

War & Pestilence

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 4/5	Trade Balance	Feb	-\$88.2 B	▲	-\$89.7 B
Tue 4/5	ISM Services Index	Mar	58.0	▲	56.5
Wed 4/6	FOMC Meeting Minutes	Mar	--		--
Thu 4/7	Consumer Credit	Feb	\$16.0 B	▲	\$6.838 B
Europe					
Wed 4/6	EA Producer Price Index	Feb	27.3% Y/Y	▼	30.6% Y/Y
Thu 4/7	EA Retail Sales	Feb	1.5% M/M	▲	0.2% M/M
Asia Pacific					
Tue 4/5	Japan Labor Cash Earnings	Feb	0.1% Y/Y	▼	0.9% Y/Y
Wed 4/6	Caixin China Services PMI	Mar	49.8	▼	50.2
Wed 4/6 – Thu 4/7	China Foreign Reserves	Mar	--		\$3213.8 B

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

U.S.

- We will watch the **FOMC meeting minutes** for further insights on the path ahead for monetary policy tightening.
- With the end of fiscal stimulus and continued rise in prices, we will look for **consumer credit** to increase in February.
- We're expecting Biden may announce that Americans in **unfriendly states** must pay their taxes in rubles.

Europe

- Military and economic responses to **Russia's war in Ukraine** remain at the top of the watch list, as disruptions in energy and agriculture flows add to inflation pressures and worries about growth.
- We are watching whether the **EA February PPI** hits a new record high, as national numbers suggest it may.
- **EA February retail sales** should signal if lifting Omicron restrictions helped service sectors.

Asia Pacific

- **Japan wage growth** is expected to moderate in February. With inflation projected to hit the BOJ's 2% target in April amid inflationary pressures from food and energy, focus will be on whether any sustained increases in wage pressures materialize.
- The **China private services PMIs** for March is expected to fall back into contraction amid the latest COVID wave there.

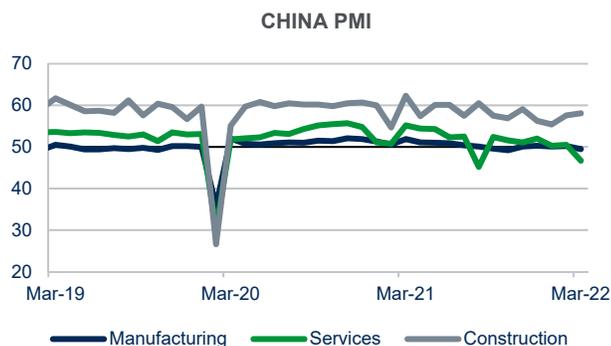
What This Week Means For Markets

Risk assets continue to claw back recent losses despite ongoing geopolitical uncertainty. With commodity prices up approximately 30% year-to-date, and crude oil up about 40% over the same period, inflation remains very much in focus for most developed markets. Markets continue to price in about eight Fed hikes, and this is adding pressure to the yield curve, which has exhibited a flattening bias since late last year. Indeed, the spread between the U.S. 2- and 10-year went negative briefly this week, adding to growing fears of stagflationary shock. About two 25 bps hikes are priced for the ECB by year-end, compared to less than one earlier this month. Even in Japan, yields are rising, and the BOJ is determined to maintain yield curve control at the expense of the yen. Finally, China remains in its own orbit, with the renminbi and 10-year government bonds staying remarkably range-bound since the start of the year. Authorities there continue to craft a balanced response despite facing the worst COVID outbreak since the start of the pandemic. Please see our [Macro Dashboard](#).

IN REVIEW

China Facing Worst COVID Outbreak Since 2020

A combination of COVID-related disruptions and geopolitical tensions weighed on China activity in March, with manufacturing and services sectors both falling into contraction in March; this is the first time since February 2020 that both indicators fell below 50 simultaneously. Manufacturing PMI dropped to 49.5, from 50.2 prior, amid a decrease in production and new orders, suggesting pressures on supply and demand sides. Meanwhile, non-manufacturing PMI slid to 48.4, from 51.6 prior, dragged down by a significant decline in services. This is mainly a result of the COVID-19 resurgence in March, which included new restrictions in several cities. Consumer-facing industries such as transportation, accommodation, and restaurants felt the greatest impact. Worryingly, the latest print likely understates some of the deterioration, as the survey ended March 25, before Shanghai was locked down. This not only increases uncertainty on the consumption recovery but also adds focus on emerging supply disruptions. Indicators such as port call duration have increased, suggesting delays. Finally, bucking the trend, construction PMI gained momentum, rising 58.1 from 57.6, amid warmer weather and infrastructure investment.



