

## More China Lockdowns May Bring More Slowdowns

### WATCH LIST

Date		Period	Consensus		Previous
<b>U.S.</b>					
Tue 4/26	FHFA House Price Index	Feb	1.5% M/M	▼	1.6% M/M
Tue 4/26	Conference Board Consumer Confidence Index	Apr	108.4	▲	107.2
Tue 4/26	New Home Sales	Mar	775 K	▲	772 K
Wed 4/27	Pending Home Sales	Mar	-1.0% M/M	▲	-4.1% M/M
Thu 4/28	GDP, Annualized (Advance Est.)	1Q21	1.0% Q/Q	▼	6.9% Q/Q
Fri 4/29	Personal Income	Mar	0.4% M/M	▼	0.5% M/M
Fri 4/29	Personal Spending	Mar	0.6% M/M	▲	0.2% M/M
Fri 4/29	PCE Deflator	Mar	6.7% Y/Y	▲	6.4% Y/Y
Fri 4/29	Employment Cost Index	1Q21	1.1% Q/Q	▲	1.0% Q/Q
<b>Europe</b>					
Thu 4/28	EA Consumer Confidence	Apr			-16.9
Fri 4/29	EA Consumer Price Index (Prelim. Est.)	Apr	7.5% Y/Y	-	7.5% Y/Y
Fri 4/29	EA GDP	1Q21	0.3% Q/Q	-	0.3% Q/Q
<b>Asia Pacific</b>					
Tue 4/26	Japan Jobless Rate	Mar	2.7%	-	2.7%
Wed 4/27	China Industrial Profits	Mar			4.2% Y/Y
Thu 4/28	Japan Retail Sales	Mar	1.8% M/M	▲	-0.8% M/M
Thu 4/28	Japan Industrial Production (Prelim. Est.)	Mar	0.6% M/M	▼	2.0% M/M
Thu 4/28	BOJ Policy Balance Rate	Apr	-0.1%	-	-0.1%
Sat 4/30	Caixin China Manufacturing PMI	Apr	47.3	▼	48.1
Sat 4/30	China Manufacturing PMI	Apr	47.0	▼	49.5
Sat 4/30	China Non-manufacturing PMI	Apr	45.7	▼	48.4
Sat 4/30	Japan Shōwa Day – Markets Closed				

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

#### U.S.

- **The advanced estimate of 1Q21 GDP** is expected to show easing with the end of the Omicron wave.
- We will watch the **employment cost index**—our and the Fed’s preferred measure of wage growth—given the tight labor market.
- **The PCE deflator** is expected to accelerate on a year-ago basis in March.

#### Europe

- **Russia’s war in Ukraine** will continue grabbing the world’s attention as a new wave of sanctions is imposed.
- **The EA CPI preliminary April print** will show how the latest energy shock triggered by Russia’s invasion will reverberate through European sectors.
- **EA 1Q21 GDP** is expected to remain positive, even if the first signs of weaknesses coming from Russia’s invasion appear.

#### Asia Pacific

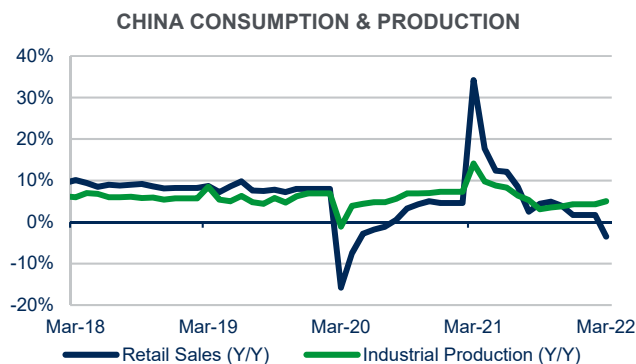
- **Japan activity data** could show the nascent impact of all remaining COVID restrictions, which were loosened on March 22.
- Focus from the **BOJ meeting** will be on whether there is a policy shift given the recent notable weakening of the yen.
- **China PMIs for April** will likely soften further given lockdowns.

#### What This Week Means For Markets

Global core yields continued their ascent amid still-elevated inflationary pressures and further pricing in of hawkish central bank policy expectations. In the U.S., more than nine 25 bps hikes are expected through year-end, reaching an implied rate of over 2.6%. In Europe, markets are pricing in close to three 25 bps hikes and an implied rate of over 0%, a level not seen since early 2014. Meanwhile, in China, with notable headwinds to growth, there are now expectations of further accommodation; this policy divergence is helping weaken the yuan to levels not seen since October 2021. Please see our [Macro Dashboard](#).

