BARINGS INVESTMENT INSTITUTE

WEEKLY UPDATE

21 June 2019

Overview

BAML Global Fund Manager Survey: *June's survey was the most bearish since the global Financial Crisis, with pessimism led by worries over trade, recession, ineffective monetary policy and low strike prices for policy puts. Cash holdings saw the biggest jump since the August 2011 U.S. debt ceiling crisis, and equity allocations experienced the second-biggest drop on record. The relative allocation of equities over bonds fell to its lowest level since May 2009, with notable defensive rotations. The macro outlook was bearish with global growth prospects dropping, the second-biggest decline in EPS expectations and a record number of investors indicating the economy is late cycle.*

ECB Stimulus: *In a speech at the annual ECB forum in Portugal, ECB President Mario Draghi said additional stimulus will be needed if the growth and inflation outlook doesn't improve. He noted further rate cuts are part of its toolkit, and renewed asset purchases are an option even if it means raising the self-imposed limits on how much it can buy. Market reaction to the news saw the euro decline, German and French 10-year yields hit a record low and money markets price in a 10 bps interest rate cut by September.*

Fed Dot Plot: *The Summary of Economic Projections released at the June FOMC meeting showed the median Fed Funds rate for 2019 was unchanged from the March release at 2.375%, although the range of outcomes widened to 1.875-2.625% from 2.375-2.875%. The median 2020 dot plot fell to 2.125% in June from 2.625% in March. The estimate for 2019 GDP growth was unchanged at 2.1% and revised up by .1% to 2% in 2020. The unemployment rate forecasts for 2019-21 were all lowered by .1% to 3.6% this year, 3.7% next year and 3.8% in 2021. Inflation estimates were lowered, with PCE expected to rise 1.5% in 2019, down from 1.8% in March and 2020 PCE revised down to 1.9% from 2% in March.*

