

18 October 2019

Overview

Global Outlook Weakens: *The International Monetary Fund downgraded its outlook for the global economy to its weakest pace since 2008. The IMF cut its global growth forecast for 2019 by .2 percentage points from its July forecast, to 3%. The IMF expects a rebound for the global economy in 2020, forecasting 3.4% growth. The IMF forecasts the U.S. will grow at a rate of 2.4%—down from 2.9% in 2018—and slow further to 2.1% in 2020. The IMF expects China’s growth to slide to 6.1% in 2019 and 5.8% in 2020—the slowest rate since 1990. The fund noted that rising trade barriers and increasing geopolitical tensions are weighing on growth, estimating that the U.S.-China trade tensions will lower the level of global GDP by .8% by 2020. They also noted that country-specific factors in many emerging market economies, as well as low productivity growth and an aging population in advanced economies, are also weighing on global growth.*

Fed Beige Book: *The report noted slight to modest economic expansion, as business activity varied across the country. Household spending remained positive, with growth in non-auto retail sales, light vehicle sales, and tourism and travel-related spending. Employment rose slightly despite worker shortages. Employers are turning to non-wage approaches to attract and retain workers as the labor market tightens. Both manufacturers and retailers cited increases in input costs. The report noted that retailers were relatively more successful passing on the rising prices to consumers. Manufacturing activity took a step back amid slowing global growth and rising trade tensions. Businesses have a positive economic outlook, though many lowered their outlooks for growth in the coming 6-12 months.*

Brexit Deal on the Table is Half Baked: *Talks of a Brexit deal are starting to ease nerves, though a no-deal exit is not off the table. Prime Minister Boris Johnson and EU Commission President Jean-Claude Juncker announced an agreement on a revised Brexit deal. However, the deal still needs to pass parliament. With the deadline in two weeks, the U.K. is seeking an extension, but the EU does not appear willing to oblige. While the announcement of a deal eased global concerns, many aspects are still up in the air as the world continues to keep a keen eye on the progress of the proposed deal.*

