

## Global PMIs Suggest the Recovery is Getting Wavy

### IN REVIEW

- **U. of Michigan consumer sentiment** edged up a modest 4.8 points to 78.9 in the preliminary September print, but remains near crisis-lows amid uncertainty on additional fiscal support.
- **Existing home sales** rose 2.4% M/M in September to the highest level since 2006. **New home sales** rose 4.8% M/M in August to a 14-year high. Lower inventories are boosting prices.
- Both seasonally adjusted and non-seasonally adjusted **initial claims** rose in W/E September 19, signaling an easing in the labor market recovery. Continuing claims slid 177,000 in W/E September 12, due in part to exhausting benefits, while PEUC claims (13-week extension) rose 104,000 in W/E September 5.
- **EZ Markit flash PMIs** for September were mixed, as the manufacturing index rose from 51.7 to 53.7, while the services index fell into contractionary territory amid more COVID cases and restrictions.
- **U.K. Markit flash PMIs** stayed in expansionary territory in September but eased slightly from August.
- **U.K. retail sales** rose 4.3% M/M in August and are now 4% above pre-crisis levels, though the outlook is clouded amid greater restrictions.
- **PBOC** held policy steady at its September meeting, as the economy continues its impressive recovery.
- **Jibun Bank Japan PMIs** held relatively steady in contractionary territory, as Japan's recovery lags most major economies.

### WATCH LIST

Date		Consensus		Previous
<b>U.S.</b>				
Tue 9/29	Consumer Confidence	90.0	▲	84.8
Wed 9/30	GDP 2Q (Third Estimate)	-31.6%	▲	-31.7%
Wed 9/30	Pending Home Sales	2.6% M/M	▼	5.9% M/M
Thu 10/1	Personal Income	-2.5% M/M	▼	0.4% M/M
Thu 10/1	Personal Spending	0.7% M/M	▼	1.9% M/M
Thu 10/1	PCE Deflator	0.3% M/M	-	0.3% M/M
Thu 10/1	Initial Claims			870k
Thu 10/1	ISM Manufacturing	55.5	▼	56.0
Thu 10/1	Wards Total Vehicle Sales	15.55m	▲	15.19m
Fri 10/2	Change in Nonfarm Payrolls	900k	▼	1371k
Fri 10/2	Unemployment Rate	8.2%	▼	8.4%
<b>Europe</b>				
Wed 9/30	EZ Consumer Price Index (Prelim)	-0.2% Y/Y	-	-0.2% Y/Y
Thu 10/1	EZ Unemployment Rate	8.1%	▲	7.9%
Thu 10/1	EZ Producer Price Index			0.6% M/M
<b>Asia Pacific</b>				
Wed 9/30	China Official Manufacturing PMI	51.5	▲	51.0
Wed 9/30	China Official Non-Manufacturing PMI	54.9	▼	55.2
Wed 9/30	Caixin China Manufacturing PMI	53.3	▲	53.1
Wed 9/30	Japan Industrial Production	1.1% M/M	▼	8.7% M/M
Wed 9/30	Japan Retail Sales	1.9% M/M	▲	-3.3% M/M

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

### U.S.

- The **September employment report** is expected to show continued job gains and a decline in the unemployment rate. However, the pace of improvement is set to be slower than in previous months, as many of the easy job gains have been obtained.
- **Personal income** is set to take a step back in August amid the expiration of additional unemployment insurance benefits. **Consumer spending** is expected to rise at a more modest pace amid less income replacement and greater uncertainty.

### Europe

- September **inflation** data across major EU economies will help with understanding whether the dive into deflation was caused by one-offs (VAT cuts, oil slump and high base) or is more structural. Meanwhile, August **unemployment** will gauge labor markets' health as the recovery started losing some momentum in Europe.

### Asia Pacific

- **China PMIs** are expected to remain in expansionary territory amid an impressive domestic economic rebound driven by the investment boom that Chinese leadership has engineered.

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## THE HIGHLIGHTS

### Global Flash PMIs

Global Markit flash PMIs for September showed much differentiation by both sector and geography, which signals that the path to recovery will be wavy.

MARKIT FLASH PMIS

Region	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
U.S. Manufacturing	50.7	48.5	36.1	39.8	49.8	50.9	53.1	53.5
U.S. Services	49.4	39.8	26.7	37.5	47.9	50	55	54.6
EZ Manufacturing	49.2	44.5	33.4	39.4	47.4	51.8	51.7	53.7
EZ Services	52.6	26.4	12.0	30.5	48.3	54.7	50.5	47.6
UK Manufacturing	51.7	47.8	32.6	40.7	50.1	53.3	55.2	54.3
UK Services	53.2	34.5	13.4	29.0	47.1	56.5	58.8	55.1
Japan Manufacturing	47.8	44.8	41.9	38.4	40.1	45.2	47.2	47.3
Japan Services	46.8	33.8	21.5	26.5	45.0	45.4	45	45.6

Source: Bloomberg. As of September 24, 2020.

