



Global Macroeconomic Dashboard

AUGUST 2019

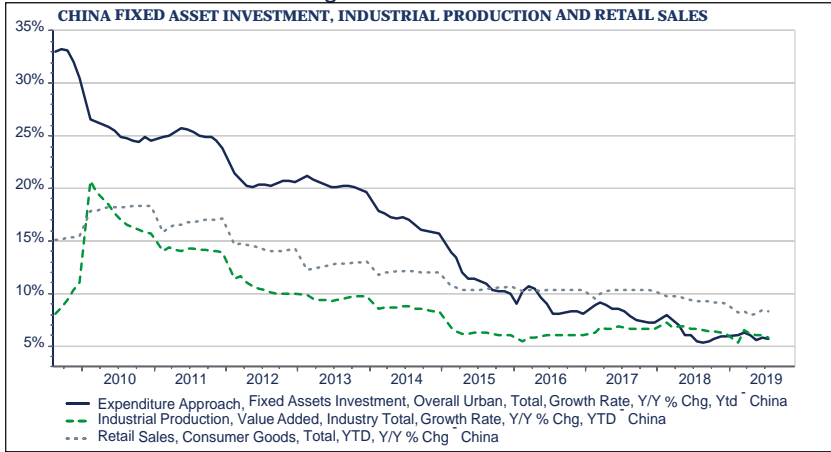
BARINGS

Global Watch List

Focus Data

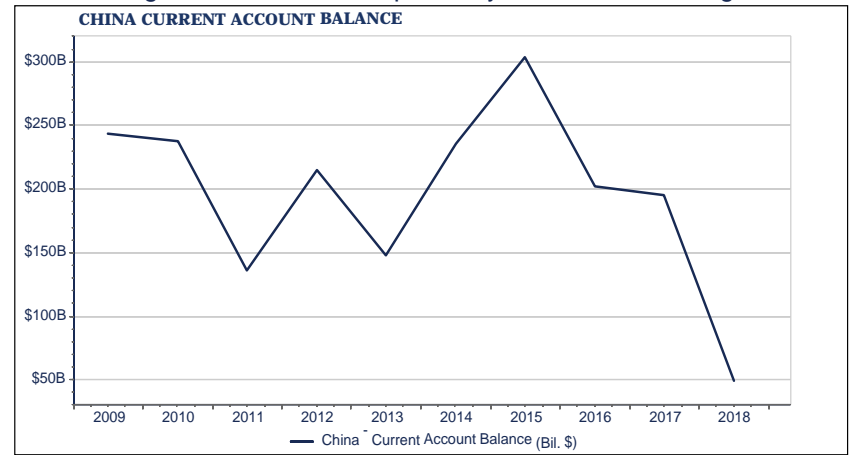
CHINA ECONOMIC ACTIVITY

A clear trend for slower growth has been evident for some time.



CHINA CURRENT ACCOUNT

A dwindling current account surplus may raise future funding issues.



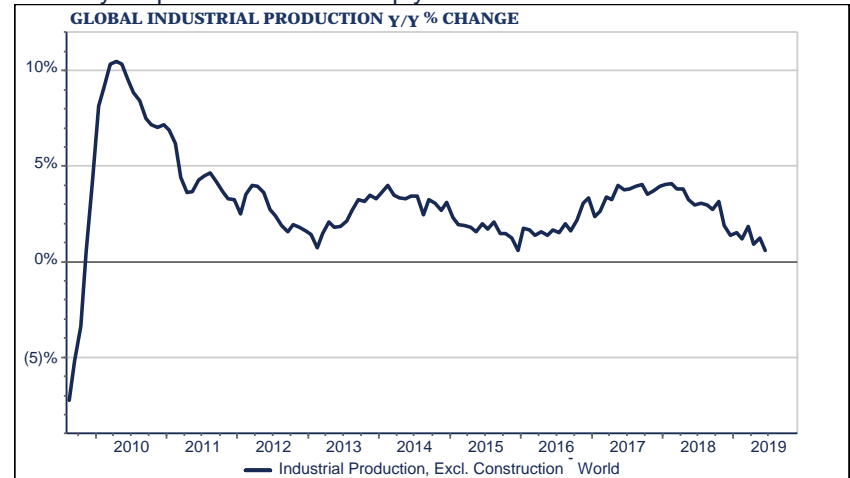
CNY EXCHANGE RATE

CNY broke through the important 7 threshold in August.



GLOBAL INDUSTRIAL PRODUCTION

Factory output has slowed sharply as trade tensions increased.



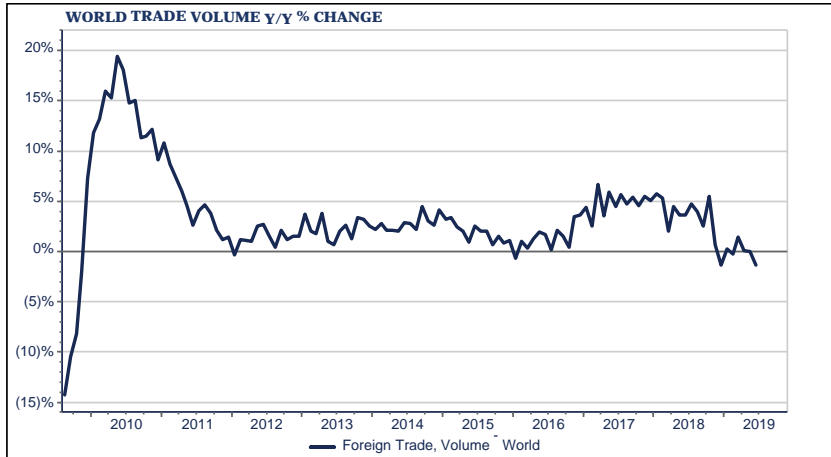
Source: FactSet as of 08/23/2019

Global Watch List

Focus Data

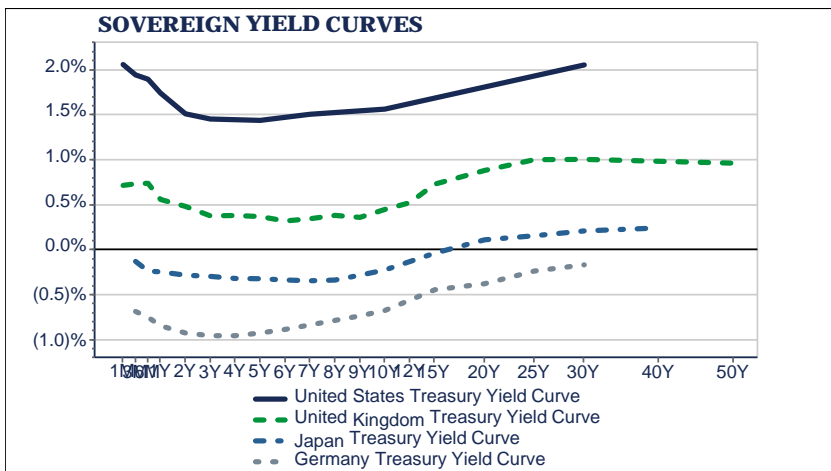
GLOBAL TRADE

Trade volumes are contracting Y/Y as global growth slows.



