BNY MELLON

iFlow
WEEK AHEAD

April 28, 2024

Little Chances

"Leave as little to chance as possible. Preparation is the key to success." – Paul Brown
" Happiness is a risk. If you're not a little scared, then you're not doing it right." – Sarah Addison Allen

Summary:

The week ahead brings April to a close with little chance that the last's weeks rally can extend in 2-days to fill the gap in stock selling with the US S&P500 still down 2.94% on the month. The US bond market reflects the rising view of no rate cut risks in 2024 as the US inflation remains sticky even as 1Q GDP disappointed. The driving force behind the miss on growth was trade and that links back to the USD. The dollar strength is significant and many key US trading counterparties have undervalued currencies, the largest being Japan, but Canada and Europe are also in the club where services and goods look cheaper to import. The 1Q earnings have yet to reflect much pain from the dollar or lower growth – beating expectations with about half the S&P500 already reporting, the blending earnings are 3.5% beating the 3.4% consensus from March and making this the 3 rd quarter of positive earnings. The bounce back in US shares last week didn't hurt the USD or help bonds which continued with a bear steepening trade with 2Y stuck around 5%. The rebalancing pressure for April will be important but not as powerful as May or June. The implications of high for longer on the US consumer and US corporates remains a balance sheet equation more than a debate about restrictive policy. For the week ahead, the key focus will be on the Fed decision, the US Treasury refunding plans and the US jobs report. This leaves the rest of the world watching more than moving the debate about policy.

- FOMC expected unchanged with Chair Powell expected to repeat high for longer, with key focus on tapering of QT timing and plan

- The US Quarterly Refunding Announcement – Consensus is unchanged - next week's refunding expected same as February at $125bn; comprised of $58bn 3Y, $42bn 10Y, and $25bn 30Y.
- US April non-farm payrolls expected up 250,000 – with unemployment expected steady at 3.8%, wages lower at 4.0% y/y, hours worked steady at 34.4 week.

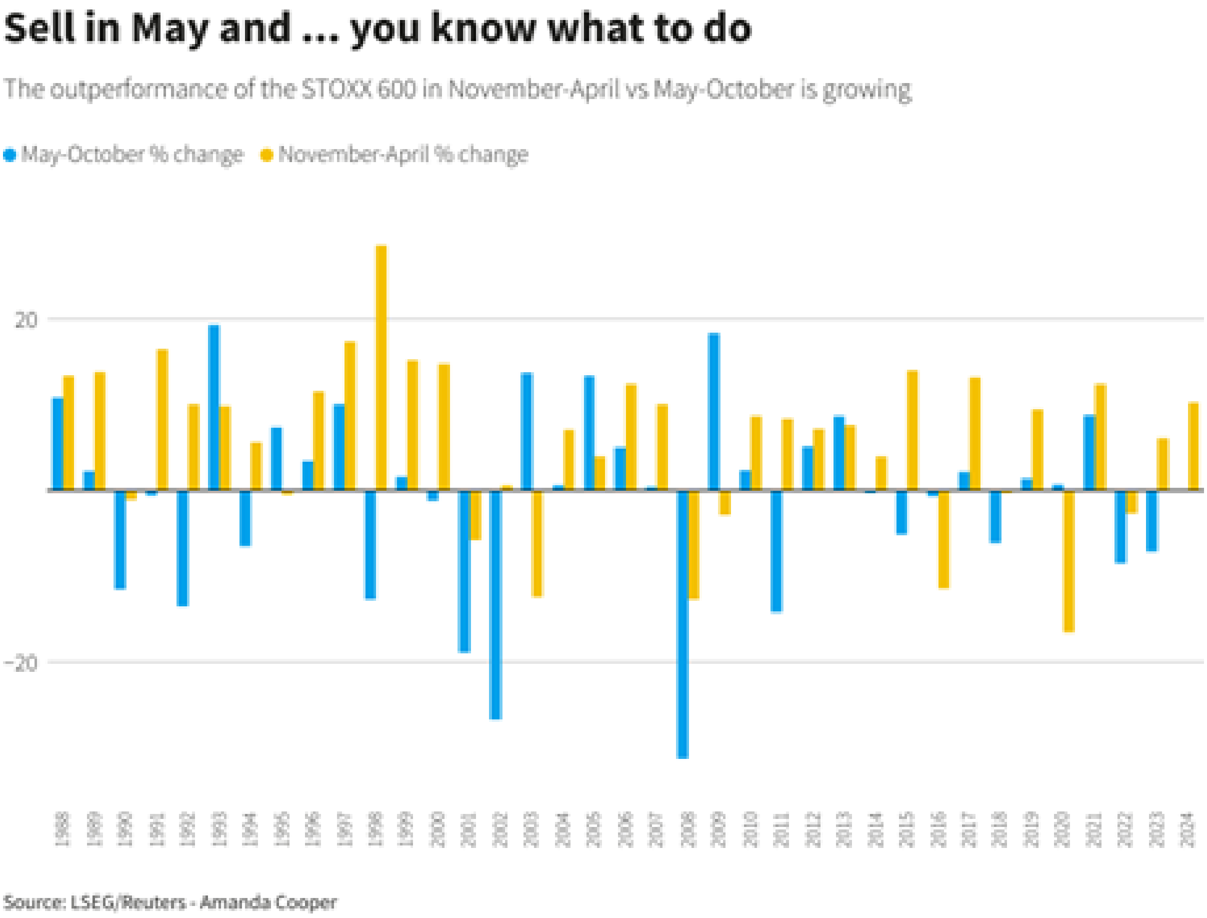
Expectations for month-end squeezes or big moves are perhaps underappreciated given the holidays in Asia and the mid-week May Day holidays in Europe. Markets have a lot to digest and some significant rebalancing to do into another big month of decisions from voters and the world.

