



Global Macroeconomic Dashboard

JUNE 2019

BARINGS

Global Watch List

Focus Data

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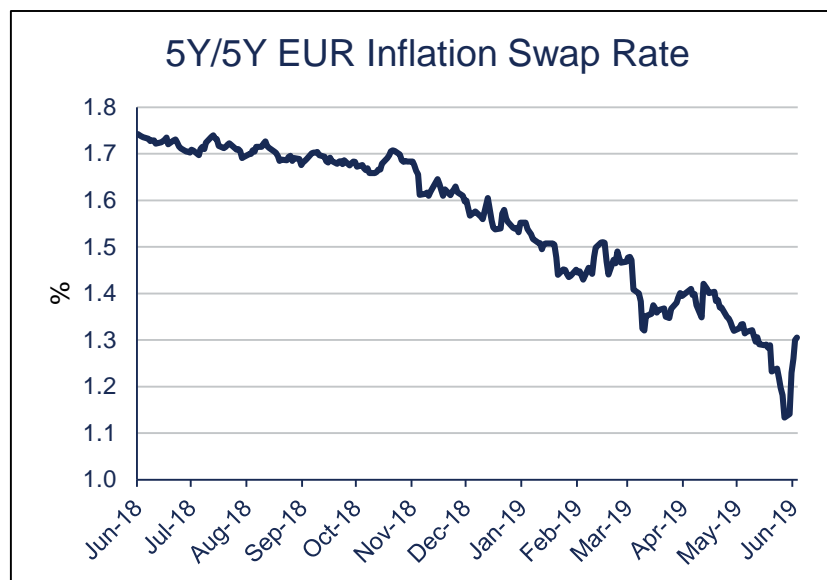
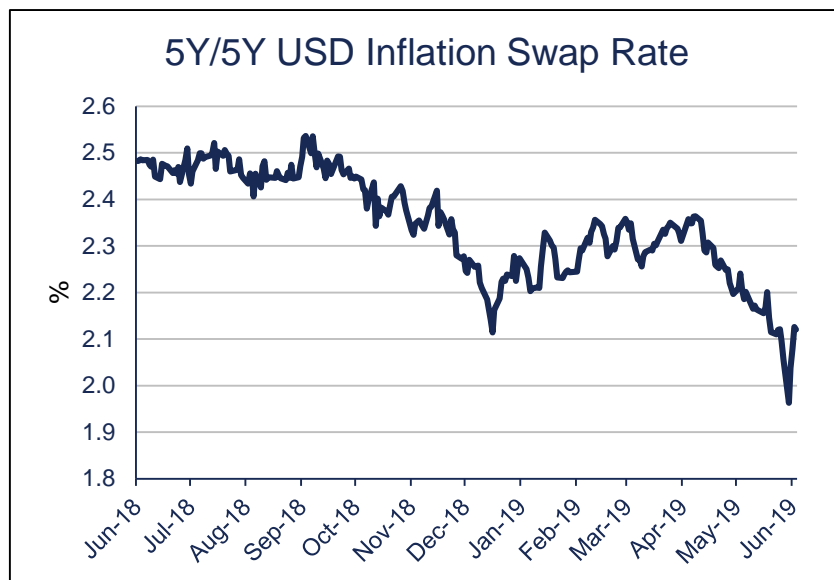
RATE CUTS

Rates markets are expecting global central banks to embark on synchronized interest rate cuts in 2H19.

Central Bank	1 st Month Rate Cut Odds >50%
Fed	July 2019 (100%)
ECB	September 2019 (61.6%)
BOJ	October 2019 (50.3%)

INFLATION EXPECTATIONS

Market expectations of inflation have fallen in the U.S. and Europe.



Source: Bloomberg as of 06/21/2019

For investment professionals only

GROWTH

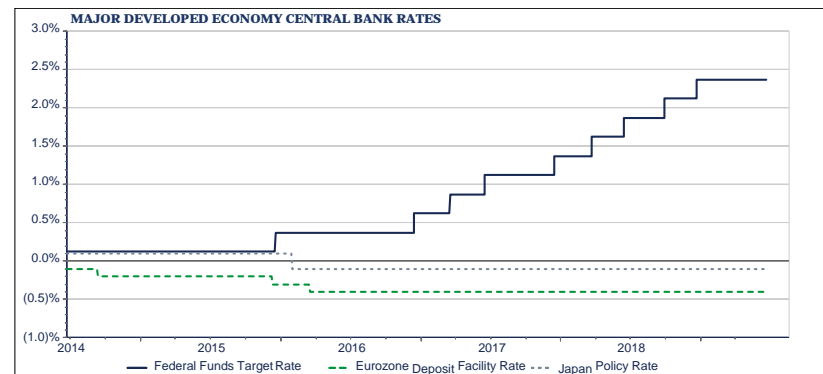
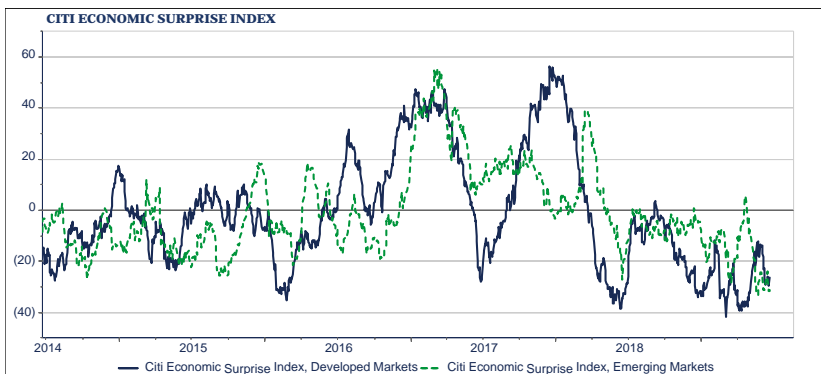
Global growth continues to slow, but is still positive. Since last month, we've seen softer U.S. data and weakness in Europe, China and EM.

