

**28 June 2019**

## Overview

**Earnings Recession?:** In its latest report, FactSet now expects S&P 500 earnings to decline 2.6% in the second quarter. If this happens, it will be the first time the index has had two-consecutive quarters of Y/Y earnings drops since the first two quarters of 2016. Bloomberg shows that a similar 2.7% Y/Y earnings contraction for the S&P 500 is expected for the second quarter.

**U.S. Budget:** In the Congressional Budget Office's latest long-term budget outlook, budget deficits over the next three decades are expected to push federal debt/GDP from 78% in 2019 to 144% by 2049 in their baseline scenario. The projections are highly sensitive to changes in inputs. If productivity growth was .5% lower each year than projected, debt/GDP would be 185% in 2049; if .5% higher, debt/GDP in that year would be 106%. Similarly, if interest rates were 1% higher each year than projected, debt/GDP would be 199% in 2049; if 1% lower, debt/GDP in that year would be 107%.

**Bank Stress Tests:** The latest Fed stress tests show the biggest banks in the U.S. have adequate reserves to lend in a severe economic downturn. Under the severely adverse scenario, these banks would lose an aggregate \$410 billion, better than the last projection. Their common equity Tier 1 ratio would decline to 9.2% from 12.3% in December. If the second round of results are also positive, the big banks could get the green light to raise dividend payouts and increase share buybacks.

**Key Financial Indicators**

As of: 6/26/2019

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	0 bps	50 bps	0 bps
3 Month USD Libor	2.33%	-6 bps	-20 bps	-27 bps	-48 bps	-1 bps	-48 bps
3 Month Euribor	-0.34%	-1 bps	-3 bps	-3 bps	-3 bps	-2 bps	-3 bps
3 Month U.S. T-Bill	2.14%	-5 bps	-21 bps	-31 bps	-29 bps	21 bps	-31 bps
2-Year U.S. Treasury	1.78%	2 bps	-38 bps	-48 bps	-83 bps	-76 bps	-72 bps
10-Year U.S. Treasury	2.05%	2 bps	-28 bps	-36 bps	-74 bps	-83 bps	-64 bps
10-Year German Bund	-0.31%	-2 bps	-20 bps	-29 bps	-56 bps	-66 bps	-55 bps
10-Year U.K. Gilt	0.81%	-5 bps	-15 bps	-20 bps	-45 bps	-49 bps	-46 bps
10-Year JGB	-0.14%	0 bps	-7 bps	-8 bps	-16 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	1.97%	N/A	-0.1%	1.8%	2.8%	7.2%	4.9%
Barclays Capital U.S. TIPS	2.16%	N/A	0.1%	1.9%	2.8%	4.9%	6.0%
Barclays Capital U.S. Aggregate	2.55%	47	0.0%	1.9%	2.8%	7.8%	5.8%
Barclays Capital Global Aggregate	1.51%	46	0.7%	2.5%	2.9%	5.7%	5.3%
Barclays Capital U.S. ABS	2.22%	38	0.0%	0.8%	1.6%	5.0%	3.1%
Barclays Capital U.S. MBS	2.77%	46	-0.1%	1.1%	1.7%	6.3%	4.0%
Barclays Capital U.S. Corporate Investment Grade	3.22%	116	0.5%	2.9%	4.1%	10.4%	9.3%
BAML Euro Corporate Investment Grade	0.56%	114	0.3%	1.6%	2.0%	4.5%	4.0%
Barclays Capital U.S. Corporate High Yield	5.88%	374	0.4%	1.6%	2.7%	7.0%	9.8%
BAML European Currency High Yield Non-Financial	3.53%	395	0.3%	1.3%	2.1%	4.3%	3.4%
CS U.S. Leveraged Loans	6.33%	460	0.0%	0.0%	1.7%	4.0%	6.6%
CS Western European Leveraged Loans Non-USD	4.71%	420	0.1%	0.2%	1.2%	3.0%	4.0%
JPM CEMBI Broad Diversified	5.28%	332	0.6%	2.1%	3.3%	9.9%	6.8%
JPM EMBI Global Diversified	5.60%	347	0.4%	3.3%	4.0%	12.1%	6.2%
JPM GBI-EM Global Diversified	5.68%	N/A	1.8%	5.7%	5.3%	8.2%	1.5%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,913.78	1.89%	-0.4%	3.3%	3.9%	9.2%	17.4%
Euro STOXX 600 (Local)	382.20	3.22%	-0.7%	1.7%	1.3%	1.3%	13.2%
U.K. FTSE 100 (Local)	7,416.39	4.34%	0.2%	1.9%	3.1%	-1.6%	10.2%
Japan Nikkei 225 (Local)	21,086.59	2.20%	-1.2%	-0.1%	-1.6%	-5.6%	5.4%
China Shanghai Composite (Local)	2,976.28	2.27%	2.0%	4.3%	-0.7%	4.6%	19.3%
MSCI AC World (Local)	518.81	2.54%	-0.4%	3.0%	3.4%	6.0%	7.0%
MSCI Emerging Markets (Local)	1,047.91	2.81%	0.4%	5.3%	1.1%	2.2%	-1.0%
Commodities/Currencies	Price	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	430.87	5.5%	0.9%	-1.4%	13.3%	-8.9%	15.1%
WTI Crude (\$/bbl)	59.39	10.5%	1.7%	-0.8%	29.0%	-21.1%	31.5%
Copper (\$/lb)	2.71	1.0%	0.2%	-4.9%	0.1%	-9.5%	3.2%
Gold (\$/oz)	1,403.95	4.5%	9.5%	6.7%	11.6%	11.4%	9.8%
U.S. Dollar Index	96.21	-0.9%	-1.4%	-0.5%	-0.9%	1.6%	0.0%
Euro (USD/EUR)	1.14	1.4%	1.5%	0.9%	-0.3%	-2.5%	-0.5%
British Pound (USD/GBP)	1.27	0.4%	-0.1%	-4.1%	0.0%	-4.2%	-0.5%
Japanese Yen (Yen/USD)	107.64	-0.7%	-1.6%	-2.6%	-2.4%	-2.0%	-1.9%
Chinese Yuan (CNY/USD)	6.89	-0.3%	-0.3%	2.6%	0.0%	5.0%	0.3%