Key Themes :

- **High rates vs. Geopolitics – which one matters?** The relief in global equities this week stands out and it comes despite higher US rates – leaving many thinking that the entire April sell-off has been because of geopolitical fears mostly wrapped around the Israel attack and killing of Iranian military in Damascus, followed by the Iranian missile and drone attack on Israel, ended by the Israeli targeted attack on Iranian air defense systems at a military base. Those events and the US Congress passing a Ukraine and Israel aid package as well as the G7 support for Israel have left markets in an uneasy détente. The rate story shift came on back of higher 1Q core PCE deflator index. One reason high for longer doesn't matter to markets is that earnings remain positive, and that growth remains on trend (with 2Q outlooks over 3%).
- **Growth risks and the USD**. Weaker 1Q GDP and flash PMI and lower consumer sentiment make clear that the US higher for longer story has some risks to it in the dollar strength. US trade drag matters to growth and links back to overvaluation. The fear that services will be substituted abroad hurting US jobs has yet to show up but that is a key watch for risk markets. Jobless claims fell on the last week but the focus on labor markets and layoffs and margins will remain central to how equities and bonds trade. The role of USD on profits is ongoing. The comparison of US 1Q GDP to the rest of the world will be in full play this week ahead as the Eurozone, Hong Kong and Mexico report their growth.
- **FOMC and their new statement**. The market awaits the outcome of the Fed May decision with hope for further guidance on rate cut risks in 2024 or even rate hike ones should inflation go up further. Many see the week ahead as pivoting around the "forward guidance" tool of the Fed with the default of data dependency seen as insufficient to calm markets. The ability for high for longer to work and not spark the same reaction as it did in 2023 of recession risks later or in driving up market volatility as it responds to any and every data

surprise leaves the Fed caught in a catch-22 of financial stability on one hand and the need for optionality given the uncertainty of the economy on the other.

- **The seasonals are broken?** The “sell in May” adage came early in April so what does that mean for May? Perhaps the last 10-years are the anomaly as we saw the hangover of zero rates and the pandemic clash with the forced shift in monetary policy at odds with fiscal. Over the last 50 years, the S&P 500 has gained an average of 4.8% between November and April, and just 1.2% between May and October, according to Reuters calculations. However, over the last 20 years, the out-performance of November-April over May-October narrows to 1%. Over 10 years, November-April has underperformed May-October by 1 percentage point and over the last five years, it has underperformed by 3 percentage points.



What are we watching: FOMC, Eurozone CPI and GDP, China PMI, US ISM and Labor reports

- **Holidays May Day and Golden Week illiquidity:** Japan Monday, China Wednesday, China and Europe Thursday, Japan and China Friday
- **Economic Releases – Monday**: flash German CPI, EU economic sentiment; **Tuesday:** Japan jobs and industrial production, China NBS and Caixin PMI; German jobs, Eurozone1Q GDP and flash CPI, Mexico 1Q GDP, Canada 1Q

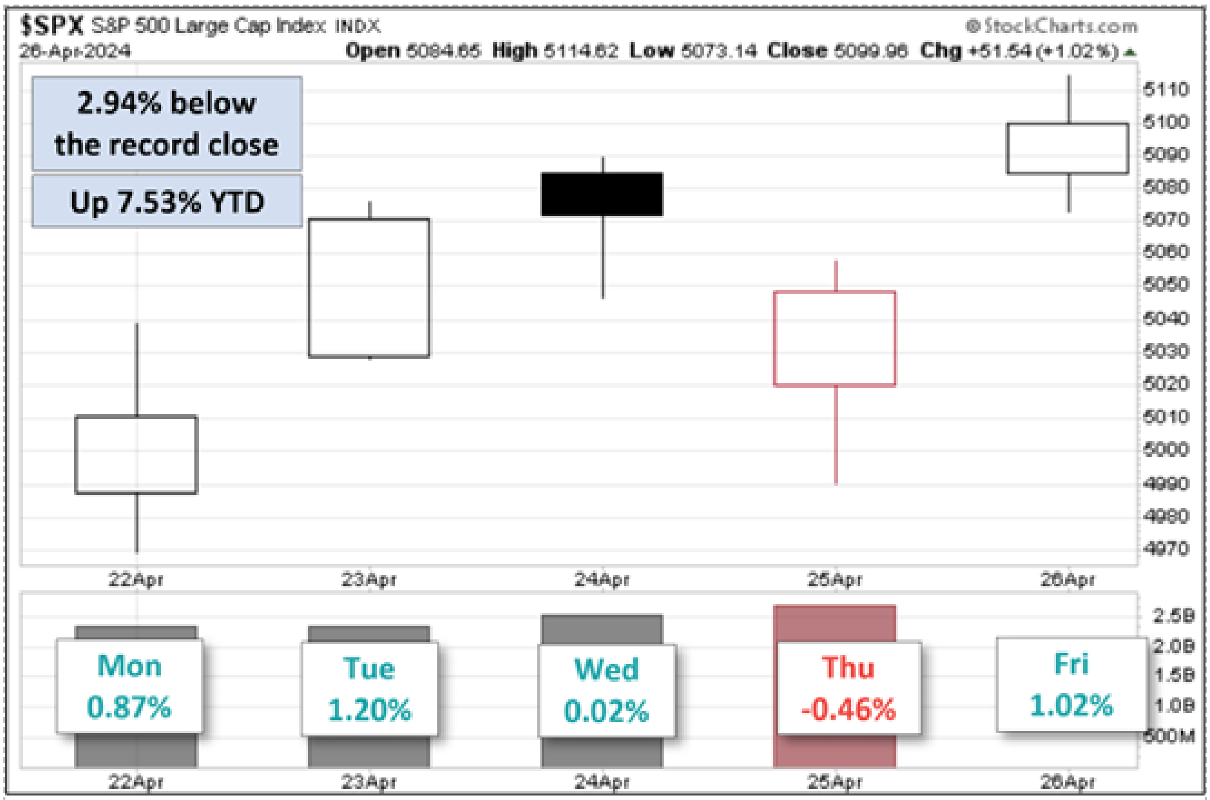
GDP, US employment cost index, US CB consumer confidence; **Wednesday**: May Day holidays, Australia manufacturing PMI, Korea trade, US ADP employment, JOLTS, ISM manufacturing; **Thursday:** Korea CPI, Australia trade, EU manufacturing PMI, US productivity; **Friday**: Australia PMI Services, US non-farm payrolls

