

6 September 2019

Overview

Fed Beige Book: Federal Reserve districts said the economy expanded at a modest pace through the end of August. The majority of businesses remained optimistic about the near-term outlook despite uncertainty regarding tariffs and trade policy. Consumer spending reports were mixed, although auto sales for most districts increased slightly. Home sales remained constrained in most districts mainly due to low inventory levels, while new home construction stayed flat. Commercial real estate construction and sales activity were steady and leasing rose slightly over the prior period. Manufacturing activity was down slightly from the last report and lending volumes grew moderately across several districts.

China Bad Debts: Reports indicate nonperforming loans in China grew 10% during the first half of 2019 with more small and mid-size companies struggling. Approximately 5% of all lending in China is in or near default. Smaller banks seemed to be disproportionately impacted due to their unequal access to liquidity compared to state-owned banks. Larger institutions are much better positioned to absorb nonperforming loans with minimal impact to profitability given their wider lending margins. However, bad debts continue to rise, with corporate debt defaults expected to set a new record this year.

Brexit Update: U.K. MPs voted by a margin of 327-299 in favor of a bill to block no-deal Brexit. The bill would require U.K. PM Boris Johnson to ask the EU for a Brexit delay until January 31, 2020, if no deal has been agreed by October 19. Johnson's proposal for a new election on October 15 was also rejected. Opposition parties are divided on a way forward with some calling for an election after October 31 to ensure the no-deal outcome is avoided and to take advantage of Johnson's failure to keep his pledge to leave by the end of October. A no-confidence vote remains a possibility.

