

As COVID Cases Fade, Services Ready for Upgrade

WATCH LIST

Date		Period	Consensus	Previous
U.S.				
Mon 2/21	Markets Closed – Presidents Day		--	--
Tue 2/22	FHFA House Price Index	Dec	1.0% M/M	▼ 1.1% M/M
Tue 2/22	Markit Manufacturing PMI (Prelim. Est.)	Feb	56.0	▲ 55.5
Tue 2/22	Markit Services PMI (Prelim. Est.)	Feb	53.0	▲ 51.2
Tue 2/22	Conference Board Consumer Confidence	Feb	109.8	▼ 113.8
Thu 2/24	GDP, annualized (Second Estimate)	4Q21	7.0% Q/Q	▲ 6.9% Q/Q
Thu 2/24	New Home Sales	Jan	813 K	▲ 811 K
Fri 2/25	Core PCE Deflator	Jan	5.2% Y/Y	▲ 4.9% Y/Y
Fri 2/25	Personal Income	Jan	-0.3% M/M	▼ 0.3% M/M
Fri 2/25	Personal Spending	Jan	0.8% M/M	▲ -0.6% M/M
Europe				
Mon 2/21	EA Markit Manufacturing PMI (Prelim. Est.)	Feb	58.6	▼ 58.7
Mon 2/21	EA Markit Services PMI (Prelim. Est.)	Feb	51.7	▲ 51.1
Mon 2/21	U.K. Markit Manufacturing PMI (Prelim. Est.)	Feb	57.0	▼ 57.3
Mon 2/21	U.K. Markit Services PMI (Prelim. Est.)	Feb	55.0	▲ 54.1
Wed 2/23	EA Consumer Price Index (Final Est.)	Jan	5.2% Y/Y	▲ 5.0% Y/Y
Fri 2/25	EA Consumer Confidence (Final Est.)	Feb		
Asia Pacific				
Mon 2/21	PBOC Monetary Policy Meeting	Feb	--	--
Mon 2/21	Jibun Bank Japan Manufacturing PMI (Prelim. Est.)	Feb		55.4
Mon 2/21	Jibun Bank Japan Services PMI (Prelim. Est.)	Feb		47.6
Mon 2/21	South Korea Exports 20 Days	Feb		22.0% Y/Y
Wed 2/23	Japan Markets Closed -- Emperor's Birthday			

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

U.S.

- We will watch the February **Markit flash PMIs** to gauge the rebound in activity following the Omicron wave.
- **The core PCE deflator**—the Fed’s preferred measure of inflation—is expected to increase on a Y/Y basis in January following elevated CPI and PPI data.

Europe

- **EA and U.K. PMIs** for February will show whether private sector activity is recovering from Omicron restrictions.
- **EA consumer confidence fell** in January amid Omicron, to the lowest level since March 2021. We are watching whether there are signs of recovery this month as restrictions lift.

Asia Pacific

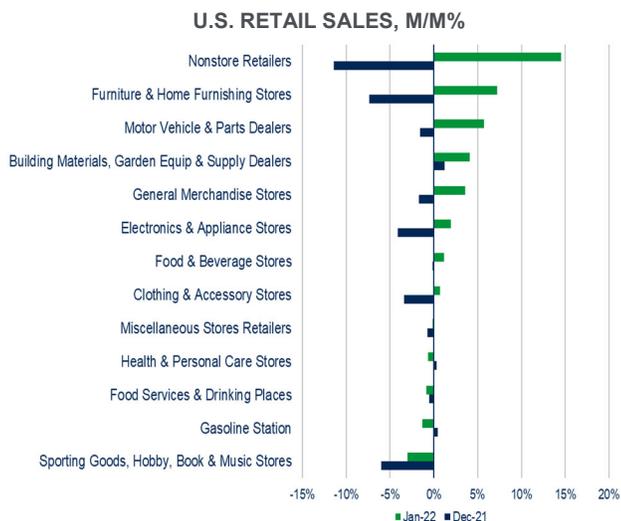
- The **PBOC** is expected to keep loan prime rates steady. Nevertheless, the Q4 Monetary Policy Report reiterated the bank’s easing bias and supportive monetary policy stance, suggesting more dovish policy can be expected in the months ahead.
- **Japan PMIs** could show the lingering impact of infections remaining elevated in February.

