

TikTok on the Clock, Now Don't Let Fiscal Stimulus Stop

IN REVIEW

- **U.S. personal income** fell 1.1% M/M in June. **Personal spending** rose 5.2% M/M, leading the **personal savings rate** to slide from 24.2% to a still-elevated 19%.
- The **PCE deflator** rose 0.8% Y/Y in June, up from 0.5% Y/Y in May, while core PCE decelerated slightly from 1% Y/Y in May to 0.9% Y/Y.
- **ISM manufacturing** rose 1.6 points to 54.2 in July, while the **non-manufacturing** index rose from 57.1 to 58.1. New orders rose strongly, yet no pricing pressures are emerging, and employment remained weak.
- **Initial claims** slid 249,000 to 1.186 million in W/E August 1. Continuing claims fell 844,000 to 16.107 million in W/E July 25.
- **EZ 2Q GDP** contracted a record 12.1% Q/Q, but recovery has begun.
- **EZ CPI** rose 0.4% Y/Y in July, according to the preliminary estimate—better than expected due to a temporary shift in sales seasons in France and Italy. Inflation should remain tame through year-end.
- **EZ retail sales** rose 5.7% M/M in June, returning to pre-crisis levels. However, retail sales account for only about half of consumption, and services spending will be more impacted by the pandemic.
- The **BOE** held rates steady, opting for a wait-and-see approach with a surprisingly upbeat outlook.
- The **Caixin China PMI** slid from 55.7 to 54.5 in July as services expanded by less, but remained in expansion. Manufacturing rose as external demand improves.

WATCH LIST

| Date | | Consensus | | Previous |
|---------------------|------------------------------------|-----------|---|------------|
| U.S. | | | | |
| Tue 8/11 | NFIB Small Business Optimism | | | 100.6 |
| Tue 8/11 | Producer Price Index | 0.3% M/M | ▲ | -0.2% M/M |
| Wed 8/12 | MBA Mortgage Applications | | | -5.1% |
| Wed 8/12 | Consumer Price Index | 0.3% M/M | ▼ | 0.6% M/M |
| Wed 8/12 | Monthly Budget Statement | | | -\$864.1 |
| Thu 8/13 | Initial Claims | | | 1186k |
| Fri 8/14 | Retail Sales | 1.5% | ▼ | 7.5% |
| Fri 8/14 | Industrial Production | 3.0% M/M | ▼ | 5.4% M/M |
| Fri 8/14 | U Mich. Sentiment (Prelim) | 71.0 | ▼ | 72.5 |
| Sat 8/15 | U.S.-China Phase One Trade Meeting | -- | | -- |
| Europe | | | | |
| Mon 8/10 | EZ Sentix Investor Confidence | | ■ | -18.2 |
| Tue 8/11 | Germany ZEW Survey Expectations | 60.0 | ▲ | 59.3 |
| Tue 8/11 | U.K. Unemployment Rate | | | 3.9% |
| Tue 8/11 | U.K. Jobless Claims Change | | | -28.1k |
| Wed 8/12 | EZ Industrial Production | 12.0% M/M | ▼ | 12.4% M/M |
| Wed 8/12 | U.K. Industrial Production | | | 6.0% M/M |
| Wed 8/12 | U.K. 2Q GDP (Prelim) | | | -2.2% Q/Q |
| Asia Pacific | | | | |
| Mon 8/10 | China Producer Price Index | -2.5% Y/Y | ▲ | -3.0% Y/Y |
| Mon 8/10 | China Consumer Price Index | 2.6% Y/Y | ▲ | 2.5% Y/Y |
| Wed 8/12 | Japan Machine Tool Orders (Prelim) | | | -32.1% Y/Y |
| Fri 8/14 | China Industrial Production (YTD) | -0.4% Y/Y | ▲ | -1.3% Y/Y |
| Fri 8/14 | China Retail Sales (YTD) | -9.4% Y/Y | ▲ | -11.4% Y/Y |
| Fri 8/14 | China Property Investment (YTD) | 2.5% Y/Y | ▲ | 1.9% Y/Y |
| Fri 8/14 | China Fixed Assets ex Rural (YTD) | -1.6% Y/Y | ▲ | -3.1% Y/Y |

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

U.S.

