

## The Trough Is In—Let The Healing Begin

### IN REVIEW

- **U.S. new home sales** rose 16.6% M/M in May as the housing market recovers with easing restrictions. **Existing home sales** slid 9.7% M/M in May. Existing home sales is a lagging indicator, tallying when contracts close, while new home sales record contract signings.
- **FHFA house price index** rose 0.2% M/M in May but slowed slightly from 5.9% Y/Y in April to 5.5% Y/Y in May. Lockdowns destroyed demand but solid fundamentals are keeping a floor under prices.
- **Initial claims** slid 60,000 to 1.48 million in W/E June 20. Continuing claims fell 767,000 to 19.522 million in W/E June 13.
- **U.S. 1Q20 GDP** contracted 5% Q/Q annualized, according to the final estimate.
- **German IFO business climate index** improved in June driven by improving expectations, while the current conditions index notched a modest increase.
- **U.K. retail sales**, including auto fuel, rebounded 12% M/M in May, as restrictions began to ease.
- The **PBOC** kept the one- and five-year loan prime rate steady at their June meeting, but further easing is likely over the next several months.
- **South Korea exports** declined by less over the first 20 days of June than May, down 7.5% Y/Y compared with the 23.6% Y/Y decline in the full month of May, suggesting global demand may have passed the trough amid easing global restrictions.

### WATCH LIST

Date		Consensus		Previous
<b>U.S.</b>				
Mon 6/29	Pending Home Sales	19.7% M/M	▲	-21.8% M/M
Tue 6/30	Consumer Confidence	90.0	▲	86.6
Wed 7/1	MBA Mortgage Applications			-8.7%
Wed 7/1	ISM Manufacturing	48.5	▲	43.1
Wed 7/1	FOMC Meeting Minutes	--		--
Wed 7/1	Vehicle Sales	13.00m	▲	12.21m
Thu 7/2	Initial Claims			1480k
Thu 7/2	Trade Balance	-\$49.3b	▲	-\$49.4b
Thu 7/2	Change in Nonfarm Payrolls	3000k	▲	2509k
Thu 7/2	Unemployment Rate	12.3%	▼	13.3%
Thu 7/2	Average Hourly Earnings	-0.2% M/M	▲	-1.0% m/m
Fri 7/3	Markets Closed for Independence Day	--		--
<b>Europe</b>				
Tue 6/30	EZ Consumer Price Index (Prelim)	0.1% Y/Y	■	0.1% Y/Y
Wed 7/1	Deadline to extend Brexit negotiations	--		--
Thu 7/2	EZ Unemployment Rate	7.6%	▲	7.3%
<b>Asia Pacific</b>				
Mon 6/29	Japan Retail Sales	2.7% M/M	▲	-9.6% M/M
Tue 6/30	Japan Jobless Rate	2.8%	▲	2.6%
Tue 6/30	Japan Industrial Production (Prelim)	-5.7% M/M	▲	-9.8% M/M
Tue 6/30	China Official Manufacturing PMI	50.4	▼	50.6
Tue 6/30	China Official Non-Manufacturing PMI	53.7	▲	53.6
Wed 7/1	Japan Vehicle Sales			-40.2% Y/Y
Wed 7/1	Caixin China Manufacturing PMI	50.6	▼	50.7
Thu 7/2	Caixin China Services PMI	53.3	▼	55.0
Thu 7/9	China Consumer Price Index			2.4% Y/Y
Thu 7/9	China Producer Price Index			-3.7% Y/Y

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

### U.S.

- The June **employment report** is expected to continue on May's upbeat reading and show further job gains and a lower unemployment rate. Higher-frequency hourly employees and initial claims data point to continued improvement in the labor market in June as economies reopen and consumer spending rebounds.
- **Vehicle sales** should improve in June, aided by shifting consumer preferences amid fears over public transit in the absence of a widely available vaccine or treatment.

### Europe

- Furlough schemes should keep the **EZ unemployment rate** from spiking in May.

### Asia Pacific

- **China PMIs** are likely to remain in expansionary territory as domestic demand continues to strengthen.

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## THE HIGHLIGHTS

### Global PMIs Confirm We Have Passed the Trough

Global June flash PMIs confirm the trough has passed as contraction eased. The recovery still has a ways to go, but economic activity is poised to pick up in the third quarter.

MARKIT FLASH PMIS

Region	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
U.S. Manufacturing	51.9	50.7	48.5	36.1	39.8	49.6
U.S. Services	53.4	49.4	39.8	26.7	37.5	46.7
EZ Manufacturing	47.9	49.2	44.5	33.4	39.4	46.9
EZ Services	52.5	52.6	26.4	12.0	30.5	47.3
UK Manufacturing	50.0	51.7	47.8	32.6	40.7	50.1
UK Services	53.9	53.2	34.5	13.4	29.0	47
Japan Manufacturing	48.8	47.8	44.8	41.9	38.4	37.8
Japan Services	51.0	46.8	33.8	21.5	26.5	42.3

Source: Bloomberg. As of June 25, 2020.

