

1 November 2019

Overview

FOMC: The Fed cut the funds rate by 25 bps to a range of 1.50%–1.75% in their October meeting, as expected. After the third-consecutive rate cut, the Fed’s statement was less dovish, suggesting that unless developments emerge that would require a material reassessment of their outlook, the central bank could refrain from additional cuts.

Notably, the Fed removed the statement to “act as appropriate to sustain the expansion,” and added that it will monitor incoming information as it “assesses the appropriate path” of rates. While we seem to be in a holding pattern, Fed Chair Jerome Powell suggested that rate hikes are not on the horizon. The Fed’s economic outlook remained unchanged, as it expects moderate growth, a strong labor market and inflation around their 2% target.

3Q19 Earnings: Approximately 68% of the S&P 500 has reported earnings with revenues up 4.2% Y/Y and earnings roughly flat at 0.1% Y/Y, according to Bloomberg. So far the biggest positive earnings surprises have come from Materials, Health Care and Information Technology. About 58% of the companies that report in the current season for the Stoxx 600 have announced results, with sales down 0.5% Y/Y and earnings down 3.6% Y/Y. So far, sales are in line with estimates while earnings have surprised to the upside.

APEC Summit: The Summit originally planned to be held in Chile was cancelled due to local nonrelated protesting. Despite the cancellation, both the U.S. and China appear committed to finding a mutually agreeable venue for President Trump and Chairman Xi Jinping to meet and sign the so-called “Phase One” trade deal.

Key Financial Indicators

As of: 10/30/2019

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	1.91%	-3 bps	-18 bps	-34 bps	-67 bps	-63 bps	-90 bps
3 Month Euribor	-0.41%	0 bps	1 bps	-4 bps	-9 bps	-9 bps	-10 bps
3 Month U.S. T-Bill	1.62%	-4 bps	-20 bps	-46 bps	-80 bps	-71 bps	-83 bps
2-Year U.S. Treasury	1.62%	4 bps	0 bps	-23 bps	-65 bps	-122 bps	-88 bps
10-Year U.S. Treasury	1.80%	4 bps	12 bps	-27 bps	-71 bps	-131 bps	-89 bps
10-Year German Bund	-0.36%	4 bps	22 bps	5 bps	-39 bps	-75 bps	-60 bps
10-Year U.K. Gilt	0.68%	0 bps	22 bps	-8 bps	-54 bps	-71 bps	-65 bps
10-Year JGB	-0.13%	1 bps	10 bps	3 bps	-7 bps	-24 bps	-12 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.78%	N/A	-0.2%	-0.6%	2.1%	10.1%	7.1%
Barclays Capital U.S. TIPS	1.96%	N/A	-0.4%	-0.3%	0.9%	8.1%	7.3%
Barclays Capital U.S. Aggregate	2.33%	46	-0.1%	-0.2%	2.0%	10.7%	8.3%
Barclays Capital Global Aggregate	1.40%	42	-0.2%	0.0%	1.2%	8.6%	6.4%
Barclays Capital U.S. ABS	2.07%	42	-0.1%	0.0%	0.9%	5.3%	4.2%
Barclays Capital U.S. MBS	2.56%	49	0.1%	0.1%	1.1%	8.4%	5.7%
Barclays Capital U.S. Corporate Investment Grade	2.93%	109	0.0%	0.0%	2.7%	14.3%	13.2%
BAML Euro Corporate Investment Grade	0.47%	101	0.0%	-0.3%	-0.5%	5.8%	6.3%
Barclays Capital U.S. Corporate High Yield	5.61%	374	0.1%	0.4%	1.3%	8.8%	11.9%
BAML European Currency High Yield Non-Financial	3.43%	385	-0.3%	-0.1%	0.3%	5.3%	8.3%
CS U.S. Leveraged Loans	6.72%	511	0.0%	-0.5%	-0.3%	2.6%	5.9%
CS Western European Leveraged Loans Non-USD	4.82%	436	0.0%	-0.3%	0.4%	2.3%	3.5%
JPM CEMBI Broad Diversified	5.09%	337	0.0%	0.8%	1.5%	12.0%	11.4%
JPM EMBI Global Diversified	5.24%	335	-0.3%	-0.2%	0.1%	13.7%	12.8%
JPM GBI-EM Global Diversified	5.16%	N/A	-0.1%	2.5%	1.0%	14.8%	10.8%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,046.77	1.84%	1.4%	2.5%	1.6%	15.9%	23.5%
Euro STOXX 600 (Local)	398.70	3.08%	0.9%	1.4%	3.5%	12.1%	18.1%
U.K. FTSE 100 (Local)	7,330.78	4.48%	1.0%	-1.0%	-4.1%	4.2%	9.0%
Japan Nikkei 225 (Local)	22,843.12	1.97%	1.0%	5.0%	5.2%	6.5%	14.1%
China Shanghai Composite (Local)	2,939.32	2.36%	-0.1%	1.2%	-0.4%	14.5%	17.9%
MSCI AC World (Local)	535.18	2.50%	1.3%	2.6%	2.6%	14.9%	20.4%
MSCI Emerging Markets (Local)	1,041.50	2.88%	0.9%	3.1%	2.0%	14.4%	11.4%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	411.73	-0.2%	2.0%	-2.4%	-7.8%	-10.4%	10.0%
WTI Crude (\$/bbl)	55.08	-1.5%	1.8%	-5.1%	-13.7%	-16.8%	22.0%
Copper (\$/lb)	2.68	0.7%	4.5%	0.4%	-7.6%	0.7%	2.0%
Gold (\$/oz)	1,492.10	-0.2%	0.5%	4.6%	16.4%	21.8%	16.7%
U.S. Dollar Index	97.65	0.2%	-1.7%	-0.4%	0.2%	0.7%	1.5%
Euro (USD/EUR)	1.11	0.1%	2.0%	-0.1%	-0.7%	-2.1%	-2.7%
British Pound (USD/GBP)	1.29	-0.1%	4.4%	5.9%	-1.3%	1.1%	1.1%
Japanese Yen (Yen/USD)	108.88	0.2%	0.7%	0.2%	-2.2%	-3.5%	-0.8%
Chinese Yuan (CNY/USD)	7.06	-0.2%	-1.1%	2.5%	4.8%	1.4%	2.8%

