

16 August 2019

Overview

Yield Curve Inversion: *The 10-year U.S. Treasury yield briefly traded below the two-year yield, inverting that part of the curve for the first time since 2007. The measure is closely watched as a recession indicator. The last five 2/10 inversions have eventually led to recessions. Some key macro drivers of the inversion include concern the Fed has been too slow to lower rates and the risk of a spillover of the global growth slowdown to the U.S. The 30-year U.S. Treasury yield hit an all-time low and traded below 2%.*

Tariff Delay: *The imposition of an additional tariff of 10% on approximately \$300 billion of Chinese imports is being delayed until December 15 for certain articles. Products are mainly technology focused and include cell phones, laptops, video game consoles, computer monitors, as well as certain toys, apparel and footwear. While President Trump hopes to avoid being labeled a scrooge during the Christmas shopping season, he also cited a positive call with the Chinese as a reason for the delay.*

ECB Stimulus Expectations Rise: *Finnish central banker Ollie Rehn said the ECB should announce a package of stimulus measures that exceeds investors' expectations at its September 12 meeting. He mentioned the possibility of improving bank loan terms, adjusting the current rules governing QE to increase bond purchase capacity and didn't rule out adding equity purchases.*

Key Financial Indicators

As of: 8/14/2019

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	2.25%	0 bps	-25 bps	-25 bps	-25 bps	25 bps	-25 bps
3 Month USD Libor	2.17%	-2 bps	-15 bps	-36 bps	-53 bps	-15 bps	-64 bps
3 Month Euribor	-0.41%	-2 bps	-4 bps	-10 bps	-10 bps	-9 bps	-10 bps
3 Month U.S. T-Bill	1.96%	-5 bps	-18 bps	-45 bps	-46 bps	-11 bps	-49 bps
2-Year U.S. Treasury	1.58%	0 bps	-25 bps	-62 bps	-92 bps	-105 bps	-92 bps
10-Year U.S. Treasury	1.58%	-10 bps	-53 bps	-84 bps	-108 bps	-131 bps	-110 bps
10-Year German Bund	-0.66%	-5 bps	-44 bps	-58 bps	-75 bps	-98 bps	-89 bps
10-Year U.K. Gilt	0.45%	0 bps	-37 bps	-64 bps	-69 bps	-81 bps	-82 bps
10-Year JGB	-0.23%	-2 bps	-10 bps	-18 bps	-22 bps	-33 bps	-22 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.64%	N/A	0.7%	3.4%	5.6%	10.3%	8.1%
Barclays Capital U.S. TIPS	1.75%	N/A	0.5%	2.2%	4.5%	7.4%	8.5%
Barclays Capital U.S. Aggregate	2.23%	51	0.5%	2.6%	4.9%	9.9%	8.5%
Barclays Capital Global Aggregate	1.25%	48	0.2%	2.2%	4.8%	8.4%	7.2%
Barclays Capital U.S. ABS	1.96%	33	0.0%	1.0%	1.9%	5.5%	4.1%
Barclays Capital U.S. MBS	2.45%	55	-0.1%	0.8%	2.3%	6.8%	5.0%
Barclays Capital U.S. Corporate Investment Grade	2.92%	123	0.8%	3.3%	6.8%	12.7%	13.0%
BAML Euro Corporate Investment Grade	0.29%	111	0.2%	1.6%	3.4%	5.9%	6.0%
Barclays Capital U.S. Corporate High Yield	6.22%	439	0.1%	-0.6%	1.4%	5.6%	9.5%
BAML European Currency High Yield Non-Financial	3.48%	413	-0.1%	-0.3%	1.7%	3.6%	3.8%
CS U.S. Leveraged Loans	6.20%	472	-0.3%	0.0%	0.4%	3.4%	7.0%
CS Western European Leveraged Loans Non-USD	4.65%	422	0.0%	0.3%	0.8%	2.9%	4.4%
JPM CEMBI Broad Diversified	5.15%	358	-0.3%	0.4%	3.3%	11.2%	7.8%
JPM EMBI Global Diversified	5.40%	369	-0.7%	0.5%	4.7%	12.7%	7.4%
JPM GBI-EM Global Diversified	5.36%	N/A	-0.4%	-1.9%	4.7%	11.2%	0.7%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,840.60	1.95%	-1.4%	-5.6%	0.7%	2.1%	14.7%
Euro STOXX 600 (Local)	366.16	2.92%	-0.7%	-5.3%	-2.7%	-4.9%	8.4%
U.K. FTSE 100 (Local)	7,147.88	4.56%	-0.7%	-4.8%	-1.3%	-6.1%	6.2%
Japan Nikkei 225 (Local)	20,655.13	2.27%	0.7%	-4.8%	-2.0%	-7.6%	3.2%
China Shanghai Composite (Local)	2,808.91	2.49%	1.5%	-4.2%	-2.6%	1.0%	12.6%
MSCI AC World (Local)	498.63	2.63%	-1.0%	-5.3%	-0.7%	0.1%	3.9%
MSCI Emerging Markets (Local)	964.43	3.01%	-0.5%	-5.7%	-2.6%	-3.0%	-6.2%
Commodities/Currencies	Price	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	398.07	2.7%	-8.4%	-8.9%	-4.4%	-12.5%	6.3%
WTI Crude (\$/bbl)	55.17	7.9%	-8.0%	-10.8%	1.4%	-17.7%	22.2%
Copper (\$/lb)	2.59	0.8%	-3.9%	-5.4%	-6.8%	-3.3%	-1.6%
Gold (\$/oz)	1,513.25	0.5%	7.5%	16.5%	15.4%	26.4%	18.3%
U.S. Dollar Index	97.99	0.5%	1.2%	0.5%	1.0%	1.3%	1.9%
Euro (USD/EUR)	1.12	-0.6%	-0.9%	-0.6%	-1.1%	-2.0%	-2.5%
British Pound (USD/GBP)	1.21	-0.7%	-3.9%	-6.6%	-5.6%	-5.3%	-5.2%
Japanese Yen (Yen/USD)	105.81	0.0%	-2.0%	-3.4%	-4.4%	-4.6%	-3.6%
Chinese Yuan (CNY/USD)	7.02	-0.4%	2.0%	1.9%	3.6%	1.9%	2.2%

