

## Bad Q1 GDP Report Hides Good News

### WATCH LIST

Date		Period	Consensus		Previous
<b>U.S.</b>					
Mon 5/2	ISM Manufacturing Index	Apr	57.8	▲	57.1
Tue 5/3	JOLTS Job Openings	Mar			11266 K
Tue 5/3	Wards Total Vehicle Sales	Apr	13.75 M	▲	13.33 M
Wed 5/4	ADP Employment Change	Apr	370 K	▼	455 K
Wed 5/4	ISM Services Index	Apr	58.8	▲	58.3
Wed 5/4	FOMC Meeting	May	0.75%-1.00%	▲	0.25%-0.50%
Thu 5/5	Nonfarm Productivity (Prelim. Est.)	1Q22	-2.3%	▼	6.6%
Fri 5/6	Change in Nonfarm Payrolls	Apr	390 K	▼	431 K
Fri 5/6	Unemployment Rate	Apr	3.5%	▼	3.6%
<b>Europe</b>					
Tue 5/3	EA Producer Price Index	Mar			31.4% Y/Y
Tue 5/3	EA Unemployment Rate	Mar	6.7%	▼	6.8%
Wed 5/4	EA Retail Sales	Mar			0.3% M/M
Thu 5/5	Bank of England Bank Rate	May	1.0%	▲	0.75%
<b>Asia Pacific</b>					
Sun 5/1	South Korea Exports	Apr	14.3% Y/Y	▼	18.2% Y/Y
Mon 5/2 – Wed 5/4	China Labor Day Holiday – Markets Closed		--		--
Tue 5/3 – Thu 5/5	Japan Golden Week Holiday – Markets Closed		--		--
Thu 5/5	Caixin China Services PMI	Apr	41.0	▼	42.0

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

#### U.S.

- The **FOMC meeting** is expected to deliver a 50bps rate hike as well as an announcement on the beginning of quantitative tightening.
- The **April employment report** should show continued recovery, with focus on labor supply.
- We will watch **1Q22 earnings** to see if companies can continue passing higher input costs on to consumers or if they are weighing on margins.

#### Europe

- **Military and economic responses** to Russia's war in Ukraine remain top of mind as disruptions to energy and agriculture flows and prices persist.
- The **EA retail sales** release will show whether inflation is weighing on consumers' purchasing power.
- The **Bank of England** is expected to raise its key Bank Rate to 1% during its May meeting, notwithstanding emerging signs of an economic slowdown.

#### Asia Pacific

- **China lockdowns** will likely remain in focus as authorities stick to the country's zero-COVID policy. This comes as Shanghai remains locked down and cases in Beijing increase, spurring concerns of similar city-wide shutdowns there.
- **China PMIs for April** will reflect significant headwinds around recent lockdowns and disruptions to both production and logistics networks.

#### What This Week Means For Markets

Volatility remained elevated in equities, which are trading weaker, helping global core yields decline. U.S. corporate earnings are surprising to the upside even as inflation rises, tracking to grow 7.6% Y/Y in Q1—better than expected. However, concerns remain over cost pressures and supply chain issues, and U.S. GDP unexpectedly contracted. Meanwhile, Russia cutting flows of natural gas to Poland and Bulgaria supported rising inflation expectations in Europe and boosted global commodity prices. Given central bank divergence against the Fed, the Japanese yen and euro weakened further, leading the U.S. Dollar Index (DXY) to surge, approaching 2017 highs. Given continued risks to growth, we remain with our Stagflation Shock scenario. Please see our latest [Macro Dashboard](#).

## IN REVIEW

### PMIs Signal Strong Growth, But Elevated Concerns

S&P Global preliminary PMIs for April suggest growth remained strong across the U.S., euro area (EA), and Japan. However, worries continue to mount that higher prices will hurt demand.

Region	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
U.S. Manufacturing	62.1	63.4	61.1	60.7	58.4	58.3	57.7	55.5	57.3	58.8	59.7
U.S. Services	64.6	59.9	55.1	54.9	58.7	58	57.6	51.2	56.5	58	54.7
EZ Manufacturing	63.4	62.8	61.4	58.6	58.3	58.4	58	58.7	58.2	56.5	55.3
EZ Services	58.3	59.8	59.0	56.4	54.6	55.9	53.1	51.1	55.5	55.6	57.7
UK Manufacturing	63.9	60.4	60.3	57.1	57.8	58.1	57.9	57.3	58	55.2	55.3
UK Services	62.4	59.6	55.0	55.4	59.1	58.5	53.6	54.1	60.5	62.6	58.3
Japan Manufacturing	52.4	53.0	52.7	51.5	53.2	54.5	54.3	55.4	52.7	54.1	53.4
Japan Services	48.0	47.4	42.9	47.8	50.7	53	52.1	47.6	44.2	49.4	50.5

#### S&P GLOBAL PMIS

Source: Bloomberg. As of April 28, 2022.