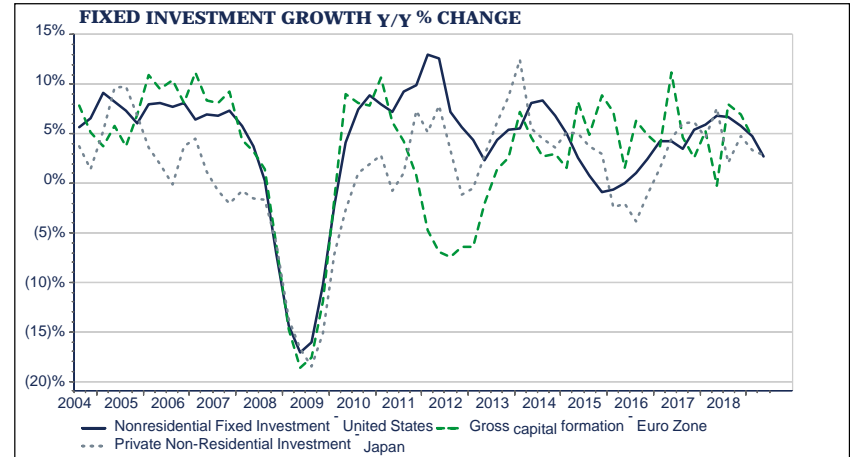
SOVEREIGN YIELD CURVES

Higher U.S. rates are disconnected from other DM countries.



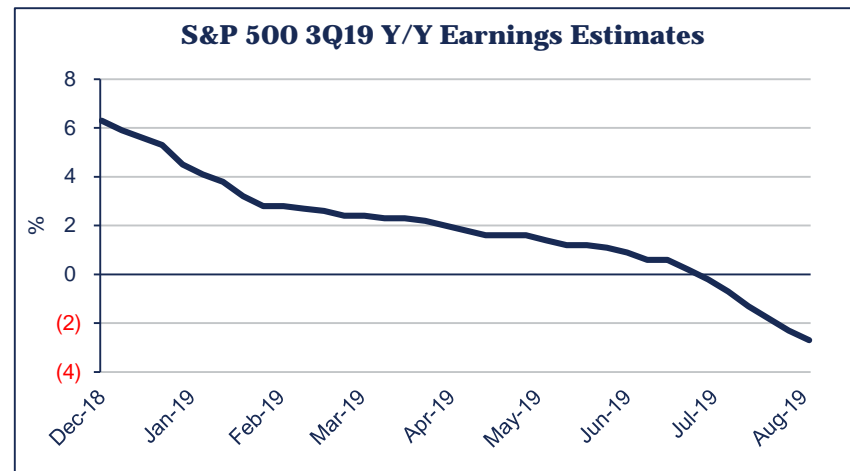
GLOBAL INVESTMENT ACTIVITY

An uncertain growth outlook is weighing on global investment.



S&P 500 3Q19 EARNINGS ESTIMATES

3Q19 earnings estimates have been consistently downgraded.



Source: Bloomberg, FactSet and Haver as of 08/23/2019

Overview

GROWTH

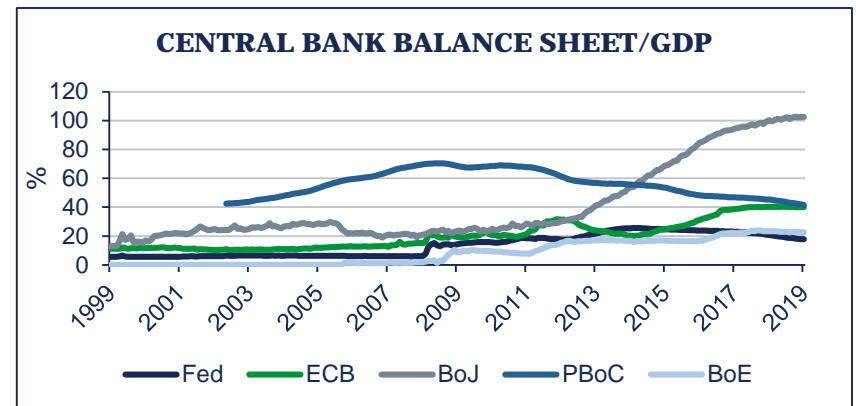
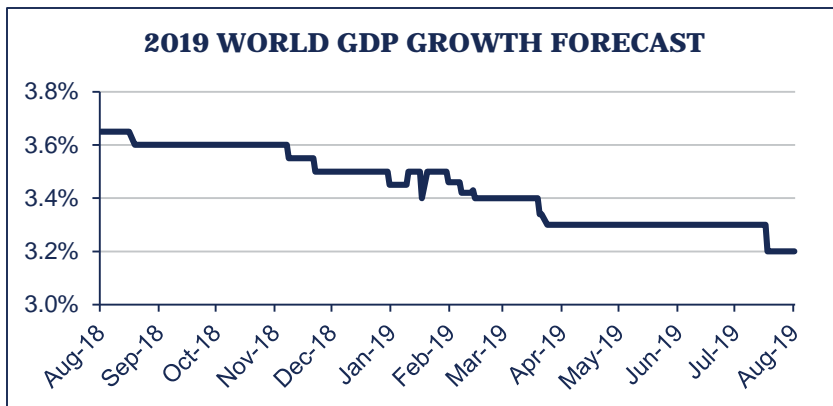
The global growth forecast for 2019 has steadily declined over the past year as downside risks have escalated.

- U.S. – While 2Q19 growth came in better than expected, consensus estimates for 3Q19 growth continue to be revised lower. The health of the consumer continues to be the strength of the economy as the labor market remains strong and spending has held up well. Housing has shown recent signs of stability as mortgage rates move lower. However, global growth weakness seems to be having a negative spillover effect on trade and investment. Still, on a relative basis, the U.S. economy remains better positioned than the Eurozone, Japan and China.
- Europe – Growth momentum slowed during 2Q19 with GDP rising .2% Q/Q following .4% Q/Q growth in 1Q19. Higher global trade uncertainty and a lengthy downturn in the manufacturing sector, especially the German auto sector, continues to weigh on the growth outlook. Positive growth is supported by the services sector and a resilient labor market. The economic growth outlook for the EZ and UK continues to be clouded by Brexit, which is increasingly pointing toward no deal.
- Japan – 2Q19 growth of 1.8% was surprisingly strong, fueled by private consumption, business investment and government spending. Yet, the ongoing trade tensions, which are already a drag on net exports, continue to weigh on the growth outlook.
- China – Activity data took another leg down in July, coming in weaker than expected. Credit growth was also below estimates in July, indicating growth may decelerate further and expectations for further monetary policy are likely to rise.

CENTRAL BANKS

Global central banks are in the early stages of a coordinated policy easing to combat downside economic risks.

- Fed – Signals from the FOMC point toward a rate cut at the September meeting, however, the market wants a more aggressive move.
- ECB – Policy makers continue to suggest a September rate cut and additional stimulus is forthcoming to address the economic downturn.
- BOE – Policy makers remain cautious about adjusting monetary policy settings before the Brexit issue is resolved.
- BOJ – While recent guidance confirms a pledge to easy monetary policy, much will depend on the exchange rate and strength of the yen.
- PBOC – Likely to keep a bias toward looser policy and targeted easing to support the economy and confront the growth slowdown.



