

7 June 2019

Overview

Rates Outlook: Recent Fed speak from Chairman Jerome Powell, Vice Chairman Richard Clarida and St. Louis Fed President James Bullard (FOMC voter) indicates the FOMC is becoming more amenable to a rate cut. Powell and Clarida stated the Fed would act appropriately if growth and inflation slow and that they are paying attention to the yield curve inversion. Bullard suggested a rate cut "may be warranted soon" and argued that even if a sharper-than-expected slowdown does not materialize, a rate cut could help inflation and associated expectations move closer to target. Fed funds futures are currently suggesting a 90% chance of 25 bps rate cut by September.

Global Growth: The World Bank lowered its 2019 global growth forecast to 2.6% from 2.9% in January, citing a slowdown in trade growth and a decline in global investment. Geographically, the primary driver was the Euro Area, while Japan's forecast was revised down slightly for this year. While the U.S. forecast was unchanged, the report noted the balance of risks are tilted to the downside. This mainly reflects potentially destabilizing policy developments, including escalating trade tensions and instability in emerging markets.

Fed Beige Book: Most Federal Reserve districts saw slight improvement in economic activity in the April/May time frame, but growth improvements were tempered by worries over rising trade tensions. Manufacturing activity was mostly positive, but there were some signs of slowing. Residential real estate and construction activity improved overall, and consumer spending reports were mostly positive. The report noted that employment growth in many areas was being constrained by tight labor markets, which has sparked some wage pressure as companies are forced to compete for workers.

Key Financial Indicators

 As of: **6/5/2019**

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	2.47%	-5 bps	-9 bps	-14 bps	-27 bps	15 bps	-34 bps
3 Month Euribor	-0.32%	0 bps	-1 bps	-1 bps	0 bps	0 bps	-1 bps
3 Month U.S. T-Bill	2.34%	-2 bps	-9 bps	-11 bps	-8 bps	40 bps	-11 bps
2-Year U.S. Treasury	1.83%	-25 bps	-49 bps	-71 bps	-97 bps	-64 bps	-67 bps
10-Year U.S. Treasury	2.12%	-12 bps	-41 bps	-60 bps	-80 bps	-79 bps	-56 bps
10-Year German Bund	-0.23%	-5 bps	-24 bps	-39 bps	-50 bps	-60 bps	-46 bps
10-Year U.K. Gilt	0.86%	-5 bps	-32 bps	-41 bps	-44 bps	-43 bps	-41 bps
10-Year JGB	-0.12%	-3 bps	-7 bps	-12 bps	-19 bps	-17 bps	-11 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	2.03%	N/A	0.7%	2.5%	4.1%	6.9%	4.3%
Barclays Capital U.S. TIPS	2.23%	N/A	0.9%	2.3%	4.3%	5.0%	5.5%
Barclays Capital U.S. Aggregate	2.65%	50	0.6%	1.9%	3.9%	7.0%	4.9%
Barclays Capital Global Aggregate	1.60%	50	1.2%	2.1%	3.5%	4.3%	4.0%
Barclays Capital U.S. ABS	2.26%	36	0.4%	1.2%	2.1%	4.9%	2.9%
Barclays Capital U.S. MBS	2.87%	47	0.4%	1.3%	2.8%	6.0%	3.5%
Barclays Capital U.S. Corporate Investment Grade	3.40%	128	0.7%	1.7%	4.5%	8.1%	7.3%
BAML Euro Corporate Investment Grade	0.75%	126	0.3%	0.1%	2.0%	3.3%	2.9%
Barclays Capital U.S. Corporate High Yield	6.43%	424	0.2%	-0.8%	1.6%	5.7%	8.0%
BAML European Currency High Yield Non-Financial	4.07%	444	-0.1%	-1.0%	1.0%	2.0%	1.7%
CS U.S. Leveraged Loans	6.34%	452	0.0%	-0.2%	1.3%	4.0%	6.5%
CS Western European Leveraged Loans Non-USD	4.74%	420	-0.1%	0.1%	1.0%	2.3%	3.7%
JPM CEMBI Broad Diversified	5.51%	348	0.5%	0.7%	2.8%	7.9%	5.1%
JPM EMBI Global Diversified	5.87%	367	1.0%	1.1%	3.3%	8.5%	4.0%
JPM GBI-EM Global Diversified	6.01%	N/A	1.7%	1.3%	0.3%	1.7%	-2.5%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,826.15	1.93%	1.6%	-3.8%	1.8%	4.9%	13.7%
Euro STOXX 600 (Local)	374.08	2.92%	1.0%	-4.2%	-0.4%	-3.3%	10.8%
U.K. FTSE 100 (Local)	7,220.22	4.52%	0.5%	-2.2%	0.5%	-6.1%	7.3%
Japan Nikkei 225 (Local)	20,776.10	2.24%	-1.1%	-6.7%	-4.4%	-7.8%	3.8%
China Shanghai Composite (Local)	2,861.42	2.40%	-1.8%	-7.0%	-6.3%	-8.1%	14.7%
MSCI AC World (Local)	503.02	2.60%	1.2%	-3.9%	1.2%	1.4%	3.9%
MSCI Emerging Markets (Local)	1,004.68	2.88%	1.4%	-6.5%	-3.1%	-6.3%	-4.5%
Commodities/Currencies	Price	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	398.56	-7.2%	-9.6%	-6.1%	-4.4%	-15.6%	6.5%
WTI Crude (\$/bbl)	51.57	-12.4%	-16.8%	-8.8%	-3.1%	-21.3%	14.2%
Copper (\$/lb)	2.63	-1.7%	-7.0%	-10.5%	-4.4%	-17.7%	0.0%
Gold (\$/oz)	1,335.05	4.2%	4.4%	4.0%	7.6%	3.3%	4.4%
U.S. Dollar Index	97.32	-0.8%	-0.2%	0.5%	0.4%	3.6%	1.2%
Euro (USD/EUR)	1.13	1.1%	0.7%	-0.4%	-0.8%	-3.5%	-1.5%
British Pound (USD/GBP)	1.27	0.8%	-3.0%	-2.9%	0.0%	-4.6%	0.0%
Japanese Yen (Yen/USD)	108.01	-1.2%	-2.9%	-3.5%	-4.4%	-1.6%	-1.6%
Chinese Yuan (CNY/USD)	6.91	0.0%	2.6%	3.1%	1.0%	7.9%	0.6%