- U.S. – Following better than expected 1Q19 GDP growth, estimates for 2Q19 growth have been consistently revised lower. Consumer spending looks like it will hold up in 2Q19, but investment, trade and some give back in inventories are likely to drag on growth. The U.S. economy continues to outperform relative to the Eurozone and China. Hard data is still stronger than the survey data, but any follow through is likely to increase the downside risks to growth.
- Europe – Eurozone growth momentum is likely to slow in 2Q19 after better than expected growth in 1Q19. Ongoing weakness in international trade continue to weigh on the manufacturing sector, while the services and construction sectors show resilience and the labor market continues to improve. Rising odds of a no-deal Brexit have dampened the economic growth outlook in the U.K.
- Japan – The outlook for growth remains subdued following a surprisingly strong 1Q19 GDP number. Increasing trade tensions have heightened downside risks. Weakness in the economies of key regional trading partners has also diminished growth prospects.
- China – 1Q19 GDP growth surprised to the upside, but the trade war and weaker economic data signal the outlook is deteriorating. Industrial output growth has slowed and investment has decelerated, creating headwinds for economic growth and optimism for a fiscal and/or monetary response.

CENTRAL BANKS

Global central banks are embarking on a synchronized policy easing to sustain growth and limit downside risks.

- Fed – Dovish signal at the June FOMC meeting that rate cuts are forthcoming. Persistent low inflation could increase chances of a rate cut.
- ECB – June meeting surprised markets with a dovish message as Mario Draghi winds down his term. This increased expectations for a future rate cut and additional stimulus, leading markets to price in more loosening.
- BOE – Highlighted the risks of a no-Brexit deal at the June meeting, but kept policy settings on hold for now.
- BOJ – The June meeting saw no change in yield curve control targets, however, indicated a willingness to ease further to spur inflation.
- PBOC – A shift to looser monetary policy seems likely to combat economic weakness and improve interbank liquidity.



Source: Bloomberg as of 06/21/2019

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Global Macro Summary

Overview

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RATES/INFLATION

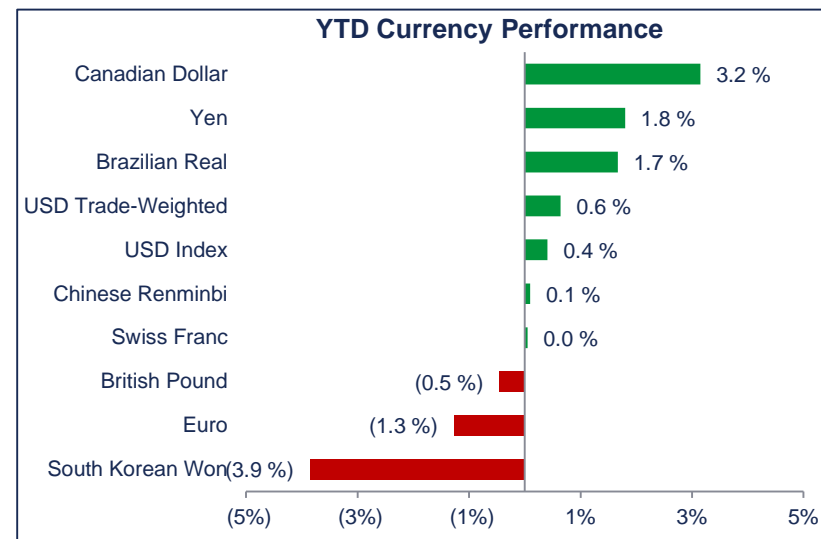
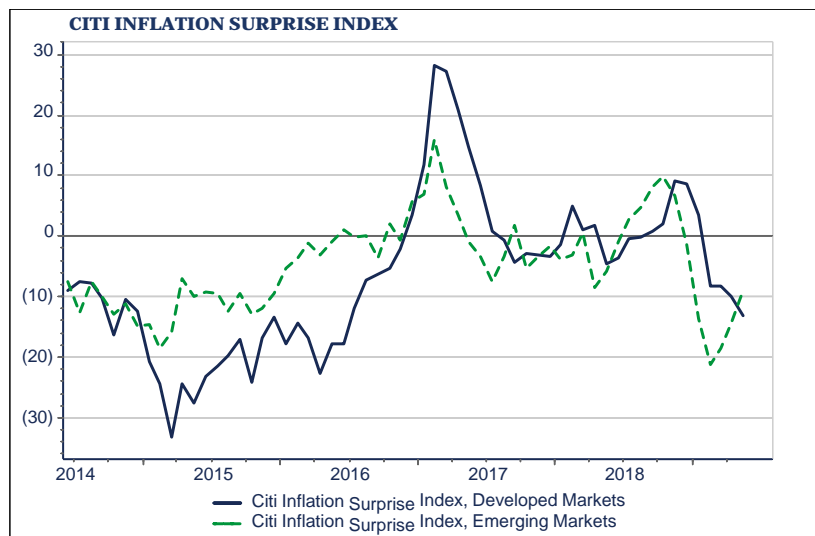
Rates markets are currently pricing in a 100% chance of a Fed rate cut next month. While the 3M/10Y curve remains inverted, the 2s/10s UST spread has widened to 26 bps from 15 bps one month ago. 10-year Bund and JGB yields moved further into negative territory following dovish signals by their central banks. Globally, inflation expectations have fallen as incoming data has been weaker than expected.

CURRENCIES/COMMODITIES

The USD has been resilient recently amid increasing concerns over the global growth outlook. Only very recently has the USD exhibited some weakness, taking its cue from the Fed's dovish signal. Commodity prices have come under pressure over the last month on a weaker demand outlook, but oil has risen recently amid rising Mideast tensions.

GEOPOLITICAL RISKS:

- G-20 Osaka summit at the end of the week
- Escalation of trade war between the U.S. and China or via tariffs on Europe
- U.S. budget deal/debt ceiling
- U.K. PM vote and direction of Brexit
- Wild Cards: Iran tensions; North Korea; Venezuela; new Russia sanctions



Source: Factset and Bloomberg as of 06/21/2019

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Global Macro Summary

Key Macro Themes

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- Global leading indicators dipped into contraction territory in May, signaling the global growth outlook has deteriorated further. While global growth is slowing, it is still positive and consensus forecasts call for an adequate 3.3% growth rate. Downside risks are rising with trade tensions escalating, the potential for tariffs to expand, several Asian economies struggling to grow and continued uncertainty around a resolution to Brexit. Following generally better than expected growth in several major economies during the first quarter, the second quarter has ushered in a more cautious outlook. Concerns are increasing that weakness in the Eurozone, Japan and China may transmit to the U.S. economy and dampen the growth outlook.
- The U.S. has recently made overtures to try and ease tensions with China in an effort to get trade talks back on track. President Trump and President Xi will meet to discuss trade at the G-20 summit in Osaka at the end of June. While there has been some de-escalation recently, risks remain that the trade war could endanger growth. New U.K. leadership will finalize the week of July 22 as Brexit uncertainty persists.
- Global financial conditions are set to ease through coordinated policy moves. Global central banks have made a dovish pivot in an effort to keep the growth slowdown in check and extend the expansion. Low inflation provides central banks the latitude to lower rates.
- Current macro fundamentals are sufficient and suggest a rate cut would be delayed. However, survey data and market messaging signal that rate cuts are more likely and sooner than hard economic data would indicate. Investors are likely to focus on whether the growth slowdown intensifies and if the synchronized response by global central banks will be adequate to offset the downside risks.