Source: Bloomberg as of 08/23/2019

Global Macro Summary

Overview

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RATES/INFLATION

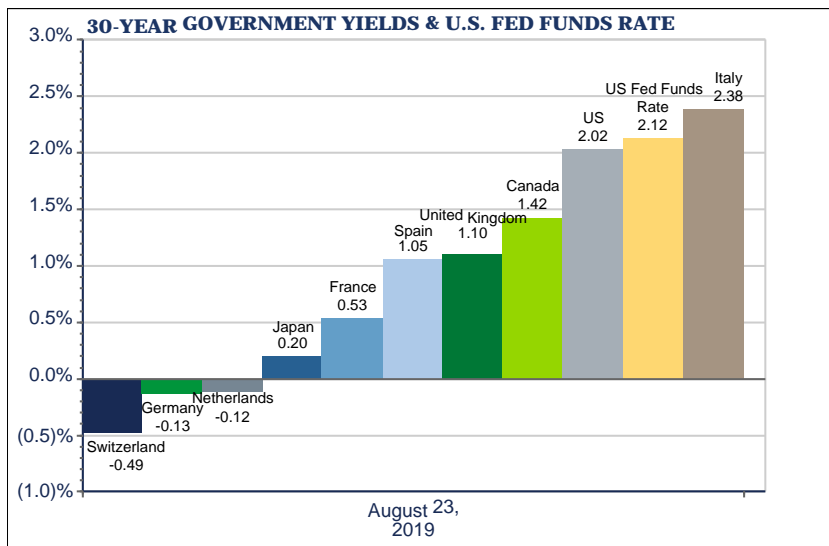
After a 25 bps cut at the July FOMC meeting, rates markets are pricing in another 25 bps cut in September, although markets seem to be eager for a bolder move. The Fed Funds/10Y curve remains inverted by 53 bps, while the 2s/10s UST spread briefly inverted in August. A prolonged, deeper inversion is typically associated with higher recession risk. The current Fed Funds rate is the highest in developed markets behind the Italian 30-year yield. Inflation measures continue to be restrained worldwide, providing global central banks a green light to pursue dovish policy.

CURRENCIES/COMMODITIES

Tighter U.S. monetary policy has led to a stronger USD and weaker USD credit growth, which have combined to weigh on global growth. This has put pressure on the Fed to ease policy enough to steepen the yield curve and weaken the USD. The proliferation of negative yields has acted as a catalyst to increase the price of gold. The inability of oil prices to rally in the face of rising Iranian tensions and cuts from OPEC may be hinting that oversupply concerns and growth worries may be more dominant factors presently.

GEOPOLITICAL RISKS:

- Escalating trade war between the U.S. and China; threat of tariffs on other countries
- No deal Brexit risk has risen as an agreement remains elusive
- Tensions between the U.S. and Iran are increasing
- Wild Cards: North Korea; Venezuela; Argentina; new Russia sanctions: global supply chain disruption



Source: Factset as of 08/23/2019

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Global Macro Summary

Key Macro Themes

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- The outlook for global growth remains worrisome as global leading indicators continued to wallow in contraction territory in July. As momentum fades, the forecast for global growth was revised lower with consensus forecasts now at 3.2% in 2019. Growth at that level still seems manageable, but attention turns to growing downside risks that are emanating from an escalation in the trade war. The backdrop of sustained manufacturing weakness in Europe and the Brexit drama only serve to muddy the outlook. Recent economic data across developed and emerging markets continues to underperform and heightens the risk of a further slowdown.
- To address the growing downside risks to growth, major central banks are in the early stages of a coordinated monetary policy easing. Expectations are high for a September rate cut in the U.S. and a package of stimulus measures in the Eurozone including a rate cut and more bond buying. The slowdown in global trade and subdued inflation measures provides central banks plenty of leeway to adjust policy settings to promote growth and reflation.
- While lower market yields have eased global financial conditions, central banks remain poised to lower policy rates to a more accommodative level. Risk aversion is still high as equity markets remain volatile and the trade environment has become increasingly uncertain. A low but positive growth environment coupled with an interest rate cutting cycle could favor higher yielding fixed income assets.
- While weakening, current macro fundamentals still seem to support a lower growth environment. The focus remains on downside risks and the lagged impact of monetary tightening, whereby data could weaken further before improving as recent easing measures kick in.

Economic Activity	2016	2017	2018	2019 (E)	2020 (E)	2021 (E)
Real GDP (Y/Y %)	3.4	3.8	3.6	3.2 ▼	3.2 ▼	3.0 ▼
CPI (Y/Y %)	2.8	3.2	3.6	3.0 ▼	3.0 --	3.0 --
Trade Volume (Y/Y%)	2.2	5.5	3.7	2.5 --	3.7 --	3.9 --
Inter-Bank Rates						
3-Month USD Libor	1.00	1.69	2.81	2.02 ▼	1.88 ▼	2.07 ▼
3-Month Euribor	-0.32	-0.33	-0.31	-0.43 ▼	-0.41 --	-0.31 ▲
3-Month GBP Libor	0.37	0.52	0.91	0.78 ▼	0.68 ▼	0.59 ▼
3-Month JPY Libor	-0.05	-0.02	-0.07	-0.07 ▼	-0.02 ▲	-0.01 --

Arrows indicate consensus estimate change compared to 1 month ago.

Source: Bloomberg and IMF as of 08/23/2019. (E) – Bloomberg private market consensus estimates for GDP, CPI and rates. IMF estimate for trade volume.

Global Key Charts

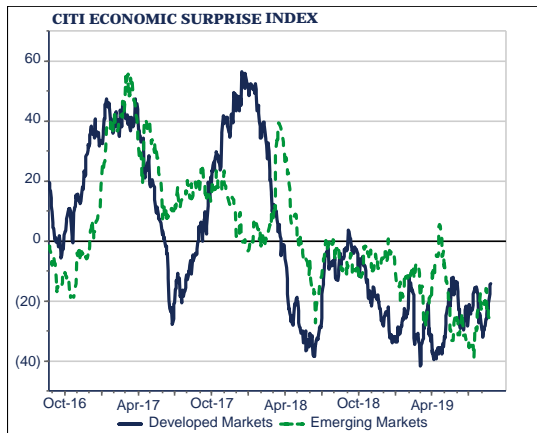
Leading Indicators

Concerns over downside risks increased as the global manufacturing PMI inched deeper into contraction territory



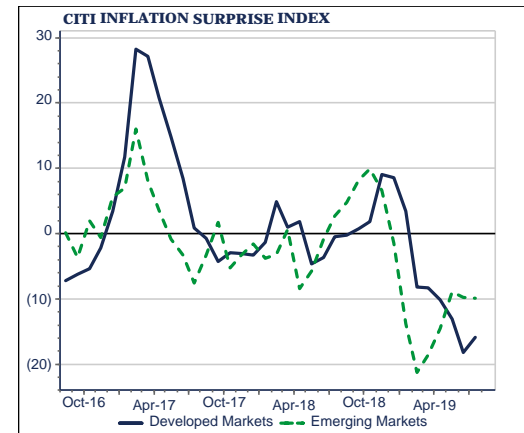
Economic Data

Economic data in the developed and emerging markets is still underperforming relative to expectations



