

24 May 2019

Overview

Global Growth: *The OECD lowered its 2019 global growth forecast again in May, to 3.2% from 3.3%, following a March downgrade. Forecasts for the U.S. and EZ were raised amid a better-than-expected start to the year, while growth estimates for Japan and Canada were lowered. The latest economic outlook cautioned the global economy will remain tenuous in the next few years as trade conflicts, policy uncertainty, financial market risks and China continue to weigh on the direction of growth and markets.*

Budget Deal Close?: *Administration officials and congressional leaders are reportedly close to agreement on a two-year budget deal that would address the debt ceiling and lessen the chance of a government shutdown later in the year. Senate Majority Leader Mitch McConnell made some upbeat comments on reaching an agreement, but resolution is still needed on how much domestic spending will be part of the deal and whether new spending should be funded by additional revenues or other budget cuts.*

EU Parliament Elections: *Elections will take place from May 23-26 across the 28-member states, including the U.K., with a total of 751 representatives elected in proportion to member population. The elections will determine the balance of power within the EU and who will lead the European Commission and other top jobs, including the next head of the ECB. Recent polling data shows pro-European parties are expected to obtain a majority above 60%, while populist parties support could rise from 20% to more than 30%.*

Key Financial Indicators

As of: 5/22/2019

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	2.52%	0 bps	-6 bps	-12 bps	-15 bps	19 bps	-28 bps
3 Month Euribor	-0.31%	0 bps	0 bps	0 bps	1 bps	1 bps	0 bps
3 Month U.S. T-Bill	2.37%	-3 bps	-6 bps	-7 bps	-3 bps	44 bps	-8 bps
2-Year U.S. Treasury	2.22%	6 bps	-18 bps	-27 bps	-60 bps	-33 bps	-28 bps
10-Year U.S. Treasury	2.39%	1 bps	-20 bps	-26 bps	-67 bps	-67 bps	-29 bps
10-Year German Bund	-0.09%	2 bps	-11 bps	-18 bps	-45 bps	-63 bps	-33 bps
10-Year U.K. Gilt	1.02%	-4 bps	-18 bps	-13 bps	-37 bps	-49 bps	-25 bps
10-Year JGB	-0.06%	0 bps	-2 bps	-1 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	2.34%	N/A	-0.1%	1.3%	2.1%	6.1%	2.6%
Barclays Capital U.S. TIPS	2.55%	N/A	-0.3%	0.8%	2.0%	4.0%	3.7%
Barclays Capital U.S. Aggregate	2.91%	47	-0.1%	1.1%	2.3%	6.4%	3.5%
Barclays Capital Global Aggregate	1.77%	48	-0.3%	0.5%	1.1%	2.8%	2.2%
Barclays Capital U.S. ABS	2.57%	31	0.0%	0.6%	1.4%	4.3%	2.1%
Barclays Capital U.S. MBS	3.08%	43	-0.1%	0.9%	1.7%	5.9%	2.6%
Barclays Capital U.S. Corporate Investment Grade	3.60%	119	-0.1%	0.9%	3.2%	7.5%	6.0%
BAML Euro Corporate Investment Grade	0.79%	122	-0.1%	0.1%	1.8%	3.2%	2.5%
Barclays Capital U.S. Corporate High Yield	6.35%	388	0.3%	-0.1%	2.4%	6.2%	8.3%
BAML European Currency High Yield Non-Financial	3.82%	411	0.3%	-0.7%	2.6%	2.4%	2.2%
CS U.S. Leveraged Loans	6.59%	438	0.1%	0.4%	2.2%	4.3%	6.7%
CS Western European Leveraged Loans Non-USD	4.80%	413	0.2%	0.3%	1.4%	2.3%	3.7%
JPM CEMBI Broad Diversified	5.63%	332	0.1%	0.6%	2.8%	7.5%	4.6%
JPM EMBI Global Diversified	6.01%	355	0.4%	0.4%	2.6%	7.9%	3.0%
JPM GBI-EM Global Diversified	6.20%	N/A	-0.4%	-2.0%	-2.0%	-0.8%	-4.2%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,856.27	1.91%	0.2%	-1.6%	2.8%	7.0%	14.9%
Euro STOXX 600 (Local)	379.19	2.92%	0.3%	-2.9%	2.1%	-4.5%	12.3%
U.K. FTSE 100 (Local)	7,334.19	4.45%	0.5%	-1.7%	2.2%	-6.9%	9.0%
Japan Nikkei 225 (Local)	21,283.37	2.19%	0.4%	-4.2%	-0.7%	-7.3%	6.3%
China Shanghai Composite (Local)	2,891.70	2.32%	-1.6%	-10.1%	3.1%	-10.0%	16.0%
MSCI AC World (Local)	506.01	2.59%	0.2%	-2.2%	2.3%	2.1%	4.9%
MSCI Emerging Markets (Local)	998.00	2.91%	-1.5%	-7.1%	-2.5%	-6.4%	-5.0%
Commodities/Currencies	Price	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	436.07	-0.8%	-4.4%	1.5%	3.3%	-11.9%	16.5%
WTI Crude (\$/bbl)	61.40	-1.0%	-6.5%	7.7%	12.8%	-14.8%	36.0%
Copper (\$/lb)	2.69	-2.5%	-7.6%	-9.3%	-3.9%	-13.9%	2.2%
Gold (\$/oz)	1,273.80	-1.9%	-0.1%	-4.2%	3.9%	-1.5%	-0.4%
U.S. Dollar Index	98.04	0.5%	0.8%	1.6%	1.4%	4.7%	1.9%
Euro (USD/EUR)	1.12	-0.5%	-0.9%	-1.6%	-2.1%	-5.3%	-2.4%
British Pound (USD/GBP)	1.27	-1.6%	-2.5%	-3.0%	-0.9%	-5.7%	-0.6%
Japanese Yen (Yen/USD)	110.32	0.8%	-1.4%	-0.4%	-2.4%	-0.6%	0.6%
Chinese Yuan (CNY/USD)	6.90	0.5%	2.8%	2.8%	-0.5%	8.4%	0.6%