- **Retail sales** for July are expected to moderate compared with May and June, as signaled by the high-frequency spending data. Rising COVID-19 cases, greater restrictions in some states, and uncertainty around continued income support have led consumers to pull-back on spending and activities in July.
- **Inflation** data for July is expected to remain soft as continued health and financial concerns keep a lid on demand.

Europe

- **EZ industrial production** is set to continue its recovery in June as both domestic and foreign demand strengthen, particularly among durable goods.

Asia Pacific

- **China activity data** are expected to improve further in July as the recovery continues, while **inflation** is likely to remain contained.

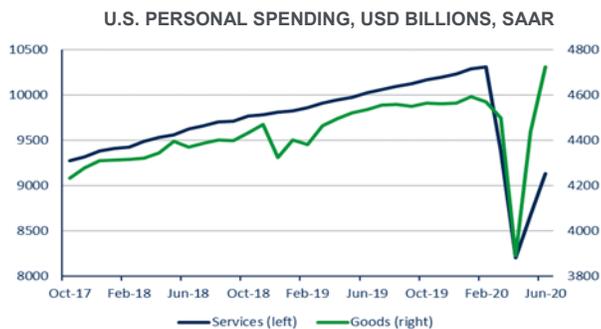
7 August 2020 | The Week Ahead

THE HIGHLIGHTS

U.S. Personal Income & Spending

Personal income fell 1.1% M/M in June as support from government stimulus checks faded, though unemployment insurance payments rose as a backlog in claims cleared; wages and salaries also increased, consistent with the rise in employment in June. With government stimulus checks and the extra \$600/week unemployment insurance ending, further fiscal support is needed to buoy personal income and spending amid elevated unemployment.

Consumer spending rose 5.6% M/M in June, bringing it to about 7% below February levels. Spending trends vary greatly between goods and services, with spending on goods exceeding pre-crisis levels while services spending remains well below pre-pandemic levels.



Consumer spending was particularly strong among durable goods—notably furniture and motor vehicles. Major categories of goods spending other than clothing, gasoline and other durable goods have exceeded pre-crisis levels. Meanwhile, services spending is down 11.5% from February. Recreational services and food services/accommodations rose solidly in June, up 37.3% and 18.8% M/M, respectively, but remain far below pre-pandemic levels and face a tough road ahead with the increase in COVID-19 cases. Vaccines or treatments are likely needed before many services categories return to pre-crisis levels.

Record Contraction in EZ GDP

EZ 2Q GDP sank a record 12.1% Q/Q, though there was differentiation by country. Spain fared the worst, contracting 18.5%, while Germany was an outperformer, shrinking 10.1%. Italy's 2Q GDP was better than expected, but still contracted 12.4%. High-frequency data suggest the recovery is underway, but areas more reliant on services and tourism will be harder pressed than manufacturing areas such as Germany, and concerns remain elevated about the sustainability in the face of greater COVID-19 cases.

2Q Earnings

Approximately 78% of the S&P 500 has reported 2Q financials, with revenues down 11.4% Y/Y and earnings down 10.2%, according to Bloomberg. Despite the gloomy outlook, earnings have generally come in better than expected,

with the biggest positive surprises coming from Industrials and Financials. About 71% of the Euro Stoxx 600 have reported, and revenues and earnings are down 25.3% Y/Y and 18.2% Y/Y, respectively. Earnings have also been surprising to the upside, notably in Real Estate and Consumer Staples.

Policy

Tech: Secretary of State Mike Pompeo recommended U.S. companies remove Chinese apps from their app stores, indicating U.S. efforts to ban Chinese tech will span beyond the forced sale or shutdown of TikTok. With tensions rising between the two countries, U.S. companies interested in purchasing the Chinese social media platform were given until September 15 to purchase U.S. operations from the Chinese parent, ByteDance, or President Trump vowed to ban it outright. Beijing indicated it will not accept the "theft" of a Chinese tech company and may respond to Washington's move to push ByteDance to sell.