- **Central Banks** – **Monday:** ECB de Guindos and Lane speeches; **Tuesday**: Colombia rate decision, BOE APF quarterly; **Wednesday:** FOMC rate decision and Powell press conference; **Thursday:** BOJ minutes, Czech CNB rate decision, BOC Macklem; **Friday**: Norges Bank rate decision, Fed Williams, Goolsbee and Cook speaking.
- **US Issuance** – Total coupon zero, next 4 weeks expects positive cash flow by $59bn with $300bn in new issue vs. $359 maturing April 30 and May 15 - **Monday**: US Treasury refunding estimates, 3M $70bn bills, 6M $70bn bills; **Tuesday:** $65bn 42-day CMB, **Wednesday**: US treasury quarterly refunding, 4M bills; **Thursday:** 1M and 2M bills,
- **EU Issuance** – Total E33bn expected with positive cash flow of E14.3bn as Spanish and Italian debt matures – new supply from Italy, France, Germany, Belgium and Netherlands. **Monday:** Italy 5/10Y BTP and EU bonds 5Y; **Tuesday**: Dutch new 5Y Green and German 5Y Green Bobl; **Thursday:** France 10Y OATs; **Friday**: Belgium 5Y tbd.

What changed last week:

- **In Equities - the S&P500 had its best week of the year** so far – up 2.67% - ending 3 down weeks. The index is currently up 7.53% year to date and now sits 2.94% below its record close from March 28, 2024. The NASDAQ led US gains up 4.23% with focus on tech, while the DJIA rose 0.67%. The biggest gains were in Hong Kong with Hang Seng up 8.8% while the China CSI 300 rose just 1.2%. The UK FTSE rose 3.09% and the Italian MIB rose 3.96%. The worst performers were Australia ASX off 0.87% then the Swiss MKT up just 0.42%.

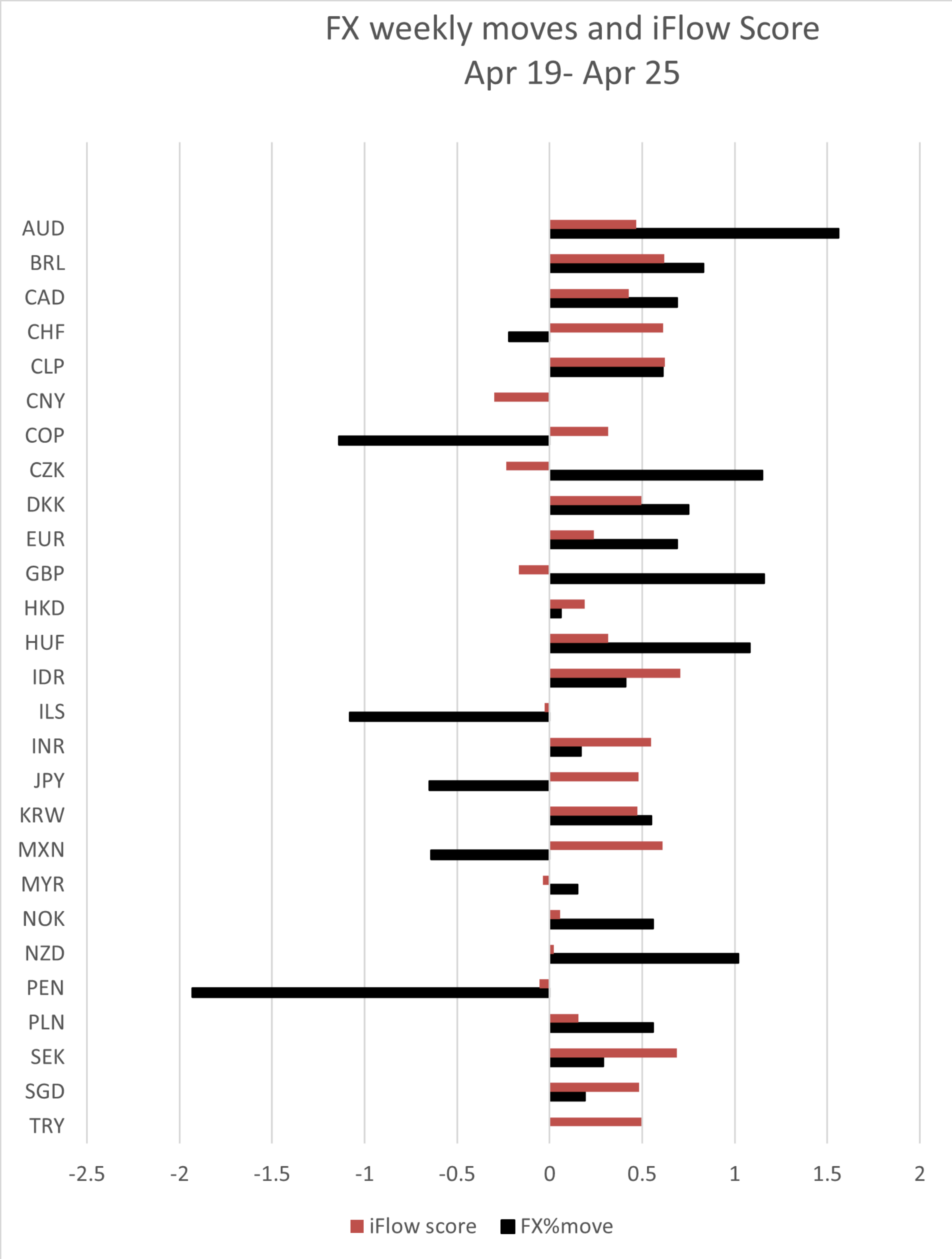
US markets end of the correction?