**IN REVIEW**
**Lockdowns Taking a Toll in China**

Robust activity in January and February was enough to propel Q1 GDP growth to 4.8% Y/Y, from 4% prior and better than expected. However, this positive development may prove temporary, given the continued slowdown in the property space, surge in COVID cases, and high-frequency data pointing to a significant weakening of growth momentum in Q2. The latest Omicron outbreak there has led to lockdown measures and restrictions, weighing on activity as cities with both high- and mid-risk districts now total about 20% of GDP. The impact has been visible in March activity data, with retail sales growth contracting 3.5% Y/Y (from +6.7% prior). Property activity also deteriorated further, with property sales growth sliding to -17.7% Y/Y (from -9.6% prior). Production and investment have shown more resilience, with industrial production growing 5% Y/Y (from 7.5% prior) and fixed asset investment growing 9.3% Y/Y (from 12.2% prior), led by manufacturing and infrastructure.



Source: Bloomberg. As of April 20, 2022.

China's zero-COVID policy, which authorities continue to emphasize, should be a significant headwind to growth, with its impact likely weighing more on consumption than production. Nevertheless, more logistical delays could disrupt manufacturing activity in the months ahead and add to already-elevated global inflationary pressures. Authorities have acknowledged the economic costs of the latest lockdowns and announced plans for more fiscal loosening—likely the primary tool to be used. This should include accelerating government spending and infrastructure investment, as well as a relaxation of property curbs enacted last year. Monetary policy should also prove supportive, with the focus likely being on credit

expansion. Authorities will likely do more to support growth, but in a managed way, thus making it much harder to achieve its 5.5% growth target this year.

**ECB Moving Cautiously Toward Tightening**

The ECB made one timid step toward hiking interest rates earlier this month, and while no policy decisions were announced, the central bank was more affirmative that its quantitative easing (QE) programs will end by Q3 this year. Previous conditions attached to the financing environment remaining accommodative and data supportive were removed. President Christine Lagarde also put more emphasis on upside inflation risks than on downside growth risks.

Uncertainty remains a theme; in fact, all big decisions, such as the precise dates of the end of QE and the first rate hike, were left for the next policy meeting in June.

As a testament to the extreme caution the ECB wants moving forward, Lagarde hinted that a new flexible tool to buy government bonds selectively and control spread is being developed and could be rolled out quickly if need be.

The most likely outcome seems to be for the central bank to remove the most extraordinary policies (QE and negative rates) by year-end and proceed with gradual, data-dependent hikes in 2023. The market, currently pricing eight hikes by end-2023, may be a bit ahead of itself. We expect six is more likely.

**Mortgage Rates Rise, But Housing Remains Strong**

The U.S. 30-year mortgage rate jumped dramatically, topping 5% and reaching the highest level since 2010. Tightening monetary policy will likely lead to additional mortgage rate increases; this, in combination with strong house price appreciation, it is expected to weigh on affordability. While it will price more out of the market, demand should only weaken on the margin given the large imbalance between housing supply and demand—given an underproduction of homes since the Global Financial Crisis. While the NAHB Housing Market Index showed some easing in sentiment and prospective-buyer traffic in April, all subcomponents remain elevated historically. Meanwhile, though building permits and housing starts increased in March, existing home inventory is at a record-low, and supply challenges will keep a cap on increased production of new homes. This suggests that while the housing market likely normalizes over the months ahead, it should remain healthy.