**U.S.:** Flash PMIs showed that business activity continued to improve in September, outpacing Europe and Japan. The manufacturing index rose to the highest level since January 2019, while the services index eased slightly from 55 to a still-expansive 54.6.

**Europe:** Performance varied by sector, as manufacturing accelerated from 51.7 to 53.7 in September, while the services index slowed down markedly from 50.5 to 47.7—back into contractionary territory—amid a resurgence in COVID cases and greater restrictions. This was remarkably consistent across the continent, with France and Germany showing strong manufacturing and weak services prints. The bifurcation was also seen in the U.K., albeit after a much bigger downturn in Q2, where a strong rebound is keeping manufacturing and services in expansive territory.

**Japan:** PMIs in Japan were worse, with manufacturing and services PMIs remaining in contractionary territory, improving only marginally, suggesting Japan's recovery will be tougher and slower than other major economies.

### U.S. Household Net Worth Reaches New Highs

U.S. household net worth jumped 6.8% to a record-high \$119 trillion in Q2 amid the stock market rally and fiscal support, according to the Federal Reserve's Financial Accounts report. Corporate equities drove the 25% decline in Q1 but led the rebound, recouping enough to leave Q2 only 8.3% below 4Q19 levels. Fiscal support was also a boon; checking account balances soared 33% to \$1.8 trillion, while savings increased 6.1% to \$11.2 trillion, and real estate continued to support wealth amid a strong housing market. The wealthiest 10% held 54% of equities, which drove the rise; the bottom half accounted for 2%—a disproportionate advantage for wealthier households as pandemic job losses weigh more heavily on lower-wage jobs. While the elevated savings rate is set to aid near-term spending, the expiration and lack of additional income support to lower-income households should weigh on the pace of spending.

### Policy

**U.S. Fiscal Budget:** The U.S. House of Representatives approved legislation to fund the government through December 11 after House Speaker Nancy Pelosi and Treasury Secretary Steven Mnuchin struck a deal that averted a September 30 shutdown. Pelosi said the proposal includes \$8 billion for nutrition assistance for children and families and increased accountability for aid to farmers, which was reportedly the big sticking point. The deal is widely expected to pass but will exclude any coronavirus relief measures. Hopes are fading fast for a U.S. Fiscal Relief Package as it appears several members of Congress are anxious to return to their districts to campaign for the November 3 election, even if it means leaving Capitol Hill without passing another bill. A handful of moderate Democrats are considering signing onto a Republican-led effort that would, if it gains the support of 218 lawmakers, force a vote to revive a federal loan program for small businesses.

**U.K. Shutdown:** Prime Minister Boris Johnson abandoned attempts to persuade Britons to return to the office, insisting they should work-from-home if possible as part of sweeping measures to control the virus. He expects the new restrictions to remain in place for six months and military personnel could be brought in to help enforce the rules. BOE Governor Andrew Bailey expects the economy would remain scarred for months by the impact of the pandemic, and that the labor market would remain weak for some time. Bailey said the central bank isn't ready to take its key interest rate below zero, as the ECB has done, but the option is being studied. U.K. Parliament also announced a new job support scheme for subsidizing wages of people in part-time work. The government will also extend loans for firms hit by COVID restrictions and provide more relief for value-added tax payments. A study by London School of Economics recently found that the economic cost of leaving the EU without a comprehensive trade deal would be two or three times bigger over the long term than the impact of the coronavirus, alluding to the stalled negotiations between the U.K. and the EU.

**China:** Leadership is split on whether to release a blacklist of U.S. based companies after China's Commerce Ministry indicated the list was near completion. Tech companies would likely be affected the most and the move is seen as retaliation for blacklisting companies like Huawei and forcing the partial sale of TikTok. Blacklisted companies would be prohibited from selling to and buying from China and could not invest in the country.

**U.S. Healthcare:** President Donald Trump plans to announce executive actions on healthcare in the coming weeks that could include a promised order meant to safeguard insurance protections for pre-existing conditions should the Supreme Court undercut Obamacare. Other actions could include efforts to prevent unexpected medical bills and action to address mental health. These moves are similar to the drug pricing orders Trump recently released, including linking Medicare prices to cheaper ones paid overseas; expect a federal rulemaking process that would take months, if not years, to follow.