Fiscal Stimulus: The Trump administration is looking for unilateral actions it can take if the fifth coronavirus relief package is not approved by Congress, including executive action to extend enhanced unemployment insurance payments, imposing a moratorium on evictions, and enacting a payroll tax holiday using unspent money already appropriated by Congress. Trump's potential actions may get stuck in courts but both parties have agreed to try for a relief deal on evictions and unemployment benefits. The legislative branch's month-long recess is still expected to begin today.

Treasury: The U.S. Treasury expects to borrow \$947 billion in Q3, \$270 billion more than announced in May due to higher expenditures from current and anticipated new fiscal stimulus legislation, with an offset from a higher cash balance and receipts. There is a record \$1.8 trillion of cash in the Treasury General Account, so the next package is likely already funded.

Brexit: The EU would break a deadlock in Brexit talks by softening its demand that Britain abide by EU rules on state aid in the future. The deal would entail a dispute-settling mechanism on any state aid granted by the U.K. to its companies in the future, rather than obliging London to follow the bloc's own rules from the outset. The U.K. would decide on its own, with the EU reserving the right on any consequences regarding single market access.

Trade Deal: USTR Robert Lighthizer and China's Vice Premier Liu He on August 15 will assess Beijing's compliance with the Phase One trade deal. Numerous reports have cited China's lagging commitment to purchase an additional ~\$130 billion of U.S. goods this year. The market has largely ignored this, assuming the two sides will take a pragmatic approach to trade given its importance to a post-pandemic recovery.

Taiwan: Adding to the Sino-U.S. tensions, Health and Human Services Secretary Alex Azar will lead a delegation to Taiwan within the next week, in the highest-level visit by a U.S. cabinet official since Washington cut ties with Taipei more than 40 years ago. The visit is the latest signal of U.S. support for Taiwan in the face of increasingly assertive leadership in Beijing.