Source: FactSet and Bloomberg

Economics

UNITED STATES

Leading Indicators: ISM manufacturing index fell unexpectedly in May, reaching its lowest level since just before the 2016 election. The index declined to 52.1 from 52.8 in April, holding above the expansion line (50). The ISM service index increased more than expected in May, fueled by the employment gauge with new orders and activity also improving.

Consumer Spending: Better-than-expected income and spending data in April signaled consumers should continue providing a solid foundation for economic growth. The core PCE inflation measure remains well below the Fed's target level.

Trade: The trade deficit narrowed in April to \$50.8 billion from a revised \$51.9 billion the previous month. Exports and imports fell 2.2% M/M; the narrower deficit will add to economic growth. Shipment of goods to China are down 20% year-to-date, while imports have declined 13.2%. Exports to Mexico are little changed this year and imports are up 6.1%. Overall, exports posted the biggest drop in three years, while imports were down the most since January. The goods deficit narrowed to \$71.7 billion in April as the services surplus increased to \$20.9 billion.

EUROPE

ECB: The ECB left its key policy rates on hold at its June 6 meeting, as expected, but pushed out its rate guidance, saying rates are on hold at least through the first half of 2020. Pricing on the third round of TLTROs was slightly less dovish than expected, with rates set at a maximum of 10 bps above the refinancing rate and a minimum of 10 bps above the deposit rate.

EZ Inflation: Consumer inflation slowed more than forecast in May with CPI rising 1.2% Y/Y and the core rate increasing .8% Y/Y. The weaker data may boost expectations that the ECB push out its rate guidance and take a more dovish stance.

U.K. Leading Indicators: The manufacturing PMI dipped below the contraction line in May at 49.4, reaching the lowest level since July 2016. The services PMI came in slightly above estimates, but the composite reading indicates stagnation.

ASIA - PAC

China Leading Indicators: China's private manufacturing PMI stalled at 50.2 in May, but underlying measures showed weakness. The official PMI data was gloomier as it dropped into contraction territory after two months of expansion.

Japan PMI: The Nikkei manufacturing PMI slipped into contraction territory at 49.8 in May, down from 50.2 in April. Underlying data was mixed with output contracting for the fifth-straight month while new orders rose.

South Korea Trade: Exports declined for the sixth consecutive month in May, falling 9.4% Y/Y, more than expected. The semiconductor industry remained the biggest drag due to falling prices, inventory adjustments and weaker demand. Exports of computer chips were down 30.5% Y/Y in May and exports to China dropped 20.1% Y/Y.

Policy

UNITED STATES

Trade: India will be stripped of special trade status and longer be exempt from tariffs beginning on June 5, with White House officials citing unequitable and unreasonable access to India's markets. Officials also considered imposing tariffs on Australia but decided against it amid internal opposition. Lastly, while there have been growing calls from lawmakers to block President Donald Trump's tariffs on Mexico, a veto-proof bill is unlikely by June 10.

Antitrust: The Department of Justice (DOJ) is preparing to launch an antitrust investigation into Google and whether the company used its dominant market position to harm rivals. Simultaneously, the Federal Trade Commission (FTC) is allegedly planning a probe over Amazon and Facebook. Note that, while none of the companies are under formal investigation yet, investors view an FTC investigation as a better alternative than one from the DOJ.

Disaster Aid: Following months of negotiations, the House has passed a \$19.1 billion disaster-aid package with a bipartisan majority providing relief funding for areas hit by natural disasters in 2018 and 2019. Over \$3 billion will go towards repairing damaged military facilities while another \$3 billion will support affected farmers.

Best Interest Rule: The Securities and Exchange Commission will now require brokers to act in the best interest of investors and disclose complex pay incentives and other practices that may cause conflicts of interest. The rule stops short of imposing a higher "fiduciary" duty that applies to investment advisers, however.

Personnel: Chairman of the Council of Economic Advisers, Kevin Hassett, is stepping down. Recall that Hassett helped craft the immigration proposal which would prioritize entry of highly skilled migrants such as doctors and researchers.

GLOBAL

China: On a White Paper which was released with limited advanced notice, Beijing squarely blamed the U.S. for the failure of the trade talks, citing the U.S.'s renegotiation of last November's framework which was reached between President Xi Jinping and President Donald Trump. Both presidents are still scheduled to meet at the G20 summit on June 28 and 29. Tensions rose further after it was announced that China would be fining Ford Motor for antitrust behavior and investigating FedEx for "wrongful" deliveries.

Germany: Andrea Nahles, leader of the Social Democratic Party and Angela Merkel's junior coalition partner, has stepped down following the loss the party sustained in the European Parliament elections. The move will force Merkel to either lead a minority government, form an alliance with the Liberals and the Greens, or face a snap election.

Italy: The European Commission has announced that Italy is in breach of EU budget rules, citing the failure to make sufficient progress in reducing its mountain of debt. The development was preempted by recent domestic political turmoil, which averted Prime Minister Giuseppe Conte's threat to resign, as leaders of both the League and Five-Star Movement issued statements reaffirming their commitment to the government.

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