COVID-19 Research Update

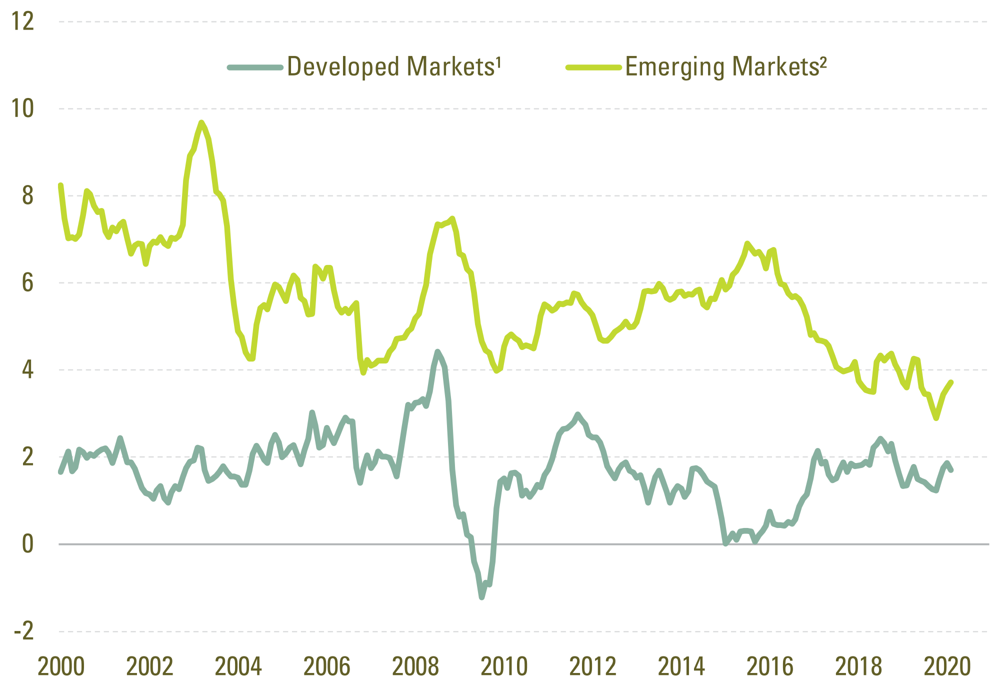
Global Fixed Income Themes & Market Conditions

This week, we compare five key indicators across developed and emerging markets to identify the convergences and divergences in any trends. In our last update, we suggested how the fiscal and monetary impulse could work its way through the global economy. Collectively, these factors should eventually reflect the net effect of remedial policies.

INFLATION

In aggregate, developed market inflationary pressures have been elusive for quite a long time, complicating the G3 central banks' plans for eventual liftoff. Low inflation and interest rates have limited how developed market central banks leverage the rate function as part of their policy toolkits. Meanwhile, emerging market monetary authorities have collectively reined in inflation over the last 3-5 years. Given their relatively higher policy rates compared to developed markets, emerging market central bankers have greater latitude to cut rates during a coronavirus-related economic slowdown. The ability to cut rates will be extremely important as most emerging market central bankers do not have the ability to undertake large-scale asset purchases as part of their monetary easing efforts (see **Figure 1**).

Figure 1 CPI-Based Inflation
%, GDP-Weighted Average, As of 2/29/2020



[1]U.S., Eurozone, Japan and U.K. [2]Brazil, Mexico, Indonesia and South Africa
Source: Macrobond

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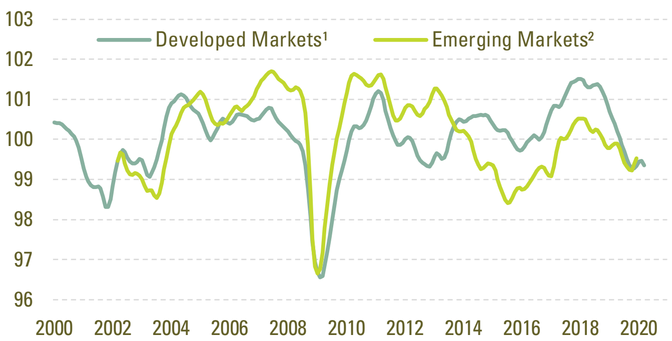
BUSINESS AND CONSUMER CONFIDENCE

