BARINGS INVESTMENT INSTITUTE

11 November 2022

THE WEEK AHEAD

One Small Step for CPI, One Giant Leap for Markets

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 11/15	Producer Price Index	Oct	8.4% Y/Y	▼	8.5% Y/Y
11/16-11/18	Formula 1 Las Vegas Grand Prix	2023	Very Fast		Brazil
Wed 11/16	Retail Sales	Oct	0.9% M/M	▲	0% M/M
Wed 11/16	Industrial Production	Oct	0.2% M/M	▼	0.4% M/M
Wed 11/16	NAHB Housing Market Index	Nov	36	▼	38
Thu 11/17	Housing Starts	Oct	1420 K	▼	1439 K
Thu 11/17	Building Permits	Oct	1520 K	▼	1564 K
Fri 11/18	Existing Homes Sales	Oct	4.38 M	▼	4.71 M
Fri 11/18	Taylor Swift Concert Tickets on Sale for General Public	2023	Best One Yet		Too Long Ago
Europe					
Mon 11/14	Making Modernism, Royal Academy of Arts	To February	Unmissable		£10
Tue 11/15	U.K. Unemployment Rate	Sep	3.5%	-	3.5%
Wed 11/16	EA Employment Change (Prelim. Est.)	3Q22			2.7% Y/Y
Wed 11/16	U.K. Inflation Rate	Oct	10.5% Y/Y	▲	10.1% Y/Y
Thu 11/17	U.K. Fiscal Statement		--		--
Fri 11/18	U.K. Retail Sales	Oct			-1.4% M/M
Fri 11/18	Magdalena Abakanowicz, Tate Modern	Nov. 22-May 23	Beautiful		Cezanne
Asia Pacific					
11/12-11/16	China PBOC 1Y Medium-Term Lending rate	Nov	2.75%	-	2.75%
Mon 11/14	Avril Lavigne, INTEX Osaka	Nov	Finally		Delayed twice
Tue 11/15	China Industrial Production	Oct	5.2% Y/Y	▼	6.3% Y/Y
Tue 11/15	China Retail Sales	Oct	0.7% Y/Y	▼	2.5% Y/Y
Tue 11/15	China Surveyed Jobless Rate	Oct	5.5%	-	5.5%
Tue 11/15	Japan GDP, annualized (Prelim. Est.)	3Q22	1.2% Q/Q	▼	3.5% Q/Q
Fri 11/18	Japan Consumer Price Index	Oct	3.7% Y/Y	▲	3.0% Y/Y
Thu 11/24	Michelin Guide Thailand 2023 Star Revelation	2023	Exceptional		Osaka Guide
Sun 03/05/23	Tokyo Marathon	2023	Exhilarating		NYC Marathon

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

U.S.

- Expect **retail sales** to increase in October, boosted by auto sales and higher gasoline prices.
- **Housing data** should continue to cool amid the jump in mortgage rates.
- Mark your calendars for **Taylor Swift** concert tickets, which open to the general public November 18.

Europe

- A big week lies ahead for the U.K. with the release of the long-anticipated **Fiscal Statement**. Politically difficult decisions on austerity and tax rises will be decisive for investors in the U.K. market.
- The U.K. will also contend with three big data releases **for inflation, unemployment, and retail sales**.

Asia Pacific

- **China** is set to continue releasing a slew of **October activity data** next week, including retail sales and industrial production, which likely moderated on the back of rising COVID cases and declining external demand.
- **Japan's 3Q GDP** should reveal the momentum of the current recovery.

What This Week Means For Markets

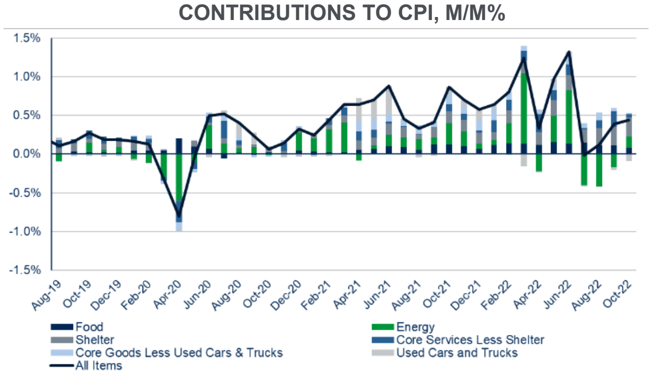
A downside surprise in U.S. CPI led to a risk-on sentiment in markets amid hopes of a Fed pivot. Equities soared, Treasury yields and the U.S. dollar index fell, and markets reduced expectations for the Fed's terminal rate. While a few U.S. midterm races remain close, Congress looks certain to be divided. We remain with our central Stagflation Shock scenario: inflation trends lower but not fast enough to avoid further Fed hikes, which leads to slower growth and recession risks next year. Please see our latest Macro Dashboard.