Economic Activity	2015	2016	2017	2018	2019 (E)	2020 (E)
Real GDP (Y/Y %)	3.4	3.4	3.8	3.6	3.3 --	3.3 --
CPI (Y/Y %)	2.8	2.8	3.2	3.6	3.2 --	3.0 --
Trade Volume (Y/Y%)	2.8	2.2	5.4	3.8	3.4 --	3.9 --
Inter-Bank Rates						
3-Month USD Libor	0.61	1.00	1.69	2.81	2.35 ▼	2.27 ▼
3-Month Euribor	-0.13	-0.32	-0.33	-0.31	-0.34 ▼	-0.24 ▼
3-Month GBP Libor	0.59	0.37	0.52	0.91	0.95 --	1.23 ▲
3-Month JPY Libor	0.08	-0.05	-0.02	-0.07	-0.06 ▼	-0.01 ▼

Arrows indicate consensus estimate change compared to 1 month ago.

Source: Bloomberg and IMF as of 06/21/2019. (E) – Bloomberg private market consensus estimates for GDP, CPI and rates. IMF estimate for trade volume.

Global Key Charts

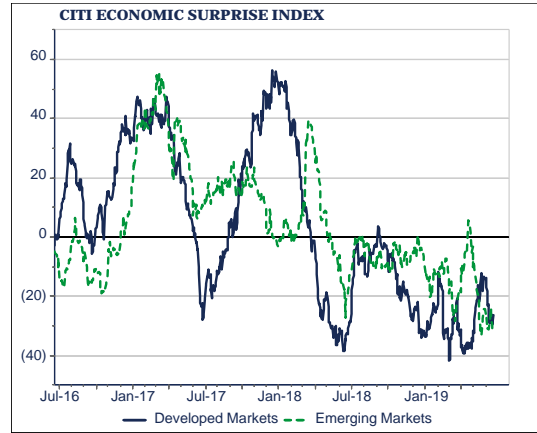
Leading Indicators

Global growth risks have increased to the downside as PMIs deteriorate further, falling into contraction territory



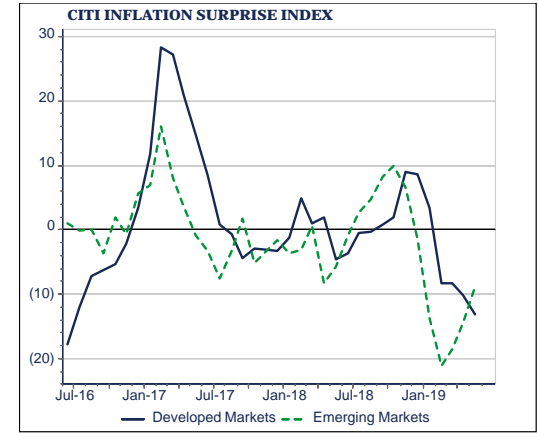
Economic Data

Recent economic data releases in developed and emerging markets have come in weaker than expected



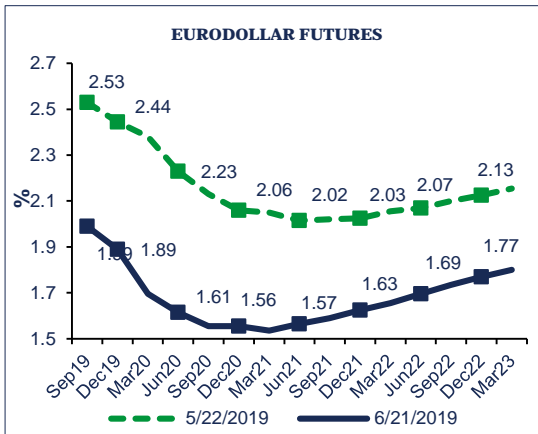
Inflation Data

Developed and emerging markets inflation data has surprised to the downside, weighing on inflation expectations



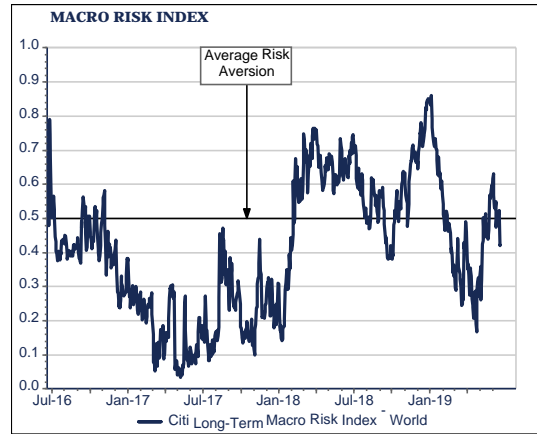
Eurodollar Futures Curve

The futures curve continued to reprice lower in June as global central banks increased dovish signals



Macro Risk

Risk aversion seemed to fall back to more average levels following dovish commentary from global central banks



Copper/Gold Ratio

A good proxy for the 10Y UST yield, the ratio has fallen as global growth prospects worsened





Key Macro Themes

- Recent economic data has come in much weaker than expected, raising concerns for something more serious than a soft patch in growth. June PMI data continued a deteriorating trend, finishing just above the expansion/contraction line. Although recession odds have ticked higher, current consensus estimates are calling for slower growth. Market estimates (Q/Q saar) for 2Q19 GDP and 3Q19 growth were revised lower by .2 over the past month to 1.8% and 2%, respectively.
- The continuing downtrend in inflation expectations coincided with a deteriorating growth outlook. Headline and core CPI remain subdued, ticking down to 1.8% Y/Y and 2% Y/Y, respectively, in May. Lower energy prices and a weaker core rate show inflation pressures are limited. The May employment report was weaker than expected with payroll growth well below consensus estimates and wages growing less than forecast. The unemployment rate was steady at 3.6%.
- The Treasury yield curve has steepened a bit recently as reflected in the 2-year/10-year spread, but the three-month/10-year Treasury yield spread remains inverted suggesting monetary policy is too tight. Fed Funds futures are now pricing in a 100% chance of a rate cut in July.
- The lag effect of tighter monetary policy continues to work its way through the economy and, combined with increasing trade risks, makes for a cautious outlook. While easier monetary policy appears to be on the horizon, growth could slow further before improving.

