

2 August 2019

Overview

New Tariffs: President Donald Trump said he will impose a 10% tariff on the remaining \$300 billion of imports from China, beginning September 1. He said recent trade talks have been constructive but voiced displeasure that China has yet to purchase large quantities of U.S. agricultural products. Market reaction was decidedly negative as equities reversed strong intraday gains and U.S. Treasury yields moved sharply lower.

U.S. Senate Passes Budget Deal: The Senate voted 67-28 to pass a two-year deal that will increase federal spending and raise the debt ceiling. The House passed the measure last week with bipartisan support, and President Trump is expected to sign the measure. If a deal was not reached, sequestration would have kicked in and lowered the level of discretionary spending. The deal is expected to raise spending by approximately \$320 billion and pushes any budget issues until after the 2020 election.

Earnings Update: Bloomberg data shows 72% of the S&P 500 reported earnings with revenues up 4.4% Y/Y and earnings 1.8% higher Y/Y. Compared to estimates, sales are 1.2% higher and earnings surprised to the upside by 5.3%. The technology sector has shown the biggest positive earnings surprise, while the energy sector has exhibited the largest underperformance. Two-thirds of the companies that report in the current season for the Stoxx 600 have announced results with sales up 1.7% Y/Y and earnings down 2.8% Y/Y. Sales are slightly ahead of estimates while earnings are 2.9% better than expectations. The real estate sector has provided the biggest upside earnings surprise and the communications sector has been the biggest earnings disappointment so far.

Key Financial Indicators

As of: 7/31/2019

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%	0 bps	-5 bps	-31 bps	-47 bps	-8 bps	-54 bps
3 Month Euribor	-0.38%	0 bps	-3 bps	-7 bps	-7 bps	-6 bps	-7 bps
3 Month U.S. T-Bill	2.05%	-3 bps	-6 bps	-37 bps	-35 bps	2 bps	-39 bps
2-Year U.S. Treasury	1.87%	6 bps	14 bps	-39 bps	-58 bps	-80 bps	-63 bps
10-Year U.S. Treasury	2.02%	-3 bps	2 bps	-48 bps	-61 bps	-95 bps	-66 bps
10-Year German Bund	-0.43%	-4 bps	-10 bps	-45 bps	-58 bps	-87 bps	-66 bps
10-Year U.K. Gilt	0.62%	-5 bps	-20 bps	-57 bps	-60 bps	-72 bps	-65 bps
10-Year JGB	-0.16%	-1 bps	0 bps	-11 bps	-16 bps	-23 bps	-16 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	2.01%	N/A	0.1%	-0.1%	3.2%	7.6%	5.1%
Barclays Capital U.S. TIPS	2.14%	N/A	0.0%	0.4%	2.9%	5.7%	6.5%
Barclays Capital U.S. Aggregate	2.52%	42	0.1%	0.2%	3.3%	8.1%	6.3%
Barclays Capital Global Aggregate	1.44%	42	-0.1%	-0.3%	3.3%	5.7%	5.3%
Barclays Capital U.S. ABS	2.32%	39	-0.1%	0.0%	1.4%	4.9%	3.2%
Barclays Capital U.S. MBS	2.66%	38	0.0%	0.4%	2.4%	6.8%	4.6%
Barclays Capital U.S. Corporate Investment Grade	3.16%	108	0.3%	0.6%	4.5%	10.4%	10.5%
BAML Euro Corporate Investment Grade	0.35%	102	0.3%	1.4%	2.9%	5.9%	5.6%
Barclays Capital U.S. Corporate High Yield	5.88%	371	0.2%	0.6%	1.6%	6.9%	10.6%
BAML European Currency High Yield Non-Financial	3.33%	387	0.1%	0.5%	1.3%	4.1%	4.3%
CS U.S. Leveraged Loans	6.33%	449	0.2%	0.8%	0.7%	4.1%	7.5%
CS Western European Leveraged Loans Non-USD	4.69%	415	0.1%	0.3%	0.7%	3.1%	4.3%
JPM CEMBI Broad Diversified	5.18%	323	0.3%	0.9%	3.5%	9.6%	8.0%
JPM EMBI Global Diversified	5.32%	319	0.0%	1.2%	4.9%	11.0%	7.9%
JPM GBI-EM Global Diversified	5.49%	N/A	-0.5%	0.9%	6.6%	8.0%	2.9%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,980.38	1.85%	-1.3%	1.4%	1.7%	8.0%	20.2%
Euro STOXX 600 (Local)	385.77	2.98%	-1.5%	0.2%	-1.4%	-1.5%	14.3%
U.K. FTSE 100 (Local)	7,586.78	4.25%	1.1%	2.2%	2.3%	-2.1%	12.8%
Japan Nikkei 225 (Local)	21,521.53	2.17%	-0.9%	1.2%	-3.3%	-4.6%	7.5%
China Shanghai Composite (Local)	2,932.51	2.41%	0.3%	-1.6%	-4.7%	2.0%	17.6%
MSCI AC World (Local)	524.35	2.50%	-1.2%	1.0%	1.1%	4.6%	8.9%
MSCI Emerging Markets (Local)	1,037.01	2.89%	-1.4%	-0.9%	-3.1%	-0.5%	-1.4%
Commodities/Currencies	Price	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	422.44	1.1%	-0.7%	-5.4%	3.6%	-9.1%	12.9%
WTI Crude (\$/bbl)	58.52	4.6%	0.5%	-8.3%	8.7%	-16.3%	29.6%
Copper (\$/lb)	2.66	-1.7%	-1.8%	-8.4%	-4.7%	-5.7%	1.1%
Gold (\$/oz)	1,427.55	0.0%	1.3%	11.3%	7.9%	16.9%	11.6%
U.S. Dollar Index	98.52	0.8%	2.5%	1.1%	3.1%	4.3%	2.4%
Euro (USD/EUR)	1.11	-0.1%	-2.2%	-0.7%	-3.0%	-4.8%	-2.6%
British Pound (USD/GBP)	1.22	-2.0%	-3.8%	-6.1%	-6.9%	-6.7%	-3.9%
Japanese Yen (Yen/USD)	108.58	0.5%	0.8%	-2.5%	-0.2%	-3.0%	-1.0%
Chinese Yuan (CNY/USD)	6.89	0.2%	0.3%	2.2%	2.7%	0.9%	0.3%