Source: Bloomberg, BNY Mellon

- **In FX markets, the USD was flat** on the week with index at 106.08 but focus was on JPY and the BOJ meeting and MOF doing nothing to hold JPY which closed at 34-year lows of 158.30. The largest gainers in G10 were AUD up 1.5% on rate views while UK similarly rose 1.15% followed by NZD up 1%. The EM markets were mixed with PEN, COP and MXN all lower. ILS was lower by 1% with weekend concerns about escalation returning. The biggest iFlow gains were in IDR, CHF and SEK while outflows in PEN, COP and ILS were notable. The MXN and CHF were the most notable divergence of iFlow vs. price.

FX focus is on JPY and APAC intervention risks



Source: Bloomberg, iFlow, BNY Mellon

- **In Fixed Income, US rates moved higher** with expectations for a FOMC rate cut this year pushed to December with just 37bps priced down from 48bps 2-weeks ago. The US curve surprised with a bear steepening with 2Y stuck around 5% but 10Y and 30Y reaching back higher around 4.75%. Globally rates were higher with Australia up 20bps to 4.52% in 10Y reflecting higher CPI and lower RBA easing hopes, while UK Gilts similarly rose 12bps to 4.36% while in Europe Spanish SPGBs rose 10bps on political concerns around the

PM. In iFlow the biggest inflows were in France and EU bonds even as the US continued to see buying as well, while in EM Peru, UAE and Egypt all saw buying. Notable outflows were seen in Australia, while in EM Indonesia, South Africa and Argentina all saw selling.

US Bond	High	Low	Current	% from Low	1W change
30Y	5.35	0.99	4.78	3.72	0.07
20Y	5.44	0.87	4.89	3.97	0.05
10Y	5.26	0.52	4.66	4.1	0.04
5Y	5.18	0.19	4.69	4.48	0.02
2Y	5.22	0.09	4.99	4.9	0.00
3M	5.63	0	5.37	5.37	0.00
FFR	5.41	0.04	5.34	5.28	0.02
The Yields and Fed Funds Rate data from January 2007					

Source: Bloomberg, iFlow, BNY Mellon

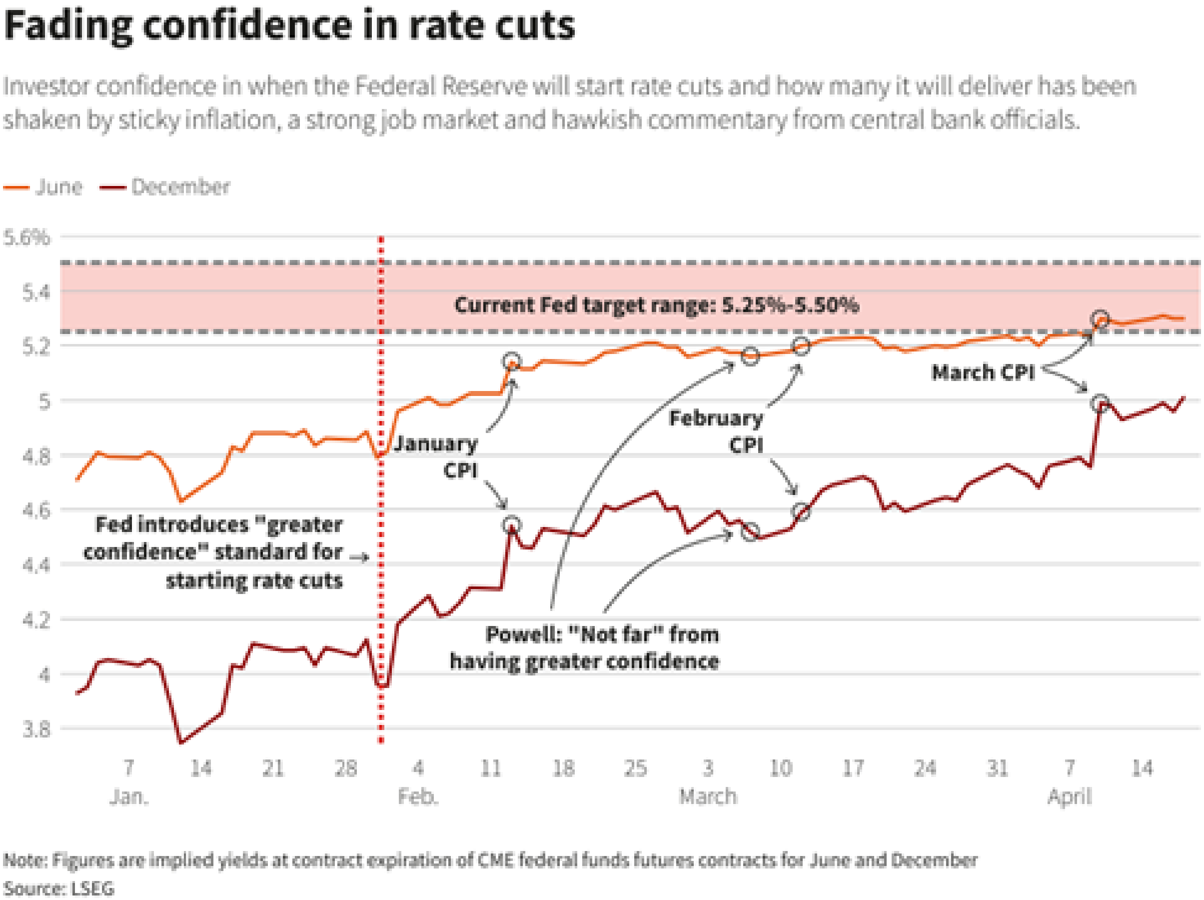
News Agenda and Weekly Themes – 1Q earnings, US jobs, FOMC, global PMIs and EU CPI

In the US, all eyes will be on the Fed's interest rate decision on Wednesday, followed closely by the US labor market report on Friday. Also, investors will be scrutinizing ISM Manufacturing and Services PMI's, alongside JOLTs job openings data, foreign trade figures, factory orders, and CB consumer confidence index. Earnings season will reach its zenith with reports from heavyweight Amazon, Eli Lilly, Coca-Cola, McDonald's, Mastercard, Qualcomm, Pfizer, ADP, Apple, ConocoPhillips, Amgen, Booking, and Cigna. Internationally, April inflation rates for Germany, Spain, the Netherlands, France, the Eurozone, Italy, South Korea, Switzerland, Indonesia, and Turkey will be closely watched. Furthermore, flash Q1 GDP growth rates are set to be released for France, Spain, Germany, Italy, the Eurozone, Mexico, Saudi Arabia, and Hong Kong. Finally, S&P Global will publish manufacturing PMIs for China, Canada, Spain, Italy, South Korea, Russia, and Switzerland.

