25 March 2022

THE WEEK AHEAD

War Distress Hasn't Derailed Western Growth Yet

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 3/29	FHFA House Price Index	Jan	1.3% M/M	▲	1.2% M/M
Tue 3/29	Conference Board Consumer Confidence	Mar	107.8	▼	110.5
Tue 3/29	JOLTS Job Openings	Feb	11000 K	▼	11263 K
Wed 3/30	ADP Employment Change	Mar	400 K	▼	475 K
Wed 3/30	GDP, annualized (Third Est.)	4Q21	7.1% Q/Q	▲	7.0% Q/Q
Thu 3/31	Personal Income	Feb	0.5% M/M	▲	0% M/M
Thu 3/31	Personal Spending	Feb	0.5% M/M	▼	2.1% M/M
Thu 3/31	Core PCE Deflator	Feb	5.5% Y/Y	▲	5.2% Y/Y
Fri 4/1	Change in Nonfarm Payrolls	Mar	450 K	▼	678 K
Fri 4/1	Unemployment Rate	Mar	3.7%	▼	3.8%
Fri 4/1	ISM Manufacturing	Mar	58.3	▼	58.6
Fri 4/1	Wards Total Vehicle Sales	Mar	14.05 M	▼	14.07 M
Europe					
Thu 3/31	U.K. GDP (Final Est.)	4Q21			1.0% Q/Q
Thu 3/31	EA Unemployment Rate	Feb	6.7%	▼	6.8%
Fri 4/1	EA Consumer Price Index	Mar	6.3% Y/Y	▲	5.8% Y/Y
Asia Pacific					
Sun 3/27	China Industrial Profits (YTD)	Feb			178.9% Y/Y
Tue 3/29	Japan Jobless Rate	Feb	2.8%	-	2.8%
Wed 3/30	Japan Retail Sales	Feb	0.3% M/M	▲	-1.9% M/M
Thu 3/31	Japan Industrial Production (Prelim. Est.)	Feb	1.0% M/M	▲	-0.8% M/M
Thu 3/31	China Manufacturing PMI	Mar	50.0	▼	50.2
Thu 3/31	China Non-manufacturing PMI	Mar	50.7	▼	51.6
Fri 4/1	Caixin China Manufacturing PMI	Mar	50.0	▼	50.4

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

U.S.

- **The March employment report** is expected to show a continued robust labor market recovery.
- **We will watch personal spending** for February to gauge consumer spending's shift from goods to services and any impact from higher necessities prices.

Europe

- We are monitoring **the economic and policy response** to the Russia-Ukraine war, as the conflict's spillovers drag on economic activity around the world.
- **EA CPI** for March will likely confirm rising inflationary pressures.
- **The EA unemployment rate** is expected to stay close to a record low in February.

Asia Pacific

- **China PMIs** for March should moderate amid the surge in COVID cases. Focus will be on gauging any impact on supply chains, given lockdown in several cities.
- **Japan activity data** for February will show the impact of the latest COVID wave.

What This Week Means For Markets

While volatility has eased somewhat compared with the initial spike that followed Russia's invasion of Ukraine, war and the uncertain future path of monetary policy are keeping the VIX historically high. The subsequent risks to growth have led parts of the yield curve to invert, while the expected impact to inflation is pushing breakevens higher. Global yields are rising, with the U.S. 10-year Treasury yield topping 2.3% this week. Oil and commodity prices continued climbing throughout the week, with Brent reaching more than $120/bbl. Ongoing concerns about higher inflation and slower growth are in line with our Stagflation Shock scenario. Please see our Macro Dashboard.

IN REVIEW

Economic Responses to the War in Ukraine Mount

The U.S. announced a new list of penalties against Russian elites, lawmakers, and entities, and there are discussions about imposing sanctions on Russia's gold reserves—though not yet passed. Meanwhile, the EU and G7 are expected to announce further restrictions on business in Russia.

In response, Putin has threatened to make countries he deems "hostile" pay for Russian gas in rubles, which provided some support for the currency mid-week. Bond trading in Russia resumed Monday, and some equities trading resumed Thursday. A temporary regime for external debt service was introduced in Russia while capital controls remain in place, allowing companies, including the sovereign, to pay foreign creditors in rubles—even those denominated in other currencies. The market practice for Russian corporates so far is to seek exceptions to service eurobonds in a conventional manner, using a mix of exceptions and their own means, such as cash in foreign jurisdictions. While this eliminates capital restriction obstacles, corporates may face other difficulties with payment agents (or other correspondent parties), which could temporarily block payments due to EU sanctions.