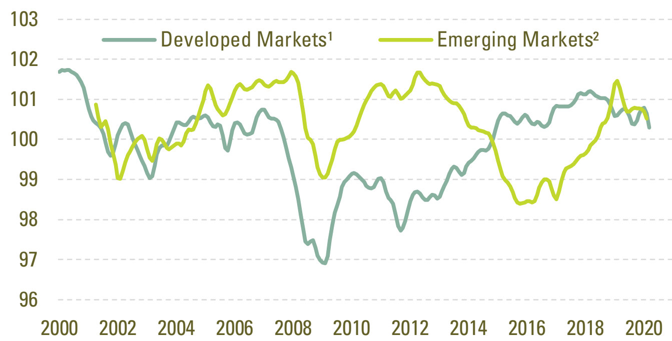
Entering 2020, both business and consumer confidence globally continued to register at neutral-to-positive levels. The aforementioned benign inflation backdrop was certainly a constructive factor for both firms and households—this is a reason why these sentiment factors have remarkably held up during the economic downturn. Secondly, these massive, developed-market fiscal packages were intended to help both households and the corporate sector, and this impulse should also have a secondary effect on emerging markets. Nevertheless, these readings are expected to turn pessimistic as corporate profitability significantly declines during the 1Q20 earnings season and as unemployment rates rise (see **Figure 2** and **Figure 3**).

Figure 2 Business Confidence*
Index (Norm=100), GDP-Weighted Average, As of 3/31/2020



*OECD Manufacturing Industrial Confidence Indicator (Amplitude Adjusted)
[1]U.S., Eurozone, Japan and U.K. [2]Brazil, Mexico, Indonesia and South Africa
Source: Haver Analytics

Figure 3 Consumer Confidence*
Index (Norm=100), GDP-Weighted Average, As of 3/31/2020

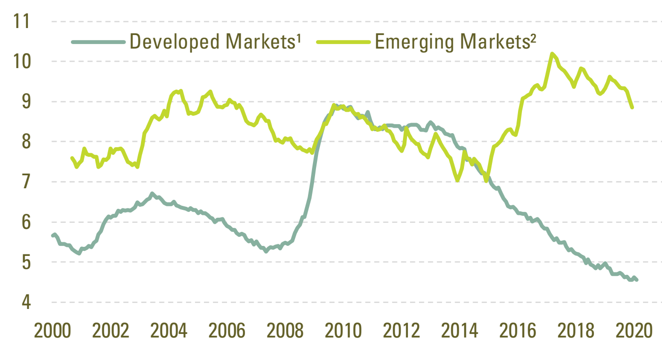


*OECD Consumer Confidence Indicator (Amplitude Adjusted)
[1]U.S., Eurozone, Japan and U.K. [2]Brazil, Mexico, Indonesia and South Africa
Source: Haver Analytics

UNEMPLOYMENT RATES

The G3 economies—and generally most developed markets—had enjoyed historically low unemployment rates and tight labor market conditions coming into 2020. With economic activity grinding to a halt, unemployment claims will initially skyrocket across developed and emerging markets from the levels seen in **Figure 4**. Unemployment rates in emerging markets have been comparatively higher, although inflation has remained tame. In select emerging markets, the labor force has seen real wages and incomes steadily rise. Looking ahead, any downturn in the unemployment rate should help lift consumer confidence.

Figure 4 Unemployment Rate
%, GDP-Weighted Average, As of 2/29/2020

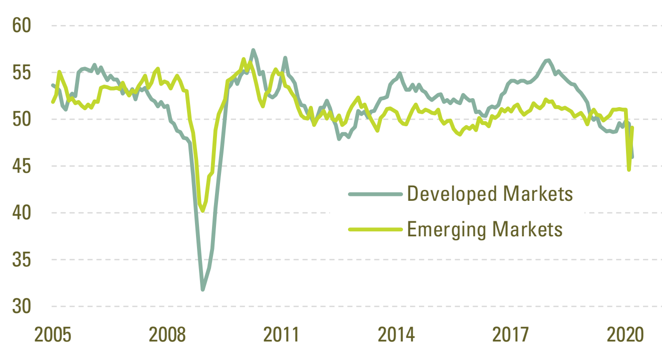


[1]U.S., Eurozone, Japan and U.K. [2]Brazil, Mexico, Indonesia and South Africa
Source: Macrobond

PURCHASING MANAGER INDICES

Entering the year, emerging market manufacturing PMIs remained expansionary while developed market readings registered below 50. The effects of COVID-19 are expected to reverse this trend, with an anticipated rebound in developed market manufacturing to precede emerging market activity (see **Figure 5**). However, services PMIs are projected to remain firmly in contractionary territory—within the range of 30-40. Additional declines in PMIs are expected in the short term as government officials mull a phased approach to restarting economic activity. Despite the near stand-still in the global economy, aggregate PMIs have not yet fallen to the trough seen during the global financial crisis. Any upturn in PMI activity should eventually have a positive effect on business confidence as well, as shown in **Figure 2** above.

Figure 5 Aggregate Manufacturing PMI Indices
As of 3/31/2020



Source: HIS Markit/Haver Analytics

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