Source: FactSet and Bloomberg

Economics

UNITED STATES

FOMC Minutes: Minutes of the May 1 FOMC meeting show many participants viewed the recent easing in inflation as temporary and endorsed a patient approach to future policy adjustments. Most participants suggested that previous concerns from earlier in the year regarding downside risks to the economic outlook had abated.

Consumer Sentiment: The initial reading of the University of Michigan consumer sentiment survey for May unexpectedly reached a 15-year high on a jump in consumer expectations. The upbeat outlook comes in tandem with better-than-expected 1Q19 GDP growth and a strong labor market that appears to be offsetting trade concerns.

PMI: The preliminary reading of Markit's May manufacturing and services Purchasing Managers' Index (PMI) surveys came in below expectations. The manufacturing PMI dipped to 50.6 from 52.6 in April as new orders contracted and employment declined. The service sector PMI fell to 50.9 from 53 in April as business expectations and prices both fell.

EUROPE

EZ PMI: Leading indicators signal a lackluster euro area growth outlook as Markit's preliminary May PMI surveys came in below estimates. The manufacturing PMI dipped further into contraction territory amid rising global trade tensions and auto sector woes. The service index remains in expansion mode, but the pace of growth has slowed.

EZ Consumer Confidence: Consumer confidence improved more than expected in May, reaching its highest level since October 2018. April's figure was revised slightly higher in May.

U.K. Inflation: Headline inflation accelerated less than expected in April, while underlying price pressures were steady. CPI increased 2.1% Y/Y, up from 1.9% in March, pulled higher by energy and transportation costs. The core rate was unchanged at 1.8% Y/Y, which should provide the BOE with room to keep rates on hold as the Brexit drama unfolds.

ASIA - PAC

Japan GDP: 1Q19 GDP unexpectedly grew, rising at a 2.1% annual rate vs. estimates of a .2% decline. However, the strong headline reading masked underlying weakness as the biggest growth contributors were net trade (reflecting a drop in imports, not strength in exports), higher public investment and inventory building. Consumption and investment declined.

Japan PMI: The Nikkei manufacturing PMI slipped into contraction territory for the third time this year at 49.6 in May, down from 50.2 in April. Weaker factory activity suggests less confidence amid softness in other Asian economies and escalating trade tensions between the U.S. and China.

South Korea Trade: Exports in the first 20 days of May dropped 11.7% Y/Y, indicating the full month will likely be the sixth-consecutive Y/Y decline in exports. Falling semiconductor prices and dwindling exports to China drove the decline.