Source: FactSet and Bloomberg

Economics

UNITED STATES

FOMC Meeting: The Fed cut the funds rate by 25 bps to a range of 2%-2.25%, as expected. The policy statement kept an upbeat economic assessment, but highlighted uncertainties about the outlook especially from global factors and muted inflation pressures. The balance sheet drawdown will end on August 1, two months early. Chairman Jerome Powell characterized the cut as a mid-cycle adjustment and not a signal that the Fed is starting an easing cycle. Although he later said the Fed could cut again, markets viewed the comments hawkishly as the curve flattened and equities traded lower.

GDP: GDP grew at 2.1% in 2Q19, ahead of consensus estimates, as strong consumer spending and a rise in government spending withstood drags from inventories, exports and business investment.

Consumer: The June personal spending report showed income growth should continue to support spending during the second half of the year. The PCE measure of core inflation edged up to 1.6% in June, from 1.5%, but is still well below the 2% Fed target. Consumer confidence rebounded to an eight-month high in July, well ahead of expectations for a small gain.

EUROPE

EZ GDP: 2Q19 GDP grew .2% Q/Q (+1.1% Y/Y), in line with estimates, but confirmed growth slowed during the second quarter as global demand weakened. Much of the EZ weakness emanates from Germany, but second-quarter growth flat lined in Italy and slowed more than expected in Spain and France.

EZ Inflation: Euro-area inflation decelerated as CPI increased 1.1% Y/Y in July, down from 1.3% Y/Y in June. The core rate fell to .9% Y/Y from 1.1% in June, slightly below consensus estimates. Weaker inflation data gives the ECB another reason to go ahead with its plan to announce additional stimulus at its September meeting.

BOE Meeting: The BOE kept its current policy settings on hold, as expected, acknowledging the appropriate path of monetary policy would depend on the outcome of Brexit. Although Brexit uncertainty keeps the BOE on the sidelines, rates markets are assigning a higher probability that the next move is a cut rather than a hike.

ASIA - PAC

BOJ Meeting: The BOJ kept policy settings on hold, as expected. The central bank's updated GDP and core inflation forecasts were mainly lower with Yen appreciation a likely concern as other central banks have eased or will soon start.

China Leading Indicators: The official and private manufacturing PMI inched higher in July, but remained in contraction territory. Large firms moved back into expansion while small- and medium-sized firms contracted further.

China Industrial Profits: June profits for Chinese industrial companies decreased 3.1% Y/Y, reversing a 1.1% Y/Y rise in May. Profit growth in the private sector slowed in the first half of the year, while SOE profits continued to decline.