What This Week Means For Markets

News from Russia-Ukraine border continued to dominate market movements this week, leading to significant volatility given the shifting tones in headlines. Meanwhile, FOMC meeting minutes were largely in line with expectations, though markets gave them a more dovish read and unwound some of the hawkish pricing; a March lift-off is still rightfully priced in, but the odds of a 50 bps hike in March declined back to levels seen prior to the CPI print. Our baseline scenario foresees central bank tightening to ease inflation, but not too much as to unnecessarily slow growth. Elsewhere, more subdued inflationary pressures in Asia are giving the PBOC room to reiterate its dovish stance to support the region’s recovery. Please see our [Macro Dashboard](#).

IN REVIEW
U.S. Retail Sales Rise Despite Omicron

January U.S. retail sales surprised to the upside, rising 3.8% M/M and retracing the decline in December. The Omicron wave temporarily halted the shift in consumer spending from goods to services, as at-home sectors gained, including nonstore sales, furniture and home furnishings, building materials, and autos. Meanwhile, restaurant sales fell for a second-consecutive month.



Source: Bloomberg. As of February 17, 2022.

Looking ahead, we expect the shift in consumer spending from goods to services to resume, given the sharp fall in COVID cases. Pent-up savings and rising wages should support strong but normalizing spending over the year ahead.

U.K. CPI Tracking for Spring Peak

U.K. CPI decreased 0.1% M/M in January, the first decline in a year, albeit smaller than what the market expected (-0.2%). Annual inflation was 5.5%, a slight increase from 5.4% in December and above consensus of 5.4%, in line with our alternative Runaway Train scenario (see link on page 1). As was the case in recent months, the main contributors were gas and electricity prices, followed by food and clothing. Given this release and further expectations of accelerating inflation, the BoE will most likely hike again at its next two policy meetings, which are scheduled for March and May; markets are currently pricing increases of more than 25 basis points for each meeting.

EA Industrial Production Surprises to the Upside

Euro area (EA) industrial production surprised the market on the upside, increasing 1.2% M/M in December, versus consensus expectations for 0.3% M/M. The rise was broad-based, driven by production of capital and intermediate and non-durable goods. Euro area industrial production increased 1.6% compared to one year ago, significantly above the 1.4% Y/Y decline in November and market expectations of -0.5%; this confirms the latest COVID wave did not hurt manufacturing in the single currency area.

China's Inflation is Bucking the Global Trend

Headline CPI inflation grew 0.9% Y/Y in January (from 1.5% prior), coming in below expectations. Food weighed on the index, with pork prices declining over the month amid strong negative base effects and on the back of a supply glut. Non-food inflation stayed relatively subdued, with core CPI remaining flat at 1.2% Y/Y, implying weak underlying internal demand in the economy. Meanwhile, producer prices eased further, growing 9.1% Y/Y in January (from 9.5% prior), also below expectations. While higher energy prices provided a lift, it was more than offset by broad-based price slowdowns in other sectors. There are signs PPI, having declined for the third-consecutive month, may have passed its cyclical peak; barring upside surprises in energy, it could moderate further this year. Because inflationary pressures are not yet a concern, the PBOC has more runway for easing. Indeed, authorities have signaled their intent to remain supportive and stabilize growth amid downside risks in the property sector and the zero-COVID approach, which will likely continue to weigh on consumption this year.

Japan Sees Consumption-Led Bounce in Q4

Japan's economy grew 1.3% Q/Q in 4Q21—bringing full-year 2021 growth to 1.7%—amid a bounce in private consumption as infections waned and government restrictions eased. Meanwhile, business investment was more lackluster, partially reflecting supply bottlenecks and outlook concerns that put a damper on capex spending. While GDP remains close to 3% below the level in 2019, the bounce back in Q4 suggests underlying strength in the economy. The consumer could be a tailwind to growth this year, assuming the pandemic situation improves, especially as household savings remain elevated. The case surge in January from Omicron may weigh on activity in the near-term, however, and increases the risks of more delays in the expected recovery.

