

13 September 2019

## Overview

**Tariff Delay:** More signs are appearing to show that the U.S. and China are attempting to deescalate trade tensions before the October meeting in Washington, D.C. President Donald Trump said the U.S. would delay increasing tariffs from 25% to 30% on \$250 billion of Chinese imports to October 15, from October 1 (also the 70th anniversary of the founding of the People's Republic of China). Trump termed the delay a goodwill gesture. Separately, a Bloomberg report noted the U.S. has discussed proposing a limited trade agreement to China that would delay and potentially roll back some tariffs in exchange for China's commitment on intellectual property and agricultural purchases. The offer would be an interim deal and not a final resolution to the trade conflict, aimed at alleviating recent market and economic trade distress.

**ECB Meeting:** The ECB eased monetary policy at its September 12 meeting, as expected. Several measures were announced, including a 10 bps cut in the deposit rate to -.50% and a restart of quantitative easing (QE) on November 1. The ECB will restart QE at a monthly pace of €20 billion and continue until shortly before the first rate hike. A two-tiered deposit system was announced that exempts part of banks' excess liquidity from negative rates. The TLTRO terms were improved by lowering the interest rate and increasing the maturity from two to three years. The ECB scrapped its calendar-based forward guidance, instead linking its interest rate guidance to meeting the inflation objective. ECB President Mario Draghi has one more policy meeting on October 24 before his term ends a week later.

**PBOC Lowers RRR:** China's central bank will cut the required reserve ratio (RRR) by 50 bps for all banks effective September 16 and an additional 100 bps for some city commercial banks, which will be phased-in during October and November. The cut is the third this year and seventh since early 2018, bringing the RRR to its lowest level since October 2007. The PBOC said the latest cut will free up 900 billion yuan (\$126 billion) of liquidity, helping entice lenders to finance projects to boost growth and support employment.

