

3 May 2019

Overview

1Q Earnings: According to Bloomberg, nearly 73% of the S&P 500 has reported earnings with revenues up 4.7% Y/Y and earnings 1.8% higher Y/Y. Relative to expectations, sales have come in slightly better than anticipated while earnings have been a surprise to the upside by 6.5%. Just over half of the companies that report in the current season for the Stoxx 600 have announced results, with sales up 2.7% Y/Y and earnings up 7% Y/Y. Both sales and earnings figures are slightly weaker than expected.

China Financial Regulation: Banking Regulatory Commission Chairman Guo Shuqing said the banking industry will introduce 12 measures to open up to foreigners, including cancelling minimum asset requirements for foreign banks that locate in China, and permitting ownership in foreign-invested insurance companies in China.

Trade Deal Near? Reports are surfacing that the U.S. and China are close to an agreement. The deal is expected to call for immediate removal of a 10% tariff on some of the \$200 billion worth of imports and then phase-in lifting duties on the rest, in short order. Enforcement mechanisms are also apparently imminent, but sticking points remain on China's domestic subsidies.

Key Financial Indicators							As of:	5/1/2019
Rates	Yield	1 W Change	1M Change	3M Change	6M Change	Change	Change	
Fed Funds	2.50%	0 bps	0 bps	0 bps	25 bps	75 bps	0 bps	
3 Month USD Libor	2.58%	-1 bps	-2 bps	-16 bps	-1 bps	22 bps	-23 bps	
3 Month Euribor	-0.31%	0 bps	0 bps	0 bps	1 bps	2 bps	0 bps	
3 Month U.S. T-Bill	2.41%	-2 bps	3 bps	2 bps	10 bps	57 bps	-4 bps	
2-Year U.S. Treasury	2.29%	-2 bps	-3 bps	-21 bps	-55 bps	-21 bps	-21 bps	
10-Year U.S. Treasury	2.51%	-1 bps	1 bps	-18 bps	-63 bps	-47 bps	-18 bps	
10-Year German Bund	0.01%	3 bps	4 bps	-15 bps	-39 bps	-55 bps	-23 bps	
10-Year U.K. Gilt	1.16%	-1 bps	13 bps	-9 bps	-29 bps	-25 bps	-11 bps	
10-Year JGB	-0.05%	-1 bps	3 bps	-3 bps	-18 bps	-9 bps	-5 bps	
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return	
Barclays Capital U.S. Government-Treasury	2.43%	N/A	0.2%	0.2%	1.6%	5.0%	1.8%	
Barclays Capital U.S. TIPS	2.63%	N/A	0.0%	0.5%	2.3%	3.4%	3.4%	
Barclays Capital U.S. Aggregate	2.98%	43	0.2%	0.4%	2.2%	5.6%	3.0%	
Barclays Capital Global Aggregate	1.81%	45	0.3%	0.2%	0.8%	1.5%	2.1%	
Barclays Capital U.S. ABS	2.69%	37	0.1%	0.3%	1.3%	4.0%	1.7%	
Barclays Capital U.S. MBS	3.17%	39	0.2%	0.3%	1.7%	5.1%	2.2%	
Barclays Capital U.S. Corporate Investment Grade	3.61%	111	0.2%	1.0%	3.5%	6.9%	5.7%	
BAML Euro Corporate Investment Grade	0.74%	110	0.1%	0.7%	3.1%	3.0%	2.7%	
Barclays Capital U.S. Corporate High Yield	6.10%	353	0.2%	1.3%	4.0%	6.9%	8.8%	
BAML European Currency High Yield Non-Financial	3.58%	380	-0.1%	1.4%	4.7%	2.9%	3.0%	
CS U.S. Leveraged Loans	0.07%	428	0.2%	1.6%	3.1%	4.5%	6.7%	
CS Western European Leveraged Loans Non-USD	0.05%	407	0.1%	0.8%	1.6%	2.4%	3.6%	
JPM CEMBI Broad Diversified	5.64%	320	0.3%	0.9%	3.7%	6.3%	4.3%	
JPM EMBI Global Diversified	5.99%	342	0.2%	0.4%	3.9%	6.5%	2.8%	
JPM GBHEM Global Diversified	6.22%	N/A	-0.1%	0.0%	-0.6%	-4.1%	-3.4%	
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return	
S&P 500	2,923.73	1.86%	-0.1%	2.1%	8.5%	12.4%	17.4%	
Euro STOXX 600 (Local)	391.09	3.01%	0.0%	1.9%	8.7%	1.6%	15.8%	
U.K. FTSE 100 (Local)	7,385.26	4.38%	-1.2%	0.9%	5.2%	-1.8%	9.8%	
Japan Nikkei 225 (Local)	22,258.73	2.07%	0.3%	3.5%	7.1%	-1.1%	11.2%	
China Shanghai Composite (Local)	3,078.34	2.17%	-3.9%	-2.9%	17.6%	-0.1%	23.4%	
MSCI AC World (Local)	523.07	0.02%	-0.1%	3.2%	8.9%	7.4%	7.7%	
MSCI Emerging Markets (Local)	1,080.48	0.03%	-0.2%	2.6%	6.0%	-0.2%	1.8%	
Commodities/Currencies	Price	1 W Change	1M Change	3M Change	6M Change	Change	Change	
S&P GS Commodity Index	446.39	-1.9%	1.5%	8.0%	-1.0%	-5.2%	19.2%	
WTI Crude (\$/bbl)	63.62	-3.5%	3.3%	15.1%	-0.1%	-5.4%	40.9%	
Copper (\$/lb)	2.80	-3.9%	-4.0%	1.0%	3.0%	-7.0%	6.7%	
Gold (\$/oz)	1,283.80	1.0%	-0.7%	-2.6%	4.3%	-1.8%	0.4%	
U.S. Dollar Index	97.69	-0.5%	0.5%	2.2%	1.5%	5.7%	1.6%	
Euro (USD/EUR)	1.12	0.3%	0.2%	-2.0%	-1.4%	-6.2%	-1.7%	
British Pound (USD/GBP)	1.31	1.0%	-0.5%	-0.1%	0.8%	-3.8%	2.7%	
Japanese Yen (Yen/USD)	111.18	-0.5%	0.0%	1.6%	-1.4%	1.3%	1.3%	
Chinese Yuan (CNY/USD)	6.74	0.3%	0.4%	0.0%	-3.1%	6.2%	-1.9%	