**U.S. PMIs** showed that growth is strong, but the pace eased somewhat as labor and supply shortages remain a constraint; there are signs that rising inflation is starting to weigh on demand. Manufacturing and service sectors saw near-record growth in input costs, and, in response, boosted output charges by the fastest pace since the series began. The service PMI notched an impressive increase, driven by unwinding COVID restrictions, though higher prices weighed on new orders, slowing the momentum. The manufacturing PMI rose further into expansion, indicating stronger growth, supported by both improving internal and external demand. While companies across sectors were optimistic output will increase in the coming year, inflation concerns leading to consumer demand destruction caused a decline in business confidence, in line with our Stagflation Shock scenario (see link on page 1).

The **EA composite PMI** unexpectedly increased to 55.8 in April, from 54.9 in March (cons. 53.9), suggesting economic activity remained strong at the start of the second quarter. The boost came from the service sector, which increased to 57.7 from 55.6 last month (cons. 55), a result of falling COVID cases and lifted restrictions. On the other hand, the manufacturing PMI fell slightly from 56.5 to 55.3, below market forecast of 54.7, as the Russia-Ukraine war and fresh lockdowns in China aggravated existing supply disruptions. Avoiding a disruptive cutoff of Russian energy supplies has helped maintain overall economic strength. However, a future phase-out of Russian oil raises concerns about inflation and economic activity.

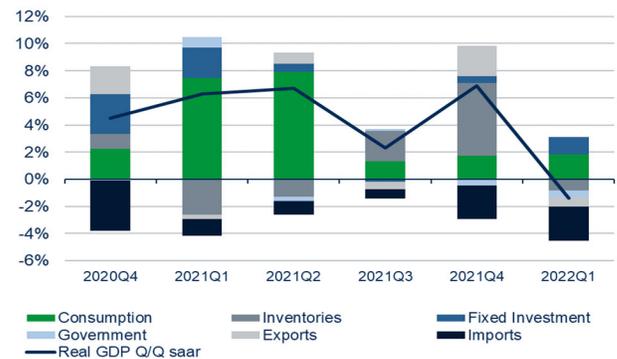
**Japan activity** continued to recover, with the composite edging to 50.9, led by an increase in services. The ongoing resumption of business activity pushed up sentiment.

Manufacturing activity moderated, however, amid rising cost pressures and increased uncertainty surrounding the Russia-Ukraine war and China lockdowns.

### Decline in U.S. GDP Hides Solid Consumer Activity

U.S. GDP surprised to the downside, contracting for the first time since 2020, though the headline hides solid consumer and business demand. GDP fell 1.4% Q/Q on an annualized basis in 1Q22, according to the advanced estimate, led by fewer exports, rising imports, inventories, and less government spending. Consumer spending and business investment expanded.

#### CONTRIBUTIONS TO % CHANGE IN REAL U.S. GDP



Source: Bloomberg. As of April 28, 2022.

The jump in imports also highlights strong demand from shoppers. Despite the Omicron wave at the beginning of Q1, the shift in spending from goods to services was evident. Given the composition of GDP and high inflation, this shouldn't stop the Fed from an aggressive rate hike next week.

### BOJ Doubles Down on Yield Curve Control

As expected, the Bank of Japan (BOJ) did not change any of its monetary policy settings and maintained its commitment to defend its 10-year yield target, indicating it will conduct unlimited buying operations to keep yields at 0.25%. Governor Haruhiko Kuroda noted the bank will keep its YCC policy until its 2% inflation target is reached, which is unlikely to be reached in its forecast horizon given its current outlook. Kuroda also maintained the view that weakness in the Japanese yen has had a positive impact on the economy as a whole. Overall, its dovish stance is likely due to the belief that upward inflationary pressures from food and energy are probably temporary. With the consumption recovery still nascent, core inflation remains deeply negative, for now. The BOJ appears comfortable so far with the yen's rapid depreciation, which should help reanchor inflation expectations higher and get the economy out of decades of deflationary spiral.

