

Economy Week Ahead

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“Economics is not an exact science. It's a combination
of an art and elements of science.”

Paul Samuelson

Markets breathed a sigh of relief last week after the two-week ceasefire was announced. However, that relief was short-lived after weekend peace talks in Pakistan ended without a deal and so we fully expect risk off impulses to dominate global markets at the start of this week. We continue to believe that both sides are ultimately looking for an off ramp to this conflict and so this week's market reaction will be key. If oil prices jump sharply and equity market sink significantly this Monday, we may see a softening of the US position by Tuesday.

Geopolitics

The first round of peace talks were held this past weekend in Islamabad. Accounts suggest that the US came in with demands that Iran considered dealbreakers, especially turning over all of its nuclear material. When those demands were not met, the US contingent left Pakistan and Vice President Vance said "We've made very clear what our red lines are, what things we're willing to accommodate them on, and what things we're not willing to accommodate them on. And we've made that as clear as we possibly could, and they have chosen not to accept our terms."

It seems naïve for US officials to expect a concrete deal after one weekend of talks. Indeed, we believe that the obvious point of having a two-week ceasefire is to use the entire time to try and bridge what are clearly unrealistic demands from both sides. However, Iran seemed to leave the door open for further talks as a senior Iranian Foreign Ministry spokesman said "It was natural that one should not have expected to reach an agreement in a single session from the outset. Diplomacy never ends" and added that Iran will "continue to pursue national interests under all circumstances." Mediator Pakistan called on both sides to maintain the ceasefire, which would help continue discussions in the coming days.

Complicating matters, President Trump seems to be going back to his strategy of using threats as he announced a US blockade of the Strait of Hormuz starting Monday. He claimed that other nations would be involved in enforcing the blockade, which is meant to choke off Iran's shipments of oil, which is a vital source of income. It should be no surprise that markets reacted by taking energy prices higher and equity markets lower.

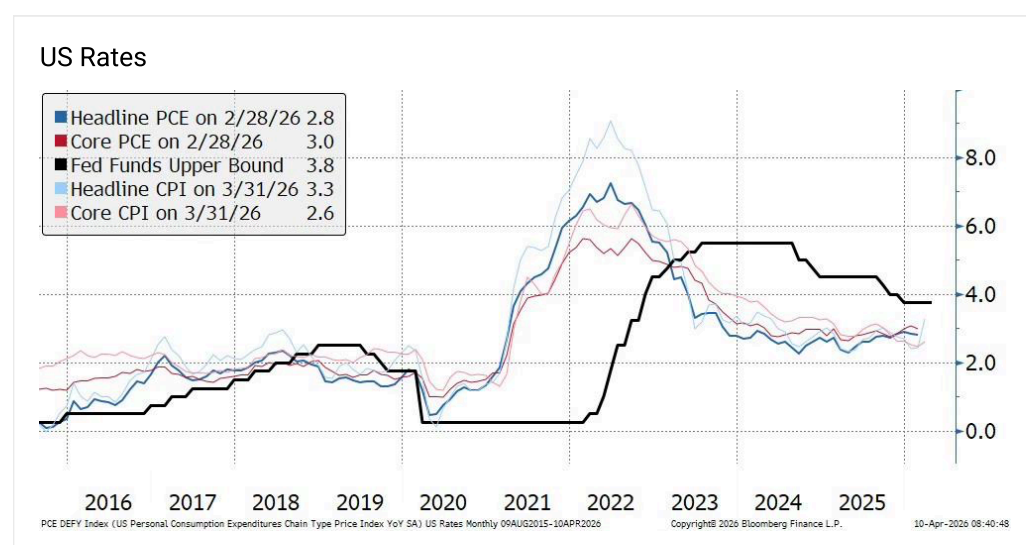
Despite these negative developments, we remain cautiously optimistic that the saber-rattling will eventually give way to more talks. A lasting agreement won't be easy and we had always expected that the two-week truce would have to be extended due to the difficulties inherent in getting a deal done. There will be many ups and downs, but we continue to believe that the market will eventually force the Trump administration back to the negotiating table.