Policy

UNITED STATES

Emerging Markets: President Trump has ordered U.S. Trade Representative Robert Lighthizer to pressure the World Trade Organization to crack down on countries that use the developing nation classification. While it is unclear what pull the U.S. actually has in implementing any changes, the move is seen as directly targeted at China.

China Trade: Talks between U.S. and Chinese trade delegates in Shanghai this week concluded without signaling any progress, although they have indicated plans to meet again in September. Given the seeming lack of progress, President Trump has announced that he will impose an additional 10% tariff on \$300 billion in Chinese imports that aren't yet subject to duties, beginning September 1.

Japan Trade: Talks between the U.S. and Japan are expected to begin this month with ministerial-level talks planned to focus on agricultural and industrial goods. These meetings will be the first following Japan's upper house election on July 21. Recall that earlier reports suggest that the U.S. and Japan are working on a quid pro quo deal involving agriculture and autos. The deal could be agreed to by President Trump and Japanese Prime Minister Shinzo Abe when they meet in New York in September.

Health Care: A new Trump administration ruling will force hospitals to disclose, in an online form, the discounted prices they negotiate with insurance companies. Hospitals that are found uncompliant will be subjected to a fine of up to \$300 a day, with the requirements applying to all hospitals that accept Medicare, as well as some others.

GLOBAL

Brexit: Recent news from U.K. government officials, including rhetoric from newly elected Prime Minister Boris Johnson, has increased speculation of a no-deal Brexit on October 31. Specifically, Prime Minister Johnson said he wants to renegotiate the current exit deal with the EU, something the EU claims is non-negotiable. The U.K. is making preparations in the event that Prime Minister Johnson is unsuccessful.

China: The quarterly Politburo meeting chaired by President Xi Jinping concluded that while the overall macro-economy was stable, China must rely on domestic demand to manage new risks and challenges amid growing downward pressure on the economy. The messaging empathized that fiscal policy will be proactive and monetary policy will stay prudent, while also maintaining the principle that housing is meant for living in, not for speculation.

EU Banking Union: Germany's Federal Constitutional Court rejected challenges claiming that the systems put in place in 2014 that switched regulation of the euro zone's bigger lenders to the ECB also strips German regulators of key rights while exposing taxpayers to unlimited financial risks. The court cites that the new measures are valid because they "don't transfer banking supervision competences completely to the EU level and leave substantial powers with national regulators."

IMPORTANT INFORMATION

Any forecasts in this document are based upon Barings opinion of the market at the date of preparation and are subject to change without notice, dependent upon many factors. Any prediction, projection or forecast is not necessarily indicative of the future or likely performance. Investment involves risk. The value of any investments and any income generated may go down as well as up and is not guaranteed by Barings or any other person. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Any investment results, portfolio compositions and or examples set forth in this document are provided for illustrative purposes only and are not indicative of any future investment results, future portfolio composition or investments. The composition, size of, and risks associated with an investment may differ substantially from any examples set forth in this document. No representation is made that an investment will be profitable or will not incur losses. Where appropriate, changes in the currency exchange rates may affect the value of investments.

Barings is the brand name for the worldwide asset management and associated businesses of Barings LLC and its global affiliates. Barings Securities LLC, Barings (U.K.) Limited, Barings Global Advisers Limited, Barings Australia Pty Ltd, Barings Japan Limited, Barings Real Estate Advisers Europe Finance LLP, BREAE AIFM LLP, Baring Asset Management Limited, Baring International Investment Limited, Baring Fund Managers Limited, Baring International Fund Managers (Ireland) Limited, Baring Asset Management (Asia) Limited, Baring SICE (Taiwan) Limited, Baring Asset Management Switzerland Sarl, and Baring Asset Management Korea Limited each are affiliated financial service companies owned by Barings LLC (each, individually, an "Affiliate").

NO OFFER: The document is for informational purposes only and is not an offer or solicitation for the purchase or sale of any financial instrument or service in any jurisdiction. The material herein was prepared without any consideration of the investment objectives, financial situation or particular needs of anyone who may receive it. This document is not, and must not be treated as, investment advice, an investment recommendation, investment research, or a recommendation about the suitability or appropriateness of any security, commodity, investment, or particular investment strategy, and must not be construed as a projection or prediction.

Copyright in this document is owned by Barings. Information in this document may be used for your own personal use, but may not be altered, reproduced or distributed without Barings' consent.

19-916719