Economic Growth	6/21/19	12/31/2016	12/31/2017	12/31/2018	2019 (E)	2020 (E)
Real GDP (Y/Y %)	3.2	1.6	2.2	2.9	2.5 ▼	1.8 ▼
Inflation						
CPI (Y/Y %)	1.8	1.3	2.1	2.5	1.8 ▼	2.1 --
Core PCE (Y/Y %)	1.6	1.7	1.6	1.9	1.7 --	2.0 --
Labor Market						
Unemployment (%)	3.6	4.9	4.4	3.9	3.7 --	3.7 --
Rates						
Fed Funds	2.38	0.63	1.38	2.38	2.25 ▼	2.10 ▼
2Y Treasury	1.77	1.19	1.89	2.52	2.08 ▼	2.15 ▼
10Y Treasury	2.03	2.45	2.41	2.72	2.35 ▼	2.49 ▼

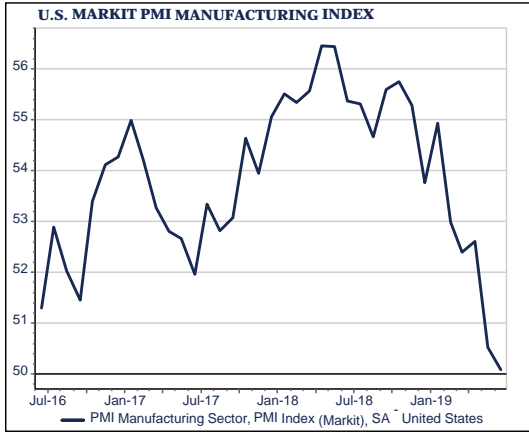
Arrows indicate consensus estimate change compared to 1 month ago.

Source: Bloomberg and IMF as of 06/21/2019. (E) – Bloomberg private market consensus estimates for GDP, CPI and rates. IMF estimate for trade volume.



Leading Indicators

The PMI declined further in June, falling close to the line that denotes expansion/contraction and indicating growth is slowing



Inflation Expectations

Inflation expectations have fallen sharply over the past month as the growth outlook weakened and rate cut prospects rose



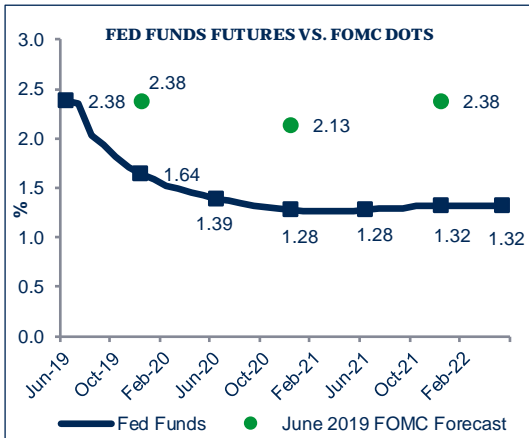
Economic Data

Economic data has surprised to the downside recently, adding to a cautious growth outlook



Fed Funds Futures Curve

The market is pricing in several rate cuts this year, while the Fed's most recent dot plot conceded rates should fall



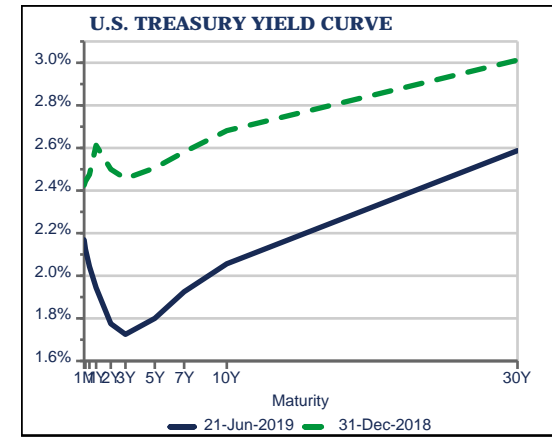
Wage Growth

May's employment report showed a downtick in wage growth as inflation via the wage channel remains subdued



Yield Curve

A shift lower in the yield curve since year end highlights growth worries and the expectation for lower short rates

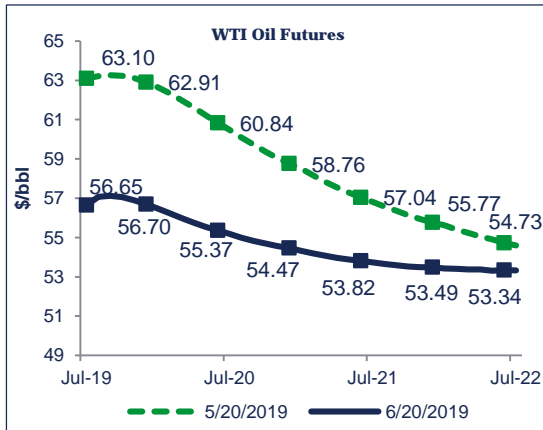


Source: Factset and Bloomberg as of 06/21/2019



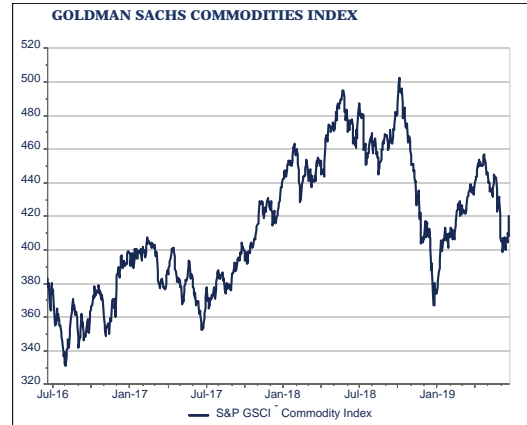
WTI Crude Oil Futures

The futures curve shifted lower again in June with weaker near-term prices indicative of declining global demand



Commodity Index

Recent weakness in oil and industrial metal prices coincides with rising concerns for the global growth outlook