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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	0 bps	25 bps	25 bps	25 bps	25 bps
U.S. SOFR	0.28%	1 bps	0 bps	24 bps	23 bps	27 bps	23 bps
3 Month USD Libor	1.24%	10 bps	26 bps	94 bps	111 bps	106 bps	103 bps
3 Month Euribor	-0.45%	3 bps	3 bps	10 bps	11 bps	9 bps	13 bps
3 Month U.S. T-Bill	0.82%	0 bps	28 bps	62 bps	76 bps	80 bps	77 bps
2-Year U.S. Treasury	2.57%	-1 bps	27 bps	138 bps	208 bps	240 bps	184 bps
10-Year U.S. Treasury	2.81%	-3 bps	32 bps	100 bps	128 bps	119 bps	130 bps
10-Year German Bund	0.79%	-7 bps	22 bps	84 bps	96 bps	104 bps	97 bps
10-Year U.K. Gilt	1.81%	-11 bps	14 bps	58 bps	80 bps	104 bps	84 bps
10-Year JGB	0.24%	0 bps	0 bps	10 bps	14 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	2.77%	N/A	0.1%	-1.7%	-6.2%	-6.8%	-8.0%
Barclays Capital U.S. TIPS	2.97%	N/A	0.0%	-2.1%	-2.3%	1.2%	-4.8%
Barclays Capital U.S. Aggregate	3.37%	48	-0.1%	-2.2%	-6.9%	-7.8%	-8.9%
Barclays Capital Global Aggregate	2.48%	47	-1.4%	-4.0%	-8.9%	-12.4%	-10.8%
Barclays Capital U.S. ABS	3.28%	70	0.1%	-0.4%	-2.8%	-3.7%	-3.4%
Barclays Capital U.S. MBS	3.50%	39	0.3%	-2.0%	-6.1%	-8.1%	-7.8%
Barclays Capital U.S. Corporate Investment Grade	4.18%	133	-0.6%	-3.3%	-9.1%	-9.7%	-12.0%
BAML Euro Corporate Investment Grade	1.94%	150	-0.6%	-1.9%	-6.7%	-7.8%	-7.3%
Barclays Capital U.S. Corporate High Yield	6.83%	375	-1.0%	-2.1%	-5.3%	-4.6%	-7.7%
BAML European Currency High Yield Non-Financial	5.34%	468	-1.2%	-2.1%	-6.3%	-5.8%	-6.9%
CS U.S. Leveraged Loans	7.45%	452	-0.2%	0.8%	-0.3%	3.0%	0.2%
JPM CEMBI Broad Diversified	6.18%	335	-0.5%	-2.3%	-9.1%	-9.4%	-10.5%
JPM EMBI Global Diversified	7.22%	433	-1.2%	-3.6%	-11.7%	-13.6%	-14.2%
JPM GBI-EM Global Diversified	6.68%	N/A	-3.7%	-5.0%	-12.1%	-16.2%	-12.1%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,183.96	1.42%	-6.2%	-7.8%	-2.9%	1.3%	-11.8%
Euro STOXX 600 (Local)	444.31	2.38%	-3.4%	-2.0%	-5.5%	1.0%	-8.9%
U.K. FTSE 100 (Local)	7,425.61	3.44%	-2.7%	-0.8%	-1.7%	6.9%	0.6%
Japan Nikkei 225 (Local)	26,386.63	2.00%	-3.1%	-6.3%	0.8%	-9.0%	-8.4%
China Shanghai Composite (Local)	2,958.28	2.41%	-6.1%	-7.9%	-12.8%	-14.1%	-18.7%
MSCI AC World (Local)	653.90	2.04%	-5.2%	-6.3%	-4.1%	-1.9%	-10.8%
MSCI Emerging Markets (Local)	1,043.74	2.78%	-3.3%	-5.0%	-10.6%	-17.4%	-12.0%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	749.35	-0.2%	-4.1%	21.5%	27.0%	49.3%	33.5%
WTI Crude (\$/bbl)	102.02	-0.5%	-12.2%	16.4%	23.4%	61.9%	35.4%
Copper (\$/lb)	4.45	-4.2%	-4.9%	0.9%	1.5%	-6.1%	0.0%
Gold (\$/oz)	1,885.80	-3.3%	-3.5%	4.4%	5.0%	5.7%	4.4%
U.S. Dollar Index	102.95	2.6%	4.2%	5.9%	9.8%	13.2%	7.3%
Euro (USD/EUR)	1.05	-3.2%	-4.3%	-5.7%	-9.3%	-12.9%	-7.5%
British Pound (USD/GBP)	1.25	-4.2%	-5.2%	-6.6%	-8.8%	-10.1%	-7.7%
Japanese Yen (Yen/USD)	128.33	0.5%	5.2%	11.2%	12.8%	18.3%	11.4%
Chinese Yuan (CNY/USD)	6.56	2.2%	3.0%	3.0%	2.6%	1.1%	2.9%

Source: FactSet and Bloomberg. As of April 28, 2022.

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