**Key Financial Indicators**
**As of: 9/11/2019**

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	2.13%	1 bps	-5 bps	-32 bps	-48 bps	-21 bps	-68 bps
3 Month Euribor	-0.43%	1 bps	-3 bps	-11 bps	-12 bps	-11 bps	-12 bps
3 Month U.S. T-Bill	1.95%	0 bps	-1 bps	-27 bps	-46 bps	-16 bps	-45 bps
2-Year U.S. Treasury	1.67%	24 bps	4 bps	-26 bps	-80 bps	-108 bps	-83 bps
10-Year U.S. Treasury	1.74%	28 bps	0 bps	-40 bps	-91 bps	-124 bps	-95 bps
10-Year German Bund	-0.57%	9 bps	3 bps	-36 bps	-62 bps	-99 bps	-81 bps
10-Year U.K. Gilt	0.63%	13 bps	3 bps	-31 bps	-57 bps	-84 bps	-70 bps
10-Year JGB	-0.20%	8 bps	1 bps	-9 bps	-17 bps	-31 bps	-20 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.76%	N/A	-1.6%	0.1%	2.8%	9.6%	7.2%
Barclays Capital U.S. TIPS	1.91%	N/A	-1.4%	-0.4%	2.2%	6.7%	7.6%
Barclays Capital U.S. Aggregate	2.32%	47	-1.3%	0.2%	2.9%	9.7%	8.0%
Barclays Capital Global Aggregate	1.33%	44	-1.3%	-0.5%	1.9%	7.2%	6.2%
Barclays Capital U.S. ABS	2.04%	33	-0.5%	0.1%	1.2%	5.4%	4.0%
Barclays Capital U.S. MBS	2.48%	44	-0.4%	0.3%	1.7%	7.4%	5.3%
Barclays Capital U.S. Corporate Investment Grade	3.00%	118	-1.7%	0.3%	4.3%	12.3%	12.3%
BAML Euro Corporate Investment Grade	0.37%	114	-0.5%	-0.3%	2.3%	6.1%	6.7%
Barclays Capital U.S. Corporate High Yield	5.66%	372	0.4%	1.5%	2.4%	7.0%	11.5%
BAML European Currency High Yield Non-Financial	3.15%	375	-0.1%	0.9%	2.5%	4.8%	8.6%
CS U.S. Leveraged Loans	6.30%	474	0.3%	0.3%	0.8%	3.5%	6.3%
CS Western European Leveraged Loans Non-USD	4.63%	418	0.1%	0.4%	0.9%	2.9%	3.5%
JPM CEMBI Broad Diversified	5.15%	345	0.1%	0.1%	2.6%	11.6%	10.3%
JPM EMBI Global Diversified	5.20%	334	-1.0%	-0.1%	3.5%	14.5%	13.3%
JPM GBI-EM Global Diversified	5.29%	N/A	0.1%	-0.3%	2.2%	15.2%	8.2%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,000.93	1.84%	2.2%	3.0%	4.5%	6.0%	21.4%
Euro STOXX 600 (Local)	389.71	2.97%	1.7%	4.9%	2.3%	3.8%	15.4%
U.K. FTSE 100 (Local)	7,338.03	4.48%	0.4%	1.2%	-0.8%	0.9%	9.1%
Japan Nikkei 225 (Local)	21,597.76	2.17%	4.6%	4.4%	1.9%	-4.7%	7.9%
China Shanghai Composite (Local)	3,008.81	2.32%	1.7%	8.4%	2.8%	12.9%	20.6%
MSCI AC World (Local)	524.65	2.53%	2.2%	3.4%	3.6%	5.5%	18.1%
MSCI Emerging Markets (Local)	1,017.04	2.91%	2.2%	3.9%	1.3%	4.3%	9.3%
Commodities/Currencies	Price	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	404.20	0.1%	1.1%	-0.8%	-4.6%	-13.5%	8.0%
WTI Crude (\$/bbl)	55.74	-0.9%	2.4%	4.6%	-1.8%	-19.6%	23.5%
Copper (\$/lb)	2.60	0.7%	0.5%	-2.9%	-10.4%	-0.2%	-1.2%
Gold (\$/oz)	1,490.65	-3.6%	-0.5%	12.6%	15.3%	25.3%	16.5%
U.S. Dollar Index	98.65	0.2%	1.2%	2.0%	1.5%	3.6%	2.6%
Euro (USD/EUR)	1.10	-0.3%	-1.8%	-2.8%	-2.0%	-5.1%	-3.8%
British Pound (USD/GBP)	1.23	1.2%	2.2%	-2.9%	-5.7%	-5.0%	-3.1%
Japanese Yen (Yen/USD)	107.75	1.5%	2.0%	-0.8%	-3.1%	-3.3%	-1.8%
Chinese Yuan (CNY/USD)	7.12	-0.5%	0.9%	2.9%	5.8%	3.7%	3.7%

Source: FactSet and Bloomberg

## Economics

### UNITED STATES

**Employment:** The August employment report showed the economy added 130,000 jobs, below consensus estimates of 160,000. The unemployment rate held steady at 3.7%, while average hourly earnings increased .4% M/M (+3.2% Y/Y), beating estimates. The labor force participation rate rose .2 to 63.2%, the highest since February.

**Inflation:** August core consumer prices were firmer than expected, increasing .3% M/M (2.4% Y/Y). Headline inflation decelerated to 1.7% Y/Y on lower energy prices. Core producer prices accelerated in August after a July slowdown, but do not signal any price pressures. Tame inflation levels give the Fed ample latitude to cut interest rates at the next meeting.

**Small Business Optimism:** The NFIB Small Business Optimism Index hit a five-month low in August on weaker expectations for businesses and sales. Despite the decline, the gauge remains elevated by historical standards, with other survey measures including employment and profitability showing improvement and current activity levels stabilizing.

### EUROPE

**EZ GDP:** Euro-area GDP expanded .2% Q/Q (1.2% Y/Y) in 2Q19, confirming previous estimates. Consumption and investment drove economic growth during the second quarter as net trade was a drag. Domestic demand is still solid due to a robust labor market, while manufacturers continue to struggle with trade uncertainty. On a country GDP basis: Germany contracted .1%; Italy was flat; and France and Spain grew .3% and .5%, respectively, Q/Q in 2Q19.

