

4 October 2019

## Overview

**3Q Earnings:** FactSet's Earnings Insights are estimating a -3.7% Y/Y decline in S&P 500 EPS for 3Q19, based on a bottom-up aggregation. This compares to expectations for 3Q19 EPS to decline by 0.6% on June 30. If 3Q19 Y/Y earnings do decline, it will mark the first time Y/Y earnings have dropped for three consecutive quarters since 4Q15-2Q16. All 11 sectors have lower growth rates now versus June due to downward EPS estimates. The largest earnings declines are expected in the Energy (-29.3%), Technology (-10.1%) and Materials (-8.0%) sectors. Looking ahead, analysts are projecting earnings growth of 2.9% and revenue growth of 3.6% for 4Q19.

**U.S.-EU Tariffs Coming:** After a favorable WTO ruling, the U.S. will impose tariffs on EU products beginning on October 18. The U.S. is expected to add 10% tariff to EU aircraft and 25% tariffs on agricultural and other products. The WTO ruling said the U.S. has the right to apply tariffs on up to \$7.5 billion of EU goods annually as part of the Airbus subsidy case.

**Brexit Update:** U.K. Prime Minister Boris Johnson unveiled a compromise plan on the Irish border issue aimed at averting a no-deal Brexit. Johnson's proposal includes a regulatory border in the Irish Sea, effectively splitting Northern Ireland from the rest of the U.K. While the plan remains contentious within U.K. and EU government circles, it has been hailed as a step in the right direction. The U.K. is due to leave the EU on October 31 and Johnson has been adamant about not delaying Brexit beyond that date.