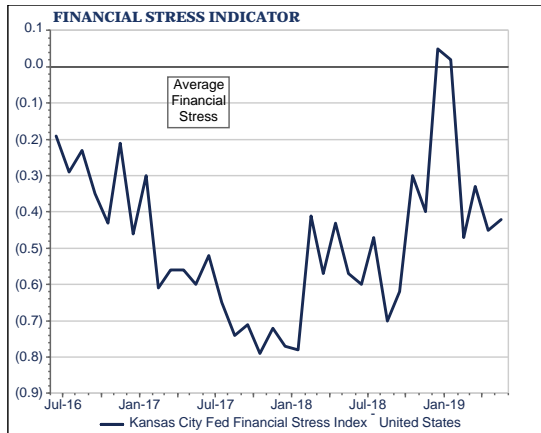
USD Index

The USD has been fairly resilient as safe haven demand may be masking weakness from impending rate cuts



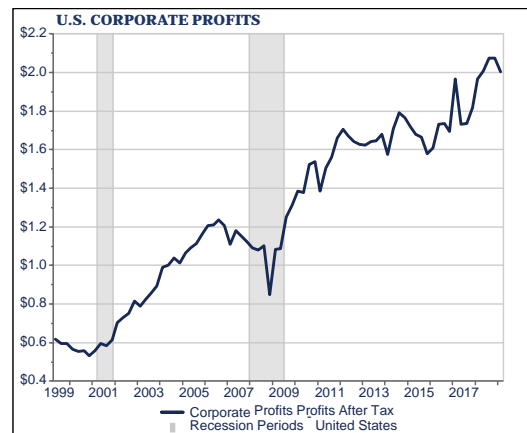
Financial Stress

Expectations of Fed easing and more accommodative monetary policy have lowered financial stress



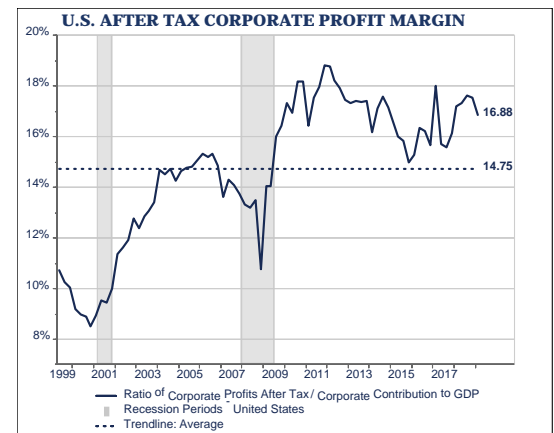
Corporate Profits

Corporate profits rolled over in 1Q19 following a strong run that was fueled by the benefits of tax reform



Corporate Profit Margin

Corporate profit margins dipped slightly as profits fell, but remain at healthy levels



- Leading indicators in the Eurozone moved sideways in June, but remain below the expansion/contraction line signaling no change in the weak growth outlook. The U.K. PMI dipped into contraction territory in May for the first time since the Brexit vote in 2016. Economic data in the Eurozone and U.K. has come in weaker-than-expected recently. Market estimates for Eurozone Q/Q GDP growth in 2Q19 and 3Q19 are still unchanged over the past month at .3% and .4%, respectively. U.K. Q/Q GDP growth for 2Q19 and 3Q19 was also unchanged since last month at .2% and .3%, respectively.
- Eurozone inflation expectations tumbled further over the past month, while remaining fairly steady in the U.K. May CPI data in the Eurozone was well below estimates with headline and core inflation falling to 1.2% Y/Y and .8% Y/Y, respectively. U.K. headline and core inflation decelerated in May and could drift lower in the coming months. Subdued inflation provides the ECB and BOE more flexibility on policy deliberations to react against a further deterioration in the growth outlook.
- The ECB signaled additional easing would be forthcoming at its June 6 meeting, likely to combat growing downside risks to growth and offset potential Fed easing that would put upward pressure on the euro. Rates markets are now anticipating a rate cut at the September meeting. The BOE is expected to highlight rising obstacles to growth at its June 20 meeting, but is unlikely to alter policy at that time as Brexit remains uncertain and new political leadership is still unsettled.
- The outlook for European growth remains tethered to a successful Brexit resolution and solution to global trade issues.

	6/21/19	12/31/2016	12/31/2017	12/31/2018	2019 (E)	2020 (E)
Economic Growth						
EZ Real GDP (Y/Y %)	1.2	1.9	2.4	1.9	1.2 --	1.3 ▼
U.K. Real GDP (Y/Y %)	1.8	1.8	1.8	1.4	1.4 ▲	1.4 --
Inflation						
EZ CPI (Y/Y %)	1.2	0.2	1.5	1.8	1.3 --	1.4 ▼
U.K. CPI (Y/Y %)	2.0	0.7	2.7	2.5	1.9 --	2.0 --
Labor Market						
EZ Unemployment (%)	7.6	10.0	9.1	8.2	7.7 ▼	7.6 ▼
U.K. Unemployment (%)	3.8	4.9	4.4	4.1	3.9 ▼	4.1 --
Rates						
EZ Central Bank	0.00	0.00	0.00	0.00	0.00 --	0.00 ▼
EZ 2Y Note	-0.75	-0.80	-0.64	-0.62	-0.52 ▼	-0.33 ▼
EZ 10Y Bond	-0.29	0.20	0.42	0.24	0.03 ▼	0.27 ▼
U.K. Central Bank	0.75	0.25	0.50	0.75	0.80 ▼	0.95 ▼
U.K. 2Y Gilts	0.58	0.04	0.43	0.74	0.89 ▼	1.20 ▼
U.K. 10Y Gilts	0.82	1.24	1.19	1.27	1.18 ▼	1.46 ▼
Currencies						
EUR/USD	1.13	1.05	1.20	1.14	1.15 ▼	1.21 ▼
GBP/USD	1.27	1.23	1.35	1.27	1.29 ▼	1.39 ▼

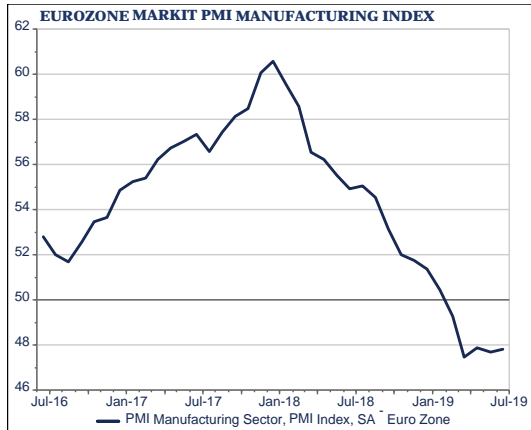
Arrows indicate consensus estimate change compared to 1 month ago

Source: Bloomberg as of 06/21/2019. (E) – Bloomberg private market consensus estimate.