Americas

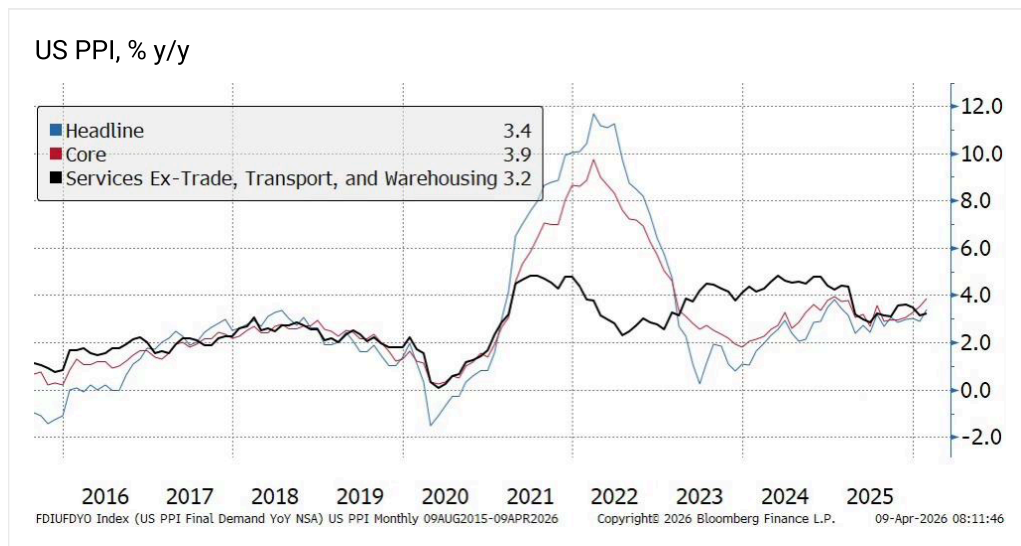
The Fed releases its Beige Book report Wednesday. Williams speaks Thursday. It was prepared for the FOMC meeting that takes place April 28-29. After the stronger than expected jobs report, the Fed can keep policy steady and see how the impact of the Iran conflict hits the economic outlook. The market is pricing in steady rates over the next twelve months but if the second round effects turn out to be limited as we expect, we believe the Fed will cut rates in H2.

There are plenty of Fed speakers this week. Miran speaks Monday. Goolsbee, Barr (twice), Paulson, Collins, and Barkin speak Tuesday. Barr and Bowman speak Wednesday. Williams and Miran speak Thursday. Barkin and Waller speak Friday. At midnight Friday, the media blackout begins and there will be no Fed speakers until Chair Powell's post-decision press conference Wednesday April 29. No change is expected then after the strong March jobs report.

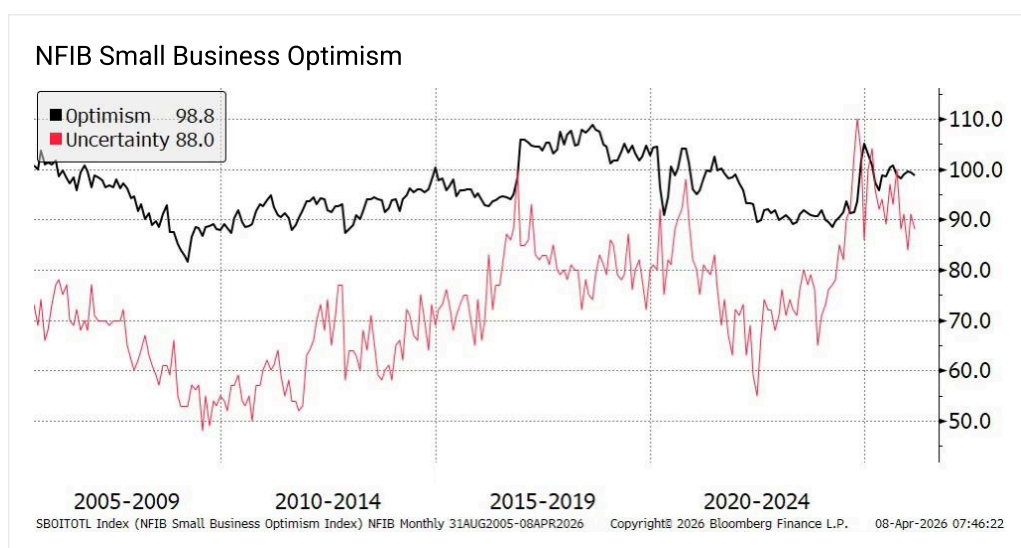
Minutes released last week for the March FOMC meeting suggested the Fed would remain cautious in the face of rising risks to both sides of its mandate. The Fed noted that "most participants raised the concern that a protracted conflict in the Middle East could lead to a further softening in labor market conditions, which could warrant additional rate cuts, as substantially higher oil prices could reduce households' purchasing power, tighten financial conditions, and reduce growth abroad." However, it also noted that "Many participants pointed to the risk of inflation remaining elevated for longer than expected amid a persistent increase in oil prices, which could call for rate increases to help bring inflation down to the Committee's 2 percent objective and keep longer-term inflation expectations firmly anchored." Lastly, "Most participants reiterated, however, that it was too early to know how developments in the Middle East would affect the U.S. economy and judged it prudent to continue to monitor the situation and assess the implications for the appropriate stance of monetary policy."



