

19 July 2019

## Overview

**Fed Beige Book:** *The report noted continued modest economic expansion with a generally positive outlook despite widespread concern about trade-related uncertainty. Many districts saw slight increases to retail sales and expect employment to continue to grow, although at a more modest pace. Inflation pressures appear to remain contained. Despite continued labor market strength, companies are still struggling to pass on higher wages and new tariffs to customers. The report noted the ability to pass on these cost increases to final prices was restrained by brisk competition.*

**ECB Moving Inflation Goalposts?:** *Reports suggest the ECB is studying a potential change to its inflation target. The current mandate of targeting inflation “below, but close to 2%” is being analyzed to determine if it is still appropriate. The goal would be to transition to a more symmetrical approach to allow flexibility above or below the 2% target level. This would enable the ECB to remain lower for longer in an effort to boost inflation beyond 2% and remain above that level for a time to ensure the 2% target becomes entrenched.*

**Earnings Update:** *Bloomberg data shows 13% of the S&P 500 reported earnings with revenues up 2% Y/Y and earnings .7% higher Y/Y. Relative to expectations, sales are in line while earnings have surprised to the upside by 4.1%. 15% of the companies that report in the current season for the Stoxx 600 have announced results, with sales up 6.4% Y/Y and earnings up 7.8% Y/Y. So far, sales are 7.7% below expectations and earnings are 3% above.*

**Key Financial Indicators**

As of: 7/17/2019

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	2.30%	-4 bps	-12 bps	-29 bps	-47 bps	-4 bps	-51 bps
3 Month Euribor	-0.37%	-1 bps	-5 bps	-6 bps	-6 bps	-5 bps	-6 bps
3 Month U.S. T-Bill	2.12%	-7 bps	-7 bps	-32 bps	-29 bps	10 bps	-33 bps
2-Year U.S. Treasury	1.83%	1 bps	-2 bps	-57 bps	-72 bps	-78 bps	-67 bps
10-Year U.S. Treasury	2.06%	0 bps	-2 bps	-53 bps	-68 bps	-80 bps	-62 bps
10-Year German Bund	-0.29%	1 bps	-5 bps	-37 bps	-53 bps	-64 bps	-53 bps
10-Year U.K. Gilt	0.77%	1 bps	-9 bps	-47 bps	-56 bps	-49 bps	-50 bps
10-Year JGB	-0.13%	0 bps	0 bps	-11 bps	-13 bps	-17 bps	-12 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	2.00%	N/A	0.0%	0.2%	3.6%	6.9%	4.9%
Barclays Capital U.S. TIPS	2.13%	N/A	0.1%	1.5%	3.7%	5.1%	6.4%
Barclays Capital U.S. Aggregate	2.54%	44	0.1%	0.7%	3.5%	7.5%	6.0%
Barclays Capital Global Aggregate	1.49%	43	0.1%	1.0%	3.4%	5.5%	5.2%
Barclays Capital U.S. ABS	2.26%	39	0.1%	0.2%	1.7%	4.9%	3.2%
Barclays Capital U.S. MBS	2.70%	41	0.1%	0.7%	2.6%	6.3%	4.4%
Barclays Capital U.S. Corporate Investment Grade	3.20%	113	0.1%	1.6%	4.5%	9.8%	9.8%
BAML Euro Corporate Investment Grade	0.46%	106	0.3%	1.5%	2.6%	4.9%	4.7%
Barclays Capital U.S. Corporate High Yield	5.91%	377	0.0%	1.2%	1.6%	7.1%	10.2%
BAML European Currency High Yield Non-Financial	3.36%	383	-0.1%	1.5%	1.0%	4.1%	3.9%
CS U.S. Leveraged Loans	6.32%	452	0.2%	0.5%	0.9%	4.1%	7.2%
CS Western European Leveraged Loans Non-USD	4.72%	419	0.0%	0.3%	0.7%	3.4%	4.1%
JPM CEMBI Broad Diversified	5.21%	324	0.1%	1.5%	3.5%	10.0%	7.5%
JPM EMBI Global Diversified	5.50%	335	0.3%	2.3%	4.6%	11.0%	7.2%
JPM GBI-EM Global Diversified	5.59%	N/A	0.6%	3.8%	5.0%	8.5%	2.9%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,984.42	1.85%	-0.3%	3.4%	3.4%	8.4%	20.4%
Euro STOXX 600 (Local)	387.66	2.98%	0.1%	2.4%	-0.5%	0.7%	14.8%
U.K. FTSE 100 (Local)	7,535.46	4.28%	0.1%	2.4%	0.9%	-1.2%	12.0%
Japan Nikkei 225 (Local)	21,469.18	2.16%	-0.3%	1.6%	-3.6%	-5.4%	7.3%
China Shanghai Composite (Local)	2,931.69	2.40%	0.6%	1.5%	-10.2%	4.8%	17.6%
MSCI AC World (Local)	527.60	2.49%	-0.1%	3.2%	1.9%	5.6%	9.2%
MSCI Emerging Markets (Local)	1,054.90	2.79%	0.6%	3.5%	-2.5%	2.3%	0.0%
Commodities/Currencies	Price	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	419.89	-3.3%	3.8%	-6.7%	3.4%	-7.0%	12.2%
WTI Crude (\$/bbl)	56.74	-5.9%	9.2%	-11.0%	9.5%	-16.6%	25.7%
Copper (\$/lb)	2.71	0.6%	2.2%	-8.9%	0.4%	-1.1%	3.1%
Gold (\$/oz)	1,410.35	0.1%	5.1%	10.5%	9.3%	14.4%	10.3%
U.S. Dollar Index	97.22	0.1%	-0.3%	0.2%	1.2%	2.4%	1.1%
Euro (USD/EUR)	1.12	-0.2%	0.0%	-0.7%	-1.4%	-3.9%	-1.8%
British Pound (USD/GBP)	1.24	-0.5%	-1.0%	-4.7%	-3.7%	-5.5%	-2.4%
Japanese Yen (Yen/USD)	108.09	-0.4%	-0.5%	-3.5%	-0.9%	-4.2%	-1.5%
Chinese Yuan (CNY/USD)	6.88	0.0%	-0.7%	2.9%	1.6%	3.0%	0.2%

