

14 June 2019

Overview

Oil Instability: Tensions appear to be rising in the Mideast following reports that two oil tankers were hit by suspected attacks in the Gulf of Oman. The location is near the entrance to the Strait of Hormuz, the strategic waterway through which nearly 20% of global oil consumption passes. Oil prices jumped with the news, countering weaker recent price activity attributed to bearish inventory data.

UK Leadership Race: Conservative MPs voted in the first round of a leadership contest to determine the successor to Prime Minister Theresa May. Boris Johnson won the first vote, followed by Jeremy Hunt, Michael Gove and Dominic Raab. Three other contenders were eliminated. Additional ballots will be cast next week to pare the list down to two MPs, who will then face a runoff vote.

Hong Kong Protests: Demonstrators blocked roads and forced the closure of the city's legislature before lawmakers could debate a controversial extradition bill. Protestors were concerned about the implications for the "one country, two systems" framework. Markets are worried the extradition law could threaten Hong Kong's standing in the business/financial community as a gateway between China and the West. The turmoil prompted a selloff in Hong Kong stocks and pushed short-term borrowing costs to the highest levels since late 2008.

Key Financial Indicators

As of: 6/12/2019

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	2.43%	-4 bps	-10 bps	-17 bps	-35 bps	9 bps	-38 bps
3 Month Euribor	-0.32%	0 bps	-1 bps	-1 bps	-1 bps	0 bps	-1 bps
3 Month U.S. T-Bill	2.21%	-13 bps	-21 bps	-24 bps	-22 bps	28 bps	-24 bps
2-Year U.S. Treasury	1.89%	5 bps	-35 bps	-55 bps	-88 bps	-64 bps	-61 bps
10-Year U.S. Treasury	2.13%	1 bps	-33 bps	-48 bps	-78 bps	-83 bps	-56 bps
10-Year German Bund	-0.24%	-1 bps	-20 bps	-30 bps	-50 bps	-74 bps	-48 bps
10-Year U.K. Gilt	0.87%	1 bps	-26 bps	-30 bps	-38 bps	-54 bps	-40 bps
10-Year JGB	-0.11%	1 bps	-6 bps	-7 bps	-16 bps	-16 bps	-11 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	2.05%	N/A	0.0%	2.1%	3.4%	7.1%	4.3%
Barclays Capital U.S. TIPS	2.23%	N/A	-0.4%	1.6%	3.2%	4.8%	5.1%
Barclays Capital U.S. Aggregate	2.65%	49	0.1%	1.8%	3.3%	7.3%	5.0%
Barclays Capital Global Aggregate	1.59%	49	0.3%	1.9%	3.1%	4.6%	4.3%
Barclays Capital U.S. ABS	2.32%	39	-0.1%	0.9%	1.8%	4.8%	2.8%
Barclays Capital U.S. MBS	2.83%	46	0.2%	1.2%	2.3%	6.4%	3.7%
Barclays Capital U.S. Corporate Investment Grade	3.39%	126	0.3%	1.9%	4.1%	8.7%	7.7%
BAML Euro Corporate Investment Grade	0.70%	122	0.3%	0.6%	2.0%	4.2%	3.2%
Barclays Capital U.S. Corporate High Yield	6.16%	396	0.8%	0.6%	2.5%	6.0%	8.8%
BAML European Currency High Yield Non-Financial	3.89%	425	0.6%	0.2%	1.4%	2.8%	2.3%
CS U.S. Leveraged Loans	6.38%	452	0.1%	0.1%	1.4%	4.0%	6.6%
CS Western European Leveraged Loans Non-USD	4.75%	420	0.0%	0.1%	1.0%	2.4%	3.8%
JPM CEMBI Broad Diversified	5.44%	340	0.5%	1.2%	3.2%	8.7%	5.7%
JPM EMBI Global Diversified	5.76%	356	0.8%	2.1%	3.8%	10.4%	4.8%
JPM GBI-EM Global Diversified	5.85%	N/A	1.8%	3.2%	2.2%	4.2%	-0.7%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,879.84	1.90%	1.9%	0.2%	3.7%	5.4%	15.9%
Euro STOXX 600 (Local)	379.74	3.20%	1.5%	0.7%	1.7%	-2.0%	12.5%
U.K. FTSE 100 (Local)	7,367.62	4.37%	2.0%	2.3%	3.0%	-4.4%	9.5%
Japan Nikkei 225 (Local)	21,129.72	2.20%	1.7%	-1.0%	-1.7%	-7.6%	5.6%
China Shanghai Composite (Local)	2,909.38	2.33%	1.7%	-1.0%	-4.9%	-5.5%	16.7%
MSCI AC World (Local)	512.46	2.55%	1.9%	0.5%	2.4%	2.2%	5.9%
MSCI Emerging Markets (Local)	1,026.24	2.82%	2.0%	-0.3%	-0.8%	-4.4%	-2.6%
Commodities/Currencies	Price	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	399.78	0.3%	-8.0%	-6.2%	-2.0%	-16.1%	6.8%
WTI Crude (\$/bbl)	51.13	-0.9%	-17.1%	-10.1%	0.2%	-23.0%	13.2%
Copper (\$/lb)	2.66	1.2%	-4.5%	-9.2%	-4.0%	-18.0%	1.2%
Gold (\$/oz)	1,332.35	-0.2%	3.5%	2.7%	7.0%	2.6%	4.2%
U.S. Dollar Index	97.00	-0.3%	-0.3%	0.1%	0.0%	3.4%	0.9%
Euro (USD/EUR)	1.13	0.5%	0.7%	0.4%	-0.4%	-3.9%	-1.0%
British Pound (USD/GBP)	1.27	-0.1%	-2.4%	-2.8%	0.5%	-4.7%	-0.1%
Japanese Yen (Yen/USD)	108.47	0.4%	-1.0%	-2.6%	-4.2%	-1.6%	-1.1%
Chinese Yuan (CNY/USD)	6.92	0.1%	1.5%	3.1%	0.4%	8.0%	0.7%