The rate of decline eased in **Europe**, particularly among services, though manufacturing and services remain contractionary. Cross-country improvement was broad-based compared to May, but some areas fared better than others; France's PMI entered expansionary territory, while Germany and the rest of the euro area's PMIs remained in contraction. In the **U.K.**, the rate of decline in the services sector eased, but the index is in contraction, as most leisure remains shut through July. The manufacturing flash PMI was just above the neutral-50 threshold (50.1) in June amid factories opening and improved expectations, though new orders continued to decline. In the **U.S.**, the rate of contraction across services and manufacturing eased in June but remained in contractionary territory amid reopening measures. Employment showed further cuts in June despite some furloughed workers returning. Firms noted increases in input prices and output charges for the first time since February, as companies passed some of the higher input cost to consumers, with discounting no longer required to buoy demand. In **Japan**, while the decline in the services sector eased in June, the manufacturing sector decline accelerated, suggesting recovery may be industry-specific.

### IMF Downgrade

The International Monetary Fund downgraded its outlook and expects global GDP to shrink 4.9% in 2020, compared with the 3% contraction projected in April, and recover 5.4% in 2021, down from April's 5.8% projection. The downward revision is attributed to larger-than-expected supply and demand shocks. The IMF cautioned that financial market sentiment "appears disconnected from shifts in underlying economic prospects," increasing odds of greater tightening in financial conditions than their baseline case penciled in. They also noted the crisis is set to increase global inequality.

### Policy

**Fiscal Stimulus?** Treasury Secretary Steven Mnuchin said the White House is considering another economic aid package, but infrastructure is unlikely to be included. Congress could pass something by the end of July targeting businesses most impacted, such as aviation and tourism.

**U.S. Trade:** The Trump administration is considering re-imposing 10% tariffs on aluminum imports from Canada, as the recent surges of metal imports from Canada and Mexico concern U.S. Trade Representative Robert Lighthizer. Lighthizer also announced the intention to impose new tariffs on European exports like olives, beer, gin and trucks, while increasing duties on aircrafts, cheese and yogurt. The new tariffs could affect as much as \$3.1 billion of exports from France, Germany, Spain and the U.K., setting the stage for a wider transatlantic trade fight later this summer. The American move was in response to the EU's preparations for tariffs on billions of dollars of American exports aimed at industries ranging from aviation to coal. The EU asked the World Trade Organization to approve levies on \$11.2 billion of U.S. products over a long-running aircraft subsidy dispute. A ruling is expected in July at the earliest and the EU is planning to target coal producers, farmers and fisheries, aircraft manufacturers and aircraft parts. Trade negotiations have stalled in recent weeks, likely sparking the heated rhetoric.

**Visas:** President Donald Trump has temporarily barred new immigrants from a number of employment-based visas, including the H-1B for high-skilled workers. This freezes new H-1-B and H-4 visas, used by technology workers and their families, as well as L visas for intra-company transfers and most J visas for work- and study-abroad programs, including au pairs, through the end of the year. The new restrictions will prevent hundreds of thousands of immigrants from working in industries ranging from tech and consulting to landscaping and seasonal jobs. The order is likely to be challenged in courts.

**Brexit:** A deal for European fishermen to access U.K. waters must be reached next week, a matter of importance for eight coastal states, including France. EU leaders said trade talks would cease without a deal. The two sides also must decide on access to each other's financial services markets by this date.

**U.K. Trade Deal:** Japan gave the U.K. a six-week ultimatum to strike a post-Brexit deal, pressuring the U.K. government to agree to one of history's fastest trade negotiations. The timetable would be a political victory for both sides but raises the U.K.'s risk of being stuck with potentially limited deals before the December 31 Brexit transition. Japan would like to pass the deal in its Fall parliament session, meaning negotiations would need to be completed in July.

**ECB:** The central bank will offer euro loans against collateral to central banks outside the euro area to backstop funding markets. Under the Eurosystem repo facility for central banks, the ECB will provide liquidity to a broad set of central banks outside the euro area against adequate, euro-denominated marketable collateral. The new facility will likely be available until June 2021.

**The Volcker Rule:** Changes to the Rule are likely as the Office of the Comptroller of the Currency (OCC) approved letting banks increase their dealings with certain funds by providing more clarity on what is allowed. The OCC also scrapped a requirement that lenders hold margin when trading derivatives with their affiliates. The revisions need the Fed's final approval.