1. FOMC fading confidence – The last week's higher core PCE price index left the odds for a rate cut lower in 2024. Markets price in 37bps down from 48bps for 2024. While no one expects the Fed to cut rates on May 1, the odds for later in the year await fresh forward guidance from the statement and the FOMC Chair Powell. In March, the Fed projected three rate cuts this year but stronger-than-expected inflation reports are casting doubt on whether it will be able to ease policy that much

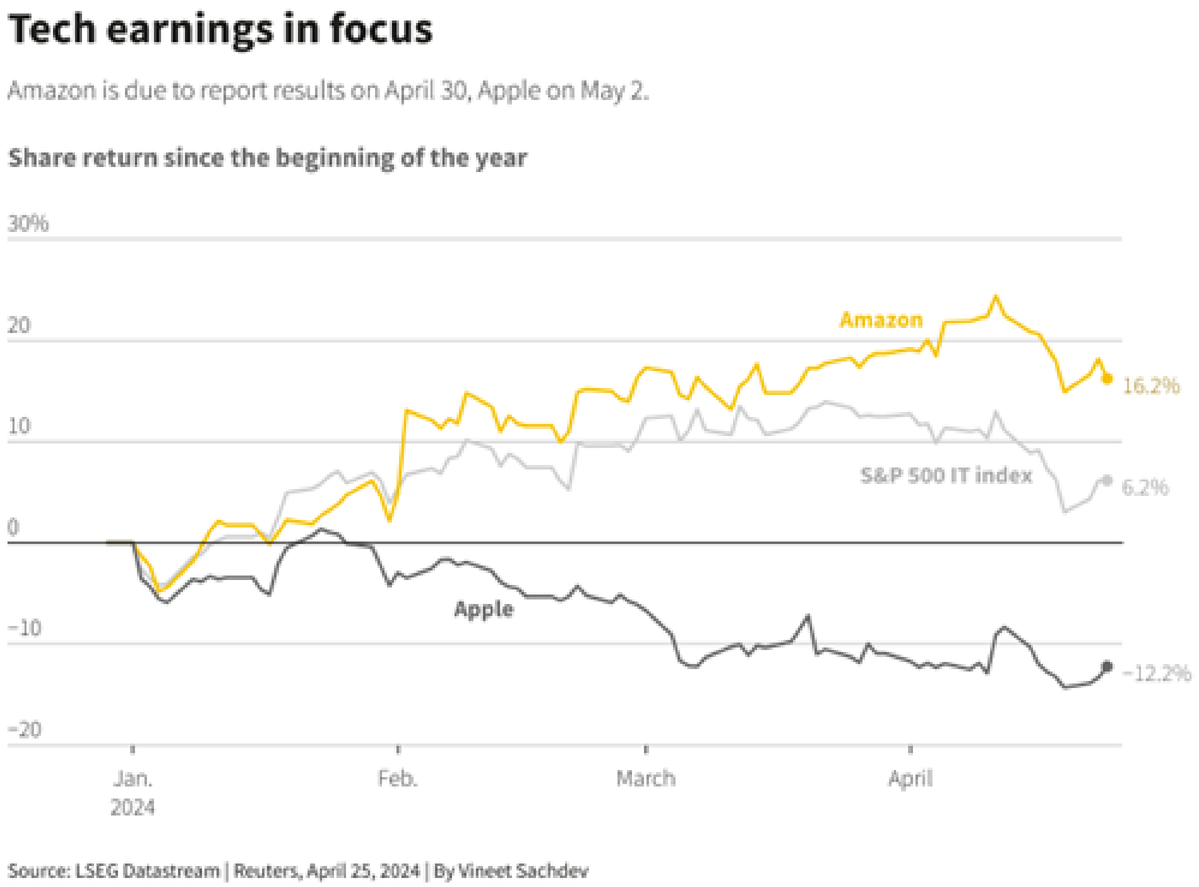
- and that soon. A ratcheting down of rate cut expectations has been a key factor behind the rise in Treasury yields and recent pullback in stocks, not to mention the firm USD. Fed futures markets now predict just a December cut in 2024 down from six cuts expected at the start of the year.

Will the Fed surprise on QT tapering?