Key Financial Indicators

As of: 6/19/2019

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	50 bps	0 bps
3 Month USD Libor	2.39%	-4 bps	-14 bps	-23 bps	-40 bps	6 bps	-42 bps
3 Month Euribor	-0.34%	-2 bps	-2 bps	-3 bps	-3 bps	-1 bps	-3 bps
3 Month U.S. T-Bill	2.19%	-2 bps	-20 bps	-27 bps	-20 bps	26 bps	-26 bps
2-Year U.S. Treasury	1.76%	-13 bps	-45 bps	-70 bps	-87 bps	-79 bps	-74 bps
10-Year U.S. Treasury	2.02%	-10 bps	-37 bps	-59 bps	-75 bps	-87 bps	-66 bps
10-Year German Bund	-0.29%	-5 bps	-18 bps	-39 bps	-53 bps	-64 bps	-53 bps
10-Year U.K. Gilt	0.86%	-1 bps	-18 bps	-33 bps	-42 bps	-41 bps	-41 bps
10-Year JGB	-0.15%	-3 bps	-9 bps	-10 bps	-18 bps	-17 bps	-14 bps
Fixed Income	**Yield**	**OAS**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
Barclays Capital U.S. Government-Treasury	1.94%	N/A	0.7%	2.3%	4.2%	7.4%	5.0%
Barclays Capital U.S. TIPS	2.12%	N/A	0.7%	2.0%	3.6%	5.0%	5.9%
Barclays Capital U.S. Aggregate	2.53%	48	0.7%	2.1%	3.9%	7.7%	5.7%
Barclays Capital Global Aggregate	1.51%	47	0.3%	2.2%	3.0%	5.1%	4.6%
Barclays Capital U.S. ABS	2.23%	41	0.2%	0.9%	2.0%	5.0%	3.1%
Barclays Capital U.S. MBS	2.70%	43	0.4%	1.3%	2.6%	6.4%	4.0%
Barclays Capital U.S. Corporate Investment Grade	3.26%	123	1.0%	2.5%	5.1%	9.6%	8.8%
BAML Euro Corporate Investment Grade	0.60%	117	0.6%	1.1%	2.3%	4.1%	3.7%
Barclays Capital U.S. Corporate High Yield	5.96%	384	0.5%	1.1%	2.4%	6.4%	9.3%
BAML European Currency High Yield Non-Financial	3.59%	399	0.8%	0.9%	1.8%	3.5%	3.1%
CS U.S. Leveraged Loans	6.27%	455	0.0%	-0.1%	1.3%	4.0%	6.6%
CS Western European Leveraged Loans Non-USD	4.72%	420	0.1%	0.2%	1.0%	2.6%	3.9%
JPM CEMBI Broad Diversified	5.36%	342	0.5%	1.6%	3.1%	9.6%	6.2%
JPM EMBI Global Diversified	5.65%	354	0.9%	3.0%	3.9%	12.6%	5.8%
JPM GBI-EM Global Diversified	5.76%	N/A	0.4%	4.3%	1.5%	7.0%	-0.3%
Equities	**Price**	**Div Yield**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
S&P 500	2,926.46	1.88%	1.7%	2.5%	3.8%	8.1%	17.9%
Euro STOXX 600 (Local)	384.77	3.20%	1.3%	0.9%	0.1%	0.4%	14.0%
U.K. FTSE 100 (Local)	7,403.54	4.35%	0.5%	0.7%	1.1%	-2.6%	10.0%
Japan Nikkei 225 (Local)	21,333.87	2.18%	1.0%	0.4%	-1.1%	-4.2%	6.6%
China Shanghai Composite (Local)	2,917.80	2.32%	0.3%	1.2%	-5.6%	0.3%	17.0%
MSCI AC World (Local)	518.92	2.52%	1.5%	2.3%	3.1%	5.1%	7.5%
MSCI Emerging Markets (Local)	1,038.27	2.79%	1.2%	3.8%	-0.9%	0.4%	-1.4%
Commodities/Currencies	**Price**	**1 W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
S&P GS Commodity Index	408.49	2.2%	-7.8%	-6.2%	4.0%	-11.7%	9.1%
WTI Crude ($/bbl)	53.74	5.1%	-14.4%	-9.1%	12.1%	-17.4%	19.0%
Copper ($/lb)	2.68	1.0%	-2.3%	-8.0%	-1.4%	-11.9%	2.1%
Gold ($/oz)	1,344.05	0.9%	4.9%	2.8%	7.1%	5.3%	5.1%
U.S. Dollar Index	97.12	0.1%	-0.9%	0.8%	0.1%	2.1%	1.0%
Euro (USD/EUR)	1.12	-0.9%	0.5%	-1.2%	-1.8%	-3.0%	-1.9%
British Pound (USD/GBP)	1.26	-0.7%	-0.8%	-4.8%	-0.1%	-4.1%	-0.8%
Japanese Yen (Yen/USD)	108.41	-0.1%	-1.4%	-2.7%	-3.5%	-1.3%	-1.2%
Chinese Yuan (CNY/USD)	6.90	-0.2%	-0.1%	2.8%	0.1%	6.6%	0.6%

Source: FactSet and Bloomberg

Economics

UNITED STATES

FOMC Meeting: The Fed left the funds rate unchanged at 2.25%-2.50, as expected. The statement downgraded their assessment of economic activity from "solid" to "moderate" and removed the word "patient", noting rising uncertainties to the outlook and muted inflation measures. Rates markets are widely interpreting the meeting as signaling a forthcoming rate cut at the July meeting. However, downward revisions to interest rate projections were modest.

Leading Indicators: Leading economic indicators were unchanged in May, while April's gain was revised lower. Regional PMIs were weaker than consensus estimates. The Empire Manufacturing Index unexpectedly contracted in June, as weakness was broad-based across both current and future business conditions. The Philadelphia Fed Index declined more than estimated in June as new orders, shipments, prices and employment measures fell from the previous month.

Retail Sales: May's retail sales showed broad-based strength while April's data was revised significantly upward. Ten out of 13 sales groups showed higher M/M sales gains. The report signals a solid contribution from consumer spending to GDP growth in 2Q19. Control group sales (which feed into GDP) increased .5% M/M in May, following a.4% rise in April.

EUROPE

EZ Inflation: The final reading of May Euro area inflation confirmed CPI decreased to 1.2% Y/Y from 1.7% in April and the core rate dropped to .8% Y/Y from 1.3%. Details show the drop was driven by lower energy and travel-related service prices.