Leading Indicators – EZ

June's manufacturing PMI steadied, but continued a string of readings in contraction territory.



Leading Indicators – U.K.

The most recent PMI reading continued a downtrend, but was the first reading in the contraction zone since 2016



Economic Data – EZ

Weaker than expected economic data has supported a challenging growth outlook



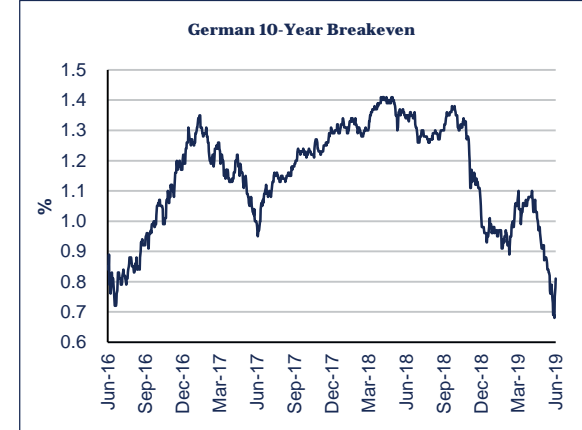
Economic Data – U.K.

Recent economic data has underperformed notably amid rising Brexit uncertainty and a weaker global growth outlook



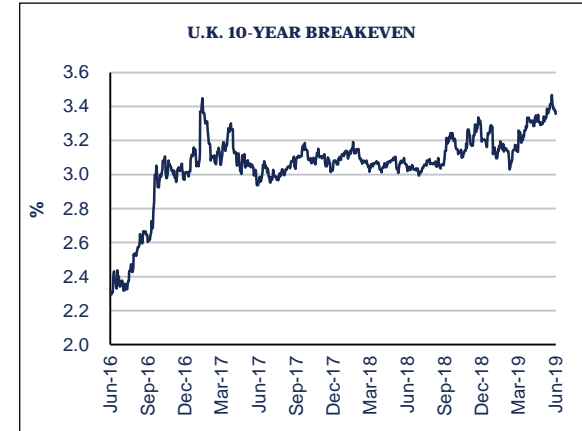
Inflation Expectations – EZ

Inflation expectations have tumbled as growth prospects diminish and the likelihood of lower rates increases



Inflation Expectations – U.K.

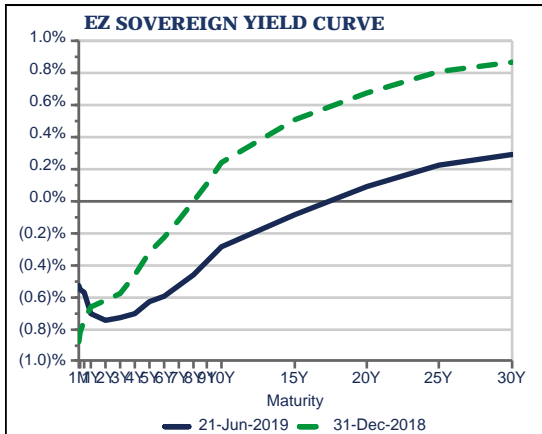
Inflation expectations have been rising, but the most recent dip was confirmed by slowing hard data and a softer outlook





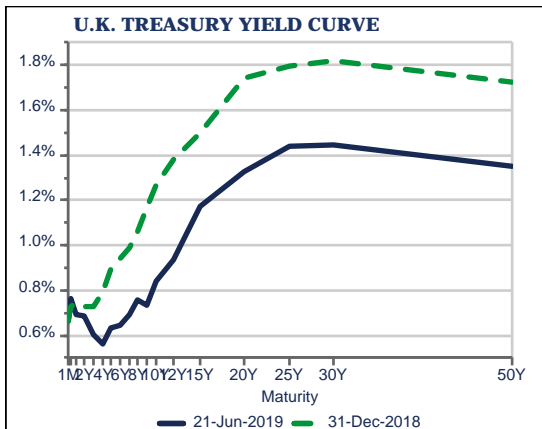
Yield Curve – EZ

The signal from the yield curve is for a difficult growth outlook as the vast majority of the curve shifted lower since year end



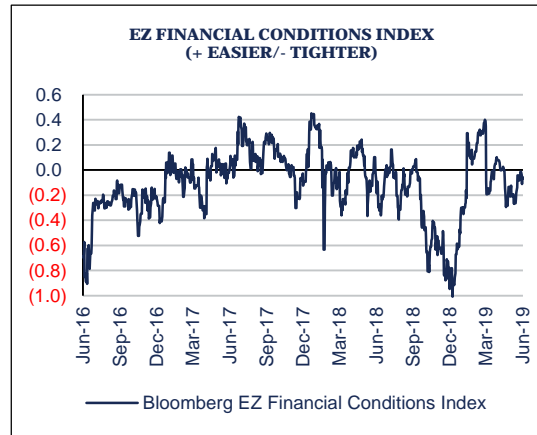
Yield Curve – U.K.

Uncertainty over Brexit and diminishing global growth prospects shifted the bulk of the yield curve lower this year



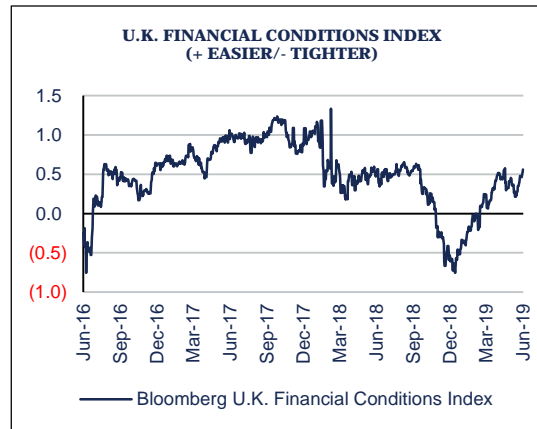
Financial Stress – EZ

Financial conditions have eased recently following signals from the ECB that they will be more accommodative



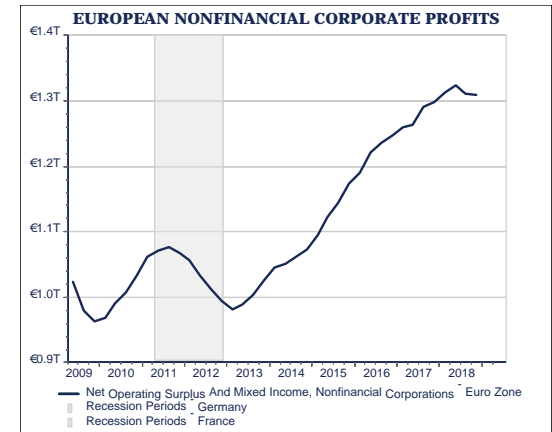
Financial Stress – U.K.