IN REVIEW

A Pleasant Downside Surprise for Elevated U.S. CPI

U.S. inflation remains elevated and broad-based but took a step in the right direction in October. CPI rose 0.4% M/M in October, matching the previous month's pace though below consensus expectations for a 0.6% increase. The largest contributors over the month were shelter—accounting for over half the increase—gasoline, and food. Meanwhile, core CPI decelerated from 0.6% M/M to 0.3% amid softer core services inflation and deflation in core goods. Prices for used cars and trucks, medical care, apparel, and airline fares fell in October.

CONTRIBUTIONS TO CPI, M/M%



Source: Haver and Barings calculations. As of November 10, 2022.

Headline inflation decelerated to 7.7% Y/Y, the lowest since January 2022, while core CPI rose 6.3% Y/Y. Over the next 12-18 months our central scenario foresees inflation continuing to trend lower slowly (see link on page 1). Price pressures remain far too elevated and should keep the Fed on its tightening path, though deceleration in October core inflation could slow the pace of rate increases in December. All eyes are now on the next CPI and Employment reports before the December meeting.

U.S. Labor Market Still Giving Off Heat

The October Employment Report showed the labor market remains strong enough to give the Fed cover to keep raising rates amid elevated inflation, though there are initial signs of slowing. Nonfarm payrolls surprised to the upside, rising 261,000 with upward revisions to the previous two months. While the pace of job growth has slowed, it remains very strong and above the pace needed to keep up with growth in the working-age population. Wage growth remained strong, accelerating to 0.4% M/M, though down from 5% Y/Y to a still-elevated 4.7% Y/Y. While the Establishment Survey showed strength, the Household Survey was much weaker. The unemployment rate rose to 3.7% amid an increase in the number of unemployed. Meanwhile, the labor force participation rate edged lower to 62.2%. Moreover, the report showed initial signs of pull-back in early-pandemic benefitted sectors. For instance, employment fell in sectors such as warehousing and storage, real estate and rental and leasing, electronic and appliances stores, furniture and home furnishing stores, general merchandise stores, and nonstore retailers.

Overall, the labor market is past the peak imbalance and shows signs of slowing, but it remains tight and the pace of cooling is slow. We expect the labor market to continue to cool and the unemployment rate to move higher over the coming 12-18 months; for now the strong labor market will allow the Fed to continue to tighten policy.

European Commission's New Fiscal Rules Proposal

The EC proposed a new carrot-and-stick fiscal framework that would differentiate fiscal targets by country and strengthen enforcement mechanisms. It would rely on a path for public expenditure, excluding interests, over the next four years that aims to reduce debt in the medium term. Access to EU funds would stop in case of non-compliance. The idea behind the new rules is to be more constructive and mindful of individual countries' challenges, giving plausible adjustment paths along with tailored reforms and investment commitments. Fiscal and debt rules do not apply in 2023 and governments have the time to discuss and adjust these proposals. The move away from fiscal uniformity could be perceived by markets as a departure from fiscal discipline, although previous rules were neither met nor realistic. An historically challenging fiscal environment globally means governments will be well aware of market vigilance. These new rules, with their strong monitoring, would however support the deployment of the ECB's Transmission Protection instrument, supporting bond markets in case of shock.

Zero-COVID Weighs on Credit Demand in China

Aggregate credit growth in October surprised to the downside, falling to 10.3% Y/Y as rising COVID cases and headwinds from the property downturn weighed on household credit demand. Government bond issuance was also relatively weak, likely due to front-loading issuance in the first half of the year. Overall, the weak credit data suggests that consumption recovery remains sluggish, with poor sentiment and high uncertainty likely making any ongoing policy stimulus push less effective. More fiscal support will be needed to stabilize the recovery, especially as external growth shows signs of slowing—exports in October were well below expectations, contracting 0.3% Y/Y. The zero-COVID policy stance continues but authorities are softening, including pushing vaccination and treatment resources. Don't expect a full reopening until spring 2023, at the earliest.

KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	4.00%	75 bps	75 bps	150 bps	300 bps	375 bps	375 bps
U.S. SOFR	3.78%	73 bps	73 bps	149 bps	300 bps	373 bps	373 bps
3 Month USD Libor	4.59%	8 bps	68 bps	167 bps	319 bps	444 bps	438 bps
3 Month Euribor	1.80%	8 bps	51 bps	148 bps	220 bps	237 bps	238 bps
3 Month U.S. T-Bill	4.20%	6 bps	83 bps	164 bps	339 bps	416 bps	415 bps
2-Year U.S. Treasury	4.64%	9 bps	33 bps	138 bps	203 bps	424 bps	391 bps
10-Year U.S. Treasury	4.15%	10 bps	27 bps	135 bps	107 bps	272 bps	264 bps
10-Year German Bund	2.21%	9 bps	1 bps	127 bps	109 bps	250 bps	239 bps
10-Year U.K. Gilt	3.49%	8 bps	-74 bps	151 bps	152 bps	265 bps	252 bps
10-Year JGB	0.25%	0 bps	1 bps	9 bps	1 bps	19 bps	18 bps
Fixed Income	**Yield**	**OAS**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
Barclays Capital U.S. Government-Treasury	4.44%	N/A	-0.2%	-1.2%	-6.8%	-15.0%	-14.5%
Barclays Capital U.S. TIPS	4.66%	N/A	-0.7%	-0.1%	-7.6%	-13.7%	-13.3%
Barclays Capital U.S. Aggregate	5.05%	62	-0.2%	-1.1%	-7.5%	-16.4%	-15.8%
Barclays Capital Global Aggregate	3.84%	60	0.5%	0.3%	-8.4%	-21.1%	-19.9%
Barclays Capital U.S. ABS	5.60%	98	0.0%	-0.7%	-2.3%	-6.4%	-6.0%
Barclays Capital U.S. MBS	5.13%	70	-0.2%	-1.1%	-8.5%	-15.3%	-14.9%
Barclays Capital U.S. Corporate Investment Grade	5.92%	152	-0.2%	-1.1%	-8.3%	-20.4%	-19.5%
BAML Euro Corporate Investment Grade	4.20%	205	0.1%	0.6%	-6.9%	-15.4%	-14.6%
Barclays Capital U.S. Corporate High Yield	9.32%	482	-1.2%	0.0%	-5.5%	-13.5%	-13.6%
BAML European Currency High Yield Non-Financial	8.14%	574	0.5%	1.9%	-4.3%	-13.7%	-13.5%
CS U.S. Leveraged Loans	11.04%	641	0.3%	0.7%	-0.8%	-1.6%	-1.9%
JPM CEMBI Broad Diversified	8.48%	436	0.5%	-1.7%	-5.5%	-17.5%	-17.3%
JPM EMBI Global Diversified	9.43%	516	1.2%	1.2%	-7.5%	-23.7%	-22.6%
JPM GBI-EM Global Diversified	7.26%	N/A	2.1%	1.2%	-6.0%	-19.1%	-17.1%
Equities	**Price**	**Div Yield**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
S&P 500	3,748.57	1.69%	-0.2%	3.1%	-8.7%	-18.7%	-20.3%
Euro STOXX 600 (Local)	420.34	2.22%	1.7%	7.3%	-3.6%	-12.9%	-13.8%
U.K. FTSE 100 (Local)	7,296.25	3.70%	2.1%	4.4%	-2.6%	0.3%	-1.2%
Japan Nikkei 225 (Local)	27,716.43	2.13%	0.2%	2.2%	-1.0%	-5.4%	-3.7%
China Shanghai Composite (Local)	3,048.17	2.71%	1.5%	0.8%	-6.1%	-13.1%	-16.3%
MSCI AC World (Local)	582.21	2.39%	0.4%	3.1%	-8.1%	-17.2%	-17.6%
MSCI Emerging Markets (Local)	900.32	3.41%	2.1%	-0.3%	-6.5%	-20.6%	-18.9%
Commodities/Currencies	**Price**	**1W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
S&P GS Commodity Index	634.11	-2.3%	-4.9%	-3.2%	-13.6%	8.1%	13.0%
WTI Crude ($/bbl)	85.83	-4.7%	-7.8%	-7.9%	-16.7%	2.0%	13.9%
Copper ($/lb)	3.74	6.7%	9.6%	4.1%	-10.8%	-14.6%	-16.0%
Gold ($/oz)	1,715.25	4.0%	1.1%	-4.5%	-7.8%	-6.1%	-5.0%
VIX Index	26.09	0.9%	-16.8%	32.2%	-17.9%	46.7%	51.5%
U.S. Dollar Index	110.55	-0.7%	-2.0%	3.9%	6.7%	17.7%	15.2%
Euro (USD/EUR)	1.00	1.6%	2.5%	-1.9%	-4.8%	-13.4%	-11.8%
British Pound (USD/GBP)	1.14	-0.7%	2.2%	-5.9%	-7.5%	-16.0%	-16.0%
Japanese Yen (Yen/USD)	146.29	-0.6%	0.8%	8.4%	12.1%	29.5%	27.0%
Chinese Yuan (CNY/USD)	7.24	-0.6%	2.1%	7.2%	7.6%	13.2%	13.6%

Source: FactSet and Bloomberg. As of November 10, 2022.

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