**Key Financial Indicators**

As of: 10/2/2019

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	2.00%	0 bps	-25 bps	-50 bps	-50 bps	-25 bps	-50 bps
3 Month USD Libor	2.06%	-4 bps	-8 bps	-26 bps	-55 bps	-35 bps	-75 bps
3 Month Euribor	-0.43%	-2 bps	1 bps	-8 bps	-12 bps	-11 bps	-12 bps
3 Month U.S. T-Bill	1.78%	-12 bps	-20 bps	-37 bps	-59 bps	-41 bps	-62 bps
2-Year U.S. Treasury	1.48%	-19 bps	-2 bps	-29 bps	-82 bps	-132 bps	-102 bps
10-Year U.S. Treasury	1.60%	-13 bps	9 bps	-38 bps	-88 bps	-146 bps	-109 bps
10-Year German Bund	-0.54%	7 bps	18 bps	-19 bps	-49 bps	-96 bps	-78 bps
10-Year U.K. Gilt	0.51%	1 bps	6 bps	-32 bps	-56 bps	-101 bps	-82 bps
10-Year JGB	-0.16%	10 bps	12 bps	-1 bps	-8 bps	-28 bps	-15 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.61%	N/A	0.9%	-0.4%	2.8%	11.0%	8.2%
Barclays Capital U.S. TIPS	1.77%	N/A	0.3%	-0.9%	1.9%	7.7%	8.1%
Barclays Capital U.S. Aggregate	2.19%	48	0.7%	-0.2%	2.4%	10.6%	8.9%
Barclays Capital Global Aggregate	1.28%	45	0.1%	-0.8%	1.0%	8.0%	6.5%
Barclays Capital U.S. ABS	1.93%	39	0.3%	0.1%	1.2%	5.7%	4.4%
Barclays Capital U.S. MBS	2.40%	49	0.4%	0.2%	1.4%	7.9%	5.7%
Barclays Capital U.S. Corporate Investment Grade	2.86%	119	0.7%	-0.4%	3.0%	13.2%	13.5%
BAML Euro Corporate Investment Grade	0.41%	111	0.1%	-0.8%	0.9%	5.9%	6.7%
Barclays Capital U.S. Corporate High Yield	5.89%	409	-0.7%	-0.1%	0.7%	5.6%	10.9%
BAML European Currency High Yield Non-Financial	3.35%	390	-0.2%	-0.4%	0.2%	4.1%	8.3%
CS U.S. Leveraged Loans	6.29%	487	-0.2%	0.3%	0.6%	2.9%	6.2%
CS Western European Leveraged Loans Non-USD	4.59%	418	0.0%	0.5%	1.0%	2.7%	3.8%
JPM CEMBI Broad Diversified	5.09%	355	0.2%	0.7%	1.3%	10.8%	10.8%
JPM EMBI Global Diversified	5.20%	349	-0.1%	-0.7%	0.4%	11.6%	12.8%
JPM GBI-EM Global Diversified	5.22%	N/A	-0.2%	0.9%	-1.4%	10.5%	7.8%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,887.61	1.92%	-3.2%	-1.2%	-2.4%	0.8%	16.9%
Euro STOXX 600 (Local)	377.52	3.29%	-2.6%	-0.5%	-3.0%	-1.2%	11.8%
U.K. FTSE 100 (Local)	7,122.54	4.59%	-2.3%	-1.2%	-5.8%	-4.7%	5.9%
Japan Nikkei 225 (Local)	21,778.61	2.01%	-1.1%	5.2%	0.1%	-10.3%	8.8%
China Shanghai Composite (Local)	2,905.19	2.39%	-1.7%	0.7%	-4.6%	3.0%	16.5%
MSCI AC World (Local)	507.57	2.60%	-2.5%	-0.3%	-3.0%	0.5%	14.7%
MSCI Emerging Markets (Local)	989.20	2.98%	-1.3%	0.5%	-3.6%	0.3%	7.0%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	397.18	-3.5%	0.0%	-4.2%	-10.3%	-20.2%	6.1%
WTI Crude (\$/bbl)	52.64	-6.6%	-4.4%	-6.0%	-15.8%	-30.0%	16.6%
Copper (\$/lb)	2.56	-1.3%	1.1%	-3.6%	-11.8%	-8.4%	-2.5%
Gold (\$/oz)	1,492.60	-2.4%	-2.3%	7.3%	15.7%	23.9%	16.7%
U.S. Dollar Index	99.02	0.0%	0.1%	2.4%	1.7%	3.7%	3.0%
Euro (USD/EUR)	1.09	-0.1%	-0.6%	-3.1%	-2.2%	-5.3%	-4.3%
British Pound (USD/GBP)	1.23	-0.6%	1.0%	-2.3%	-5.6%	-5.2%	-3.4%
Japanese Yen (Yen/USD)	107.35	-0.3%	1.1%	-0.7%	-3.6%	-5.5%	-2.2%
Chinese Yuan (CNY/USD)	7.14	0.2%	-0.1%	3.7%	6.2%	3.7%	4.0%

Source: FactSet and Bloomberg

## Economics

### UNITED STATES

**Leading Indicators:** ISM manufacturing index unexpectedly declined in September, reaching a 10-year low and falling deeper into contraction territory. The index fell to 47.8 from 49.1 in August, indicating the manufacturing sector continues to struggle. The measure of export orders, a proxy for international demand, was very weak while new orders, a better proxy for the direction of economic growth, edged up slightly. The data was at odds with last week's Markit PMI, which increased.

**Consumer Spending:** Consumer spending rose less than expected in August, increasing .1% M/M following a .5% gain in July. The data suggests personal consumption will slow in the third quarter, but remain strong enough to support modest economic growth. The core PCE deflator ticked higher to 1.8% Y/Y, but is still below the Fed's 2% target level.

**Durable Goods:** Headline durable goods orders unexpectedly increased .2% M/M in August. Top-line growth was boosted by volatile categories, including defense orders, while core measures were still soft. Ex-transportation orders fell .5% M/M while non-defense capital goods orders excluding aircraft, a proxy for business investment, declined .2% in August.

### EUROPE

**EZ Inflation:** Headline inflation unexpectedly slowed in September to .9% Y/Y from 1.0% in August. Lower energy costs were somewhat offset by higher food and services prices. Core CPI ticked up to 1.0% Y/Y, but inflation remains weak.