As the BOE has been on the sidelines with Brexit uncertainty, financial conditions are modestly easy



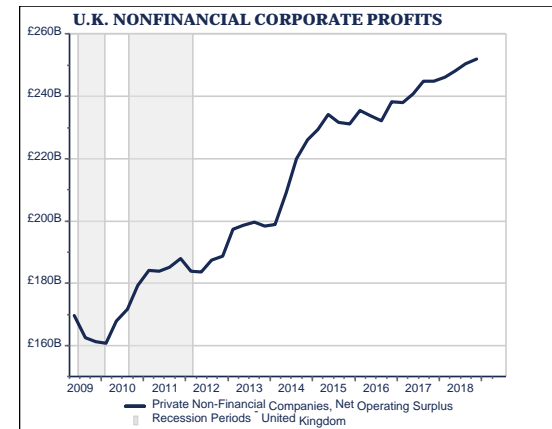
Corporate Profits – EZ

After an extended period of monetary policy support, low growth and low inflation, corporate profit growth has stalled



Corporate Profits – U.K.

Easier post-Brexit financial conditions and global reflation created a supportive environment for corporate profit growth





Key Macro Themes

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- Japan's leading indicators declined again in June, pushing further into contraction territory amid a deteriorating growth outlook. China's leading indicators were fairly steady in May, staying just above the expansion/contraction line. Recent economic data in Japan and China continues to underperform relative to estimates. Market consensus for 2Q19 GDP growth (Q/Q, saar) in Japan was slashed from 1.4% to .1% over the past month, while 3Q19 growth was revised down lowered .4 to 1.7%. China's GDP growth estimate (Q/Q) for 2Q19 was lowered by .1 to 1.5% over the last month and remained unchanged at 1.5% for 3Q19.
- In Japan, inflation expectations remain precariously low as the many efforts by the BOJ to reflate prices have been unsuccessful. Headline and core CPI remain well below the BOJ's price target. China's CPI inflation accelerated in May driven by higher food prices, but factory prices as measured by PPI continued to decline in May.
- The BOJ continues to be challenged by a weak growth outlook, near full employment and aggressive stimulus that has yet to boost prices. Market expectations for further easing in 2H19 has increased recently in part due to the need to keep pace with other central banks and dampen the prospects of further yen appreciation. The PBOC is likely to ease to offset trade and currency pressures.
- Weaker growth prospects and subdued inflation in Asia are expected to be met with coordinated easing by global central banks.

Economic Growth	6/21/19	12/31/2016	12/31/2017	12/31/2018	2019 (E)	2020 (E)
Japan Real GDP (Y/Y %)	0.9	0.6	1.9	0.8	0.7 ▲	0.4 ▼
China Real GDP (Y/Y %)	6.4	6.7	6.8	6.6	6.3 --	6.0 --
Inflation						
Japan CPI (Y/Y %)	0.7	-0.1	0.5	1.0	0.7 --	1.1 --
China CPI (Y/Y %)	2.7	2.0	1.6	2.1	2.3 ▲	2.3 ▲
Labor Market						
Japan Unemployment (%)	2.4	3.1	2.8	2.4	2.4 --	2.4 --
China Unemployment (%)	3.7	4.0	3.9	3.8	4.0 --	4.0 --
Rates						
Japan Central Bank	-0.10	-0.10	-0.10	-0.10	-0.10 --	0.00 ▼
Japan 2Y Note	-0.24	-0.19	-0.14	-0.14	-0.17 ▼	0.03 ▼
Japan. 10Y Bond	-0.16	0.04	0.04	0.04	-0.04 ▼	0.10 ▼
China Central Bank	4.35	4.35	4.35	4.35	4.30 --	4.25 --
China 2Y Note	2.80	2.40	2.75	2.71	2.55 ▼	2.38 --
China 10Y Bond	3.24	3.03	3.88	3.88	3.13 ▼	3.12 ▲
Currencies						
USD/JPY	107.47	116.96	112.69	112.69	108.00 ▼	105.00 ▼
USD/CNY	6.85	6.94	6.53	6.53	6.89 ▲	6.70 ▲

Arrows indicate consensus estimate change compared to 1 month ago

Source: Bloomberg as of 06/21/2019. (E) – Bloomberg private market consensus estimate.

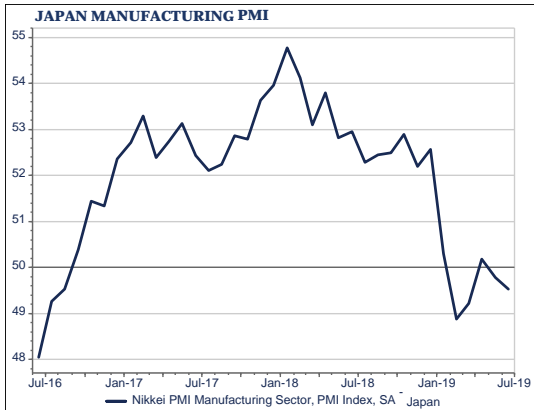
Japan & China Key Charts



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Leading Indicators – Japan

The PMI dipped further into contraction territory in June as domestic and regional economic activity softened



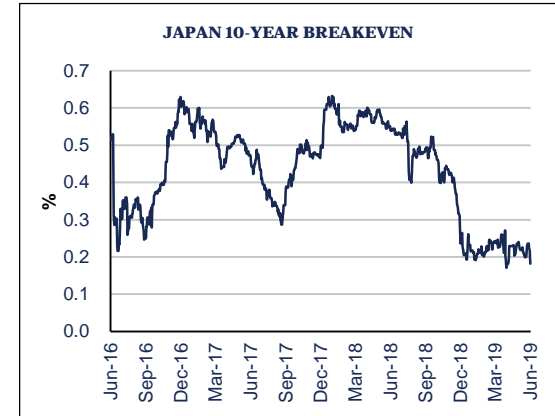
Economic Data – Japan

Recent economic data continues to surprise to the downside as the global growth outlook remains difficult