Source: FactSet and Bloomberg

## Economics

### UNITED STATES

**Leading Indicators:** Regional PMIs were better than consensus estimates with the Empire Manufacturing Index rebounding in July following its biggest monthly decline in 18 years in June. New orders remained in contractionary territory, shipments were positive but lower and employment fell to lowest level in nearly three years. However, the survey showed increased optimism about the outlook. The Philadelphia Fed Index also bounced back, surging the most in a decade on improvements in orders, shipments and employment. The expectations measure also increased.

**Retail Sales:** June retail sales increased more than expected, highlighting strength in consumer spending. Solid discretionary spending in autos, furniture, restaurants, clothing and non-store retailers were aided by lower gasoline prices. Control group sales (which feed into GDP) were strong, pointing to a sharp rebound in second quarter consumption.

**Housing:** Housing starts and building permits fell more than forecast in June as the more volatile multi-family segment more than offset gains in single-family units. Homebuilder sentiment unexpectedly increased in July.

### EUROPE

**EZ Inflation:** June's headline CPI increased to 1.3% from 1.2%, while the core rate rebounded to 1.1% from 0.8% in May. Details show a bounce back in services inflation, led by recreation and restaurants, was offset by weaker energy prices.

**U.K. Inflation:** Headline inflation held steady in June at 2% Y/Y as lower energy and fuel costs offset higher food and clothing prices. Core inflation ticked higher by .1 to 1.8% Y/Y. Services inflation edged lower while goods inflation was flat.