Global PMIs Point to Impressive Growth in March

Growth remained better than expected in March despite uncertainty for the global recovery because of war in Ukraine.

S&P GLOBAL PMIS

Region	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
U.S. Manufacturing	62.1	63.4	61.1	60.7	58.4	58.3	57.7	55.5	57.3	58.5
U.S. Services	64.6	59.9	55.1	54.9	58.7	58	57.6	51.2	56.5	58.9
EZ Manufacturing	63.4	62.8	61.4	58.6	58.3	58.4	58	58.7	58.2	57
EZ Services	58.3	59.8	59.0	56.4	54.6	55.9	53.1	51.1	55.5	54.8
UK Manufacturing	63.9	60.4	60.3	57.1	57.8	58.1	57.9	57.3	58	55.5
UK Services	62.4	59.6	55.0	55.4	59.1	58.5	53.6	54.1	60.5	61
Japan Manufacturing	52.4	53.0	52.7	51.5	53.2	54.5	54.3	55.4	52.7	53.2
Japan Services	48.0	47.4	42.9	47.8	50.7	53	52.1	47.6	44.2	48.7

Source: Bloomberg. As of March 24, 2022.

U.S. flash PMIs showed accelerated growth in March across both manufacturing and services, with services contributing the most to the composite index. Easing COVID restrictions outweighed the drag from war in Ukraine. Supply constraints eased and employment picked up, leading to greater production. While supply bottlenecks allayed, input costs rose at a near-record pace with concerns about the war in Ukraine and lockdowns in China. Demand remained robust, with new orders driving the backlog higher. The continued supply-demand imbalance is keeping inflation pressures elevated, with firms still passing higher input costs on to consumers. Despite impressive growth in March, business confidence fell to a five-month low given higher input costs and the war, which could reduce consumers' disposable incomes.

The **EA** composite PMI fell from 55.5 to 54.5 in March (above cons. 53.9). Services demand supported the sector as COVID restrictions lifted, reducing the impact from the war in Ukraine. The services PMI declined to 54.8 from 55.5 (cons. 54.2), while the manufacturing PMI fell to 57 from 58.2 following supply disruptions and surging input costs—the weakest expansion in 14 months but better than the market forecast of 56. New orders fell for the first time in 21 months, signaling rising uncertainty. The average composite PMI for January-March was marginally below that from October-December 2021, a sign growth slowed only slightly from 4Q21, when it expanded 0.3% Q/Q.

Japan's flash manufacturing PMI remained steady, rising slightly in March to 53.2 (from 52.7). Downward pressures are building beneath the surface. Supplier delivery times, which contributed to the rise, made new lows and implies ongoing supply constraint uncertainty, including semiconductors. A drop in new export orders was likely triggered by the war. Industrial production activity could drag in the months ahead. On the upside, services PMI rose to 48.7 from 44.2 as COVID subsides.

U.K. Inflation on Track for April Peak

U.K. inflation increased 6.2% Y/Y in February from 5.5% in January (cons. 5.9%); rising energy and food prices led to a high not seen since 1992. The BoE expects inflation to peak at 8% Y/Y in April and is concerned about slowing growth, given geopolitical unrest and supply-side shocks. Look for a 25bp hike in May and a pause in June to accommodate supply-side shocks.

Bank of Japan Bucking the Tightening Trend

As expected, the BOJ kept policy settings accommodative, but Governor Haruhiko Kuroda noted inflation may rise to 2% in April and remain there for a while—the first time inflation reaches the BOJ's target since the global financial crisis. This is largely a function of global commodity prices, with no sign of second-round effects through wage increases, for now. With the negative impact on private consumption, it does not need to tighten monetary policy. The BOJ will likely focus on the resulting drag on growth rather than temporarily higher inflation. Kuroda noted the yen's depreciation is still a net positive to Japan. Any rise in import prices reflects increased commodity prices rather than FX and shouldn't be an issue, as long as it's gradual and in line with economic fundamentals. Given headwinds to growth, including COVID and higher commodity prices, both monetary and fiscal policy are likely to exhibit an easing bias.

KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	0.50%	25 bps	25 bps	25 bps	25 bps	25 bps	25 bps
U.S. SOFR	0.27%	22 bps	22 bps	22 bps	22 bps	26 bps	22 bps
3 Month USD Libor	0.97%	2 bps	47 bps	75 bps	83 bps	77 bps	76 bps
3 Month Euribor	-0.49%	-1 bps	4 bps	10 bps	5 bps	4 bps	8 bps
3 Month U.S. T-Bill	0.50%	4 bps	14 bps	42 bps	47 bps	48 bps	45 bps
2-Year U.S. Treasury	2.11%	14 bps	52 bps	143 bps	185 bps	197 bps	139 bps
10-Year U.S. Treasury	2.32%	13 bps	34 bps	83 bps	92 bps	68 bps	81 bps
10-Year German Bund	0.49%	10 bps	25 bps	73 bps	76 bps	83 bps	67 bps
10-Year U.K. Gilt	1.65%	2 bps	18 bps	72 bps	86 bps	88 bps	69 bps
10-Year JGB	0.22%	2 bps	3 bps	16 bps	19 bps	15 bps	15 bps
Fixed Income	**Yield**	**OAS**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
Barclays Capital U.S. Government-Treasury	2.32%	N/A	-0.7%	-1.9%	-5.2%	-3.9%	-5.3%
Barclays Capital U.S. TIPS	2.43%	N/A	0.8%	1.8%	-0.6%	5.8%	-1.5%
Barclays Capital U.S. Aggregate	2.85%	43	-0.3%	-1.7%	-5.7%	-4.3%	-5.8%
Barclays Capital Global Aggregate	2.10%	44	-0.5%	-3.1%	-6.2%	-7.3%	-6.4%
Barclays Capital U.S. ABS	2.70%	60	-0.4%	-1.3%	-2.6%	-2.9%	-2.7%
Barclays Capital U.S. MBS	2.91%	25	-0.3%	-1.3%	-4.5%	-4.7%	-4.6%
Barclays Capital U.S. Corporate Investment Grade	3.60%	123	0.3%	-1.7%	-7.8%	-4.5%	-8.0%
BAML Euro Corporate Investment Grade	1.54%	144	0.0%	-2.0%	-5.6%	-5.6%	-5.2%
Barclays Capital U.S. Corporate High Yield	6.20%	358	0.3%	-1.3%	-5.3%	-0.9%	-5.6%
BAML European Currency High Yield Non-Financial	4.57%	426	1.0%	-1.5%	-4.6%	-2.8%	-4.7%
CS U.S. Leveraged Loans	7.09%	463	0.9%	-0.6%	-0.4%	2.8%	-0.6%
JPM CEMBI Broad Diversified	6.28%	395	1.0%	-5.6%	-8.1%	-6.7%	-8.2%
JPM EMBI Global Diversified	7.07%	468	-0.4%	-6.9%	-10.7%	-9.0%	-11.0%
JPM GBI-EM Global Diversified	6.28%	N/A	0.3%	-9.4%	-7.2%	-10.6%	-7.7%
Equities	**Price**	**Div Yield**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
S&P 500	4,456.24	1.32%	2.3%	5.6%	-5.4%	15.6%	-6.2%
Euro STOXX 600 (Local)	454.03	2.44%	1.2%	0.0%	-6.0%	7.3%	-6.9%
U.K. FTSE 100 (Local)	7,460.63	3.30%	2.3%	-0.5%	1.2%	11.4%	1.0%
Japan Nikkei 225 (Local)	28,040.16	1.75%	8.8%	6.0%	-2.6%	-3.3%	-2.6%
China Shanghai Composite (Local)	3,271.03	2.18%	3.2%	-6.3%	-10.2%	-4.1%	-10.1%
MSCI AC World (Local)	703.14	1.89%	2.8%	0.9%	-4.4%	9.2%	-5.7%
MSCI Emerging Markets (Local)	1,140.72	2.52%	4.9%	-5.7%	-4.5%	-9.5%	-5.9%
Commodities/Currencies	**Price**	**1W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
S&P GS Commodity Index	782.85	14.4%	18.8%	40.2%	43.4%	69.7%	39.5%
WTI Crude ($/bbl)	114.93	35.5%	24.7%	55.5%	56.5%	99.0%	52.6%
Copper ($/lb)	4.76	3.8%	6.3%	8.6%	12.6%	16.5%	6.9%
Gold ($/oz)	1,931.75	1.0%	1.4%	7.0%	10.4%	11.9%	7.0%
U.S. Dollar Index	98.62	0.0%	2.5%	2.7%	5.5%	6.8%	2.8%
Euro (USD/EUR)	1.10	0.1%	-2.9%	-2.7%	-6.4%	-7.3%	-3.3%
British Pound (USD/GBP)	1.32	0.9%	-2.6%	-1.5%	-3.9%	-4.2%	-2.5%
Japanese Yen (Yen/USD)	121.04	2.1%	5.2%	5.8%	9.9%	11.4%	5.1%
Chinese Yuan (CNY/USD)	6.37	0.4%	0.9%	0.1%	-1.3%	-2.1%	0.0%

Source: FactSet and Bloomberg. As of March 24, 2022.

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