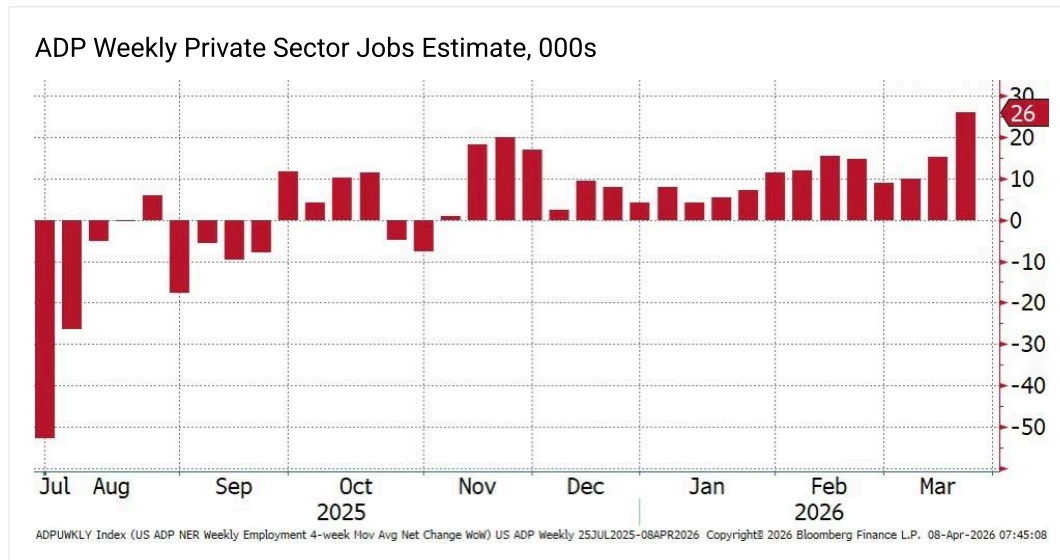
March PPI data will be reported Tuesday. Headline is expected to pick up more than a point to 4.6% y/y and core is expected to pick up only two ticks to 4.1% y/y. Obviously, the acceleration in headline is driven by higher energy prices, but core was uncomfortably high even before the Iran conflict. Keep an eye on PPI services ex-trade, transportation, and warehousing as it feeds into the PCE calculations. In March, this component picked up a tick to 3.2% y/y.



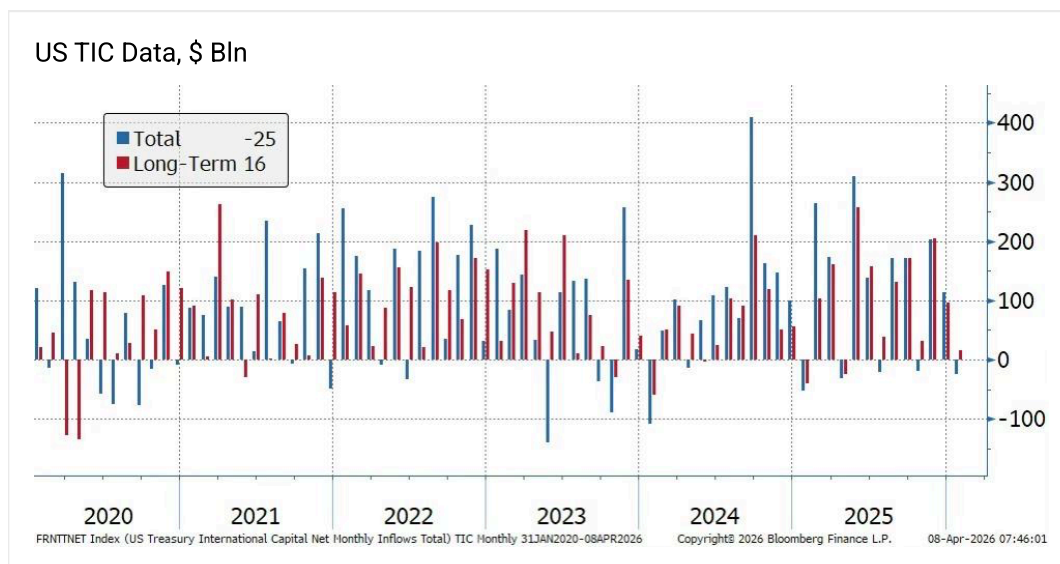
NFIB reports March small business optimism Tuesday. Headline is expected to fall nearly two points to 97.1. If so, this would be the third straight drop to the lowest since October 2024. After the February report, NFIB Chief Economist Bill Dunkelberg noted that “Although optimism declined slightly, small businesses report feeling more certain in February as they look toward the coming months. High sales and increased profits made February a more positive month for many owners, but competition from large businesses is putting stress on Main Street firms as they navigate the current economic climate.”