Source: FactSet and Bloomberg

Economics

UNITED STATES

Inflation: Core consumer prices increased more than expected in July, rising .3% M/M (+2.2% Y/Y) on broad-based gains. The headline CPI measure was up .3% M/M (+1.8% Y/Y), in line with estimates. Import prices unexpectedly rose in July, increasing .2% M/M (-1.8% Y/Y), but overall it seems tariffs have had little effect on the consumer. There are signs USD strength, which drove import prices lower in 1H19 and held down core inflation, may be abating.

Retail Sales: Retail sales increased more than expected in July with the headline measure up .7% M/M. Ten of 13 major categories increased, led by a 2.8% rise for non-store retailers (i.e. online shopping). Ex-auto retail sales increased 1% in July and control group sales, which feed directly into GDP, were also up 1% for the month. The data provides some comfort on the current health of the consumer amid rising growth worries.

Leading Indicators: Regional PMIs came in better than expected in August. The Empire Manufacturing Index unexpectedly increased as measures of new orders and shipments improved. The Philadelphia Fed Index declined less than estimated with new orders and inventories strengthening. The expectations portion of both surveys remain solid.

EUROPE

EZ GDP: 2Q19 GDP grew .2% Q/Q (+1.1% Y/Y), unchanged from the initial estimate, as growth slowed from first quarter levels as global demand weakened. Germany's economy shrank 0.1% in 2Q19, following .4% growth in 1Q19.

German Sentiment: The ZEW survey showed economic sentiment slumped more than expected in August to its lowest level since December 2011. Rising worries over global trade and Brexit continue to dampen the outlook.

UK GDP: The economy unexpectedly contracted .2% Q/Q in 2Q19, following .5% growth during the first quarter. Isolated factors including an inventory unwind ahead of the original Brexit deadline and auto plant shutdowns weighed on growth.

ASIA - PAC

China Activity: Economic activity weakened more than expected in July. Industrial production slowed to 4.8% Y/Y from 6.3% in June, the lowest since 2002. Fixed asset investment growth dipped to 5.7% YTD and retail sales disappointed, slowing to 7.6% Y/Y from 9.8% Y/Y in June. The weaker activity data, coupled with a rising unemployment rate, heighten concerns about a further economic slowdown.

China Credit: Growth slowed in July as new loans were lower driven by a drop in corporate sector and short-term lending. Aggregate financing fell, fueled by the drop in new loans and a contraction in shadow banking.

Japan Inflation: July producer prices were flat M/M (-.6% Y/Y), weaker than expected, and dragged down by lower energy and agriculture costs. Import prices decreased for the third-consecutive month as petroleum prices fell 5.1% in July.

Policy

UNITED STATES

China Trade: The USTR is delaying tariffs on an estimated \$156 billion worth of Chinese imports such as cell phones, laptops, video game consoles, certain toys, computer monitors and some items of clothing until December 15, citing “health, safety and national security” factors and delays. Recall, 10% tariffs on \$300 billion worth of Chinese imports were originally scheduled to be implemented on September 1. Trade delegations from both sides are scheduled to meet in September.

Dodd-Frank: Regulators, comprising five agencies led by the Federal Reserve, will vote August 20 on finalizing a major overhaul of the Volcker Rule. The changes include an easing of post-crisis safeguards, including loosening restrictions on banks investing their own money in private equity and hedge funds. A new and looser definition of proprietary trading is expected to be implemented, which avoids regulators from re-proposing the rule and seeking comment.

Real Estate: The Federal Housing Administration (FHA) is expected to announce new rules that make it easier for first-time buyers to be eligible for down-payments as low as 3.5% for condominium purchases made with FHA-backed loans. The new rule is estimated to impact as many as 60,000 additional condo loans each year, compared to the 16,000 condo loans it backed in 2018.

GLOBAL

Hong Kong: With protests now stretching into an 11th week, thousands of demonstrators descended on Hong Kong International Airport, leading to grounded flights for two consecutive days. Rhetoric from Chinese officials has also heightened, with Beijing saying the protests are showing signs of “terrorism,” and reports that Chinese military forces have been stationed to the mainland border with Hong Kong.

Argentina: Primary elections held across the country saw the center-right President Mauricio Macri unexpectedly lose in a landslide, giving leftist Alberto Fernandez, the main opposition candidate, 47% of the vote, versus 32% for Macri. The general election is scheduled for October 27, with a runoff vote scheduled on November 24.

Brexit: Labour leader Jeremy Corbyn has urged leaders of the opposition and Tory rebels to back him in a no-confidence vote against the government to prevent a no-deal Brexit. Corbyn plans to delay Brexit, call for a snap election, and campaign for another referendum. The Liberal Democrats have so far rejected the idea. Separately, amid increased speculation of a no-deal Brexit, Speaker of the U.S. House of Representatives Nancy Pelosi has warned that any U.S.-U.K. trade deal hinges on respect of the Good Friday Agreement, which stipulates a seamless border between the Irish Republic and Northern Ireland.

South Korea: Beginning in September, Japan will no longer benefit from South Korea’s list of favored trading partners, causing certain imports to require a process that typically takes up to 15 days, compared to the current window of five days.

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