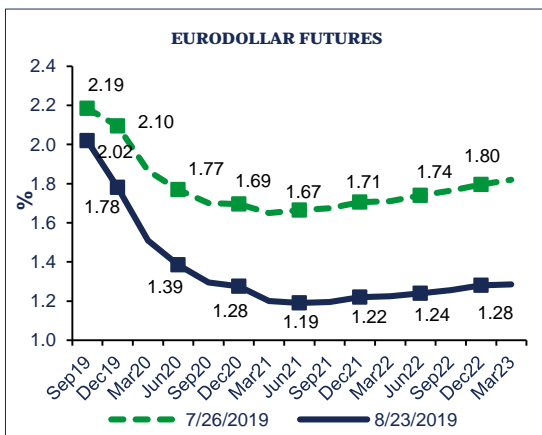
Inflation Data

Inflation data across developed and emerging markets continues to come in below estimates



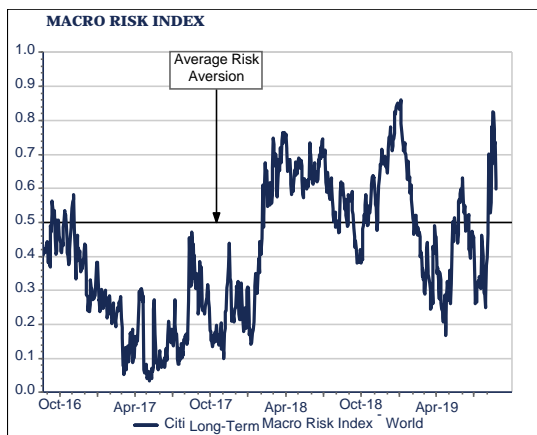
Eurodollar Futures Curve

The futures curve is signaling lower rates ahead as the curve has repriced lower over the past month



Macro Risk

Risk aversion surged following the escalation in trade tariffs that raised concerns about future global growth



Copper/Gold Ratio

As global growth prospects weaken, the ratio (a reliable proxy for the 10Y UST yield) has declined



Source: Factset and Bloomberg as of 08/23/2019



Key Macro Themes

- Recent economic data is still weaker than expected, fueling concerns about the growth outlook. The manufacturing PMI dipped slightly below the expansion/contraction line in August, adding to worries that a deeper decline will spill over to corporate profits, business capex and jobs. However, solid consumer fundamentals and strength in the labor market provide a more positive view of the economic foundation. Market estimates (Q/Q saar) were revised lower by .1 over the past month to 1.8% for 3Q19 GDP and higher by .1 to 1.9% for 4Q19 GDP.
- Inflation expectations have gapped lower since last month as the growth outlook has weakened. However, headline and core CPI firmed in July at 1.8% Y/Y and 2.2%, respectively, which may raise concerns among more hawkish policy makers on the prospects of further monetary policy easing. The July employment report was in line with expectations as payroll growth was solid despite downward prior month revisions and the unemployment rate steadied at 3.7%. Wage growth was slightly better than estimated, ticking up to 3.2% Y/Y.
- The Fed Funds/10-year Treasury yield spread remains inverted in a sign that is widely believed to show monetary policy is too tight. The 2-year/10-year spread inverted briefly in August, sparking discussions around its signaling power as a recession indicator. Fed Funds futures are currently pricing in a 100% chance of a rate cut at the September 18 meeting with a 25 bps reduction viewed as the most likely decision.
- As the lagged effect of tighter monetary policy works its way through the financial system, economic data could get worse before it gets better. While caution is warranted in the current environment, future monetary policy easing may provide a boost to sentiment.

Economic Growth	08/23/2019	12/31/2017	12/31/2018	2019 (E)	2020 (E)	2021 (E)
Real GDP (Y/Y %)	2.3	2.4	2.9	2.3 ▼	1.8 --	1.8 ▼
Inflation						
CPI (Y/Y %)	1.8	2.1	2.5	1.8 --	2.0 ▼	2.1 --
Core PCE (Y/Y %)	1.6	1.6	2.0	1.7 --	2.0 --	2.0 --
Labor Market						
Unemployment (%)	3.7	4.4	3.9	3.7 --	3.7 --	3.9 --
Rates						
Fed Funds	2.13	1.38	2.38	1.95 ▼	1.85 ▼	2.00 ▲
2Y Treasury	1.58	1.89	2.52	1.74 ▼	1.82 ▼	1.99 ▲
10Y Treasury	1.60	2.41	2.72	1.98 ▼	2.17 ▼	2.44 ▲

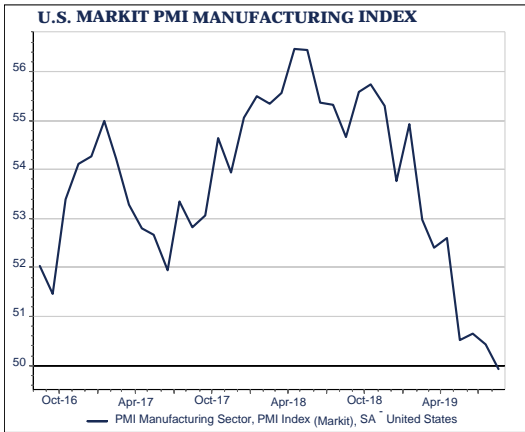
Arrows indicate consensus estimate change compared to 1 month ago.

Source: Bloomberg and IMF as of 08/23/2019. (E) – Bloomberg private market consensus estimates for GDP, CPI and rates. IMF estimate for trade volume.



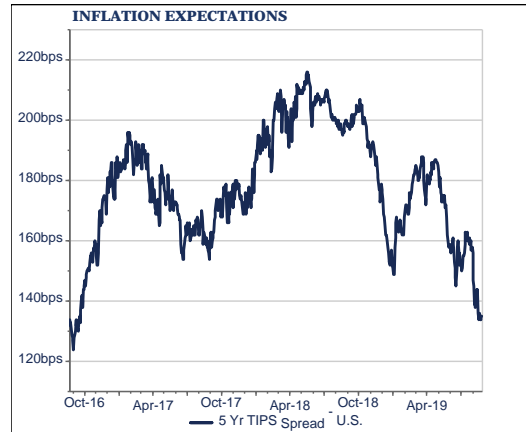
Leading Indicators

The August PMI dipped just below the expansion/contraction line for the first time since September 2009



Inflation Expectations

As growth worries intensify and rate cut hopes increase, inflation expectations have plunged



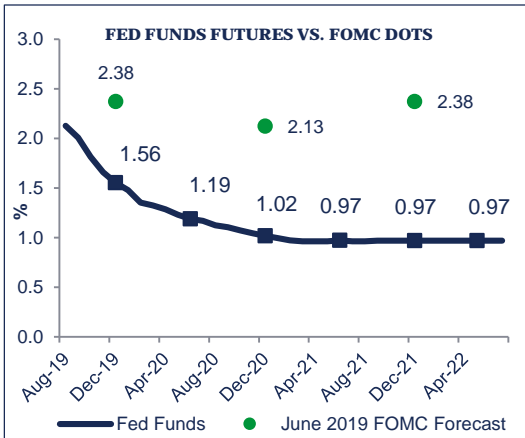
Economic Data

Recent economic data is still coming in weaker than expected as growth worries persist