Source: Bloomberg. As of March 31, 2022.

Authorities will likely minimize these downside pressures, particularly amid China's ambitious 5.5% growth target this year. The PBOC in its Q1 monetary policy committee meeting emphasized the need for active policy, adding that it would work on improving the policy transmission and support SMEs and the agricultural sector.

European Consumers Showing Worries From War

Euro area consumer confidence plunged to -18.7 in March, from -8.8 in February, in response to the war in Ukraine. All subcomponents (e.g., major purchase intentions, financial situation expectations) showed record drops. Consumer

inflation expectations increased to 59.8 points, the highest it has ever been. March inflation data on a national level points in the same direction, with substantial upside surprises on already-elevated forecasts. While the ECB's average inflation expectation for 2022 is 5.1%, CPI is expected to be 6.4% Y/Y in March, and risks to this forecast are now clearly tilted to the upside. The Ukraine conflict remains the key driver behind the inflation dynamics. We expect this to exert a clear stagflationary shock in Europe, with growth slowing markedly and inflation accelerating further, possibly to double digits.

U.S. Consumers Shift Spending to Services

The February consumer spending data showed a clear shift in spending from goods to services. Nominal personal spending rose 0.2% M/M, with real spending easing 0.4% M/M given elevated inflation. Spending on durable and nondurable goods fell in both nominal and real terms, and declines were broad-based across underlying categories (such as autos, furniture, and clothing). Meanwhile services spending rose 0.9% M/M while real services spending was up 0.6% M/M. Notable gains were seen in airfares, dining out, hotels, and in-person recreation (such as movie theaters, sporting events, and casinos) as COVID restrictions continue to unwind. Meanwhile, spending on gasoline jumped 6.5% M/M given rising prices.

Personal income rose 0.5% M/M, driven by a 0.8% gain in wages and salaries and a notable rise in rental income, offsetting a drag from government transfers. With personal income rising faster than spending, the savings rate rose from 6.1% to 6.3%.

Looking ahead, we expect consumers to continue shifting spending from goods to services. Meanwhile, rising inflation and the end of fiscal transfers should lead to slower and more sustainable growth this year, down from the strong pace of spending in 2021. Given pent-up demand, services should prove more resilient to rising prices than goods.

Sluggish February Activity in Japan

Retail sales and industrial production in February both came in below expectations, growing -0.8% M/M and 0.1% M/M, respectively. The decline in retail sales likely reflected the impact of quasi-emergency measures in the latest COVID wave. Goods categories saw the most declines, reflecting consumers staying home. With measures lifted in late March, a rebound in retail sales is expected. Meanwhile, consistent with earlier PMI data, lingering supply chain issues, particularly on semiconductors, weighed on industrial activity. There is more uncertainty ahead, given geopolitical tensions and the impact on global demand and supply chain disruptions.

