

**26 July 2019**

## Overview

**Global Growth:** *The IMF lowered its global growth forecast in its July World Economic Outlook report. Growth for 2019 and 2020 was lowered by .1 to 3.2% and 3.5%, respectively, from April's forecast. The report noted weaker-than-anticipated global activity so far this year and generally softening inflation. Investment and consumer durables demand remains subdued across advanced and developing economies and households are reluctant to commit to long-term spending. Global trade remains sluggish and the predicted pickup in 2020 growth is tenuous. The report highlighted that risks are skewed to downside.*

**China Financial Market Liberalization:** *China's official state-run news agency reported it will lift the foreign ownership limits on securities, fund management and futures companies by 2020, one year ahead of schedule. This follows a move last year to ease the limit on foreign investment in joint-venture securities, fund management and futures companies to 51%. Ownership in asset management, pension management, and currency brokerage firms is also being opened up to foreign companies. Foreign ownership limits for insurance companies will be allowed to exceed 25%. In addition, foreign firms will be able to conduct credit ratings on bonds.*

**Earnings Update:** *Bloomberg data shows 37% of the S&P 500 reported earnings with revenues up 4.2% Y/Y and earnings 3.5% higher Y/Y. Relative to expectations, sales are 1.4% higher and earnings have surprised to the upside by 4.7%. Thirty-five percent of the companies that report in the current season for the Stoxx 600 have announced results, with sales up 2.8% Y/Y and earnings down 3.7% Y/Y. So far, sales are in line with estimates while earnings are 5.2% better than expectations.*

**Key Financial Indicators**

As of: 7/24/2019

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	2.27%	-4 bps	-7 bps	-32 bps	-50 bps	-7 bps	-54 bps
3 Month Euribor	-0.38%	-1 bps	-3 bps	-6 bps	-7 bps	-6 bps	-7 bps
3 Month U.S. T-Bill	2.09%	-3 bps	-4 bps	-34 bps	-28 bps	9 bps	-36 bps
2-Year U.S. Treasury	1.82%	-2 bps	8 bps	-49 bps	-74 bps	-81 bps	-68 bps
10-Year U.S. Treasury	2.05%	-1 bps	3 bps	-47 bps	-66 bps	-90 bps	-63 bps
10-Year German Bund	-0.38%	-9 bps	-8 bps	-37 bps	-57 bps	-78 bps	-62 bps
10-Year U.K. Gilt	0.68%	-9 bps	-15 bps	-49 bps	-62 bps	-59 bps	-59 bps
10-Year JGB	-0.15%	-2 bps	1 bps	-11 bps	-15 bps	-23 bps	-15 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.99%	N/A	0.1%	-0.1%	3.2%	7.4%	4.9%
Barclays Capital U.S. TIPS	2.13%	N/A	0.0%	0.3%	3.0%	5.8%	6.5%
Barclays Capital U.S. Aggregate	2.51%	42	0.2%	0.3%	3.3%	8.0%	6.2%
Barclays Capital Global Aggregate	1.45%	42	0.2%	-0.2%	3.5%	5.7%	5.3%
Barclays Capital U.S. ABS	2.24%	37	0.1%	0.0%	1.6%	5.0%	3.3%
Barclays Capital U.S. MBS	2.66%	36	0.2%	0.6%	2.6%	6.8%	4.6%
Barclays Capital U.S. Corporate Investment Grade	3.16%	109	0.4%	0.5%	4.4%	10.5%	10.2%
BAML Euro Corporate Investment Grade	0.37%	103	0.5%	1.3%	2.6%	5.6%	5.3%
Barclays Capital U.S. Corporate High Yield	5.85%	372	0.2%	0.3%	1.6%	7.1%	10.4%
BAML European Currency High Yield Non-Financial	3.31%	382	0.2%	0.5%	1.0%	4.2%	4.1%
CS U.S. Leveraged Loans	6.32%	454	0.1%	0.6%	0.8%	4.0%	7.2%
CS Western European Leveraged Loans Non-USD	4.71%	418	0.1%	0.3%	0.7%	3.2%	4.2%
JPM CEMBI Broad Diversified	5.20%	324	0.2%	1.0%	3.5%	9.8%	7.7%
JPM EMBI Global Diversified	5.43%	328	0.6%	1.3%	5.2%	11.7%	7.9%
JPM GBI-EM Global Diversified	5.49%	N/A	0.5%	2.1%	7.0%	9.4%	3.4%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,019.56	1.83%	1.2%	2.7%	3.7%	9.2%	21.8%
Euro STOXX 600 (Local)	391.73	2.98%	1.0%	2.1%	0.2%	0.9%	16.0%
U.K. FTSE 100 (Local)	7,501.46	4.30%	-0.5%	1.1%	0.4%	-2.7%	11.5%
Japan Nikkei 225 (Local)	21,709.57	2.15%	1.1%	2.0%	-2.2%	-3.6%	8.5%
China Shanghai Composite (Local)	2,923.28	2.42%	-0.3%	-2.8%	-8.7%	0.6%	17.2%
MSCI AC World (Local)	531.82	2.47%	0.9%	2.0%	2.3%	6.0%	10.2%
MSCI Emerging Markets (Local)	1,055.34	2.79%	0.1%	0.7%	-2.0%	1.3%	0.0%
Commodities/Currencies	Price	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	417.72	-0.5%	-1.2%	-8.2%	2.7%	-9.3%	11.6%
WTI Crude (\$/bbl)	55.96	-1.0%	-3.1%	-15.2%	5.7%	-20.9%	23.9%
Copper (\$/lb)	2.70	-0.2%	-0.1%	-7.3%	1.1%	-3.4%	2.9%
Gold (\$/oz)	1,426.95	1.2%	1.5%	12.2%	11.2%	16.2%	11.6%
U.S. Dollar Index	97.73	0.5%	1.8%	-0.5%	1.2%	3.3%	1.6%
Euro (USD/EUR)	1.11	-0.7%	-2.2%	-0.5%	-1.9%	-4.8%	-2.5%
British Pound (USD/GBP)	1.25	0.6%	-1.8%	-3.5%	-4.2%	-5.0%	-1.9%
Japanese Yen (Yen/USD)	108.07	0.0%	0.6%	-3.3%	-1.4%	-2.7%	-1.5%
Chinese Yuan (CNY/USD)	6.87	-0.1%	-0.1%	2.3%	1.2%	0.9%	0.1%