Fed Funds Futures Curve

A more aggressive easing cycle is being priced in by the market than the Fed's most recent dot plot suggests



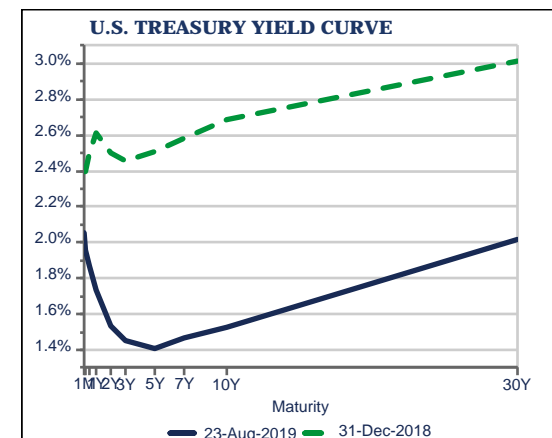
Wage Growth

The July employment report saw a slight uptick in wage growth, but overall inflation remains subdued



Yield Curve

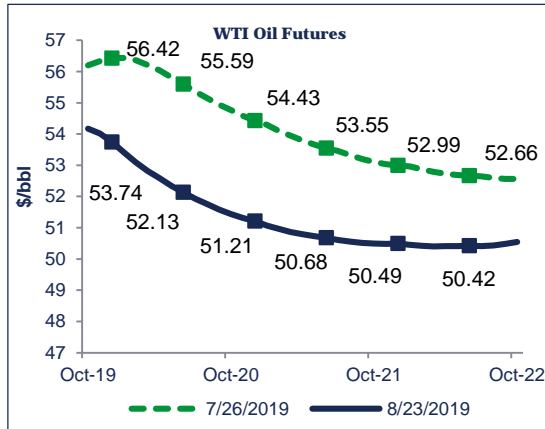
The yield curve shifted lower this year as growth concerns spread and monetary policy pivoted toward easing





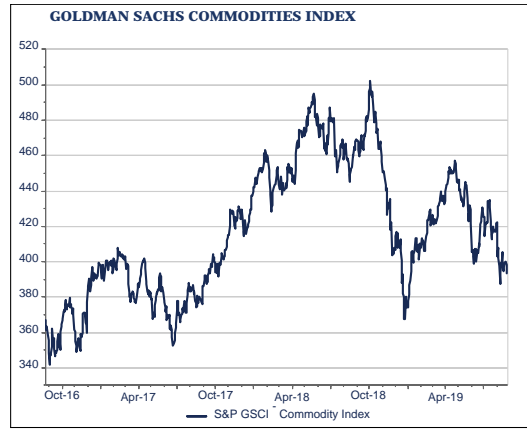
WTI Crude Oil Futures

Lower near-term prices indicate a weaker global growth outlook as the futures curve shifted lower in August



Commodity Index

Persistent growth concerns are weighing on commodity prices, which have traded lower over the past month



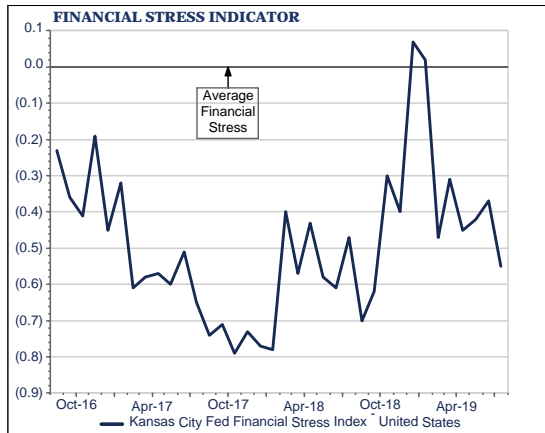
USD Index

The USD has been resilient as safe haven demand in times of global turmoil has offset expected weakness from lower rates



Financial Stress

Expectations of a more accommodative monetary policy stance has kept financial stress low



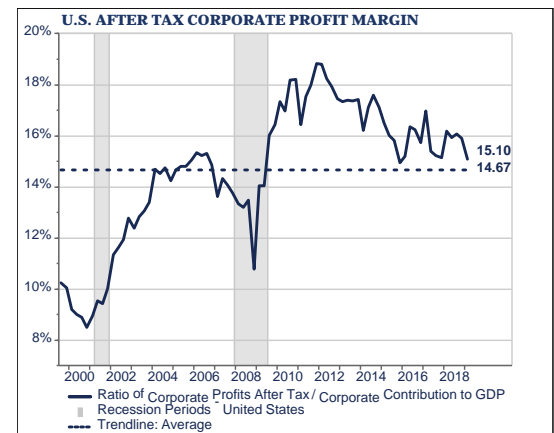
Corporate Profits

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 in 1Q19 on higher labor costs, but remain at healthy levels



Source: Factset and Bloomberg as of 08/23/2019

- Eurozone leading indicators remained below the expansion/contraction line in August as the extended downturn in manufacturing reached its seventh month. July marked the third consecutive month for the U.K. PMI in contraction territory. Economic data in the Eurozone and U.K. continues to underperform relative to expectations. Market estimates for Eurozone Q/Q GDP growth in 3Q19 and 4Q19 are unchanged over the past month at .3%. U.K. Q/Q GDP growth for 3Q19 and 4Q19 was unchanged at .3% since last month.
- Eurozone inflation expectations remain subdued, while nudging slightly higher in the U.K. as the GBP weakened. Headline and core inflation rates decelerated to 1% Y/Y and .9% Y/Y, respectively, in the Eurozone in July. In the U.K., headline inflation ticked up to 2.1% Y/Y in July, while the core rate accelerated to 1.9% Y/Y. The lackluster inflation outlook in the Eurozone should only embolden the ECB to move forward with aggressive stimulus in September, while the BOE remains cautious about acting ahead of a Brexit decision.
- Minutes from the ECB's July 25 meeting and recent comments from policy makers seemed to validate the view that a powerful stimulus package including an interest rate cut and restarting QE will be forthcoming at the September 12 meeting. An interest rate cut has mostly been priced in by rates markets. Rates markets expect the BOE to leave policy settings unchanged at its September 19 meeting.
- The escalation of global trade tensions coupled with prolonged weakness in the German manufacturing sector dampens the growth outlook for the Eurozone. As an offset, the German government has made recent overtures about tax cuts and fiscal stimulus.