BOE Meeting: The BOE kept its current policy settings on hold, as expected, but downgraded its economic growth forecast, saying downside risks have increased. Despite the cautious tone, they reiterated guidance for limited and gradual rate hikes.

U.K. Inflation: Inflation decelerated in May, with CPI dipping to 2% Y/Y from 2.1% in April and the core rate declining to 1.7% Y/Y from 1.8%. Downward price pressure came from air fares, autos and fuel costs, as well as slower services inflation.

ASIA - PAC

China Activity: Economic activity generally weakened in May. Industrial production growth slowed to 5% Y/Y from 5.4% in April, below estimates. Fixed asset investment growth fell to 5.6% YTD from 6.1% in April, also weaker than expected. Worryingly, public investment slowed in addition to private investment. Retail sales beat estimates, rising 8.6% Y/Y in May.

BOJ Meeting: The BOJ kept its policy on hold, as expected, but highlighted flexibility in its yield target. Dovish tilts by the Fed and ECB could force the BOJ to ease if rate cuts by other central banks strengthen the Yen and hamper efforts to reach its inflation target. Worries persist that any potential BOJ move would have little impact, as its toolbox is nearly empty.

Japan Trade: Exports fell for the sixth-straight month in May, declining 7.8% Y/Y, as U.S.-China trade tensions translate to weaker global demand. Imports fell 1.5% Y/Y, pushing the trade deficit to its widest level since 2015.

Policy

UNITED STATES

China Trade: The USTR conducted a weeklong period of public hearings from over 300 witnesses across 54 panels on whether the administration should impose 25% tariffs on approximately $300 billion worth of goods from China. The USTR is then expected to hold post-hearing rebuttals for another seven days before finishing up the comment period on the proposed tariffs. At that point, President Donald Trump will be legally able to announce whether tariffs will be imposed. This would be roughly around the same time as the expected meeting with Chinese President Xi Jinping at the G-20 summit next week.

India Trade: India has imposed punitive tariffs on 28 U.S. good products, including chickpeas, phosphoric acid, apples almonds and walnuts. The higher custom duties are expected to generate approximately $217 million in additional revenue. Recall that the move follows President Trump's decision to revoke India's Generalized System of Preferences status.

Clean Power Plan: President Trump aims to keep his 2016 presidential campaign promise of boosting the coal industry. As a result, the EPA is expected to repeal the Clean Power Plan put in place by President Barack Obama. This transition would change the regulation process for greenhouse gas emission to the discretion of states.

Healthcare: According to Beacon Policy Advisors, legislation is moving in both chambers for greater transparency and lower prices for prescription drugs. A Senate bill includes a ban on surprise medical billing; splitting air ambulance bills between medical and flight costs; promoting generic drug and biosimilar development and market adoption; a ban on spread pricing by pharmacy benefit managers; and a mandate to pass on rebates in the commercial market to plan sponsors. Beacon expects a bill that focuses on bipartisan overlap between the House and Senate could become law by year end.

GLOBAL

U.K. Parliament: The second round of voting for the Conservative Party leadership saw the number of contenders drop from 10 to five, with Boris Johnson leading, receiving the backing of 126 out of 313 Tory MPs. Foreign Secretary Jeremy Hunt, Environment Secretary Michael Gove and Home Secretary Sajid Javid follow in terms of votes received, but there are signs that Secretary of State Rory Stewart is emerging as Johnson's most potent rival.

Canada: Construction of a major crude oil pipeline which will extend the state-owned pipeline running from Alberta to Vancouver through the Trans Mountain was approved by Prime Minister Justin Trudeau's government, citing the project's satisfaction of strict requirements on safety and consultation with Canadian indigenous groups. The line will add 590,000 barrels of daily shipping capacity, a 15% boost to Western Canada's current 4 million barrel throughput.

Iran: Officials from the Atomic Agency have signaled that the country will go above the cap on stockpiles of enriched uranium set in the 2015 nuclear deal by June 27 and would further increase its production in early July. It was also noted that these developments could be reversed if European countries revive trade with Iran and curtail the impact of U.S. sanctions. The announcement came amid increasing tensions in the Gulf of Oman, with the U.S. sending 1,000 new troops to the area.

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IMPORTANT INFORMATION

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