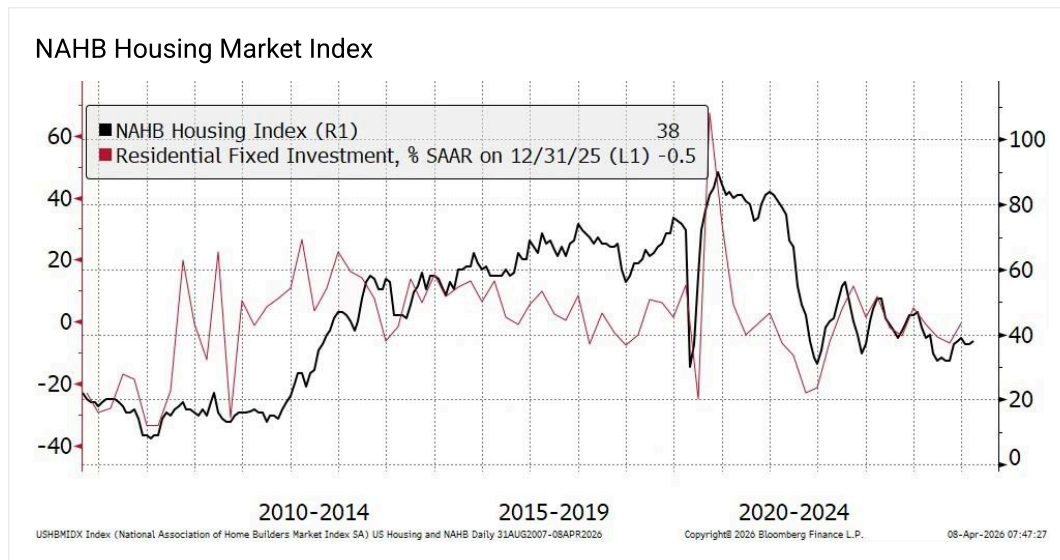
ADP reports its weekly private sector jobs estimate Tuesday. This will be for the week ended March 28. For the week ended March 21, ADP reported 26k and was the highest since this series began last summer. We remain skeptical that the labor market is stabilizing but will keep an open mind as the data roll out.



February TIC data will be reported Wednesday. January saw a rare total outflow of -\$25 bln, which was the largest monthly outflow since April 2025.



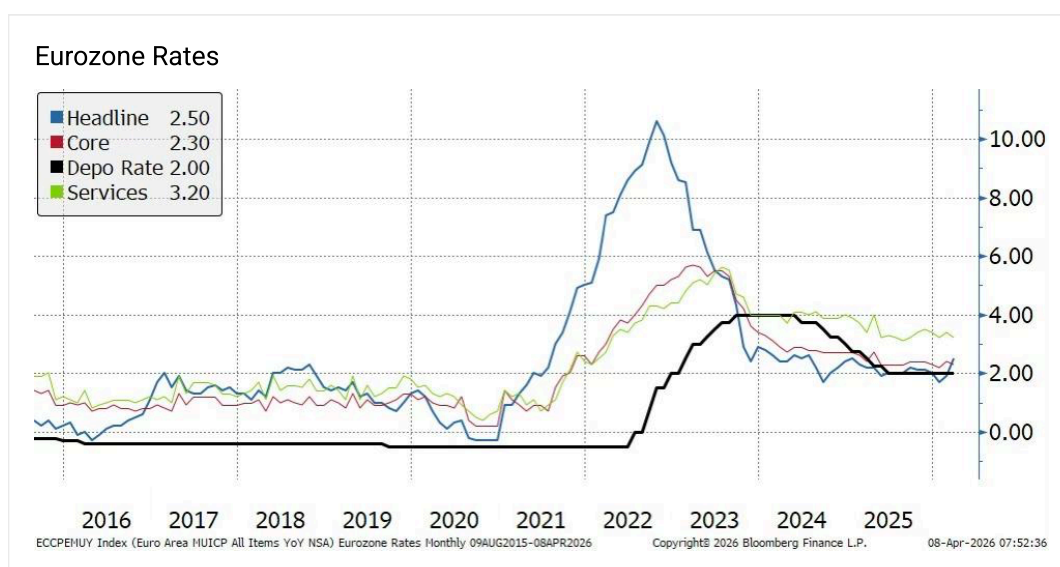
NAHB reports April housing market index Wednesday. Headline is expected to fall a point to 37. If so, it would reverse last month's rise and likely due to rising mortgage rates.



