI Emerging Markets (Local)	994.62	2.73%	-0.8%	8.9%	25.5%	3.5%	-5.8%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	321.63	-1.8%	12.8%	17.4%	-25.9%	-20.5%	-26.3%
WTI Crude (\$/bbl)	37.93	-4.1%	28.8%	40.7%	-37.7%	-27.0%	-38.0%
Copper (\$/lb)	2.59	-2.4%	11.1%	11.9%	-8.1%	-2.2%	-7.2%
Gold (\$/oz)	1,724.35	0.1%	-0.6%	12.2%	16.8%	28.6%	13.8%
U.S. Dollar Index	97.16	1.2%	-3.2%	-2.4%	-0.1%	-0.4%	0.8%
Euro (USD/EUR)	1.12	-1.1%	3.7%	2.3%	0.6%	0.0%	0.0%
British Pound (USD/GBP)	1.25	-1.7%	3.4%	4.4%	-4.5%	-0.1%	-5.3%
Japanese Yen (Yen/USD)	107.25	0.0%	-0.1%	-0.1%	-2.1%	-1.3%	-1.3%
Chinese Yuan (CNY/USD)	7.09	0.3%	-0.2%	1.1%	1.2%	2.3%	1.7%

Source: FactSet and Bloomberg. As of June 17, 2020.

**18 June 2020 / The Week Ahead**

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