Source: FactSet and Bloomberg

Past performance is not necessarily indicative of future results.

Economics

UNITED STATES

FOMC Meeting: The Fed left the funds rate unchanged at 2.25%-2.50, as expected. The IOER rate was lowered by 5bps in a technical adjustment to foster trading within the Fed funds target range - this should not be viewed as easing policy. The Fed upgraded its economic assessment, while downplaying recent inflation weakness as transitory. Fed Chairman Jerome Powell said the FOMC does not see a strong case for a rate move in either direction.

GDP: GDP grew at 3.2% in 1Q19, well ahead of consensus estimates, as a big lift from trade and inventories offset slowdowns in consumer and business spending. While the above-consensus growth rate was welcome news, the concern is that inventory stockpiling will begin to unwind in subsequent quarters and pressure future GDP growth figures.

Productivity/Labor: Productivity increased at 3.6% in 1Q19, more than expected, following a downwardly revised 1.3% gain in 4Q18. The productivity increase was fueled by a 4.1% rise in output and more modest 0.5% gain in hours worked. Unit labor costs fell 0.9% as hourly compensation increased 2.6%, the slowest rise in the last three quarters.

EUROPE

EZ GDP: 1Q19 GDP grew .4% Q/Q (+1.2% Y/Y), better than expected, giving policy makers some breathing room following recent overtures that additional stimulus may be needed. The first GDP reading lacks detail on its composition, but Spain and Italy reported stronger than expected growth, while France's output matched expectations.