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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	-175 bps	-150 bps
U.S. SOFR	0.06%	-4 bps	-1 bps	-1 bps	4 bps	-179 bps	-149 bps
3 Month USD Libor	0.23%	-1 bps	-3 bps	-7 bps	-99 bps	-188 bps	-168 bps
3 Month Euribor	-0.50%	-1 bps	-1 bps	-9 bps	-13 bps	-10 bps	-12 bps
3 Month U.S. T-Bill	0.10%	-1 bps	1 bps	-5 bps	8 bps	-180 bps	-145 bps
2-Year U.S. Treasury	0.14%	0 bps	-1 bps	-5 bps	-15 bps	-153 bps	-143 bps
10-Year U.S. Treasury	0.68%	-1 bps	4 bps	-4 bps	-8 bps	-103 bps	-124 bps
10-Year German Bund	-0.51%	-2 bps	-1 bps	-7 bps	-13 bps	7 bps	-32 bps
10-Year U.K. Gilt	0.21%	0 bps	-1 bps	0 bps	-21 bps	-35 bps	-61 bps
10-Year JGB	0.00%	-1 bps	-3 bps	0 bps	-6 bps	22 bps	2 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.48%	N/A	0.1%	-0.2%	0.7%	8.4%	9.0%
Barclays Capital U.S. TIPS	0.66%	N/A	-0.3%	0.2%	2.8%	9.3%	8.9%
Barclays Capital U.S. Aggregate	1.18%	60	0.0%	-0.2%	1.0%	7.3%	6.9%
Barclays Capital Global Aggregate	0.90%	49	-0.6%	-0.2%	2.2%	5.8%	5.6%
Barclays Capital U.S. ABS	0.54%	41	0.0%	0.2%	0.9%	4.6%	4.1%
Barclays Capital U.S. MBS	1.33%	66	0.0%	-0.2%	0.1%	4.4%	3.5%
Barclays Capital U.S. Corporate Investment Grade	1.97%	132	-0.2%	-0.3%	2.2%	8.5%	7.1%
BAML Euro Corporate Investment Grade	0.51%	115	0.0%	0.0%	2.0%	0.3%	0.7%
Barclays Capital U.S. Corporate High Yield	5.83%	519	-1.1%	-0.4%	2.8%	2.7%	0.4%
BAML European Currency High Yield Non-Financial	4.26%	479	-0.8%	0.2%	2.7%	-0.2%	-2.1%
CS U.S. Leveraged Loans	5.87%	564	-0.3%	1.4%	3.6%	1.1%	-0.5%
CS Western European Leveraged Loans Non-USD	5.43%	537	-0.2%	1.4%	2.5%	0.0%	-0.6%
JPM CEMBI Broad Diversified	4.53%	400	-0.5%	-0.2%	2.9%	5.1%	2.8%
JPM EMBI Global Diversified	5.14%	434	-2.3%	-2.1%	2.3%	1.1%	-0.5%
JPM GBI-EM Global Diversified	4.49%	N/A	-2.9%	-0.8%	-0.3%	-1.9%	-6.3%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,236.92	1.81%	-4.4%	-4.6%	3.8%	10.3%	1.6%
Euro STOXX 600 (Local)	359.53	2.13%	-3.6%	-1.5%	-2.1%	-7.8%	-13.5%
U.K. FTSE 100 (Local)	5,899.26	4.69%	-2.9%	-1.7%	-6.7%	-19.5%	-21.8%
Japan Nikkei 225 (Local)	23,346.49	2.22%	-0.5%	1.9%	3.5%	5.7%	-1.3%
China Shanghai Composite (Local)	3,279.71	2.17%	-0.1%	-3.0%	10.4%	10.2%	7.5%
MSCI AC World (Local)	551.97	2.15%	-3.5%	-3.0%	5.5%	7.2%	-0.7%
MSCI Emerging Markets (Local)	1,077.70	2.33%	-2.9%	-1.6%	7.1%	11.5%	2.4%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	347.73	-1.2%	-1.6%	5.4%	31.9%	-17.3%	-20.3%
WTI Crude (\$/bbl)	39.94	-0.6%	-5.6%	-1.1%	71.2%	-31.9%	-34.7%
Copper (\$/lb)	2.99	-2.1%	2.7%	12.5%	41.2%	15.4%	7.1%
Gold (\$/oz)	1,873.40	-4.5%	-2.6%	5.9%	22.8%	23.1%	23.7%
U.S. Dollar Index	94.39	1.3%	1.2%	-2.3%	-7.9%	-4.3%	-2.1%
Euro (USD/EUR)	1.17	-1.3%	-0.9%	3.0%	8.5%	6.2%	4.0%
British Pound (USD/GBP)	1.28	-1.8%	-2.4%	1.9%	11.1%	2.7%	-3.7%
Japanese Yen (Yen/USD)	105.29	0.4%	-0.6%	-0.9%	-5.5%	-1.9%	-3.1%
Chinese Yuan (CNY/USD)	6.79	0.4%	-1.8%	-3.9%	-4.6%	-4.7%	-2.5%

Source: FactSet and Bloomberg. As of September 23, 2020.

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