Source: Reuters, BNY Mellon

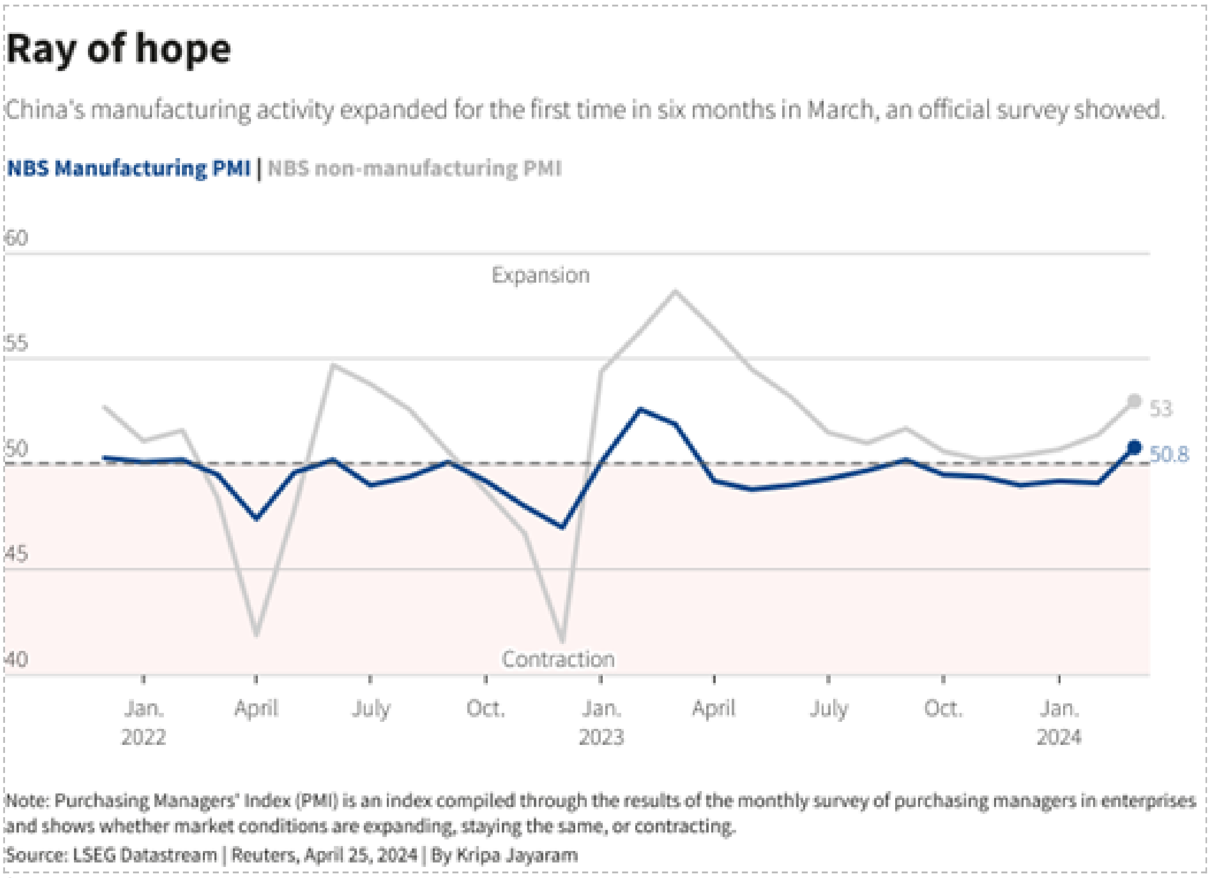
2. 1Q Earnings – Tech take two - The last of the "Magnificent Seven" megacaps that drove a fiery stock rally in 2023 to report are Amazon, reporting Tuesday, and Apple, on Thursday. Some of their peers such as Tesla and Facebook parent Meta Platforms have given a mixed performance. Apple shares have lost their luster in 2024, tumbling over 10%. The iPhone maker is expected to post a decline in first quarter earnings after China smartphone shipments fell 19%. The key for many will be Amazon, as the cloud computing business shows AI use while other investors will be attuned to the online retailing giant's view of consumer spending. Its shares are faring better so far this year, having risen 18% ytd,



Source:Reuters, BNY Mellon

3. Chinese Recovery and Golden Week. Official figures for China's purchasing managers' index (PMI) are due on Tuesday and the Caixin/S&P Global manufacturing PMI survey is expected shortly afterwards. Upbeat data could revive animal spirits in the world's second largest economy, bringing relief to policymakers who have been trying to shore up growth and bolster investor sentiment. Global investment houses have turned increasingly bullish on Chinese stocks, helping the blue-chip index rebound more than 10% from a February trough. Focus for China and the region will remain on FX and how the PBOC handles the CFETS basket which shows CNY gains on the year against the KRW and JPY and other weakness against the USD.

Does China still have room to surprise on upside?



Source: Reuters, BNY Mellon

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4. Eurozone and the real stagflation risks. Eurozone inflation and economic growth data due out on Tuesday could strengthen market bets for the European Central Bank to lower its deposit rate from a record 4% in June, although policy makers are not expected to move very fast thereafter. Gross domestic product in the euro zone currency bloc probably expanded by just 0.1% in the first quarter, year-on-year, economists polled by Reuters expect the data to show. April inflation numbers could also convince the ECB it's time to cut, after consumer price growth slowed unexpectedly to 2.4% in March and policymakers signaled that the central bank was willing to move. But with U.S. inflation running hot and the Fed viewed as likely to hold rates high, markets price 60 bps of cuts by the ECB this year as it remains wary of the euro weakening too much against a supercharged dollar.

Does the ECB have stagflation risks?

Source: Reuters, BNY Mellon

Economic Data and Events Calendar April 28- May 3:

Central Bank Decisions

- **Colombia BdIR (Tuesday, April 30th)** – The market is looking for 50bp in Colombia though there could be a risk of a smaller move if BdIR views there is a risk of the Fed continuing to err away from the dovish side. Inflation is largely in line with expectations for now but a cut to 11.75% would leave a real rate buffer of around 300bp, and anything below that would introduce greater pass-through risk. COP has been resilient in holdings over the last few months and long liquidation has been orderly.
- **US FOMC (Wednesday, May 1st)** – The FOMC meeting this week will likely produce an announcement on slowing the pace of balance sheet reduction. However, rates will stay where they are. We expect the statement and the Powell press conference to be more hawkish on rates, given Powell's recent comments and the evolution of the data in recent weeks.
- **Czech CNB (Thursday, May 2nd)** – The market is looking for another 50bp move by the CNB, bring the repo rate to 5.25%. Inflation at present is firmly anchored and given the Czech economy's manufacturing exposures, the ongoing contraction in the Eurozone is a clear risk to activity even if hard data is holding up well, including industrial output. EURCZK is now holding at above 25 and could face some downside risk as the ECB begins its easing cycle. Given a weaker CZK has not significantly affected inflation and inflation

expectations year-to-date, CNB will probably feel there is enough room to continue easing for now.