**EZ Confidence:** Overall economic confidence fell to a four-year low in September, dragged down by industry sentiment that continues to suffer from trade conflict and Brexit uncertainty. Consumer and service measures improved slightly.

**U.K. Leading Indicators:** Markit's manufacturing PMI came in better than expected for September, edging higher to 48.3 from 47.4 in August, but remaining in contraction territory for the fifth-consecutive month. The domestic market was weak, but foreign demand was negatively impacted by Brexit uncertainty and re-routing supply chains away from the U.K.

### ASIA - PAC

**China Leading Indicators:** China's manufacturing activity improved slightly in September as the official PMI increased to 49.8 from 49.5 in August. The private Caixin manufacturing PMI showed better results, rising to 51.4 from 50.4 in August.

**Japan Tankan:** The BOJ's Tankan survey showed manufacturing sentiment deteriorated less than expected in the third quarter. The export part of the economy remains under pressure from the trade war and slowing global growth, which is negatively impacting investment. The services sector is more resilient, but the sales-tax hike will be a challenge.

**Japan Industrial Production:** The fall in industrial production was larger than expected in August, dropping 1.2% M/M (-4.7% Y/Y), essentially reversing July's gain. Inventories were unchanged from July, but remain at high levels. Output may need to be reduced further if inventories stay elevated.

## Policy

### UNITED STATES

**EU Trade:** The U.S. will implement tariffs on \$7.5 billion of imports from the EU following a decision from the World Trade Organization on subsidies France, Germany, Spain, and Great Britain have provided Airbus. Ten percent tariffs on large commercial aircraft and 25% on industrial and agricultural goods, including cheese, whisky and wine, and will be implemented on October 18. However, no tariffs will be implemented on parts shipped to the Airbus plant in Alabama.

**GSE Reform:** The Treasury has announced that Fannie Mae and Freddie Mac, the two largest mortgage guarantors in the U.S., will be able to retain a larger portion of its profits, with the former being able to now keep \$25 billion and the later \$20 billion of capital. The changes represent an increase by \$3 billion each from the current level. The move is generally seen as a step toward eventual privatization, albeit the path continues to be rife with obstacles, especially given the 2020 election.

**Net Neutrality:** The Federal Court of Appeals has ruled mostly in favor of the Republican rollback of Obama-era Net Neutrality rules, which govern internet traffic rules. The decision, however, opened the door for states to establish their own rules. While this fragmentation may lead to the Commission's case-by-case preemption efforts and more litigation, there is speculation that California could set the de facto national standard on net neutrality protections.

**Impeachment Inquiry:** Rudy Giuliani, President Donald Trump's personal lawyer, has been subpoenaed for records related to President Trump's suspected dealings with Ukraine. Secretary of State Michael Pompeo and Attorney General William Barr have also been drawn deeper into the House's impeachment inquiry amid allegations of their involvement.

### GLOBAL

**U.K.:** The new Brexit deal Prime Minister Boris Johnson has proposed would scrap Theresa May's original "backstop" plan—intending to maintain an open border with Ireland—with the creation of two new borders: a customs frontier in Ireland and a new regulatory frontier between Northern Ireland and the rest of the U.K. Johnson also indicated that if his plan was rejected outright, he would break-off all talks and start preparing for a no-deal exit. While the new proposal won support from the Eurosceptics and the DUP, the plan itself falls short of the EU's demands.

**China:** The 70<sup>th</sup> anniversary of the founding of the People's Republic of China is being celebrated through October 7. The elaborate festivities have included a military parade through Beijing, which featured the country's rapidly modernizing missile arsenal lineup, including those, until recently, speculated by defense exports to still be under development.

**North Korea:** Official talks between the U.S. and North Korea are set to reconvene on October 5 after Pyongyang signaled last month that it was open to restarting talks with Washington, reviving a denuclearization process that has stalled since beginning in February. Note, however, that the two sides remain deeply divided.

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