EZ Sentiment: Economic confidence fell for the 10th-straight month in April, reaching its lowest level since September 2016. Consumer and industry sentiment both fell in April, indicating recent economic weakness may persist.

BOE Meeting: The BOE kept its current policy settings on hold, as expected, but upgraded its economic growth forecast while projecting unemployment will fall further. The 2019 inflation outlook was lowered, pushing out a potential rate hike.

ASIA PACIFIC

China Leading Indicators: The official manufacturing PMI came in weaker than expected in April, but should be seen as a sign of stabilization following the big upswing in March. The private Caixin manufacturing PMI showed a similar trend.

China Industrial Profits: Industrial profits surged 13.9% Y/Y in March. However, 1Q19 profits are down 3.3% Y/Y when removing seasonal influences. Profits at state-owned enterprises continued to decline by double digits in 1Q19, while private companies saw a 7% increase in profits, reversing a 5.8% drop in January and February.

Japan Housing: Japan's housing starts increased 2.3% M/M (9+10% Y/Y) in March. Owner-occupied starts continued to grow at a high single-digit pace, while housing for rent maintained its decreasing trend.

Policy

UNITED STATES

Lawmakers: Congress returned April 29 from its two-week recess with a full agenda, including determining how best to proceed following the release of the Mueller report, healthcare reform, lifting the debt limit and ratifying USMCA among other things. Additionally, while Democratic leaders and President Donald Trump have agreed to jointly pursue a \$2 trillion infrastructure package, tensions still run high, with legislative progress in the divided House sparse in general.

Healthcare: ‘Medicare for All’ got its first House hearing this week, with the House Rules Committee hearing arguments on the most extreme version of the bill which would ban private insurance outright. Committee leaders, however, have been reluctant to add it as a key part of the Democratic healthcare agenda. Meanwhile, Maryland is poised to be the first state to allow prices for certain drugs for public agency purchase to be capped. Gov. Larry Hogan has until the end of May to sign the bill, with payment caps beginning in 2022.

Student Loans: The Department of Education is considering plans to sell part of its \$1.5 trillion student loan portfolio to private investors. FI Consulting was hired to determine the “economic value” of the portfolio. While unusual, this is not without precedent – recall that large-scale loans were sold by the federal government to help finance the 1986 Tax Reform Act.

Japan Trade: U.S.-Japan trade talks are facing obstacles following a summit between President Donald Trump and Prime Minister Shinzo Abe last week. The USTR has pushed for a reduction in agricultural market barriers, though Japan wants a more comprehensive deal with concessions on both sides. Moreover, trade representatives from Japan argue that it is unlikely to soften its stance on agriculture ahead of Upper House elections in July.

GLOBAL

Spain: Following failure to form a government, national elections were called for the third time in four years. Results suggest that current Prime Minister Pedro Sanchez is expected to remain in power, with his left-leaning Socialists winning 123 seats, up from 85 in 2016. The party also won back control of the Senate for the first time in 25 years. Left-wing anti-capitalist ally Podemos won 42 seats, giving Sanchez a total of 165 seats compared to the 176 needed for a majority.

Japan: The accession of Crown Prince Naruhito to emperor on May 1st marked the transition of the country from the Heisei era to the Reiwa era. Emperor Akihito will be the first emperor to abdicate the throne in modern Japanese history.

Venezuela: President Nicolás Maduro clings to power following an attempted takeover by U.S.-backed opposition leader Juan Guaidó, who failed to rally the military against the regime. Prior to the uprising, the opposition party allegedly held secret talks with Maduro’s inner circle in a bid to oust Maduro and install a united interim government.

Indonesia: President Joko Widodo signaled intent to spend \$33 billion to move Jakarta, away from the archipelago’s main island of Java. The capital city is built on swampy ground just 8 meters above sea level and is at risk of sinking.

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