Europe

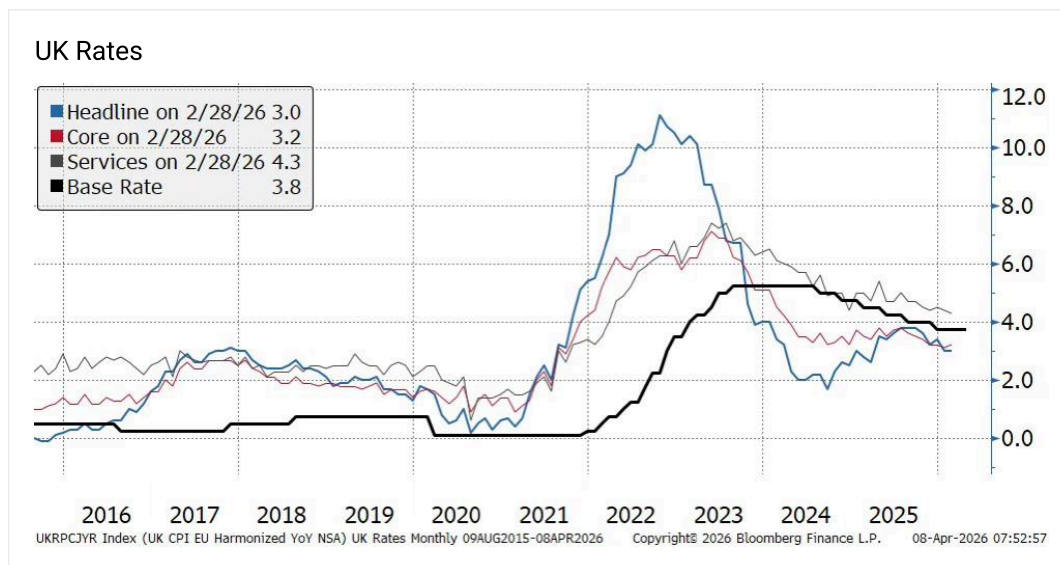
European Central Bank tightening expectations have fallen a bit after the Iran ceasefire. The swaps market is now pricing in 50 bp of total tightening over the next twelve months vs. 75 bp during the height of the conflict. If a lasting peace deal is reached, we believe the ECB will not have to hike rates this year. The market sees only around 33% odds of a 25 bp hike at the next meeting April 30.

There are many ECB speakers this week. Guindos speaks Monday. Makhlouf, Lane, and Lagarde speak Tuesday. Cipollone (twice), Escriva, Villeroy (twice), Lagarde, and Schnabel speak Wednesday. Kazaks, Schnabel, Rehn, Lane, Kocher, Radev, Villeroy, Nagel, and Lane speak Thursday.

