

17 May 2019

## Overview

**Oil Demand to Slow:** *The International Energy Agency (IEA) revised its 2019 global oil demand forecast lower in its most recent monthly Oil Market Report. The 2019 forecast was reduced by 90 kb/d to 1.3 mb/d. The IEA cited weaker demand growth in China, Japan and Brazil in lowering its estimate. Weaker demand caused oil inventories to rise in 1Q19, but the surplus is expected to be short-lived as demand recovers and supplies tighten due to U.S. sanctions on Iran. OPEC production is expected to remain steady as U.S. shale output should offset falling exports from Iran and Venezuela.*

**Rate Cut Expectations Rise:** *Softer economic data and the recent rally in U.S. Treasuries has increased the odds of a Fed rate cut. According to Bloomberg, the probability of a rate cut by the January 2020 FOMC meeting is nearly 80% vs. less than 60% at the beginning of May. FOMC members have pushed back against the notion of a rate cut aimed at ensuring the economy withstands the recent escalation in trade tensions with China and weak inflation data.*

**Earnings Update:** *Bloomberg data shows 91% of the S&P 500 reported earnings with revenues up 4.6% Y/Y and earnings 1.8% higher Y/Y. Relative to expectations, sales are in line while earnings have surprised to the upside by 6.4%. 90% of the companies that report in the current season for the Stoxx 600 have announced results, with sales up 3.9% Y/Y and earnings up 2.6% Y/Y. Both sales and earnings figures are slightly better than expected.*