**U.K. Labor Market:** The unemployment rate remained steady in May at 3.8% as weaker than expected job gains were offset by lower participation. Wage growth accelerated more than forecast in May to 3.6% Y/Y.

### ASIA - PAC

**China GDP:** 2Q19 GDP growth slowed to a 27-year low of 6.2% Y/Y, matching estimates. Underlying data shows weaker domestic demand via consumption, slower production growth and an acceleration in public investment.

**China Activity:** Economic activity rebounded more than expected in June, providing hope that weaker GDP growth may give way to signs of stabilization. Industrial production expanded by 6.3% Y/Y from 5% in May, fixed asset investment growth increased to 5.8% YTD from 5.6% in May and retail sales grew 9.8% Y/Y vs. an 8.6% rise in May.

**Japan Trade:** A smaller than expected trade deficit in June should limit the drag on GDP growth, but the narrower deficit was driven by weaker than expected import and export data. Exports fell for the seventh-straight month, dropping 6.7% Y/Y in June while imports tumbled 5.2% Y/Y as global trade uncertainty and weaker Chinese growth continue to impact trade.

## Policy

### UNITED STATES

**Debt Limit:** While there has been increased momentum toward bipartisan support for passing a two-year spending cap deal in tandem with the next debt limit extension, time is running short as the Congressional recess is scheduled to begin on July 26. Note that lawmakers not expected to return until mid-September, around the same time the “X-date,” or when the Treasury Department is estimated to exhaust its extraordinary measures to make debt obligation payments.

**China Sanctions:** China’s state media has hinted that the country may sanction defense firms such as General Dynamics, Honeywell, Oshkosh Corp., and Raytheon Co. if a potential \$2 billion U.S. weapon sale to Taiwan pushes through. Elsewhere, the Department of Commerce has signaled that, beginning in two to four weeks, it will re-allow exports of U.S. companies to China’s Huawei Technologies, although it won’t remove the technology giant from its export blacklist.

**EU Trade:** The World Trade Organization is expected to give the U.S. approval to implement tariffs on EU products amid a 14-year dispute over illegal aircraft subsidies. The impact of the duties is expected to range between \$5 and \$7 billion.

**Big Tech:** The Democratic majority that leads the House Financial Services Committee is proposing to prevent large technology companies from functioning as financial institutions or issuing digital currencies. While the proposal is facing long-odds from actually being implemented, it is nonetheless aimed at sending a strong message to large tech firms. In the same vein, large tech companies such as Amazon, Google and Facebook have been asked to testify this week before the House Judiciary Committee Antitrust Subcommittee to discuss their online platforms and market power.

### GLOBAL

**EU:** German Minister of Defense Ursula von der Leyen, an ally of Chancellor Angela Merkel, won confirmation as the next president of the European Commission, receiving 383 affirmative votes versus 327 votes against, after pledging to increase investment through bolder climate policies. Von der Leyen, the first woman to hold the post, will assume authority beginning November 1. Elsewhere, the IMF’s Christine Lagarde has resigned as managing director effective September 12 as she seeks to become ECB president.

**Spain:** Coalition talks between Prime Minister Pedro Sanchez’s Socialists and the anti-establishment Podemos party has collapsed following the Podemos leader Pablo Iglesias calling for a vote on whether to support Sanchez in a minority government. This development pushes the country closer to new elections in the fall, with a confidence vote for Sanchez scheduled for July 23.

**Iran:** The Revolutionary Guard said it has seized a foreign oil tanker accused of smuggling one million liters of fuel in the Persian Gulf. Just hours after, the U.S. Navy has claimed it shot down an Iranian drone operating in the Strait of Hormuz. While further details about the vessel, such as nationality, weren’t disclosed, these developments comes amid a warning from Foreign Minister Mohammad Javad Zarif that Iran can close the Straits of Hormuz if it wanted to.

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