**U.K. Industrial Production:** Industrial production unexpectedly increased in July as output rose .1% M/M (-.9% Y/Y). Gains in manufacturing and water supply activities were enough to offset declines in oil and gas, mining and electricity.

**U.K. Trade:** July's trade balance widened less than expected, to £219 million. The goods deficit increased by £224 million to £9.1 billion and the services surplus gained £137 million to £8.9 billion. Exports rose 3.5% and imports grew 3.3% in July.

### ASIA - PAC

**China Trade:** Exports unexpectedly decreased 1% Y/Y in August compared to consensus estimates calling for a 2.2% gain, while imports fell 5.6% Y/Y, less than expected. Exports to the U.S. plunged 16% Y/Y amid the escalating trade war.

**China Inflation:** CPI inflation remained steady at 2.8% Y/Y in August, while the core rate (excluding food and energy) slipped to 1.5% Y/Y. Food prices jumped 10% Y/Y as pork prices surged 47% amid a swine fever outbreak. PPI fell .8% Y/Y in August on lower commodity prices, after falling .3% Y/Y in July. Continued declines in PPI weigh on industrial profits.

**Japan GDP:** Revised 2Q19 GDP growth of 1.3% was lower than the initial reading of 1.8% as business investment was revised down to .2% from 1.5%. Going forward, the concern remains that any front-loading of economic activity ahead of the October sales-tax hike will leave the economy strong enough to withstand any post-hike pullback.

## Policy

### UNITED STATES

**China Trade:** An additional 5% tariff on \$250 billion worth of Chinese imports, which were supposed to be implemented on October 1, was delayed by President Trump at the request of Vice Premier of China Liu He, due to the fact that the People's Republic of China will be celebrating its 70<sup>th</sup> Anniversary on October 1. In a sign of goodwill, China has announced it is considering allowing companies to resume buying U.S. agricultural products, including soybeans and pork.

**Insurance Regulation:** A proposal was unveiled by the Federal Reserve Board that would establish capital requirements for eight U.S. depository institution holding companies that are also "significantly engaged in insurance activities." The eight insurers include USAA, TIAA, State Farm, Ameriprise, AAA, Mutual of Omaha, Ohio Farmers and First American. While U.S. state regulators already mandate minimum capital requirements, the proposal would add a buffer on top of that.

**North Carolina Elections:** A special election for North Carolina's 9th congressional district, widely seen as a referendum on President Trump's administration and indicative of voting trends in the 2020 election, saw Republican and pro-Trump candidate Dan Bishop eke out a two-point victory over his Democratic opponent Dan McCready. Bishop won by a smaller margin than that of the 2016 presidential election, where Trump won the district by 12 points.

**Personnel:** President Trump dismissed National Security Advisor John Bolton, the third person to serve the administration in that role so far, amid fundamental disagreements over how to handle major foreign policy challenges such as North Korea, Iran, and, most recently, Afghanistan.

### GLOBAL

**Brexit:** Prime Minister Boris Johnson's bid for a snap election failed after receiving only 293 of the required 430 votes. The development followed a parliamentary revolt, which saw Johnson's own Tory party support a bill that blocks a no-deal Brexit amid a Parliament that is officially suspended between now and October 14.

**China:** Foreign limits in Stock and Bond investments, through the QFII and RQFII programs, which historically required investors to seek government approval to quotas to buy Chinese stocks and bonds, has been removed in a bid to seek out more foreign capital, which has utilized only \$100 billion of the current \$300 billion allowance in the old program.

**Saudi Arabia:** Energy Minister Khalid Al-Falih was dismissed by King Salman and replaced with one of his sons, Prince Abdulaziz bin Salman, marking the first time a royal family member is in charge of oil policy there. While the move came unexpectedly, there is speculation that significant policy changes are unlikely.

**IMF:** Kristalina Georgieva, Bulgarian economist and current chief executive officer at the World Bank, is the sole candidate to be the next International Monetary Fund managing director, virtually guaranteeing her as Christine Lagarde's successor.

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