7 August 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 | -200 bps | -150 bps |
| U.S. SOFR | 0.09% | 0 bps | -2 bps | 4 bps | -150 bps | -204 bps | -146 bps |
| 3 Month USD Libor | 0.24% | -2 bps | -6 bps | -23 bps | -150 bps | -197 bps | -167 bps |
| 3 Month Euribor | -0.47% | -1 bps | -4 bps | -17 bps | -7 bps | -8 bps | -8 bps |
| 3 Month U.S. T-Bill | 0.10% | -1 bps | -4 bps | -3 bps | -145 bps | -190 bps | -145 bps |
| 2-Year U.S. Treasury | 0.11% | -2 bps | -4 bps | -6 bps | -134 bps | -147 bps | -146 bps |
| 10-Year U.S. Treasury | 0.54% | -3 bps | -13 bps | -11 bps | -110 bps | -119 bps | -137 bps |
| 10-Year German Bund | -0.51% | -1 bps | -7 bps | 7 bps | -14 bps | 4 bps | -32 bps |
| 10-Year U.K. Gilt | 0.13% | 1 bps | -6 bps | -9 bps | -50 bps | -49 bps | -70 bps |
| 10-Year JGB | 0.00% | -1 bps | -3 bps | 3 bps | 4 bps | 19 bps | 2 bps |
| Fixed Income | Yield | OAS | 1W Return | 1M Return | 3M Return | 12M Return | YTD Return |
| Barclays Capital U.S. Government-Treasury | 0.42% | N/A | 0.2% | 1.2% | 1.2% | 9.8% | 9.9% |
| Barclays Capital U.S. TIPS | 0.63% | N/A | 0.9% | 2.5% | 4.4% | 10.1% | 9.0% |
| Barclays Capital U.S. Aggregate | 1.05% | 57 | 0.3% | 1.4% | 2.9% | 8.8% | 7.8% |
| Barclays Capital Global Aggregate | 0.82% | 50 | 0.5% | 3.3% | 5.3% | 6.9% | 6.5% |
| Barclays Capital U.S. ABS | 0.69% | 57 | 0.1% | 0.5% | 2.5% | 4.3% | 3.8% |
| Barclays Capital U.S. MBS | 1.05% | 55 | 0.0% | 0.2% | 0.2% | 4.9% | 3.7% |
| Barclays Capital U.S. Corporate Investment Grade | 1.83% | 128 | 0.6% | 2.9% | 7.8% | 11.5% | 8.7% |
| BAML Euro Corporate Investment Grade | 0.61% | 125 | 0.0% | 1.3% | 3.5% | -0.3% | 0.2% |
| Barclays Capital U.S. Corporate High Yield | 5.22% | 472 | 0.9% | 4.4% | 10.7% | 5.7% | 1.2% |
| BAML European Currency High Yield Non-Financial | 4.48% | 501 | 0.2% | 1.7% | 7.5% | -0.1% | -2.9% |
| CS U.S. Leveraged Loans | 6.43% | 621 | 0.2% | 1.6% | 7.4% | -0.9% | -2.7% |
| CS Western European Leveraged Loans Non-USD | 5.98% | 593 | 0.0% | 0.6% | 5.1% | -1.5% | -2.8% |
| JPM CEMBI Broad Diversified | 4.45% | 401 | 0.8% | 2.6% | 9.6% | 5.8% | 2.7% |
| JPM EMBI Global Diversified | 4.94% | 427 | 1.4% | 3.8% | 13.9% | 4.3% | 1.8% |
| JPM GBI-EM Global Diversified | 4.35% | N/A | -0.3% | 2.1% | 10.2% | 1.4% | -4.1% |
| Equities | Price | Div Yield | 1W Return | 1M Return | 3M Return | 12M Return | YTD Return |
| S&P 500 | 3,327.77 | 1.75% | 2.2% | 6.4% | 16.6% | 19.3% | 4.2% |
| Euro STOXX 600 (Local) | 365.16 | 2.07% | -0.6% | -0.1% | 8.8% | -1.2% | -12.2% |
| U.K. FTSE 100 (Local) | 6,104.72 | 4.86% | -0.4% | -0.9% | 4.4% | -15.5% | -19.1% |
| Japan Nikkei 225 (Local) | 22,514.85 | 2.22% | 0.5% | 0.9% | 14.8% | 8.7% | -4.8% |
| China Shanghai Composite (Local) | 3,377.56 | 2.12% | 2.5% | 7.1% | 18.1% | 19.7% | 10.7% |
| MSCI AC World (Local) | 564.11 | 2.17% | 1.4% | 4.8% | 16.2% | 13.3% | 0.8% |
| MSCI Emerging Markets (Local) | 1,103.03 | 2.41% | 1.8% | 7.9% | 21.5% | 18.9% | 4.7% |
| Commodities/Currencies | Price | 1W Change | 1M Change | 3M Change | 6M Change | 12M Change | YTD Change |
| S&P GS Commodity Index | 350.30 | 2.0% | 5.2% | 27.8% | -9.3% | -12.8% | -19.7% |
| WTI Crude (\$/bbl) | 42.24 | 2.7% | 4.1% | 72.0% | -17.0% | -22.7% | -30.9% |
| Copper (\$/lb) | 2.91 | 0.2% | 6.5% | 24.4% | 12.9% | 14.8% | 4.2% |
| Gold (\$/oz) | 2,048.15 | 5.0% | 15.2% | 20.5% | 31.9% | 39.8% | 35.2% |
| U.S. Dollar Index | 92.87 | -0.6% | -4.6% | -6.9% | -5.5% | -4.8% | -3.7% |
| Euro (USD/EUR) | 1.19 | 0.9% | 5.7% | 9.6% | 8.0% | 6.2% | 5.9% |
| British Pound (USD/GBP) | 1.31 | 1.4% | 5.4% | 5.5% | 1.2% | 8.3% | -0.8% |
| Japanese Yen (Yen/USD) | 105.57 | 0.4% | -1.8% | -1.0% | -3.8% | -0.5% | -2.9% |
| Chinese Yuan (CNY/USD) | 6.95 | -0.7% | -1.6% | -1.4% | -0.7% | -1.2% | -0.2% |

Source: FactSet and Bloomberg. As of August 5, 2020.

7 August 2020 | The Week Ahead

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