22 April 2022 | The Week Ahead

## KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	0.50%	0 bps	0 bps	25 bps	25 bps	25 bps	25 bps
U.S. SOFR	0.27%	-2 bps	-3 bps	23 bps	24 bps	26 bps	22 bps
3 Month USD Libor	1.14%	9 bps	20 bps	88 bps	101 bps	95 bps	93 bps
3 Month Euribor	-0.48%	-3 bps	1 bps	8 bps	7 bps	6 bps	10 bps
3 Month U.S. T-Bill	0.82%	6 bps	42 bps	65 bps	76 bps	79 bps	77 bps
2-Year U.S. Treasury	2.58%	23 bps	62 bps	153 bps	220 bps	243 bps	185 bps
10-Year U.S. Treasury	2.84%	16 bps	70 bps	101 bps	121 bps	128 bps	133 bps
10-Year German Bund	0.86%	10 bps	51 bps	89 bps	99 bps	110 bps	104 bps
10-Year U.K. Gilt	1.92%	10 bps	43 bps	69 bps	77 bps	117 bps	95 bps
10-Year JGB	0.25%	1 bps	4 bps	11 bps	16 bps	17 bps	18 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	2.79%	N/A	-0.8%	-3.6%	-6.2%	-7.1%	-8.0%
Barclays Capital U.S. TIPS	2.98%	N/A	0.2%	-3.5%	-1.8%	1.5%	-4.7%
Barclays Capital U.S. Aggregate	3.37%	48	-1.0%	-3.9%	-6.9%	-8.0%	-8.9%
Barclays Capital Global Aggregate	2.47%	46	-0.9%	-4.2%	-8.4%	-11.1%	-9.5%
Barclays Capital U.S. ABS	3.26%	69	-0.4%	-1.1%	-3.0%	-3.8%	-3.5%
Barclays Capital U.S. MBS	3.54%	43	-1.3%	-4.2%	-6.4%	-8.5%	-8.0%
Barclays Capital U.S. Corporate Investment Grade	4.11%	125	-1.1%	-4.3%	-8.9%	-9.1%	-11.5%
BAML Euro Corporate Investment Grade	1.81%	135	-0.4%	-2.0%	-6.0%	-7.2%	-6.8%
Barclays Capital U.S. Corporate High Yield	6.57%	347	-0.2%	-1.8%	-5.6%	-3.4%	-6.8%
BAML European Currency High Yield Non-Financial	5.02%	434	-0.2%	-0.9%	-5.5%	-4.7%	-5.8%
CS U.S. Leveraged Loans	7.37%	442	0.0%	1.5%	-0.2%	3.3%	0.4%
JPM CEMBI Broad Diversified	6.06%	319	-0.5%	-2.0%	-8.6%	-8.9%	-10.0%
JPM EMBI Global Diversified	7.02%	412	-0.9%	-3.8%	-10.3%	-12.7%	-13.2%
JPM GBI-EM Global Diversified	6.60%	N/A	-1.0%	-1.5%	-8.9%	-13.1%	-8.8%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,459.45	1.33%	0.3%	0.0%	-0.2%	9.4%	-6.0%
Euro STOXX 600 (Local)	460.10	2.38%	0.7%	1.2%	-4.8%	6.1%	-5.7%
U.K. FTSE 100 (Local)	7,629.22	3.29%	0.6%	3.0%	0.6%	11.2%	3.3%
Japan Nikkei 225 (Local)	27,217.85	1.86%	1.4%	1.5%	-2.0%	-6.5%	-5.5%
China Shanghai Composite (Local)	3,151.05	2.26%	-1.1%	-3.1%	-11.4%	-9.3%	-13.4%
MSCI AC World (Local)	696.27	1.92%	0.2%	0.1%	-2.4%	4.7%	-5.9%
MSCI Emerging Markets (Local)	1,095.63	2.71%	-1.7%	-1.6%	-9.4%	-13.9%	-8.9%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	751.05	0.0%	3.5%	22.8%	26.1%	53.5%	33.8%
WTI Crude (\$/bbl)	102.75	-1.4%	-1.9%	19.1%	21.7%	64.1%	36.4%
Copper (\$/lb)	4.65	-1.2%	-1.7%	1.6%	-2.2%	10.1%	4.4%
Gold (\$/oz)	1,949.55	-1.4%	0.7%	5.6%	9.6%	9.7%	8.0%
U.S. Dollar Index	100.39	0.5%	2.2%	4.9%	7.3%	10.0%	4.6%
Euro (USD/EUR)	1.09	0.2%	-1.7%	-4.3%	-6.7%	-9.8%	-4.5%
British Pound (USD/GBP)	1.30	0.1%	-0.9%	-4.5%	-5.6%	-6.5%	-3.7%
Japanese Yen (Yen/USD)	127.70	1.6%	7.1%	12.0%	11.7%	18.1%	10.9%
Chinese Yuan (CNY/USD)	6.42	0.8%	0.8%	1.1%	0.3%	-1.2%	0.7%

Source: FactSet and Bloomberg. As of April 21, 2022.

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22 April 2022 | *The Week Ahead*

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