Source: FactSet and Bloomberg

Economics

UNITED STATES

Employment: The May employment report was weaker than expected with payrolls rising the least in three months, as the economy added 75,000 jobs, well below consensus estimates of 175,000. Payroll data from the prior two months were revised lower by 75,000. The unemployment rate held at a 49-year low of 3.6%, while average hourly earnings increased .2% M/M (+3.1% Y/Y), slightly below estimates. Broad-based weakness in the report increased the odds of a rate cut.

Inflation: May core consumer prices were softer than expected, rising .1% M/M and slowing to +2% Y/Y. Lower energy prices pulled Y/Y headline inflation down to +1.8%. Core producer prices increased at the slowest pace in more than a year in May. As inflation pressures remain muted, this could reinforce calls for the Fed to cut interest rates.

Small Business Optimism: The NFIB Small Business Optimism Index reached a seven-month high in May, marking the fourth-straight improvement in the index. Small businesses expressed more upbeat views of the economy, employment, capital spending and sales in the survey.

EUROPE

EZ Inflation: Euro-area inflation accelerated more than forecast as CPI increased 1.7% Y/Y in April. The core rate jumped to 1.2% Y/Y from .8% in March, hitting a six-month high. The pickup in inflation may have been partly driven by temporary factors, so May data should give a better indication in terms of a read-through for ECB policy.

U.K. Industrial Production: Industrial production declined more than expected in April as output fell 2.7% M/M. Oil and gas, mining and manufacturing activities all decreased during the month following gains the previous month.

U.K. Trade: April's trade balance narrowed more than expected, to £2.7 billion. The goods deficit shrunk by £3.3 billion to £12.1 billion, while the services surplus increased £100 million to £9.4 billion.

ASIA - PAC

China Trade: Exports unexpectedly increased 1.1% Y/Y in May versus estimates for a 3.9% drop, while imports decreased 8.5% Y/Y, more than expected. Falling imports were fairly broad-based and indicate weaker domestic demand.

China Inflation: CPI inflation accelerated to 2.7% Y/Y in May from 2.5% Y/Y in April as supply issues continued to push food prices higher; food prices jumped 7.7% Y/Y in May. PPI rose .6% Y/Y in May, matching estimates and down from +.9% Y/Y in April. Slower PPI is a signal that manufacturing activity remains subdued.

Japan GDP: Revised 1Q19 GDP growth was in line with the initial reading of 2.2%. Business investment increased during the first quarter, while consumption was a drag. Falling imports outpacing declining exports also added to GDP. However, this is viewed as masking underlying weakness in the economy.

Policy

UNITED STATES

Mexico Trade: President Donald Trump has backed off threats to impose punitive tariffs on all Mexican imports following Mexico agreeing to deploy its National Guard to the border. Despite the fanfare, however, there are indications that the concessions included actions Mexico already agreed to in prior discussions over the previous months. Also, although the crisis has been defused, President Trump has suggested he could go back to tariffs at any time.

China Trade: President Trump has threatened to raise tariffs on China again if President Xi Jinping does not meet with him at the upcoming G-20 summit in Japan on June 28 and 29. Recall that the meeting may prove to be the catalyst markets have been waiting for as trade negotiations between both the U.S. and China have all but ceased of late.

Antitrust: A group of state attorneys general, led by New York and California, have filed a lawsuit to block the proposed \$26 billion T-Mobile and Sprint merger, even as the Department of Justice is still in the process of reviewing the deal.

Tax Planning: The Treasury Department released final rules nullifying state laws that were passed as a workaround to the 2017 tax reform law's new cap on state and local tax deductions. The new regulations prevent high-tax states such as New York, New Jersey and Connecticut from converting their nondeductible state tax payments into deductible charitable contributions. The new rules apply to contributions made after August 27, 2018.

GSE Reform: Federal Housing Finance Agency Director Mark Calabria asked Congress for authority to clarify and expand the agency's charter to create new government-sponsored enterprises to compete with Fannie Mae and Freddie Mac. In the same vein, Calabria also requested the authority to examine non-bank mortgage servicers, whose business practices impact the guarantees offered by the enterprises. Notably, Calabria did not ask for any explicit federal guarantee.

GLOBAL

Brexit: Members of Parliament voted 309 to 298 to block a Labour-led effort to take control of Parliament's Brexit timetable. If passed, it would have given opponents of a no-deal Brexit the chance to table legislation to thwart the U.K. from leaving without any agreement on the October 31 deadline.

China: The Ministry of Finance, in a bid to stimulate the economy, will allow local government authorities to use proceeds of so-called special bonds as equity for infrastructure projects that meet certain requirements (e.g. key national projects, expected return projects), and will encourage financial institutions to support those projects through bank loans, which will not be counted as contributing to implicit local government debt, so long as the support complies with regulations.

Hong Kong: Thousands of people took the streets in Hong Kong to protest amendments to an extradition law allowing authorities to send anyone in the region to mainland China for trial for certain alleged offenses. The controversial amendments could be passed in coming weeks.

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