	08/23/2019	12/31/2017	12/31/2018	2019 (E)	2020 (E)	2021 (E)
Economic Growth						
EZ Real GDP (Y/Y %)	1.1	2.4	1.9	1.1 --	1.1 ▼	1.2 ▼
U.K. Real GDP (Y/Y %)	1.2	1.8	1.4	1.3 --	1.2 ▼	1.7 ▲
Inflation						
EZ CPI (Y/Y %)	1.0	1.5	1.8	1.3 --	1.3 ▼	1.6 --
U.K. CPI (Y/Y %)	2.1	2.7	2.5	1.9 --	2.0 --	2.0 --
Labor Market						
EZ Unemployment (%)	7.5	9.1	8.2	7.7 --	7.5 --	7.4 ▼
U.K. Unemployment (%)	3.9	4.4	4.1	3.9 --	4.0 --	4.2 ▲
Rates						
EZ Central Bank	0.00	0.00	0.00	0.00 --	0.00 --	0.05 --
EZ 2Y Note	-0.89	-0.64	-0.62	-0.75 ▼	-0.53 ▼	-0.28 ▼
EZ 10Y Bond	-0.66	0.42	0.24	-0.33 ▼	-0.08 ▼	0.20 ▼
U.K. Central Bank	0.75	0.50	0.75	0.75 --	0.80 ▼	0.90 ▼
U.K. 2Y Gilts	0.49	0.43	0.74	0.46 ▼	0.63 ▼	0.65 ▼
U.K. 10Y Gilts	0.52	1.19	1.27	0.77 ▼	1.11 ▼	1.25 ▼
Currencies						
EUR/USD	1.11	1.20	1.14	1.12 ▼	1.16 ▼	1.20 ▼
GBP/USD	1.22	1.35	1.27	1.24 ▼	1.32 ▼	1.34 ▼

Arrows indicate consensus estimate change compared to 1 month ago

Source: Bloomberg as of 08/23/2019. (E) – Bloomberg private market consensus estimate.

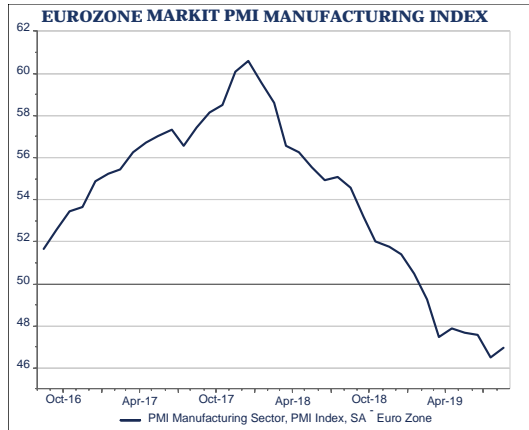
Eurozone & U.K. Key Charts



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Leading Indicators – EZ

The August manufacturing PMI was the seventh consecutive month in contraction as factory output remained weak



Economic Data – EZ

A weak growth outlook has been reinforced by recent economic data that has underperformed



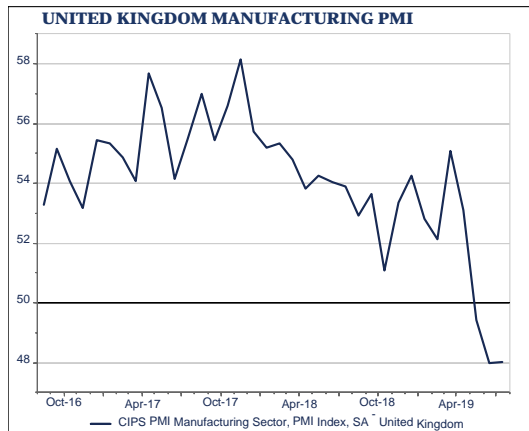
Inflation Expectations – EZ

Recent signals of a big stimulus package from the ECB may have lifted inflation expectations from recent low levels



Leading Indicators – U.K.

The outlook for the manufacturing sector remains weak as the latest PMI reading lingered in contraction territory



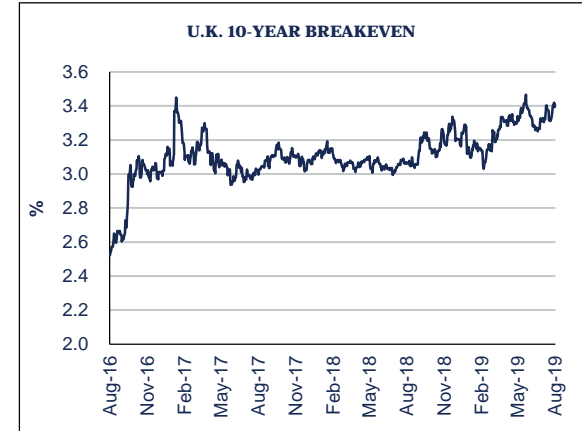
Economic Data – U.K.

Recent economic data has been weaker than expected as Brexit worries persist and global growth subsides



Inflation Expectations – U.K.

Inflation expectations have ticked higher recently as the GBP weakened, but the outlook remains uncertain



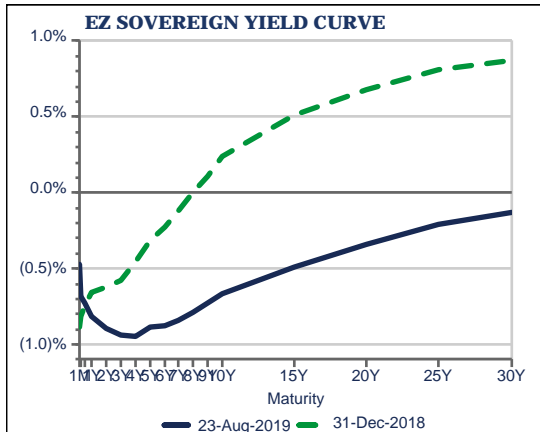
Source: Factset and Bloomberg as of 08/23/2019

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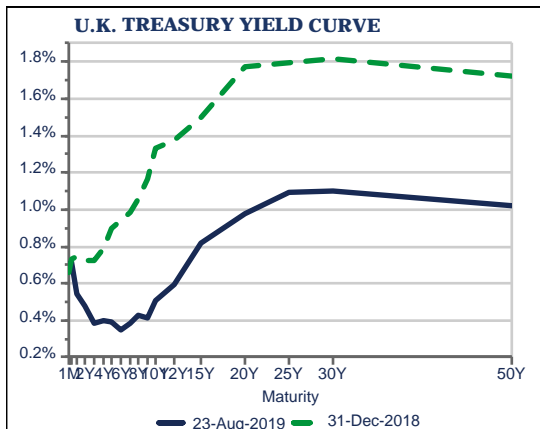
Yield Curve – EZ

A declining growth outlook and uncertain global trade environment have shifted the yield curve lower this year



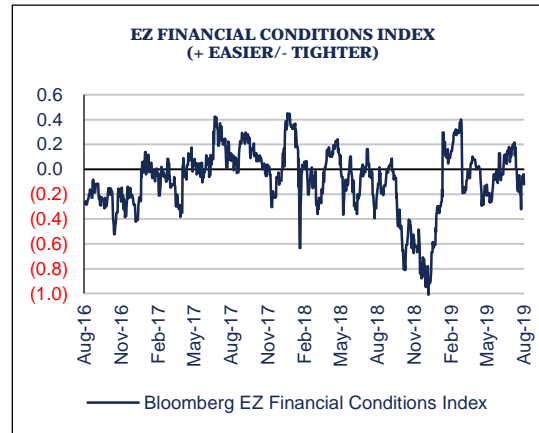
Yield Curve – U.K.