Policy

UNITED STATES

Carbon Tax: Oil companies, automakers and consumer products manufacturers such as BP, Royal Dutch Shell, Ford Motor, Capital One and Kaiser Permanente are increasing corporate lobbying efforts to push for a tax on carbon dioxide emissions amid rising pressure from shareholders and the public.

Budget: Talks of a bipartisan budget and an infrastructure package have stalled amid calls from President Donald Trump to cease probes being initiated by the Democrats. Treasury has signaled that the debt limit would be hit by late summer, with the real “x date,” or when the Treasury will be unable to meet all its financial obligations in full, likely coming sometime in the fall.

Farm Aid: The administration has announced an aid package that could exceed \$15 billion for farmers hurt by the trade war with China. Payments of about \$2 per bushel to soybean growers, 63 cents per bushel to wheat growers and 4 cents per bushel to corn growers to are being considered to compensate for losses. Recall, last year’s package totaled \$12 billion.

Telecom: Following a backlist order last week to ban Huawei on the grounds of national security, the Commerce Department has announced it would grant a temporary 90-day license for U.S. exports to Huawei and its affiliates.

Russia Sanctions: The administration has signaled intent to sanction Russia’s €9.5 billion Nord Stream 2 gas pipeline, which is currently under construction and will run from Russia to Germany under the Baltic Sea. Opponents of the pipeline fear Russia will use it to exert further control over European energy supplies.

GLOBAL

Brexit: Prime Minister Theresa May is facing increased pressure to resign amid signs that her allies have abandoned hope for passing her Withdrawal Agreement bill on Parliament, even after May promised to call for a second referendum on Brexit. Simultaneously, Nigel Farage’s Brexit Party is increasing in popularity as per data compiled by spread betting firm Sporting Index, which is estimating the anti-EU party will win 28 seats on the upcoming European Parliament elections.

Indonesia: Official results show President Joko Widodo re-elected into office with 55.5% of the votes cast in the April 17 election, an 11-point margin over his right-leaning and anti-foreign challenger, former army general Prabowo Subianto.

India: Results following national elections held over the course of April and May show Prime Minister Narendra Modi’s ruling coalition has retained power, with his Hindu nationalist Bharatiya Janata Party securing 299 seats in the 543-seat Parliament, the most out of any party.

Australia: Following weekend elections, Prime Minister Scott Morrison’s center-right government is poised to command a parliamentary majority, with the Liberal-National coalition securing 77 out of 151 seats. The left-leaning opposition Labor party secured 68.

IMPORTANT INFORMATION

Any forecasts in this document are based upon Barings opinion of the market at the date of preparation and are subject to change without notice, dependent upon many factors. Any prediction, projection or forecast is not necessarily indicative of the future or likely performance. Investment involves risk. The value of any investments and any income generated may go down as well as up and is not guaranteed by Barings or any other person. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Any investment results, portfolio compositions and or examples set forth in this document are provided for illustrative purposes only and are not indicative of any future investment results, future portfolio composition or investments. The composition, size of, and risks associated with an investment may differ substantially from any examples set forth in this document. No representation is made that an investment will be profitable or will not incur losses. Where appropriate, changes in the currency exchange rates may affect the value of investments.

Barings is the brand name for the worldwide asset management and associated businesses of Barings LLC and its global affiliates. Barings Securities LLC, Barings (U.K.) Limited, Barings Global Advisers Limited, Barings Australia Pty Ltd, Barings Japan Limited, Barings Real Estate Advisers Europe Finance LLP, BREAE AIFM LLP, Baring Asset Management Limited, Baring International Investment Limited, Baring Fund Managers Limited, Baring International Fund Managers (Ireland) Limited, Baring Asset Management (Asia) Limited, Baring SICE (Taiwan) Limited, Baring Asset Management Switzerland Sarl, and Baring Asset Management Korea Limited each are affiliated financial service companies owned by Barings LLC (each, individually, an “Affiliate”).

NO OFFER: The document is for informational purposes only and is not an offer or solicitation for the purchase or sale of any financial instrument or service in any jurisdiction. The material herein was prepared without any consideration of the investment objectives, financial situation or particular needs of anyone who may receive it. This document is not, and must not be treated as, investment advice, an investment recommendation, investment research, or a recommendation about the suitability or appropriateness of any security, commodity, investment, or particular investment strategy, and must not be construed as a projection or prediction.

Copyright in this document is owned by Barings. Information in this document may be used for your own personal use, but may not be altered, reproduced or distributed without Barings’ consent.

19-857410