

25 October 2019

Overview

3Q Earnings: *Approximately 34% of the S&P 500 has reported earnings with revenues up 3.2% Y/Y and earnings roughly flat at -.1% Y/Y, according to Bloomberg. So far, the biggest positive earnings surprises have come from the Materials, Communication Services and Consumer Discretionary, while Energy has lagged. About 1/3 of the companies that report in the current season for the Stoxx 600 have announced results, with sales up 3.1% Y/Y and earnings down 5.5% Y/Y. So far, sales and earnings are in line with estimates.*

Brexit: *British MPs voted in favor of the Brexit deal in principle, but rejected a fast-track plan to rush the deal into law with a three-day timetable by 322-308. Prime Minister Boris Johnson announced a motion for a December 12 snap election will be put to a vote on Monday, which will require two-thirds of Parliament to approve for the poll to take place. If Johnson wins that vote, there is a chance the Brexit deal could be voted into law before Parliament is dissolved for the election on November 6. However, it is more likely that the EU extends the Brexit deadline to January 31 and the election then becomes a referendum on Johnson's strategy.*

U.S.-China Trade: *China is starting to ramp up purchases and is expected to buy \$20 billion of U.S. agricultural products in a year if it signs a partial trade deal with U.S. next month. This would put its U.S. imports of farm goods back to pre-trade war levels. China said it would consider boosting purchases in further rounds of talks and in a second year of a potential final deal when all existing tariffs are removed, purchases could rise to an annual figure of \$40-\$50 billion. The U.S. announced it would delay the tariff increase scheduled for October 15, which would increase the rate from 25% to 30% on about \$250 billion of Chinese imports. Additional tariffs on Chinese products, slated to begin on December 15, haven't been called off yet. In exchange, China would also agree to some measures on intellectual property and concessions in financial services and currency management.*