The yield curve shifted lower this year amid persistent Brexit uncertainty and a deteriorating global growth outlook



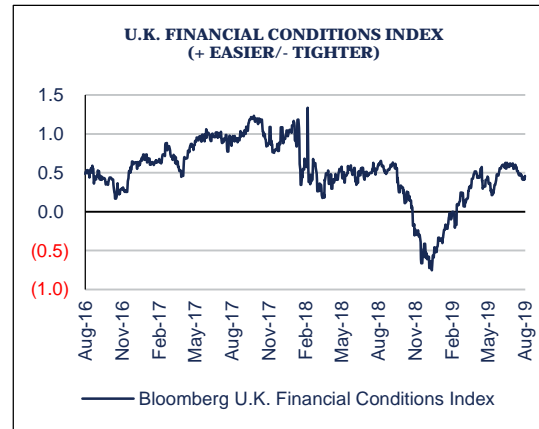
Financial Stress – EZ

Financial conditions are currently somewhat neutral even as the ECB signals they will aggressively ease monetary policy



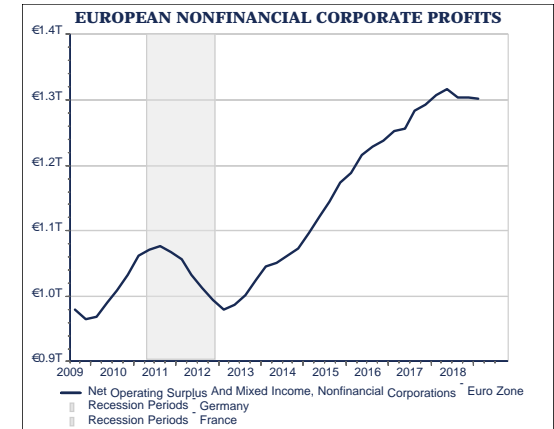
Financial Stress – U.K.

As the BOE remains on hold while Brexit issues get resolved, financial conditions continue to be somewhat easy



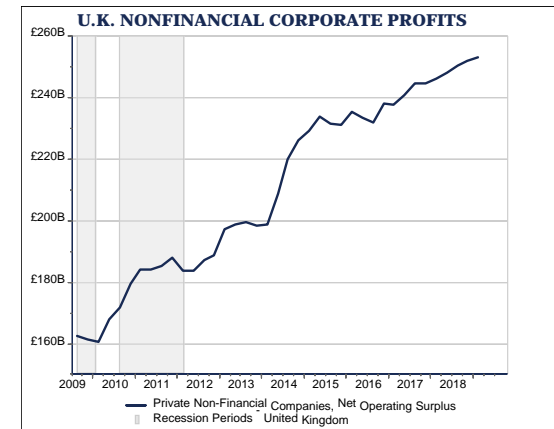
Corporate Profits – EZ

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

- Leading indicators in Japan and China continue to linger just below the expansion/contraction line. While Japan's 2Q19 growth was better than anticipated, China's weaker than expected activity and credit data in July show the growth outlook remains challenging. Economic data has come in better than expected recently in Japan, while China's data has shown some improvement relative to estimates. Market consensus for 3Q19 GDP growth (Q/Q, saar) in Japan continued to get slashed over the past month, falling .7 to .6%, while 4Q19 growth was cut by .8 to -2.1%. China's GDP growth estimate (Q/Q) for 3Q19 and 4Q19 was unchanged over the last month at 1.5%.
- Inflation expectations in Japan tumbled again in August. A drop in fresh food and oil prices led to a steeper inflation decline in July as the BOJ's 2% target remains elusive. Excluding the effects of a sales-tax hike in October, the inflation outlook is still muted. China's CPI inflation ticked up to 2.8% Y/Y in July, but the core rate remains subdued. China's PPI dipped back into deflation in July, pressuring industrial profits and adding to the case for further monetary policy easing.
- The BOJ's efforts to boost prices has fallen short and the weak growth outlook is likely to keep monetary policy accommodative. Rate markets are starting to price in a rate cut at the September 19 meeting. The PBOC is likely to provide stimulus to mitigate slower growth.
- Escalating trade tensions and disruption to global supply chains continues to weigh on the growth outlook. Expectations for synchronized global monetary policy easing are increasing as the fear of further economic damage rises.

Economic Growth	08/23/2019	12/31/2017	12/31/2018	2019 (E)	2020 (E)	2021 (E)
Japan Real GDP (Y/Y %)	1.2	2.0	0.8	1.0 ▲	0.4 --	0.9 ▲
China Real GDP (Y/Y %)	6.2	6.8	6.6	6.2 --	6.0 --	5.8 --
Inflation						
Japan CPI (Y/Y %)	0.5	0.5	1.0	0.7 --	1.0 --	0.9 ▲
China CPI (Y/Y %)	2.8	1.6	2.1	2.4 ▲	2.3 --	2.1 ▼
Labor Market						
Japan Unemployment (%)	2.3	2.8	2.4	2.4 --	2.4 --	2.4 --
China Unemployment (%)	3.7	3.9	3.8	4.0 --	4.0 --	4.0 --
Rates						
Japan Central Bank	-0.10	-0.10	-0.10	-0.10 --	0.00 ▲	0.00 --
Japan 2Y Note	-0.30	-0.14	-0.14	-0.24 ▼	-0.08 ▲	-0.10 ▼
Japan. 10Y Bond	-0.24	0.04	0.04	-0.15 ▼	-0.03 ▼	0.03 ▼
China Central Bank	4.35	4.35	4.35	4.25 ▼	4.15 --	3.95 --
China 2Y Note	2.70	2.40	2.75	2.55 ▲	2.30 ▲	2.35 --
China 10Y Bond	3.05	3.88	3.88	2.97 ▼	2.88 ▲	2.98 --
Currencies						
USD/JPY	106.44	112.69	112.69	106.00 ▼	103.50 ▼	107.00 ▲
USD/CNY	7.06	6.53	6.53	7.00 ▲	7.00 ▲	6.75 ▲

Arrows indicate consensus estimate change compared to 1 month ago

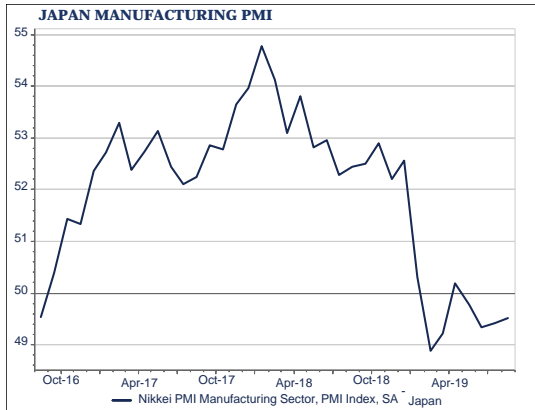
Source: Bloomberg as of 08/23/2019. (E) – Bloomberg private market consensus estimate.