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## KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	0.25%	0 bps	0 bps	0 bps	-150 bps	-225 bps	-150 bps
U.S. SOFR	0.07%	-2 bps	3 bps	5 bps	-145 bps	-230 bps	-148 bps
3 Month USD Libor	0.30%	-1 bps	-7 bps	-92 bps	-165 bps	-205 bps	-161 bps
3 Month Euribor	-0.41%	-4 bps	-13 bps	-4 bps	-1 bps	-7 bps	-3 bps
3 Month U.S. T-Bill	0.15%	-2 bps	4 bps	13 bps	-142 bps	-197 bps	-140 bps
2-Year U.S. Treasury	0.19%	-2 bps	2 bps	-9 bps	-145 bps	-158 bps	-138 bps
10-Year U.S. Treasury	0.72%	-4 bps	6 bps	-4 bps	-122 bps	-135 bps	-120 bps
10-Year German Bund	-0.44%	-3 bps	5 bps	-6 bps	-20 bps	-16 bps	-25 bps
10-Year U.K. Gilt	0.21%	-2 bps	3 bps	-21 bps	-56 bps	-70 bps	-61 bps
10-Year JGB	0.01%	-1 bps	1 bps	-6 bps	0 bps	18 bps	3 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.54%	N/A	0.3%	-0.4%	0.4%	10.4%	8.2%
Barclays Capital U.S. TIPS	0.72%	N/A	0.9%	1.2%	4.4%	8.5%	6.0%
Barclays Capital U.S. Aggregate	1.30%	67	0.1%	0.6%	4.8%	8.9%	5.9%
Barclays Capital Global Aggregate	0.98%	57	0.5%	2.1%	6.4%	5.1%	3.4%
Barclays Capital U.S. ABS	0.89%	69	0.1%	1.2%	4.3%	4.6%	3.2%
Barclays Capital U.S. MBS	1.45%	72	-0.1%	-0.1%	1.3%	5.8%	3.4%
Barclays Capital U.S. Corporate Investment Grade	2.17%	147	0.1%	2.5%	16.4%	10.1%	4.8%
BAML Euro Corporate Investment Grade	0.86%	143	-0.3%	2.0%	6.2%	-0.4%	-1.3%
Barclays Capital U.S. Corporate High Yield	6.41%	575	-0.3%	4.4%	21.8%	1.6%	-2.3%
BAML European Currency High Yield Non-Financial	4.90%	538	-0.4%	4.4%	17.0%	-1.5%	-4.6%
CS U.S. Leveraged Loans	6.84%	657	0.1%	4.3%	17.6%	-1.2%	-3.7%
CS Western European Leveraged Loans Non-USD	6.01%	593	0.2%	4.1%	17.7%	-1.4%	-3.0%
JPM CEMBI Broad Diversified	4.97%	437	0.5%	3.6%	14.2%	4.1%	-0.1%
JPM EMBI Global Diversified	5.48%	465	0.6%	4.0%	18.2%	0.7%	-2.6%
JPM GBI-EM Global Diversified	4.56%	N/A	0.7%	4.0%	15.7%	-0.8%	-5.5%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,131.29	1.85%	0.2%	6.1%	40.7%	8.3%	-2.1%
Euro STOXX 600 (Local)	367.40	2.08%	1.1%	8.0%	31.0%	-4.5%	-11.6%
U.K. FTSE 100 (Local)	6,320.12	4.70%	1.2%	5.5%	26.6%	-14.7%	-16.2%
Japan Nikkei 225 (Local)	22,549.05	2.22%	-0.1%	10.6%	33.5%	6.1%	-4.7%
China Shanghai Composite (Local)	2,970.62	2.32%	1.3%	5.6%	11.7%	-1.0%	-2.6%
MSCI AC World (Local)	533.33	2.30%	0.8%	7.4%	26.5%	4.9%	-4.0%
MSCI Emerging Markets (Local)	1,014.62	2.68%	2.5%	10.9%	24.9%	3.3%	-4.1%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	329.77	2.3%	10.7%	25.1%	-23.8%	-21.7%	-24.4%
WTI Crude (\$/bbl)	40.38	5.5%	20.6%	73.1%	-33.3%	-29.6%	-34.0%
Copper (\$/lb)	2.66	3.7%	10.4%	25.5%	-5.6%	-1.7%	-4.8%
Gold (\$/oz)	1,768.90	2.9%	2.0%	16.0%	19.4%	26.6%	16.8%
U.S. Dollar Index	96.65	-0.3%	-3.2%	-5.7%	-1.0%	0.4%	0.3%
Euro (USD/EUR)	1.13	0.9%	4.1%	5.3%	2.2%	0.1%	1.0%
British Pound (USD/GBP)	1.25	-0.3%	2.7%	9.0%	-3.1%	-1.4%	-5.5%
Japanese Yen (Yen/USD)	106.24	-1.1%	-1.2%	-4.6%	-2.9%	-1.4%	-2.2%
Chinese Yuan (CNY/USD)	7.07	-0.2%	-1.1%	-0.8%	0.7%	2.8%	1.4%

Source: FactSet and Bloomberg. As of June 23, 2020.

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\*As of March 31, 2020

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