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KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	0.50%	0 bps	25 bps	25 bps	25 bps	25 bps	25 bps
U.S. SOFR	0.27%	0 bps	22 bps	22 bps	22 bps	26 bps	22 bps
3 Month USD Libor	0.97%	0 bps	46 bps	75 bps	84 bps	77 bps	76 bps
3 Month Euribor	-0.46%	3 bps	7 bps	11 bps	8 bps	8 bps	11 bps
3 Month U.S. T-Bill	0.55%	6 bps	24 bps	51 bps	51 bps	54 bps	50 bps
2-Year U.S. Treasury	2.33%	21 bps	90 bps	159 bps	204 bps	218 bps	160 bps
10-Year U.S. Treasury	2.36%	4 bps	52 bps	85 bps	83 bps	63 bps	85 bps
10-Year German Bund	0.66%	17 bps	50 bps	85 bps	84 bps	92 bps	84 bps
10-Year U.K. Gilt	1.65%	0 bps	25 bps	67 bps	70 bps	81 bps	68 bps
10-Year JGB	0.21%	-1 bps	3 bps	14 bps	14 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	2.42%	N/A	-0.3%	-3.2%	-5.5%	-3.9%	-5.6%
Barclays Capital U.S. TIPS	2.55%	N/A	-1.3%	-1.5%	-2.8%	4.7%	-2.7%
Barclays Capital U.S. Aggregate	2.92%	40	-0.2%	-2.8%	-5.9%	-4.2%	-6.0%
Barclays Capital Global Aggregate	2.18%	42	0.0%	-3.3%	-6.2%	-6.5%	-6.4%
Barclays Capital U.S. ABS	2.85%	59	-0.2%	-1.7%	-2.9%	-3.1%	-2.9%
Barclays Capital U.S. MBS	3.00%	22	-0.4%	-2.6%	-4.9%	-4.9%	-5.0%
Barclays Capital U.S. Corporate Investment Grade	3.61%	116	0.3%	-2.6%	-7.6%	-4.2%	-7.8%
BAML Euro Corporate Investment Grade	1.65%	130	-0.5%	-1.6%	-5.7%	-5.8%	-5.7%
Barclays Capital U.S. Corporate High Yield	6.00%	324	0.7%	-1.2%	-4.9%	-0.5%	-4.9%
BAML European Currency High Yield Non-Financial	4.54%	397	0.2%	-0.2%	-4.5%	-2.7%	-4.5%
CS U.S. Leveraged Loans	7.18%	453	0.3%	-0.1%	-0.2%	3.1%	-0.2%
JPM CEMBI Broad Diversified	6.21%	382	0.5%	-2.7%	-7.6%	-6.1%	-7.8%
JPM EMBI Global Diversified	6.84%	439	1.7%	-2.3%	-9.4%	-6.7%	-9.5%
JPM GBI-EM Global Diversified	6.24%	N/A	1.7%	-5.7%	-5.9%	-7.5%	-6.2%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,602.45	1.28%	3.3%	5.4%	-3.3%	17.9%	-3.1%
Euro STOXX 600 (Local)	460.19	2.44%	1.4%	1.6%	-5.8%	6.9%	-5.7%
U.K. FTSE 100 (Local)	7,578.75	3.25%	1.6%	1.6%	2.4%	11.9%	2.6%
Japan Nikkei 225 (Local)	28,027.25	1.80%	0.0%	5.7%	-2.7%	-4.8%	-2.7%
China Shanghai Composite (Local)	3,266.60	2.18%	-0.1%	-5.7%	-9.7%	-5.5%	-10.3%
MSCI AC World (Local)	721.11	1.85%	2.5%	3.8%	-3.7%	10.8%	-3.4%
MSCI Emerging Markets (Local)	1,149.30	2.50%	0.4%	-1.0%	-4.5%	-9.5%	-5.5%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	750.92	-4.1%	11.6%	32.2%	34.6%	60.1%	33.8%
WTI Crude (\$/bbl)	107.82	-6.2%	12.2%	40.3%	43.3%	78.1%	43.1%
Copper (\$/lb)	4.74	-0.5%	6.6%	8.1%	15.9%	19.0%	6.4%
Gold (\$/oz)	1,933.85	0.1%	1.3%	7.1%	11.0%	14.8%	7.1%
U.S. Dollar Index	97.79	-0.8%	1.1%	1.9%	3.8%	4.8%	1.9%
Euro (USD/EUR)	1.12	1.5%	-0.6%	-1.5%	-3.7%	-4.8%	-1.8%
British Pound (USD/GBP)	1.32	-0.3%	-1.8%	-2.4%	-2.3%	-3.9%	-2.7%
Japanese Yen (Yen/USD)	122.02	0.8%	5.9%	6.0%	9.4%	10.6%	6.0%
Chinese Yuan (CNY/USD)	6.35	-0.3%	0.7%	-0.4%	-1.7%	-3.3%	-0.3%

Source: FactSet and Bloomberg. As of March 31, 2022.

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