- **Norway Norges (Friday, May 3rd**) – No change is expected from Norges Bank, which on balance will probably remain the most hawkish central bank in Europe as economic resilience remains strong. Inflation is clearly normalising but the pace of decline in underlying and headline inflation is probably not sufficiently fast enough for Norges Bank to materially shift its outlook across the forecast horizon. Furthermore, the labour market remains extremely tight with a seasonally adjusted unemployment rate staying below 2% - less than a quarter of the level in neighbouring Sweden. However, as the ECB and Riksbank move over the next two months, there will be some policy space for Norges to act if NOK starts to generate negative pass-through.

Date	BST	EDT	Country	Event	Period	Cons.	Prior
04/29/24	13:00	08:00	GE	CPI YoY	Apr P	2.30%	2.20%
04/29/24	13:00	08:00	GE	CPI MoM	Apr P	0.60%	0.40%
04/30/24	00:30	19:30*	JN	Job-To-Applicant Ratio	Mar	1.26	1.26
04/30/24	00:30	19:30*	JN	Jobless Rate	Mar	2.50%	2.60%
04/30/24	00:50	19:50*	JN	Industrial Production MoM	Mar P	3.50%	-0.60%
04/30/24	02:30	21:30*	CH	Manufacturing PMI	Apr	50.3	50.8
04/30/24	02:30	21:30*	AU	Retail Sales MoM	Mar	0.20%	0.30%
04/30/24	02:45	21:45*	CH	Caixin China PMI Mfg	Apr	51	51.1
04/30/24	08:00	03:00	CZ	GDP YoY	1Q A	0.30%	0.20%
04/30/24	08:00	03:00	TU	Trade Balance	Mar	--	-6.77b
04/30/24	09:00	04:00	PD	CPI YoY	Apr P	2.40%	2.00%
04/30/24	10:00	05:00	EC	CPI MoM	Apr P	0.60%	0.80%
04/30/24	10:00	05:00	EC	GDP SA QoQ	1Q A	0.20%	0.00%
04/30/24	10:00	05:00	EC	GDP SA YoY	1Q A	0.20%	0.10%
04/30/24	13:00	08:00	SA	Trade Balance Rand	Mar	15.0b	14.0b
04/30/24	15:00	10:00	US	Conf. Board Consumer Confidence	Apr	104.1	104.7
04/30/24	***19:00***	***14:00***	***CO***	***Overnight Lending Rate***	***Apr-30***	***11.75%***	***12.25%***
04/30/24	23:45	18:45	NZ	Unemployment Rate	1Q	4.30%	4.00%
4/30-5/6			UK	Nationwide House PX MoM	Apr	0.10%	-0.20%
4/30-5/6			UK	Nationwide House Px NSA YoY	Apr	1.20%	1.60%
05/01/24	01:30	20:30*	JN	Jibun Bank Japan PMI Mfg	Apr F	--	49.9
05/01/24	09:30	04:30	UK	S&P Global UK Manufacturing PMI	Apr F	48.7	48.7
05/01/24	12:00	07:00	US	MBA Mortgage Applications	Apr-26	--	-2.70%
05/01/24	13:15	08:15	US	ADP Employment Change	Apr	185k	184k
05/01/24	14:30	09:30	CA	S&P Global Canada Manufacturing PMI	Apr	--	49.8
05/01/24	14:45	09:45	US	S&P Global US Manufacturing PMI	Apr F	49.9	49.9
05/01/24	15:00	10:00	US	ISM Manufacturing	Apr	50.1	50.3
05/01/24	***19:00***	***14:00***	***US***	***FOMC Rate Decision (Upper Bound)***	***May-01***	***5.50%***	***5.50%***
05/02/24	02:30	21:30*	AU	Building Approvals MoM	Mar	3.00%	-1.90%
05/02/24	07:30	02:30	SZ	CPI YoY	Apr	1.10%	1.00%
05/02/24	07:30	02:30	SZ	CPI MoM	Apr	0.10%	0.00%
05/02/24	07:30	02:30	SW	Swedbank/Silf PMI Manufacturing	Apr	--	50
05/02/24	08:00	03:00	TU	S&P Global/ICI Turkey Manufacturing PMI	Apr	--	50
05/02/24	08:00	03:00	PD	S&P Global Poland Manufacturing PMI	Apr	48	48
05/02/24	08:30	03:30	CZ	S&P Global Czech Republic Mfg PMI	Apr	46.6	46.2
05/02/24	08:55	03:55	GE	HCOB Germany Manufacturing PMI	Apr F	42.2	42.2
05/02/24	09:00	04:00	EC	HCOB Eurozone Manufacturing PMI	Apr F	45.6	45.6
05/02/24	09:00	04:00	NO	DNB/NIMA PMI Manufacturing	Apr	--	50.8

05/03/24	09:00	04:00	NO	Deposit Rates	May-03	4.50%	4.50%
05/03/24	13:00	08:00	BZ	Industrial Production YoY	Mar	--	5.00%
05/03/24	13:30	08:30	US	Change in Nonfarm Payrolls	Apr	250k	303k
05/03/24	13:30	08:30	US	Unemployment Rate	Apr	3.80%	3.80%