Japan & China Key Charts



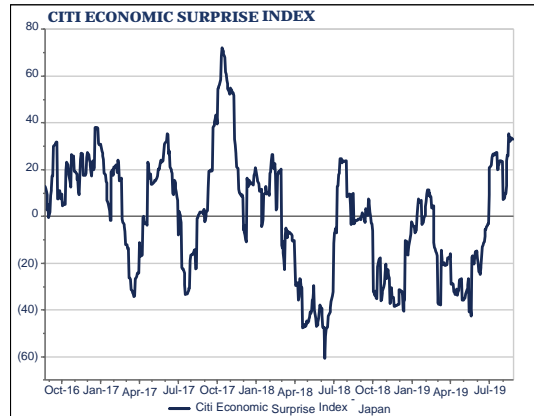
Leading Indicators – Japan

The August PMI marked the fourth consecutive month in contraction as trade woes endure amid a weak growth outlook



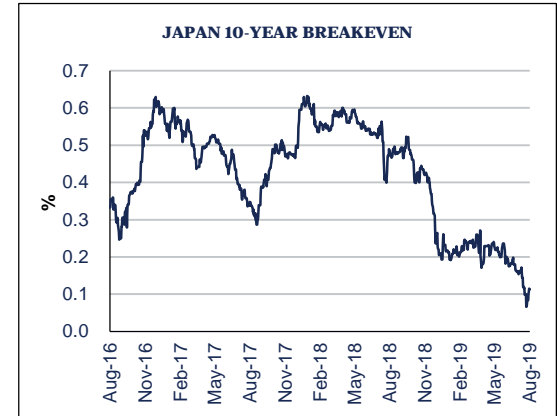
Economic Data – Japan

Economic data has been better than expected recently despite worries of the upcoming consumption tax weakening growth



Inflation Expectations – Japan

Inflation expectations have declined as the BOJ has been ineffective raising prices



Leading Indicators – China

Factory output remains challenged as the latest PMI reading stayed in contraction territory amid a weaker growth outlook



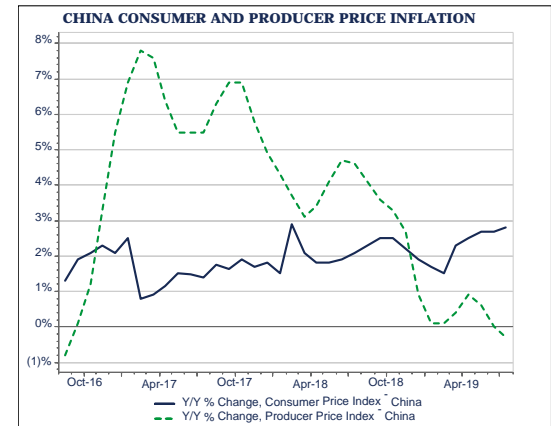
Economic Data – China

Economic data has come in about in line with consensus expectations recently



Inflation Data – China

Consumer inflation ticked higher in July, but producer prices contracted in a sign of deflation for the industrial sector

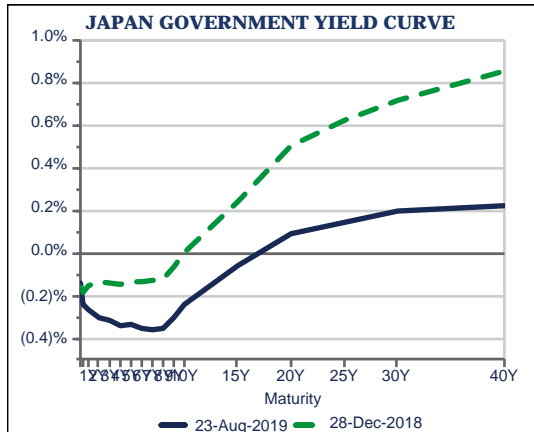


Japan & China Key Charts



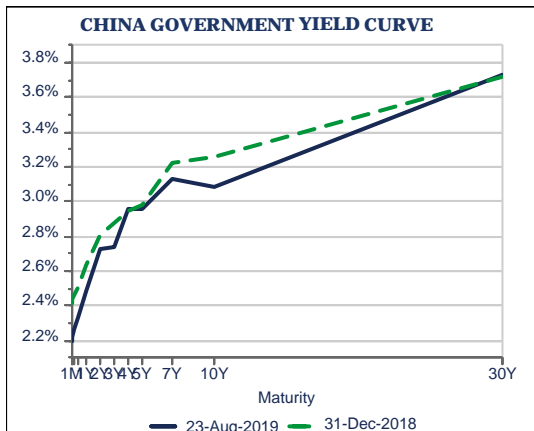
Yield Curve – Japan

The yield curve shifted lower this year amid a weak inflation outlook, trade uncertainty and lower global growth prospects



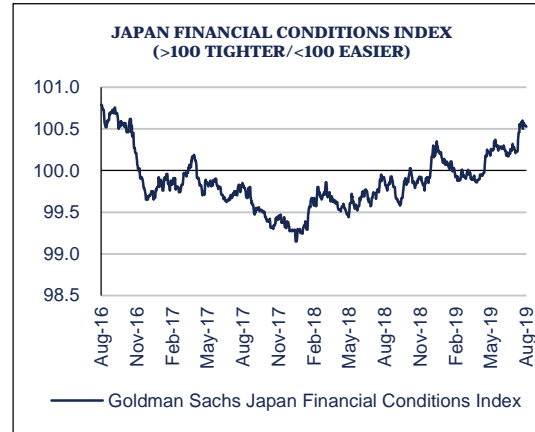
Yield Curve – China

The yield curve shows minor changes since year end as the PBOC tries to balance financial risks and support growth



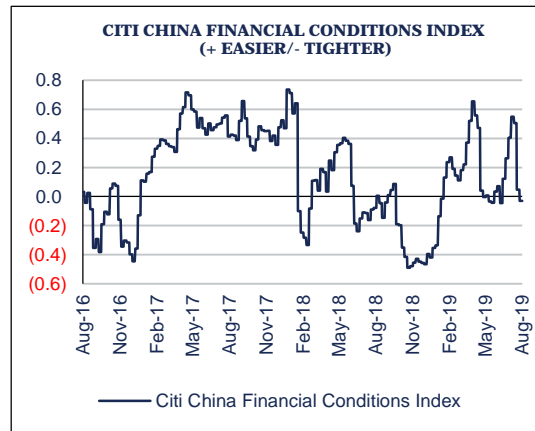
Financial Stress – Japan

Recent yen strength may be driving tighter financial conditions than the BOJ would like



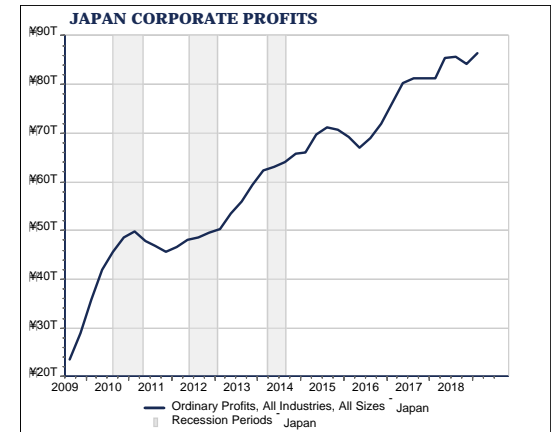
Financial Stress – China

Financial conditions are somewhat neutral as the PBOC has indicated it will be accommodative but mindful of risks



Corporate Profits – Japan

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



Industrial Profits – China

Escalating trade tensions, a weak growth outlook and factory price deflation has challenged industrial profit growth



Source: Factset and Bloomberg as of 08/23/2019

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