Key Financial Indicators								As of:	9/4/2019
Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change		
Fed Funds	2.25%	0 bps	0 bps	-25 bps	-25 bps	25 bps	-25 bps		
3 Month USD Libor	2.11%	-1 bps	-13 bps	-36 bps	-50 bps	-21 bps	-70 bps		
3 Month Euribor	-0.44%	-2 bps	-6 bps	-12 bps	-13 bps	-12 bps	-13 bps		
3 Month U.S. T-Bill	1.95%	-4 bps	-7 bps	-35 bps	-46 bps	-14 bps	-45 bps		
2-Year U.S. Treasury	1.43%	-8 bps	-28 bps	-45 bps	-111 bps	-123 bps	-107 bps		
10-Year U.S. Treasury	1.46%	0 bps	-40 bps	-66 bps	-126 bps	-144 bps	-122 bps		
10-Year German Bund	-0.66%	6 bps	-15 bps	-46 bps	-82 bps	-100 bps	-90 bps		
10-Year U.K. Gilt	0.50%	13 bps	-16 bps	-49 bps	-84 bps	-90 bps	-83 bps		
10-Year JGB	-0.28%	0 bps	-11 bps	-18 bps	-28 bps	-39 bps	-28 bps		
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return		
Barclays Capital U.S. Government-Treasury	1.51%	N/A	0.1%	2.7%	4.5%	11.0%	9.0%		
Barclays Capital U.S. TIPS	1.64%	N/A	-0.3%	2.0%	3.4%	7.8%	9.1%		
Barclays Capital U.S. Aggregate	2.06%	48	0.2%	2.1%	4.3%	10.8%	9.4%		
Barclays Capital Global Aggregate	1.17%	45	-0.1%	1.6%	3.7%	8.5%	7.6%		
Barclays Capital U.S. ABS	1.82%	33	0.2%	0.8%	1.6%	5.8%	4.5%		
Barclays Capital U.S. MBS	2.20%	44	0.3%	0.8%	2.1%	7.5%	5.7%		
Barclays Capital U.S. Corporate Investment Grade	2.77%	122	0.0%	2.5%	6.4%	14.0%	14.2%		
BAML Euro Corporate Investment Grade	0.28%	112	-0.3%	0.5%	3.1%	6.5%	7.3%		
Barclays Capital U.S. Corporate High Yield	5.79%	406	0.2%	0.7%	3.0%	6.6%	11.0%		
BAML European Currency High Yield Non-Financial	3.10%	376	0.2%	0.9%	3.2%	4.9%	8.7%		
CS U.S. Leveraged Loans	6.10%	481	0.1%	-0.2%	0.7%	3.4%	6.0%		
CS Western European Leveraged Loans Non-USD	4.60%	423	0.1%	0.3%	0.8%	2.9%	3.3%		
JPM CEMBI Broad Diversified	5.10%	369	0.1%	0.2%	3.1%	11.5%	10.2%		
JPM EMBI Global Diversified	5.05%	346	1.1%	1.6%	5.4%	15.5%	14.4%		
JPM GBI-EM Global Diversified	5.20%	N/A	1.5%	0.1%	4.0%	15.0%	8.1%		
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return		
S&P 500	2,937.78	1.88%	1.8%	0.4%	5.3%	3.5%	18.8%		
Euro STOXX 600 (Local)	383.18	2.92%	2.8%	1.3%	2.8%	0.9%	13.5%		
U.K. FTSE 100 (Local)	7,311.26	4.48%	2.8%	-1.3%	1.3%	-2.0%	8.7%		
Japan Nikkei 225 (Local)	20,649.14	2.27%	0.8%	-2.1%	1.2%	-9.0%	3.2%		
China Shanghai Composite (Local)	2,957.41	2.37%	2.2%	3.1%	3.3%	7.5%	18.6%		
MSCI AC World (Local)	513.64	2.57%	1.9%	0.2%	3.2%	2.2%	15.6%		
MSCI Emerging Markets (Local)	990.61	2.96%	2.2%	0.0%	1.2%	-1.1%	7.0%		
Commodities/Currencies	Price	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change		
S&P GS Commodity Index	403.72	0.8%	-1.0%	-0.8%	-4.6%	-13.8%	7.9%		
WTI Crude (\$/bbl)	56.21	0.8%	1.0%	5.1%	-0.7%	-19.5%	24.5%		
Copper (\$/lb)	2.58	1.1%	0.5%	-3.5%	-11.4%	-0.2%	-1.9%		
Gold (\$/oz)	1,546.10	0.6%	7.2%	16.8%	20.3%	29.8%	20.9%		
U.S. Dollar Index	98.45	0.2%	0.4%	1.4%	1.8%	3.2%	2.4%		
Euro (USD/EUR)	1.10	-0.4%	-0.7%	-1.8%	-2.6%	-4.6%	-3.5%		
British Pound (USD/GBP)	1.22	-0.2%	0.6%	-3.8%	-7.4%	-5.0%	-4.3%		
Japanese Yen (Yen/USD)	106.20	0.3%	-0.3%	-2.0%	-5.1%	-4.6%	-3.2%		
Chinese Yuan (CNY/USD)	7.15	-0.1%	3.1%	3.5%	6.8%	4.7%	4.2%		

Source: FactSet and Bloomberg

Economics

UNITED STATES

Leading Indicators: ISM manufacturing index unexpectedly contracted in August, falling below the expansion/contraction line of 50 for the first time since 2016; the index declined to 49.1 from 51.2 in July. Measures for new orders and employment also declined to multi-year lows. The ISM service index increased more than expected in August, hitting a three-month high of 56.4, driven by rising new orders and activity. The weakest part of the service report was the employment gauge, which fell to its lowest level since March 2017.

Consumer: Better-than-expected personal spending data in July indicated household consumption remains solid and should provide a good foundation for third-quarter growth. Incomes rose less than forecast, while the core PCE inflation measure remains well below the Fed's target level. Consumer sentiment fell the most in six years on the final August reading as the current conditions and expectations sub-measures both dropped more than initially reported.

Trade: The trade deficit narrowed in July to \$54 billion from a revised \$55.5 billion the previous month. Exports increased .6% M/M while imports fell .1% M/M. Y/Y shipment of goods to China are down 18.2% year-to-date, while imports have declined 12.3%. China was the largest U.S. trading partner last year but has fallen behind Mexico and Canada in 2019.