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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%	1 bps	0 bps	0 bps	0 bps	-1 bps	0 bps
3 Month USD Libor	0.49%	11 bps	25 bps	33 bps	36 bps	30 bps	28 bps
3 Month Euribor	-0.52%	0 bps	4 bps	3 bps	3 bps	2 bps	5 bps
3 Month U.S. T-Bill	0.39%	12 bps	26 bps	34 bps	33 bps	35 bps	34 bps
2-Year U.S. Treasury	1.52%	18 bps	56 bps	99 bps	132 bps	141 bps	79 bps
10-Year U.S. Treasury	2.05%	12 bps	28 bps	41 bps	79 bps	75 bps	53 bps
10-Year German Bund	0.27%	5 bps	33 bps	52 bps	75 bps	63 bps	45 bps
10-Year U.K. Gilt	1.52%	9 bps	39 bps	56 bps	96 bps	92 bps	56 bps
10-Year JGB	0.21%	0 bps	7 bps	14 bps	21 bps	13 bps	14 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.90%	N/A	-0.7%	-1.9%	-2.9%	-3.7%	-3.6%
Barclays Capital U.S. TIPS	2.06%	N/A	-0.3%	-1.6%	-4.0%	2.1%	-4.0%
Barclays Capital U.S. Aggregate	2.44%	39	-0.9%	-2.3%	-3.5%	-4.0%	-4.1%
Barclays Capital Global Aggregate	1.81%	41	-0.8%	-2.6%	-3.1%	-6.2%	-3.3%
Barclays Capital U.S. ABS	1.88%	35	-0.4%	-0.9%	-1.4%	-1.7%	-1.3%
Barclays Capital U.S. MBS	2.59%	24	-0.7%	-1.7%	-3.0%	-3.8%	-3.1%
Barclays Capital U.S. Corporate Investment Grade	3.13%	112	-1.5%	-3.7%	-5.2%	-4.7%	-5.9%
BAML Euro Corporate Investment Grade	1.16%	124	-0.5%	-2.9%	-3.8%	-4.1%	-3.5%
Barclays Capital U.S. Corporate High Yield	5.70%	354	-1.4%	-3.4%	-3.5%	-0.5%	-4.2%
BAML European Currency High Yield Non-Financial	4.11%	396	-0.5%	-3.2%	-3.3%	-1.5%	-3.2%
CS U.S. Leveraged Loans	6.15%	435	-0.3%	-0.4%	0.4%	3.7%	0.2%
JPM CEMBI Broad Diversified	5.23%	322	-0.7%	-1.7%	-2.9%	-2.3%	-2.8%
JPM EMBI Global Diversified	5.95%	383	-0.8%	-1.5%	-4.1%	-4.3%	-4.2%
JPM GBI-EM Global Diversified	5.96%	N/A	0.3%	1.6%	1.4%	-6.5%	1.9%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,475.01	1.31%	-2.4%	-3.9%	-4.5%	15.4%	-5.9%
Euro STOXX 600 (Local)	467.77	2.59%	-1.2%	-2.8%	-4.4%	11.6%	-4.1%
U.K. FTSE 100 (Local)	7,603.78	3.12%	-0.5%	0.8%	3.8%	12.7%	3.0%
Japan Nikkei 225 (Local)	27,460.40	1.78%	-0.4%	-2.4%	-7.9%	-9.9%	-4.6%
China Shanghai Composite (Local)	3,465.83	2.07%	-0.4%	-1.6%	-1.6%	-5.2%	-4.8%
MSCI AC World (Local)	720.10	1.84%	-1.7%	-2.9%	-4.4%	9.1%	-4.4%
MSCI Emerging Markets (Local)	1,244.19	2.51%	0.3%	-1.0%	-2.9%	-9.9%	0.8%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	647.98	1.7%	8.6%	11.7%	24.5%	37.8%	15.5%
WTI Crude (\$/bbl)	93.66	4.6%	11.7%	16.0%	38.9%	55.9%	24.3%
Copper (\$/lb)	4.54	-1.3%	2.9%	4.2%	5.1%	18.0%	1.9%
Gold (\$/oz)	1,862.60	1.9%	2.2%	0.2%	4.3%	3.8%	3.1%
U.S. Dollar Index	95.70	0.2%	0.6%	-0.2%	3.3%	5.7%	-0.3%
Euro (USD/EUR)	1.14	-0.6%	-0.6%	0.1%	-3.6%	-6.2%	-0.1%
British Pound (USD/GBP)	1.36	0.2%	-0.8%	1.2%	-2.0%	-2.5%	0.3%
Japanese Yen (Yen/USD)	115.43	0.0%	1.4%	0.7%	5.8%	9.2%	0.2%
Chinese Yuan (CNY/USD)	6.34	-0.4%	-0.1%	-0.7%	-2.2%	-1.6%	-0.6%

Source: FactSet and Bloomberg. As of February 16, 2022.

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