Key Financial Indicators

 As of: **10/23/2019**

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	2.00%	0 bps	0 bps	-50 bps	-50 bps	-25 bps	-50 bps
3 Month USD Libor	1.94%	-6 bps	-17 bps	-34 bps	-64 bps	-55 bps	-87 bps
3 Month Euribor	-0.40%	1 bps	0 bps	-3 bps	-9 bps	-9 bps	-9 bps
3 Month U.S. T-Bill	1.65%	-1 bps	-25 bps	-37 bps	-75 bps	-64 bps	-75 bps
2-Year U.S. Treasury	1.58%	-1 bps	-10 bps	-25 bps	-78 bps	-130 bps	-93 bps
10-Year U.S. Treasury	1.76%	2 bps	5 bps	-31 bps	-81 bps	-140 bps	-92 bps
10-Year German Bund	-0.40%	-1 bps	18 bps	-4 bps	-45 bps	-83 bps	-64 bps
10-Year U.K. Gilt	0.68%	-2 bps	12 bps	-11 bps	-58 bps	-79 bps	-66 bps
10-Year JGB	-0.14%	3 bps	9 bps	1 bps	-10 bps	-29 bps	-13 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.74%	N/A	-0.1%	-0.2%	2.4%	10.6%	7.3%
Barclays Capital U.S. TIPS	1.93%	N/A	0.3%	-0.3%	1.2%	8.6%	7.7%
Barclays Capital U.S. Aggregate	2.31%	47	0.0%	0.0%	2.1%	10.9%	8.3%
Barclays Capital Global Aggregate	1.38%	43	0.3%	-0.1%	1.3%	8.6%	6.5%
Barclays Capital U.S. ABS	2.02%	41	0.1%	0.2%	1.0%	5.5%	4.2%
Barclays Capital U.S. MBS	2.58%	53	0.0%	0.1%	1.1%	8.5%	5.6%
Barclays Capital U.S. Corporate Investment Grade	2.91%	110	0.2%	0.1%	3.0%	14.3%	13.2%
BAML Euro Corporate Investment Grade	0.47%	104	0.1%	-0.1%	-0.1%	5.8%	6.4%
Barclays Capital U.S. Corporate High Yield	5.60%	375	0.2%	0.0%	1.4%	8.1%	11.8%
BAML European Currency High Yield Non-Financial	3.33%	377	0.2%	-0.3%	0.7%	5.1%	8.6%
CS U.S. Leveraged Loans	6.63%	507	0.2%	-0.5%	-0.1%	2.4%	5.9%
CS Western European Leveraged Loans Non-USD	4.79%	433	-0.1%	-0.2%	0.6%	2.3%	3.5%
JPM CEMBI Broad Diversified	5.08%	338	0.4%	0.7%	1.7%	11.7%	11.4%
JPM EMBI Global Diversified	5.19%	332	0.1%	-0.4%	0.4%	13.7%	13.2%
JPM GBI-EM Global Diversified	5.14%	N/A	1.5%	2.3%	0.6%	14.1%	10.9%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,004.52	1.87%	0.5%	0.6%	0.5%	11.9%	21.8%
Euro STOXX 600 (Local)	395.03	3.08%	0.4%	1.3%	0.9%	11.6%	17.0%
U.K. FTSE 100 (Local)	7,260.74	4.52%	1.3%	-0.9%	-3.9%	4.4%	7.9%
Japan Nikkei 225 (Local)	22,625.38	1.93%	0.7%	2.5%	4.6%	2.8%	13.0%
China Shanghai Composite (Local)	2,941.62	2.36%	-1.2%	-1.2%	1.4%	13.4%	18.0%
MSCI AC World (Local)	528.42	2.53%	0.3%	0.4%	0.1%	11.6%	18.9%
MSCI Emerging Markets (Local)	1,030.95	2.91%	0.0%	0.4%	-0.4%	10.8%	10.3%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	412.75	1.8%	-1.8%	-1.7%	-9.7%	-11.1%	10.3%
WTI Crude (\$/bbl)	55.93	4.7%	-4.7%	-1.1%	-15.6%	-15.9%	23.9%
Copper (\$/lb)	2.66	3.2%	2.6%	-1.2%	-8.1%	-3.1%	1.3%
Gold (\$/oz)	1,494.45	0.6%	-1.8%	4.8%	17.7%	20.9%	16.8%
U.S. Dollar Index	97.49	-0.5%	-1.1%	-0.2%	-0.1%	1.6%	1.4%
Euro (USD/EUR)	1.11	0.6%	1.1%	-0.3%	-0.8%	-3.0%	-2.8%
British Pound (USD/GBP)	1.29	0.6%	3.6%	3.6%	-0.4%	-0.7%	1.1%
Japanese Yen (Yen/USD)	108.62	-0.2%	1.2%	0.5%	-2.9%	-3.1%	-1.0%
Chinese Yuan (CNY/USD)	7.07	-0.4%	-0.7%	2.8%	5.3%	2.0%	3.0%

Source: FactSet and Bloomberg

Economics

UNITED STATES

PMIs: The preliminary reading of Markit's October manufacturing Purchasing Managers' Index survey unexpectedly increased, while the service sector reading matched estimates and ticked higher. In manufacturing, new orders increased to the highest level since April, expanding for the fifth-consecutive month, as employment rose. The services index seemed to stabilize somewhat, but measures for employment and new business activity weakened from the previous month.

Home Sales: Sales of new and existing homes declined in September. Existing home sales fell 2.2% M/M as higher prices seemed to offset recent momentum fueled by lower mortgage rates and wage gains. New home sales fell .7% M/M and prices trended lower, however, the housing sector broadly remains on solid footing.

Durable Goods: Headline durable goods orders decreased more than expected in September, falling 1.1% M/M, dragged lower by a double-digit drop in commercial aircraft orders. Ex-transportation and non-defense capital goods orders ex-aircraft (a proxy for business investment) both fell and trailed estimates, a sign of softer demand amid weak global growth.