EUROPE

EZ Inflation: Consumer inflation remains well below the ECB's target rate. August CPI rose 1% Y/Y and the core rate increased .9% Y/Y, both unchanged from July. The data should bolster expectations for ECB stimulus at the next meeting.

EZ Unemployment: The July unemployment rate was unchanged from June at 7.5% and ranged from a low of 3% in Germany to a high of 13.9% in Spain. Youth unemployment was 15.6% in August, down from 16.7% a year ago.

U.K. Leading Indicators: The manufacturing PMI unexpectedly dipped further into contraction in August at 47.4, reaching a seven-year low. The services PMI fell more than estimated but remained in expansion territory at 50.6.

ASIA - PAC

China Leading Indicators: China's private manufacturing PMI dipped further into contraction in August at 49.5. The official PMI data was at odds with the private data as it increased to 50.4 from just below the expansion line in July.

Japan PMI: The Markit manufacturing PMI slipped further into contraction territory at 49.3 in August, down from 49.4 in July and 52.5 a year ago. Underlying data was mixed with output rising for the eighth-straight month while new orders fell.

South Korea Trade: Exports declined for the ninth-consecutive month in August, falling 13.6% Y/Y, more than expected. The semiconductor industry, which comprises ~20% of total exports, remained the biggest drag, falling 30.7% Y/Y. Exports to China, which are ~25% of total exports, dropped 21.3% Y/Y. Imports declined 4.2% Y/Y in August.

Policy

UNITED STATES

China Trade: U.S. and Chinese officials were reportedly having difficulty on agreeing on the date of the next round of trade talks before finally deciding to hold talks in Washington in “early October.” Mistrust on both sides has fed uncertainty of a future trade deal and allegedly prevented both from agreeing on the basic terms of re-engagement, including the U.S.’ appeal to set some parameters for the next round of talks and China’s call to delay new tariffs.

Tariffs: Tariffs on \$110 billion of Chinese imports took effect on September 1, including a 15% duty on consumer goods ranging from footwear and apparel to home textiles and certain technology products, like the Apple Watch. A separate batch of about \$160 billion in Chinese goods -- including laptops and cellphones -- will be hit with 15% tariffs on December 15. In response, China is rolling out retaliatory tariffs on about \$75 billion of U.S. products.

Digital Tax: French minister Bruno Le Maire met with USTR Robert Lighthizer and Treasury Secretary Steven Mnuchin in Washington in another bid to avert any negative consequence France may face from the U.S. over its proposed tax on big technology companies. The discussion focused on implementing a solution that would work within the OECD framework. Recall, President Donald Trump threatened to slap tariffs on French goods if the digital tax is not withdrawn.

GLOBAL

Brexit: Parliament voted 327 to 299 in favor of a proposal that requires the government to seek a three-month extension to the Brexit deadline if a Parliament-approved deal cannot be agreed upon with the EU by October 19. While the decision still needs the approval of the House of Lords, the development came following a vote in the Commons to take control of the parliamentary schedule, which saw Prime Minister Boris Johnson’s Conservatives losing their razor-thin majority after 21 Tory MPs voted against Johnson.

Italy: President Sergio Mattarella has given the new government coalition between the Five Star Movement and the Democratic Party the green light to be formally sworn in, effectively pushing the anti-migrant populist League Party back into the opposition. Five Star’s Giuseppe Conte and Luigi Di Maio will act as prime minister and foreign minister, respectively, and Democratic Party and European Parliament member Roberto Gualtieri as economy minister. The rest of the cabinet will be divided almost equally between the two parties.

Iran: Deputy Foreign Minister Abbas Araqchi has signaled that Tehran would return to its nuclear commitment only if it gets \$15 billion in credit lines for oil sales over four months. This is broadly in line with what was agreed on in a draft French plan to salvage the accord.

Hong Kong: Chief Executive Carrie Lam has announced that she will formally withdraw legislation to allow extraditions to China. The move came following an announcement from mainland China’s office for Hong Kong affairs that it has legal power to unilaterally declare a state of emergency in the city if the unrest continues.

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