**Key Financial Indicators**

As of: 5/15/2019

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	2.50%	0 bps	0 bps	0 bps	25 bps	75 bps	0 bps
3 Month USD Libor	2.53%	-2 bps	-6 bps	-16 bps	-11 bps	20 bps	-28 bps
3 Month Euribor	-0.31%	0 bps	0 bps	0 bps	1 bps	2 bps	0 bps
3 Month U.S. T-Bill	2.40%	-2 bps	-1 bps	-2 bps	4 bps	49 bps	-4 bps
2-Year U.S. Treasury	2.16%	-13 bps	-23 bps	-35 bps	-69 bps	-42 bps	-34 bps
10-Year U.S. Treasury	2.38%	-10 bps	-18 bps	-29 bps	-74 bps	-70 bps	-31 bps
10-Year German Bund	-0.10%	-5 bps	-16 bps	-20 bps	-46 bps	-74 bps	-34 bps
10-Year U.K. Gilt	1.06%	-7 bps	-17 bps	-10 bps	-31 bps	-44 bps	-21 bps
10-Year JGB	-0.06%	0 bps	-2 bps	-4 bps	-16 bps	-11 bps	-5 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	2.30%	N/A	0.6%	1.3%	2.2%	6.3%	2.7%
Barclays Capital U.S. TIPS	2.51%	N/A	0.8%	1.0%	2.7%	4.3%	4.0%
Barclays Capital U.S. Aggregate	2.87%	46	0.5%	1.0%	2.5%	6.6%	3.6%
Barclays Capital Global Aggregate	1.75%	49	0.3%	0.6%	1.8%	2.9%	2.5%
Barclays Capital U.S. ABS	2.52%	32	0.4%	0.8%	1.6%	4.4%	2.2%
Barclays Capital U.S. MBS	3.04%	42	0.4%	0.8%	2.1%	6.1%	2.7%
Barclays Capital U.S. Corporate Investment Grade	3.56%	118	0.4%	0.8%	3.4%	7.7%	6.1%
BAML Euro Corporate Investment Grade	0.77%	121	-0.1%	0.5%	2.1%	3.3%	2.6%
Barclays Capital U.S. Corporate High Yield	6.43%	401	-0.5%	-0.5%	2.4%	5.8%	8.0%
BAML European Currency High Yield Non-Financial	3.94%	423	-0.2%	-0.6%	2.9%	1.9%	2.0%
CS U.S. Leveraged Loans	0.00%	441	-0.1%	0.5%	2.6%	4.3%	6.6%
CS Western European Leveraged Loans Non-USD	0.00%	417	-0.1%	0.3%	1.4%	2.1%	3.5%
JPM CEMBI Broad Diversified	5.64%	334	0.0%	0.6%	2.9%	7.3%	4.4%
JPM EMBI Global Diversified	6.05%	361	-0.1%	0.3%	2.4%	7.4%	2.6%
JPM GBI-EM Global Diversified	6.21%	N/A	0.3%	-2.0%	-0.9%	-1.0%	-3.8%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,850.96	1.91%	-0.9%	-1.7%	3.2%	7.3%	14.6%
Euro STOXX 600 (Local)	378.06	2.92%	-1.1%	-2.6%	2.5%	-3.6%	12.0%
U.K. FTSE 100 (Local)	7,296.95	4.45%	0.4%	-1.9%	0.8%	-5.5%	8.5%
Japan Nikkei 225 (Local)	21,188.56	0.00%	-1.9%	-4.4%	1.4%	-7.1%	5.9%
China Shanghai Composite (Local)	2,938.68	0.00%	1.6%	-7.5%	9.6%	-7.9%	17.8%
MSCI AC World (Local)	506.73	0.00%	-1.1%	-2.1%	3.4%	2.4%	4.7%
MSCI Emerging Markets (Local)	1,015.97	0.00%	-2.9%	-5.2%	-0.5%	-5.5%	-3.6%
Commodities/Currencies	Price	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	439.63	0.7%	-2.3%	3.8%	2.2%	-9.8%	17.4%
WTI Crude (\$/bbl)	62.04	-0.1%	-2.2%	11.6%	9.9%	-13.0%	37.4%
Copper (\$/lb)	2.75	-1.1%	-6.2%	-1.7%	0.2%	-9.5%	4.8%
Gold (\$/oz)	1,299.10	1.1%	1.0%	-1.3%	7.2%	0.3%	1.6%
U.S. Dollar Index	97.57	-0.1%	0.6%	0.7%	0.7%	4.7%	1.5%
Euro (USD/EUR)	1.12	0.0%	-0.9%	-0.5%	-1.0%	-5.5%	-2.0%
British Pound (USD/GBP)	1.29	-1.0%	-1.9%	0.1%	0.6%	-4.7%	1.0%
Japanese Yen (Yen/USD)	109.49	-0.6%	-2.2%	-1.0%	-3.3%	-0.8%	-0.2%
Chinese Yuan (CNY/USD)	6.87	1.5%	2.5%	1.3%	-0.9%	8.1%	0.1%

Source: FactSet and Bloomberg

## Economics

### UNITED STATES

**Inflation:** Headline and core consumer prices increased less than expected in April. CPI rose .3% M/M (+2% Y/Y), while the core rate gained .1% M/M (+2.1% Y/Y). Inflation has been trending lower on a Y/Y basis since last July. So far, tariffs have had little impact on the consumer with import prices rising less than projected, up .2% M/M (-.2% Y/Y) in April.

**Retail Sales:** April headline retail sales unexpectedly declined, following a strong gain in March, pulled down by weaker auto sales. Ex-auto retail sales posted a modest gain in April. Higher spending at gas stations appears to have taken a toll on other consumer spending categories. Control group sales (which feed into GDP) were flat in April.

**Industrial Production:** Industrial production unexpectedly declined in April, the third drop in four months. Weak production data caused capacity utilization to slip, implying demand for capital equipment will remain muted.

### EUROPE

**EZ GDP:** 1Q growth was unrevised at .4% Q/Q, doubling the pace of 4Q. German GDP rebounded from a flat 4Q reading to grow .4% Q/Q in 1Q19. Germany got a boost from consumer spending and investment that offset a slowdown in external demand and weakness in its manufacturing sector.