Key Financial Indicators

As of: 10/16/2019

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	2.00%	2 bps	-14 bps	-30 bps	-60 bps	-44 bps	-80 bps
3 Month Euribor	-0.41%	1 bps	-2 bps	-4 bps	-10 bps	-9 bps	-10 bps
3 Month U.S. T-Bill	1.66%	-2 bps	-33 bps	-44 bps	-72 bps	-60 bps	-74 bps
2-Year U.S. Treasury	1.58%	12 bps	-18 bps	-28 bps	-82 bps	-128 bps	-92 bps
10-Year U.S. Treasury	1.74%	16 bps	-10 bps	-38 bps	-85 bps	-141 bps	-94 bps
10-Year German Bund	-0.39%	18 bps	9 bps	-10 bps	-45 bps	-90 bps	-63 bps
10-Year U.K. Gilt	0.70%	26 bps	-1 bps	-22 bps	-55 bps	-90 bps	-63 bps
10-Year JGB	-0.17%	5 bps	-1 bps	-4 bps	-13 bps	-31 bps	-16 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.73%	N/A	-0.9%	0.8%	2.7%	10.6%	7.3%
Barclays Capital U.S. TIPS	1.91%	N/A	-0.4%	0.1%	1.1%	7.9%	7.5%
Barclays Capital U.S. Aggregate	2.30%	47	-0.6%	0.8%	2.5%	10.7%	8.3%
Barclays Capital Global Aggregate	1.37%	43	-0.4%	0.4%	1.3%	7.9%	6.2%
Barclays Capital U.S. ABS	2.04%	43	-0.3%	0.3%	1.1%	5.5%	4.2%
Barclays Capital U.S. MBS	2.53%	49	-0.2%	0.5%	1.4%	8.5%	5.7%
Barclays Capital U.S. Corporate Investment Grade	2.93%	114	-0.5%	1.2%	3.3%	13.6%	12.9%
BAML Euro Corporate Investment Grade	0.48%	107	-0.4%	-0.2%	0.3%	5.7%	6.2%
Barclays Capital U.S. Corporate High Yield	5.65%	379	0.6%	-0.2%	1.2%	7.2%	11.5%
BAML European Currency High Yield Non-Financial	3.39%	383	0.6%	-0.6%	0.7%	4.6%	8.4%
CS U.S. Leveraged Loans	6.66%	509	0.0%	-0.7%	-0.2%	2.3%	5.8%
CS Western European Leveraged Loans Non-USD	4.77%	431	0.0%	0.1%	0.8%	2.4%	3.6%
JPM CEMBI Broad Diversified	5.12%	344	-0.1%	0.7%	1.5%	11.2%	11.0%
JPM EMBI Global Diversified	5.19%	333	-0.1%	0.3%	0.9%	13.0%	13.1%
JPM GBI-EM Global Diversified	5.20%	N/A	0.4%	0.0%	-0.4%	11.2%	9.3%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,989.69	1.88%	2.4%	-0.1%	0.0%	8.6%	21.2%
Euro STOXX 600 (Local)	393.46	3.08%	3.5%	1.0%	1.1%	7.8%	16.5%
U.K. FTSE 100 (Local)	7,167.95	4.57%	0.0%	-2.1%	-5.4%	1.5%	6.5%
Japan Nikkei 225 (Local)	22,472.92	1.94%	4.7%	2.2%	4.4%	-0.3%	12.3%
China Shanghai Composite (Local)	2,978.71	2.33%	1.8%	-1.7%	1.4%	17.0%	19.4%
MSCI AC World (Local)	525.27	2.54%	2.5%	-0.2%	0.6%	8.6%	18.5%
MSCI Emerging Markets (Local)	1,024.08	2.89%	3.0%	0.4%	-0.4%	8.5%	10.3%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	405.32	1.3%	-7.1%	-4.2%	-10.1%	-16.4%	8.3%
WTI Crude (\$/bbl)	53.36	1.4%	-15.4%	-7.1%	-16.6%	-25.8%	18.2%
Copper (\$/lb)	2.58	0.7%	-1.6%	-4.2%	-12.0%	-6.9%	-1.8%
Gold (\$/oz)	1,485.10	-1.5%	-0.8%	5.3%	16.4%	20.7%	16.1%
U.S. Dollar Index	98.00	-1.1%	-0.6%	0.6%	1.0%	3.1%	1.9%
Euro (USD/EUR)	1.11	0.6%	0.5%	-1.5%	-2.2%	-4.6%	-3.3%
British Pound (USD/GBP)	1.28	4.8%	3.1%	3.1%	-1.9%	-3.1%	0.5%
Japanese Yen (Yen/USD)	108.83	1.3%	0.7%	0.5%	-2.8%	-3.0%	-0.8%
Chinese Yuan (CNY/USD)	7.10	-0.4%	0.5%	3.3%	5.9%	2.7%	3.4%

Source: FactSet and Bloomberg

Economics

UNITED STATES

Retail Sales: Retail sales fell .3% M/M, bucking consensus expectations of a .3% M/M increase. Weakness in September was broad-based, with seven of the 13 major categories declining, led by 1% M/M decline in building material garden equipment and supplies dealers. However, control retail sales, which feed into GDP, held steady over the month and the August headline number was upwardly revised from .4% M/M to .6% M/M.

Housing Market: The NAHB housing market index surprised to the upside in October—rising from 68 to 71, marking a 20-month high. All three sub-components notched gains, signaling builder confidence is rising in the single-family market. Housing starts fell 9.4% M/M in September, dragged down by multifamily, as single-family starts rose .8% M/M.

Consumer Sentiment: The initial reading of the University of Michigan consumer sentiment survey for October increased more than expected to its highest level since July. The gain was led by a 4.9-point increase in the current conditions index, aided by a 1.4-point gain in the expectations component. Real income expectations rose their highest level in two decades while inflation expectations took a step back.

EUROPE

EZ Sentiment: The ZEW economic sentiment index held up better than expected, dropping 1.1 points from the previous month to -23.5 in October. However, both the current conditions indicator and inflation expectations took a step back.