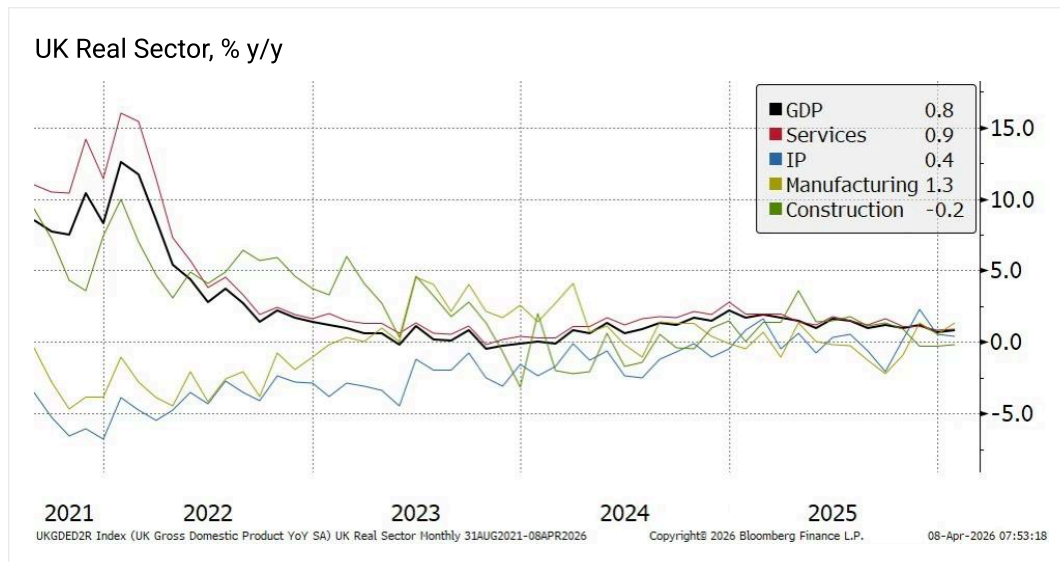


Bank of England tightening expectations remain steady. The swaps market is still pricing in 50 bp of total tightening over the next twelve months. Here too, we do not think the BOE will hike rates if the Iran conflict ends with a lasting peace. The market sees only around 15% odds of a 25 bp hike at the next meeting April 30.

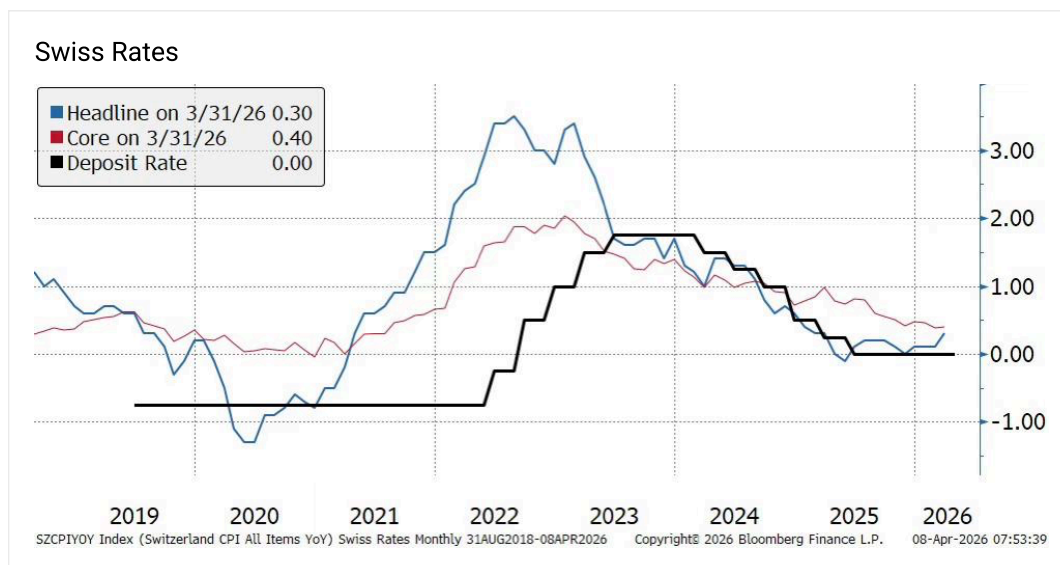
Meanwhile, there are several BOE speakers this week. Taylor speaks Monday. Mann, Bailey, and Greene speak Tuesday. Bailey speaks twice Wednesday. Taylor speaks twice Thursday. Breeden and Pill speak Friday. Recall that the vote to hold rates in March was unanimous after the 5-4 split to hold in February. The four dissents then were Breeden, Dhingra, Ramsden, and Taylor).



UK reports February real sector data Thursday. GDP growth is expected to pick up a tick to 0.1% m/m, IP is expected to pick up three ticks to 0.2% m/m, services is expected to pick up a tick to 0.1% m/m, and construction output is expected to slow nearly a point to -0.5% m/m. We believe the economy will continue to weaken, making it hard for the BOE to hike rates.