EUROPE

ECB Meeting: The ECB left its key policy rates on hold at President Mario Draghi's final meeting, as expected, following an eventful September meeting that saw the ECB cut interest rates further below zero and restart QE. While markets expect rates to stay on hold for the next few quarters, the future policy path will depend on incoming president Christine Lagarde.

EZ PMIs: Markit's preliminary October Purchasing Managers' Index surveys came in below estimates, indicating the euro area growth outlook remains challenging. The manufacturing PMI held steady but remained in contraction territory for the ninth-consecutive month. The composite index (including services) is just above 50, signaling a weak growth start to 4Q19.

EZ Consumer Confidence: Consumer confidence declined more than expected in October, reaching its lowest level since last December. Consumption may be vulnerable, which is troubling since it has offset manufacturing and trade weakness.

ASIA - PAC

Japan PMIs: Markit's preliminary October manufacturing PMI fell to 48.5, the lowest level since June 2016, as new orders dropped. The service sector index fell sharply to 50.3, but the reading may be distorted by the typhoon and sales tax increase.

Japan Trade: Exports fell for the tenth-straight month, declining 5.2% Y/Y following an 8.2% drop in August. The U.S.-China trade war remains a downside risk for exports as does safe-haven demand for the yen amid global growth worries.

South Korea GDP: Asia's fourth-largest economy grew .4% during 3Q19, below consensus estimates. Continued export weakness and concerns about the overall growth outlook have weighed on investment. Weaker investment has prompted the government and central bank to continue providing stimulus measures to bolster their support for the economy.

Policy

UNITED STATES

Turkey Sanctions: President Trump lifted sanctions on Turkey after the Turkish military announced it would halt advancing into Syria following an agreement with Russia on forcing Kurdish fighters from the border region. Sanctions were removed on Turkey's Ministry of National Defense and Ministry of Energy and Natural Resources, which had previously cut them off from the global financial system.

China Trade: China aims to buy at least \$20 billion of agricultural products in a year if it signs a partial trade deal with the U.S., and would consider boosting purchases further in future talks. The \$20 billion would take its imports of U.S. farm goods back to around 2017 levels, before the trade war began. In the second year of a potential final deal when all punitive tariffs are removed, those purchases could rise to \$40-\$50 billion. China did not provide detail on when the first year would start or when they would start counting agricultural imports toward the \$20 billion.

USMCA: The trade agreement is becoming a bipartisan priority as more government officials are wanting to complete it before the end of the year, although the timeline appears aggressive amid pushback. Senate Finance Committee Chairman Chuck Grassley, R-Iowa, said House Democrats should bring up the U.S.-Mexico-Canada Trade Agreement for a vote, while Senate Finance ranking member Ron Wyden, D-Ore., called on the Trump administration to keep improving the agreement by seeking more revisions to better protect American workers.

GLOBAL

Canada: Justin Trudeau's Liberal Party retained power in a narrow Canadian election win, but he will now be prime minister of a minority government. The Liberals are projected to win 157 seats, 13 short of a majority, and will find it harder to pass legislation in Trudeau's second term. The opposition Conservatives are expected to win the popular vote by taking 121 seats, up from 95 held previously.

Hong Kong: The government formally withdrew the extradition measure that prompted months of protests. Unfortunately neither the political crisis nor the case is close to resolution. The Chinese government is drafting a plan to replace Hong Kong Chief Executive Carrie Lam as protests persist. Two potential candidates confirmed by a HK legislative member are Norman Chan, the former head of HK's Monetary Authority, and Henry Tang, the 2012 Chief Executive candidate. Regardless, the replacement will have to be approved by Beijing and is not likely to please protesters.

Brexit: After winning the vote on his Brexit bill but losing the one which would allow it to become law in time for the October 31 deadline, British Prime Minister Boris Johnson is considering another attempt to call a general election. The European Union is likely to grant an extension until January 31, leaving time for the vote and giving Johnson a chance to secure a working majority in Parliament. The only thing that seems certain at the moment is the risk of a no-deal Brexit has dropped.

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