U.K. Inflation: Headline CPI held steady at 1.7% Y/Y in September. Services inflation accelerated to 2.5% Y/Y while inflation for goods cooled from 1.3% Y/Y in August to 1% Y/Y in September. The core rate rose from 1.5% Y/Y to 1.7% Y/Y, suggesting the BoE will refrain from cutting rates at its next meeting.

EZ Industrial Production: August industrial production rose .4% M/M, reversing the .4% M/M decline in July. Capital goods and intermediate goods were a boon to the headline, while consumer durables and energy both fell 0.4% M/M.

ASIA - PAC

China Trade: Exports fell 3.2% Y/Y in September while imports declined 8.5% Y/Y, increasing the trade surplus to \$39.65 billion. Shipments to the U.S. dropped 21.9% Y/Y, after falling 16% Y/Y in August as the trade war persists.

China Inflation: CPI inflation accelerated from 2.8% Y/Y in August to 3% Y/Y in September, while the core rate held steady at 1.5% Y/Y. Food prices jumped 11.2% Y/Y as pork costs surged. PPI fell 1.2% Y/Y in September after sliding .8% Y/Y in August. Weakening demand and PPI are weighing on industrial profits.

Japan Industrial Production: Final industrial production fell 1.2% M/M and 4.7% Y/Y in August. Inventories slid .1% M/M, but remain elevated. Elevated inventories ahead of sales tax may weigh on future shipments.

Policy

UNITED STATES

China Trade: China agreed to more than double its purchases of agricultural products, to as much as \$50 billion annually, while the U.S. decided to hold off increasing planned tariffs worth \$250 billion worth of goods to 30% on October 15. Left on the table, though, were tariffs on all remaining Chinese imports due to start on December 15. While the “phase one” deal was sealed with a handshake last week, China has announced it would like to further iron out details before formally signing it.

Turkey Sanctions: President Donald Trump raised steel tariffs back to 50% and authorized sanctions on Turkey amid a military offensive Ankara is conducting in northern Syria against U.S.-backed Kurdish forces, following President Trump’s decision to withdraw troops from the region. The U.S. has since called for an immediate cease-fire. Congress has also unveiled a bill, which has attracted more than 70 GOP sponsors in the House, to impose sanctions on Turkey.

Opioid Litigation: Three major drug distributors--McKesson Corp., AmerisourceBergen Corp., and Cardinal Health Inc.--are in talks to pay \$18 billion over 18 years to settle sweeping litigation brought by state and local governments citing their involvement in the opioid crisis. If finalized, the settlement would be the first to achieve a broad resolution of the opioid lawsuits outside of bankruptcy.

Hong Kong Protests: The House of Representatives passed with bipartisan support the Hong Kong Human Rights and Democracy Act, a measure that requires an annual review of the city’s autonomous status from Beijing to justify its special trading status under U.S. law. The bill also provides for sanctions against officials “responsible for undermining fundamental freedoms and autonomy in Hong Kong.” A similar bill is also before the Senate, but the timing of a vote remains uncertain.

GLOBAL

Brexit: U.K. Prime Minister Boris Johnson’s negotiating team has reached a preliminary Brexit deal with EU negotiators ahead of a U.K. parliament vote planned for Saturday. The deal would avoid a hard Irish border and will see Northern Ireland apply EU customs and tariff rules and have them overseen by the European Court of Justice. The plan is not all that different from the Northern Ireland-only backstop that was initially agreed upon by Theresa May but was subsequently rejected by U.K. parliament. A key hurdle to watch will be the Northern Ireland DUP party, which has signaled it will not support the deal.

Scottish Independence: First minister and Scottish National party leader Nicola Sturgeon, in a three-day party conference, signaled that a second Scottish referendum “must happen next year.” The move comes amid the U.K. government refusing a rerun of the 2014 referendum, in which Scottish voters backed staying in the U.K. by 55-45 percent.

Romania: President Klaus Iohannis has appointed Ludovic Orban, center-right Liberal party chief, to be prime minister following the country’s Social Democrat-led coalition government collapsed last week. Orban will have 10 days to name his cabinet and seek parliamentary approval and could serve until the elections scheduled in 2020. Orban is poised to be the fourth prime minister in less than three years.

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