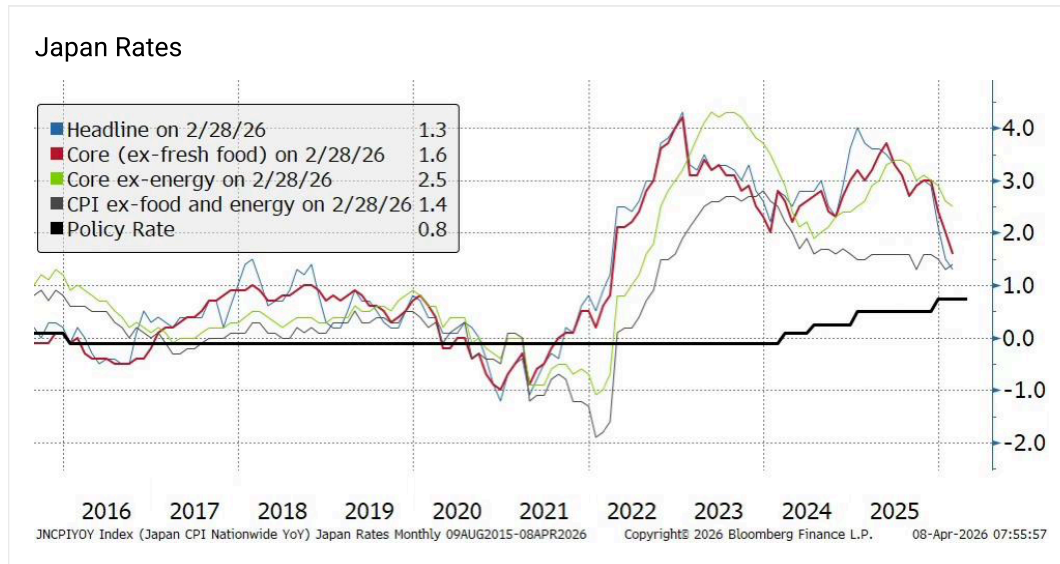


Swiss National Bank publishes the summary of its March 19 policy meeting Thursday. At that meeting, the bank kept rates steady. Governor Schlegel warned that “A rapid and excessive appreciation of the Swiss franc poses a risk to price stability. To counter this risk, our willingness to intervene in the foreign exchange market has increased.” Since then, the Swiss franc has weakened about 2% vs. the euro and about 1.5% vs. the dollar. The market is pricing in 25 bp of tightening over the next twelve months, which we view as unlikely.