Source: FactSet and Bloomberg

## Economics

### UNITED STATES

**GDP:** The third release of 1Q19 GDP was unchanged at +3.1%. Consumer spending was revised down from 1.3% to .9%, while nonresidential fixed investment grew 4.4%, up from 2.3% in the second estimate. Current estimates for 2Q19 GDP show lower growth ahead: Atlanta Fed GDPNow is 1.9%; NY Fed Nowcast is 1.4% and Bloomberg consensus is 1.8%.

**PMI:** The preliminary reading of Markit's June manufacturing and services Purchasing Managers' Index (PMI) surveys came in below expectations. The manufacturing PMI dipped to 50.1 from 50.5 in May, the lowest reading since September 2009. The service sector PMI fell to 50.7, a three-year low, from 50.9 in May as business expectations declined.

**Housing:** Housing data has been mixed. New home sales fell to a five-month low in May, dropping 7.8% M/M, as the median sales price fell 2.7% Y/Y to \$308K. However, existing home sales increased more than expected to 2.5% M/M in May, with all four geographic regions showing gains. The median sales price rose 4.8% Y/Y to \$277.7K. Home price data showed a continuation of the decelerating trend with the Case-Shiller 20-city index up 2.5% Y/Y.

### EUROPE

**EZ PMI:** Markit's manufacturing Purchasing Managers Index was little changed in June, perhaps showing signs of stabilizing. The index remained in contraction territory at 47.8, up slightly from 47.7 in May. The services index improved to 53.4 in June from 52.9 in May, while the composite index points towards weak growth in the second quarter.

**EZ Confidence:** Economic confidence in the euro area declined to its lowest level in nearly three years, falling more than expected, as rising trade tensions and a weaker global growth outlook weigh on consumer and business sentiment.

**German Inflation:** Inflation was unchanged in June at 1.3% Y/Y. Higher food and services inflation was offset by slower energy inflation. Services inflation accelerated to 2% from 1.2% in May, which could put upward pressure on the core rate.

### ASIA - PAC

**China Industrial Profits:** Profits of Chinese industrial companies increased 1.1% Y/Y in May, following a 3.7% Y/Y decline in April. Private sector profit growth accelerated in the first five months of the year, while SOE profits declined.

**China Beige Book:** China's Beige Book report showed modest improvement in the economy during the second quarter, with manufacturing and retail sectors outperforming. The report also highlighted downside risks to growth, including weak capital expenditures, high inventory levels and some inflationary pressures.

**Japan Leading Index:** Japan's leading economic indicator gained .2 to 95.9 in April's revised reading, compared with 95.7 the previous month. The March level was the lowest reading for the index since December 2012.

## Policy

### UNITED STATES

**G-20:** The Group of 20 summit in Japan, which began on Friday, saw some optimism leading up to the planned meeting between President Donald Trump and China's Xi Jinping, following speculation that a new round of trade talks could be announced. There have also been reports that lifting the ban on the sale of U.S. technology to Huawei needs to be a part of any deal.

**Democratic Debate:** The first night of debates for the crowded field of Democratic presidential candidates saw plenty of corporate bashing, led by Sen. Elizabeth Warren, who called for structural changes in the economy and a push for green manufacturing jobs. Private health care was also discussed, although there was no clear consensus among the candidates on whether it should be abolished or not.

**Peace to Prosperity:** The White House released the first of a two-part Middle East peace plan outlining the "economic vision" for Palestinian territories and neighboring Arab countries, which called for a \$50 billion investment in areas along the West Bank and Gaza from private companies and donors to jumpstart local economies in the region.

**Tobacco:** A new amendment added to the proposed Lower Health Care Costs Act would raise the national tobacco purchasing age from 18 to 21, but without the onus on states to enact their own laws. Instead, states that do not enforce such measures would be penalized up to 10% of their federal substance abuse prevention and treatment block grants.

**Agriculture:** The Department of Justice is pursuing a criminal investigation against national chicken processors, including Tyson Foods, Pilgrim's Pride, Sanders Farms and Perdue Farms, following allegations that they colluded to keep prices high.

### GLOBAL

**Italy:** The European Commission has reportedly decided that it will not formally trigger its excessive deficit procedure for Italy, at least for another week, in a bid for Italy to come up with sufficient commitments to lower its deficit and debt.

**Japan:** New elections for the House of Councilors, the upper house of parliament, have been announced and will be held on July 21. The official campaign period will begin on July 4. Recall that Prime Minister Shinzo Abe's ruling coalition, the Liberal Democratic Party, won a landslide victory in 2013 but did not fare as well in the most recent elections in 2016.

**NAFTA 2.0:** The Mexican Senate voted 114-4 for the broad rewrite of trade rules between the U.S., Canada and Mexico, making it the first of the three countries to ratify the renegotiated USMCA trade agreement.

**Turkey Elections:** Opposition candidate Ekrem Imamoglu won a repeat election to be Istanbul's mayor, ending President Recep Tayyip Erdogan's dominant ruling party's grip on the city. Imamoglu won about 45% of the vote, beating rival AKP candidate Binali Yildirim. Recall that electoral authorities voided the results of the initial March ballot, in which Imamoglu won the majority of votes.

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