Source: FactSet and Bloomberg

## Economics

### UNITED STATES

**PMIs:** The preliminary reading of Markit's July manufacturing Purchasing Managers' Index survey fell more than expected, while the service sector reading increased more than estimated. The manufacturing index declined to 50, straddling the expansion/contraction level, and registering the lowest reading since September 2009 as output and employment fell. Industry continues to lose momentum amid tepid global demand and rising trade uncertainty. The services index rose to 52.2 as business activity increased and the employment measure declined.

**Home Sales:** June sales data were below estimates. Existing home sales declined more than expected, as the spring selling season was weaker than expected despite lower mortgage rates improving affordability. New home sales rose less than forecast and median prices were flat year-over-year, while April and May sales were revised markedly lower.

**Durable Goods:** Headline durable goods orders increased more than expected in June, while May's reading was revised lower. Ex-transportation and non-defense capital goods orders ex-aircraft (a proxy for business investment) both easily beat estimates, signaling corporate investment may be firming despite trade tensions and global demand weakness.

### EUROPE

**ECB:** The ECB left its key policy rates on hold at its July 25 meeting, as expected, but set the stage for future easing by highlighting a deteriorating economic outlook and persistently low inflation. Forthcoming policy changes could include interest rate cuts (with a tiered system to aid banks), new forward guidance and restarting QE.

**EZ PMI:** Leading indicators signal a weak start to the third quarter as Markit's preliminary July manufacturing PMI slumped to its lowest level in more than six years, at 46.4. The service index remains in expansion territory at 53.3.

**German Business Climate:** Germany's Ifo institute business climate index fell more than expected in July, marking the fourth-consecutive monthly drop and lowest level since April 2013. The expectations index fell to a decade low.

### ASIA - PAC

**Japan PMI:** Markit's preliminary July manufacturing PMI showed a slight improvement at 49.6 but remained in contraction territory for the third-consecutive month as output and new orders both increased.

**Japan Machine Tool Orders:** Orders plunged 37.9% year-over-year in June, the ninth-straight monthly decline and biggest drop in nearly a decade. Global trade tensions continue to weigh on business spending plans.

**South Korea GDP:** Economic growth rebounded more than expected in the second quarter, rising 1.1% compared to a .4% contraction in the first quarter. Continued trade uncertainty is likely to keep pressure on the economy, which may pave the way for additional rate cuts following the central bank's 25 bps cut on July 17.

## Policy

### UNITED STATES

**Debt Limit:** White House and Congressional negotiators reached a deal to raise the debt ceiling until the end of July 2021 and increase federal spending past the 2020 election. Under the \$2.7 trillion spending deal, defense spending will see an increase of \$22 billion next fiscal year (3.1% Y/Y) while nondefense spending will see a \$24.5 billion increase (4.5% Y/Y). This does not include an additional \$2.5 billion for the census. The deal also extends small cuts to Medicare beyond fiscal year 2027 and extend fees collected by Customs and Border Protection, totaling \$77 billion.

**Antitrust:** The Justice Department has opened a broad antitrust probe into how big technology companies, such as Facebook, Alphabet, Amazon and Apple, have achieved market power and whether they are engaging in practices that have reduced competition, stifled innovation, or otherwise harmed consumers.

**Welfare:** The administration is moving to change rules for the Supplemental Nutrition Assistance Program – also known as food stamps – reining in states’ ability to enroll recipients earning more than 130% of the federal poverty guidelines, capping eligibility to an annual income of \$32,640 for a family of four. Currently, 40 states and the District of Columbia use alternate criteria. The proposed restrictions would affect 3 million people and save an annual \$2.5 billion.

**Puerto Rico:** Governor Ricardo Rossello has announced his resignation effective August 2 amid two weeks of intense protests fueled by accusations of corruption and reports of profane and misogynistic text messages between him and his aides. As the island’s next election isn’t scheduled until 2020, it may be likely that the Congressionally created Financial Oversight and Management Board, put in place to supervise the island’s budget, may gain power.

### GLOBAL

**China:** The Chinese state media has signaled that it may engage in a number of “goodwill” gestures including the purchase of American soybeans and other farm goods. Authorities have also announced they are further opening up the financial sector, including now allowing foreign investors to take more than 25% stake in Chinese asset managers, scrapping of foreign ownership of securities in 2020, and removing entry restrictions of 30 years of operating experience for foreign insurance companies.

**Japan:** Prime Minister Shinzo Abe’s Democratic party and its coalition partner, Komeitō, retained its majority in elections for the upper house of Parliament, winning 71 of 124 seats and bringing the total seats the coalition controls to 141 seats out of the 245-member upper house. Recall that the coalition also has a majority in the lower house.

**U.K.:** Boris Johnson, the former foreign secretary and mayor of London, was chosen as the next Prime Minister following a leadership vote of the ruling Conservative Party. Johnson received 92,153 votes, while his competitor, current Foreign Secretary Jeremy Hunt, received 46,656 votes. Recall that during the 2016 referendum, Johnson campaigned for Brexit, which is expected to occur on October 31.

**IMPORTANT INFORMATION**

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