**U.K. GDP:** Growth accelerated to .5% Q/Q in 1Q19 from .2% in 4Q18 as Brexit stockpiling and consumer spending boosted the economy. Net trade was volatile and a drag on the current quarter, but consumption will be the key to sustaining growth.

**U.K. Labor Market:** Despite uncertainty over Brexit, the labor market remains tight and wages continue to grow. Base wages increased at a 3.3% annual rate in 1Q19, easily outpacing inflation. The unemployment rate hit a 44-year low of 3.8%.

### ASIA PACIFIC

**China Activity:** Economic activity weakened in April. Industrial production slowed to 5.4% Y/Y from 8.5% in March, below consensus estimates. Fixed asset investment growth dipped to 6.1% YTD from 6.4% in March, also weaker than expected. Retail sales disappointed, slowing to +7.2% Y/Y, a 16-year low. The weaker data heightened concerns about a further economic slowdown but also increased speculation that additional stimulus would be forthcoming.

**Japan Inflation:** April producer prices increased .3% M/M (+1.2% Y/Y), more than expected, and were lifted by higher energy costs. Import prices increased for the third-consecutive month as petroleum prices gained 3.3% in April.

**Japan Wages/Spending:** March wages declined more than expected, declining 1.9% Y/Y, marking the third-straight drop. Household spending topped estimates, increasing 2.1% Y/Y in March. Creating an environment of rising wages, consumption and prices is key to Japan's reflationary recovery.

## Policy

### UNITED STATES

**China Trade:** U.S. Trade Representative Robert Lighthizer filed a Federal Register notice to begin the process of placing up to 25% tariffs on the remaining \$325 billion of U.S. imports from China, ranging from cellphones and laptops, but excluding pharmaceuticals and rare earth materials. The notice period is expected to take in public comments through June 24.

**Auto Tariffs:** President Donald Trump has announced a delay on auto tariffs for up to six months as EU and Japan trade talks continue. Recall that the President initially had a May 18 deadline over the decision to implement as much as 25% duties on imported cars and car parts in the name of national security.

**Drug Prices:** The FDA has issued a statement outlining final guidance on the pathway for biosimilar interchangeability, detailing the approval process for which products marked interchangeable will be automatically substituted for another without a prescriber's involvement, as is the case for generic pharmaceutical drugs. The move, coupled with the forthcoming Medicare Part B International Pricing Index, is part of the administration's plan to bring down drug prices.

**Budget:** Early indications from President Trump following a meeting with Senate Majority Leader Mitch McConnell suggest Trump is receptive to a bipartisan budget deal. Recall that barring a new fiscal deal, spending cuts are automatically implemented in the fall, with defense spending to be cut by \$71 billion while \$55 billion in other domestic spending cut.

**Telecom:** President Trump has signed an executive order that would allow the U.S. to ban foreign telecommunications network hardware and services. While the measure doesn't specifically list any countries or companies by name, it is widely believed to be aimed at China's Huawei and ZTE.

### GLOBAL

**China:** The Ministry of Finance has detailed measures to raise tariffs on some \$60 billion of U.S. goods beginning June 1. The measures will apply a new rate of 25% on 2,493 U.S. products such as LNG and biodiesel, with other goods subjected to duties ranging from 5% to 20%. Importers and associations will be able to apply for exceptions, and once approved, won't be subject to the punitive tariffs for one year.

**Brexit:** Prime Minister Theresa May is planning to put her Brexit deal back on the floor for a vote at the start of June as talks with the opposition Labour Party have yet to yield an agreement.

**Philippines:** National mid-term elections, which are widely seen as a referendum on President Rodrigo Duterte's unorthodox and controversial style of governance, show pro-government candidates dominating the race for half the seats up for election. The results are set to favor Duterte's agenda for his remaining term, which ends in 2022.

**IMPORTANT INFORMATION**

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