Key events/speeches

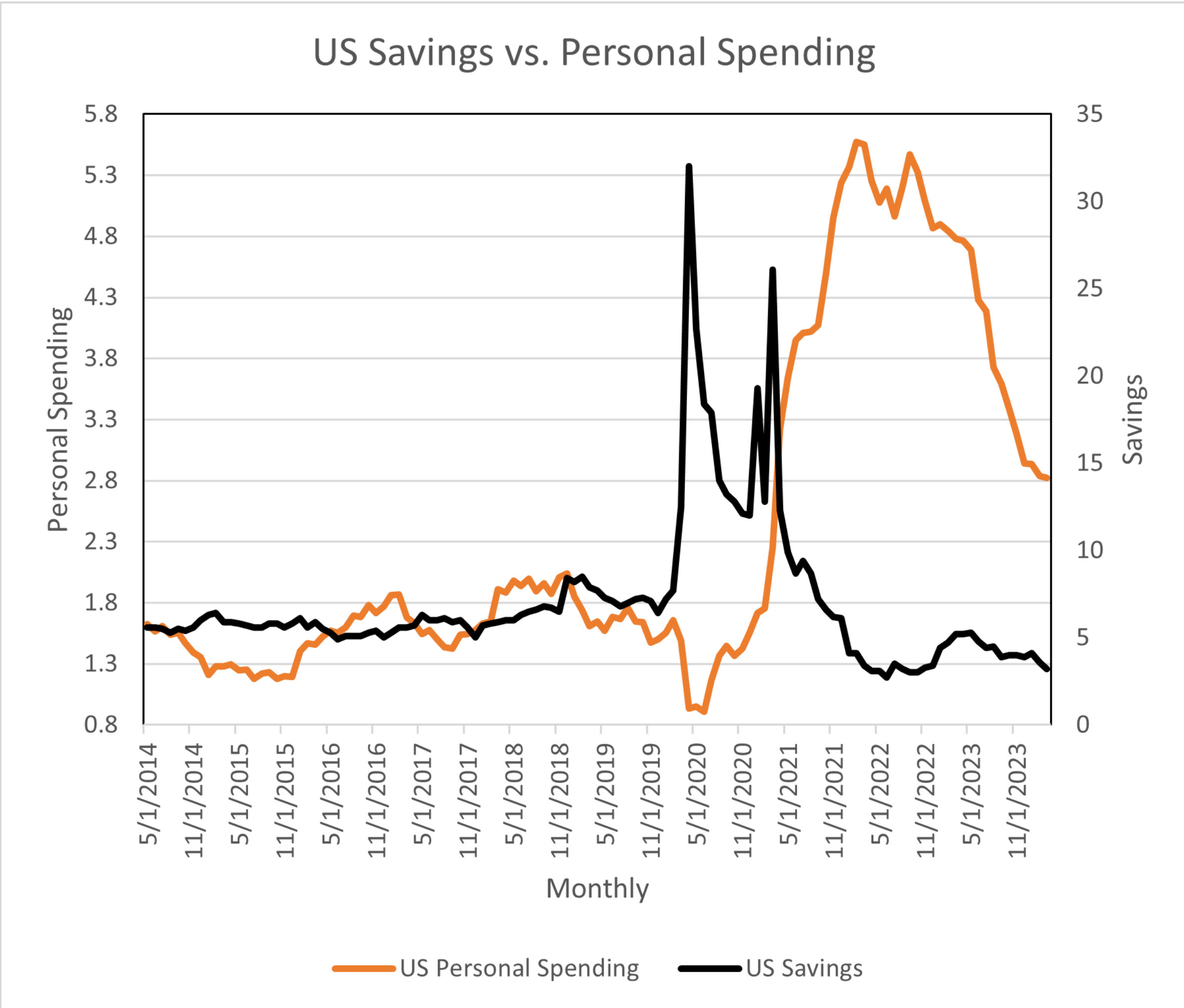
Date	BST	EDT	Country	Event
04/29/24	12:15	07:15	EC	ECB's Lane Speaks
04/29/24	14:50	09:50	SW	Riksbank's Floden speaks on Sweden's bond market
04/29/24	20:20	15:20	EC	ECB's Guindos Speaks
04/30/24	12:00	07:00	UK	BOE Releases APF quarterly report
04/30/24	22:00	17:00	NZ	RBNZ Publishes Financial Stability Report
05/01/24	02:00	21:00*	NZ	RBNZ News Conference on FinStab Report
05/01/24	18:30	13:30	EC	ECB's De Cos Speaks
05/01/24	19:30	14:30	US	Fed Chair Powell Holds Post-Meeting Press Conference
05/02/24	00:50	19:50*	JN	BOJ Minutes of March Meeting

Conclusions: Do savings matter?

The next week will be a key one for US markets with focus on the FOMC, the US Treasury refunding and the labor market data from NFP to JOLTS. The least watched but likely more important two data points ahead are US productivity in 1Q and the US employment cost index. The narrative of a "no landing" rests on US growth continuing apace with productivity gains driving down inflation and supporting wages. The US wages are essential to understanding how the consumer can sustain spending. The role of savings shows up in the equation as well with the US personal savings rate (as a percentage of disposable income) dropping to 3.2% in March from 3.6% in February. This is down from 5.2% last year and well below the long-term average of 8.4%. There are some key factors in the propensity to save – first being the inflation rate, second the tax rate and third being the actual interest rate on savings. The markets saw another factor in play in the pandemic – the ability to spend – constrained by the fear of Covid and restrictions around gatherings. The pent up spending that this event created led to the spending spike but we remain well over the longer term average. How long this can remain will be a key part of FOMC forecasts for growth and for demand led inflation. Markets have a lot to consider in the week ahead, and this will be part of the foundation for fears about growth into 2H 2024. The ability for the US consumer to remain healthy requires wages to match inflation.

Bottom Line: The USD is too strong, bond yields too high and stocks too low to make the narrative of a soft-landing easy to believe at home or abroad. The risk of a US slowdown is unlikely in 2Q with the consensus for a bounce back to 3.5% GDP. The risk that worries markets most remains geopolitical with Israel and Russia the focus. The US and China relationship remains a concern but not one that will shift global trade and investment flows. Rather the voters in the month ahead seem more important players in providing the volatility that could shift risks – with the South African election, the ongoing India vote and the June 2 Mexico election all likely key uncertainties for emerging market investors. This leaves many waiting still with the focus on demand and how long the US can sustain and how well the rest of the world can recover leaving a long dry summer for investment flows as likely. That growth of US vs the rest of the world spread is likely to matter the most to the USD and to US rates, as we pass the nadir of 1Q earnings driving risk. Outlooks for the next quarter are robust but the next week is likely a clash of repositioning for the best and worst cases leaving the April trends intact.

Savings, Taxes, Politics and Inflation key to US spending?



Source: Bloomberg, BNY Mellon

Disclaimers and Disclosures

Please direct questions or comments to: iFlow@BNYMellon.com

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