Inflation Expectations – Japan

Inflation expectations remain subdued and show little sign of revival, especially with the BOJ expected to ease further



Leading Indicators – China

The most recent PMI was little changed, staying above the expansion/contraction line amid a challenging growth outlook



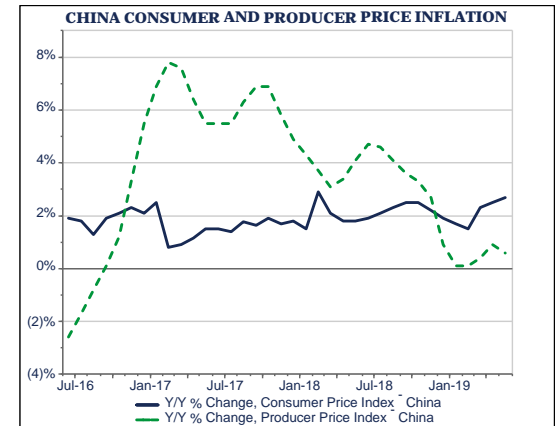
Economic Data – China

Economic data releases have generally come in below consensus expectations over the past month



Inflation Data – China

Consumer inflation ticked higher in May on rising food prices, while producer prices fell along with commodities



Source: Factset and Bloomberg as of 06/21/2019

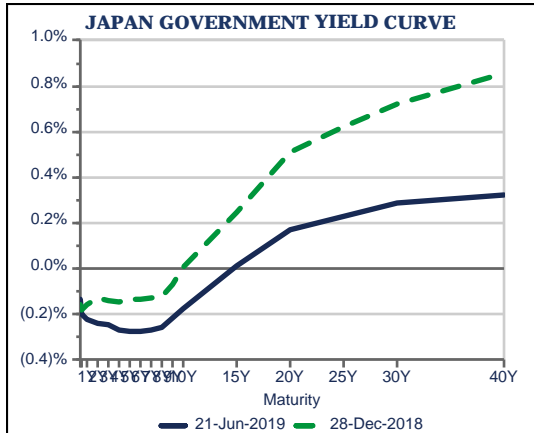
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Japan & China Key Charts



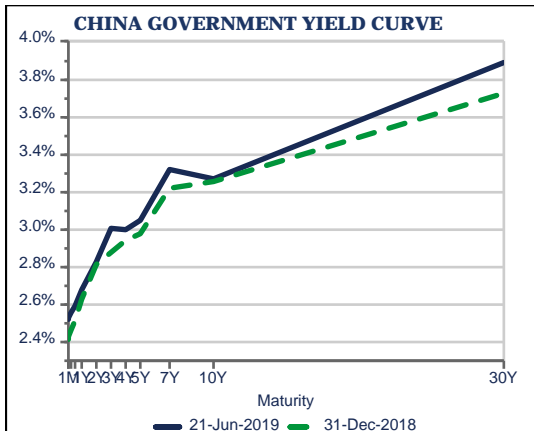
Yield Curve – Japan

The yield curve has shifted lower since year end as the inflation outlook dimmed and global growth prospects weakened



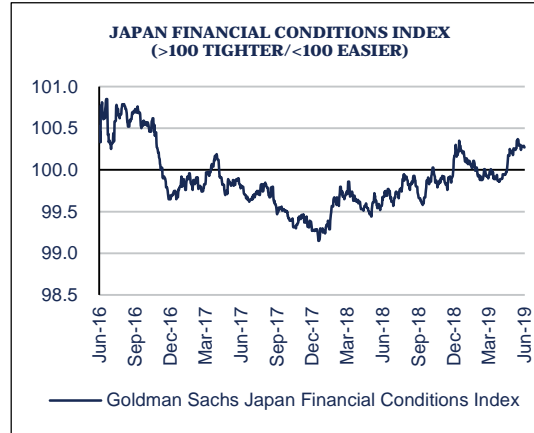
Yield Curve – China

Most of the yield curve is little changed since year end as the PBOC tries to balance financial risks with supporting growth



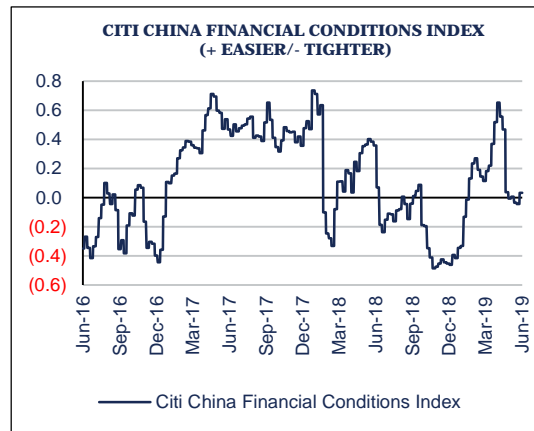
Financial Stress – Japan

The BOJ has signaled that it will be more accommodative although current financial conditions are milly tight



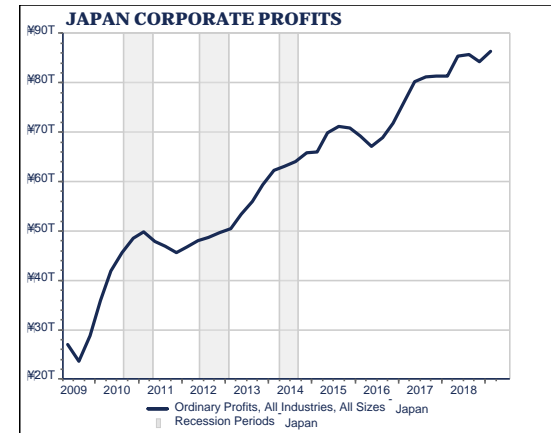
Financial Stress – China

Current financial conditions are relatively neutral, although market expectations for the PBOC to ease are rising



Corporate Profits – Japan

Corporate profits turned higher in 1Q19 as GDP growth came in better than expected



Industrial Profits – China

Rising trade tensions and a weakening global growth outlook has created a challenging environment for industrial profits



Source: Factset and Bloomberg as of 06/21/2019

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