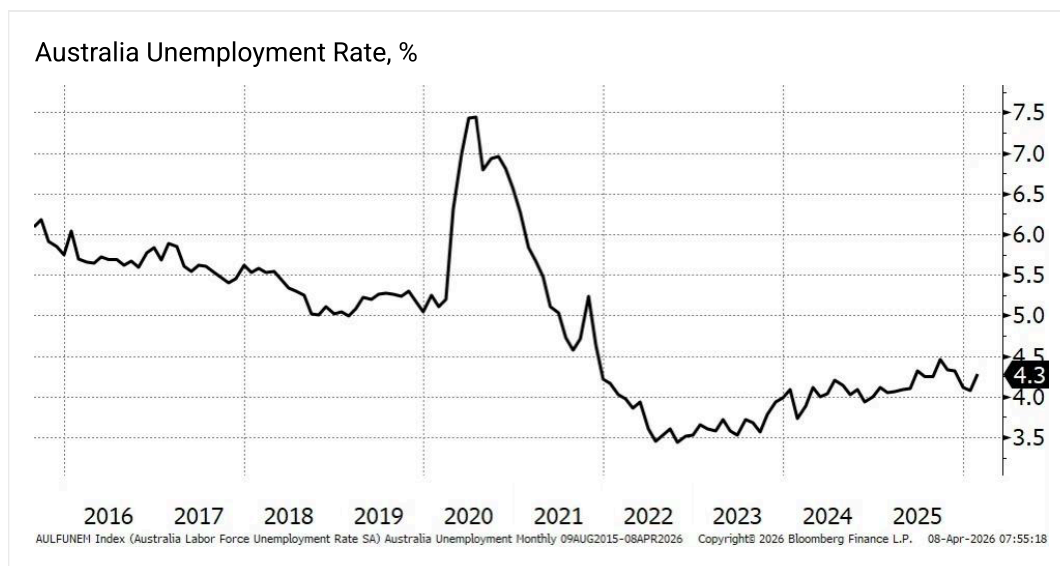


Asia

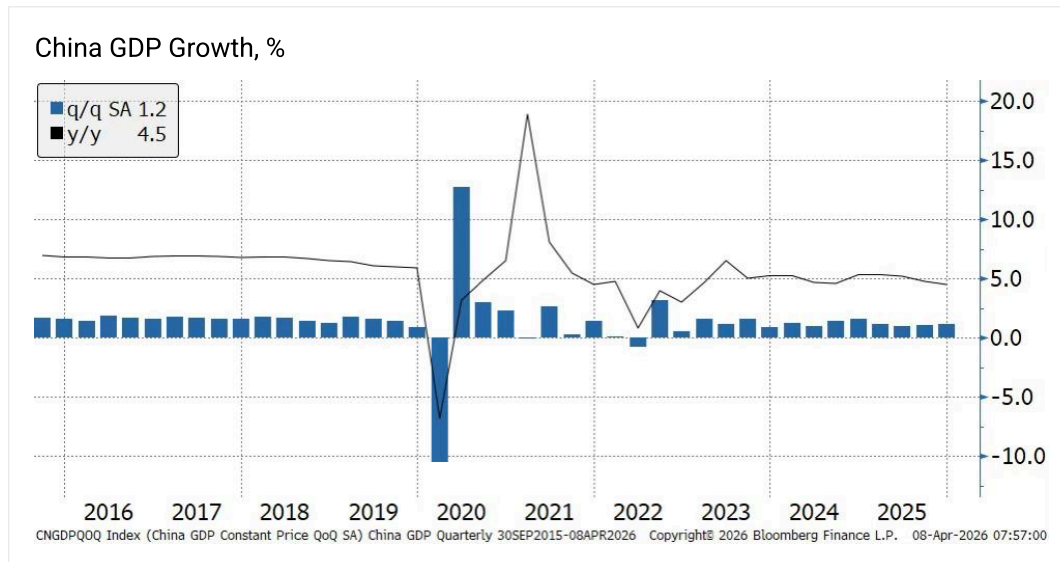
Bank of Japan tightening expectations remain on track. The market sees 55% odds of a 25 bp hike at the next meeting April 28 but we believe a hike is very likely. Looking ahead, the swaps market is pricing in 75 bp of total tightening over the next twelve months followed by another 25-50 bp over the subsequent twelve months. Governor Ueda speaks Monday.



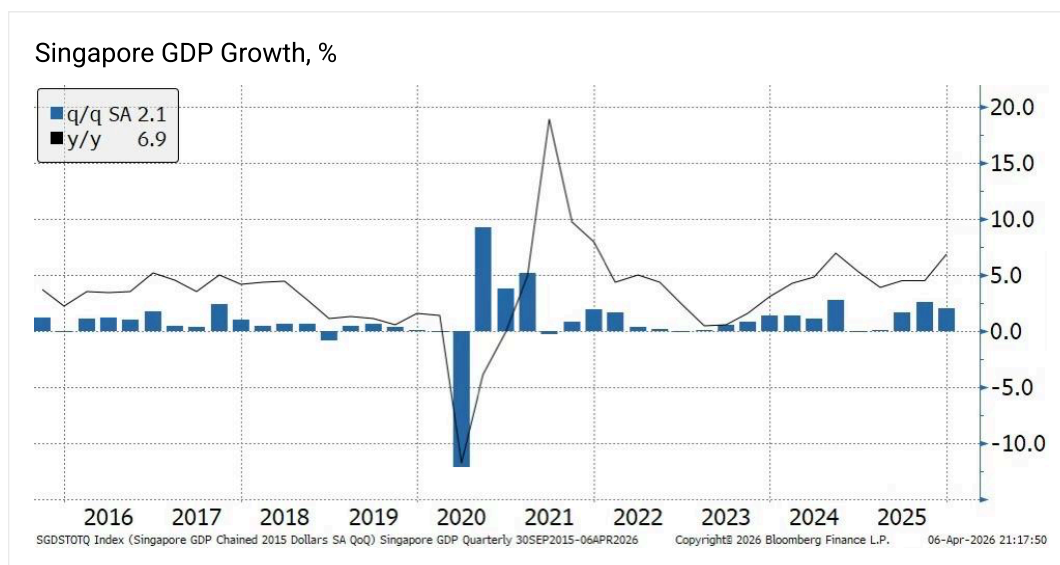
Australia reports March jobs data Thursday. Consensus sees 17.8k jobs created vs. 48.9k in February, while the unemployment rate is expected to remain steady at 4.3%. With the labor market in solid shape, we expect the RBA to maintain its tightening bias. The market sees around 60% odds of a 25 bp hike at the next meeting May 5.



China reports Q1 GDP and March real sector data will be reported Thursday. Q1 growth is expected to pick up two ticks to 1.4% q/q, while the y/y rate is expected at 4.8% vs. 4.5% in Q4. We believe policymakers will add enough stimulus this year to hit the growth target of “around 4.5%”.



Monetary Authority of Singapore holds its policy meeting Tuesday. It is expected to keep policy steady given the heightened uncertainty. At its last meeting January 29, the MAS kept policy steady and noted that “The risks to the growth and inflation outlook are tilted to the upside at this point. Persistently stronger-than-expected GDP growth could lead to higher wage growth and boost consumer sentiment, exacerbating demand-pull inflationary pressures. Supply shocks, including those triggered by geopolitical developments, risk lifting imported costs. Nevertheless, some downside risks are also present, reflecting underlying fragilities in the global economy.” Q1 GDP data will be reported at the same time. GDP is expected to contract -0.9% q/q vs. 2.1% in Q4, while the y/y rate is expected to fall nearly a point to 6.1%.



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