Source: FactSet and Bloomberg

Economics

UNITED STATES

GDP: GDP grew at 1.9% in 3Q19, better than the expected 1.7% growth. The consumer remained in the driver's seat, with consumer spending gaining 2.9%, and residential investment rose after six quarters of declines. However, trade and business investment were a drag on the headline as uncertainty and trade tensions remain elevated.

Consumer Confidence: Consumer confidence slid from 126.3 to 125.9 in October. The slight decline is attributable to a drop in the future expectations component, as present conditions strengthened over the month. Consumer confidence remains elevated historically and the labor market differential improved. The engine of the economy remains in good shape.

Consumer Spending: Consumer spending rose just shy of expectations in September, increasing 0.2% M/M following an upwardly revised 0.2% gain in August. Spending growth in goods was driven by a 0.4% M/M gain in durable goods—aided by lower interest rates and easier financial conditions—while nondurables slid 0.1% M/M. Spending on services was also a boon, rising 0.2% M/M, though moderated slightly from the 0.3% gain in August. Spending will continue to drive the U.S. economy.

EUROPE

EZ Inflation: Headline inflation eased to 0.7% Y/Y in October from 0.8% in September. However, the headline was dragged down by a drop in energy inflation, while core inflation beat expectations—accelerating to 1.1% Y/Y from 1% in September.

EZ Confidence: Overall economic confidence fell to a four-year low in October, dragged down by industry, services, retail trade and consumer. Elevated uncertainty, rising trade tensions and weaker global growth weighed on sentiment.

Germany Business Climate: Germany's Ifo institute business climate index held up slightly better than expected, holding steady at 94.6 in October, despite consensus expectations for a decline to 94.5. However, this remains near the lowest level since 2012. The current assessment index slid from 98.6 in September to 97.8 in October, while the expectations component ticked up from 90.9 to 91.5. The trade war and Brexit uncertainty are weighing heavily on the German psyche.

ASIA - PAC

China PMIs: Official October manufacturing PMI fell to 49.3 in October from 49.8 in September—its lowest level since February. Weakness was broad-based as the trade war with the U.S. and weak domestic demand weigh on businesses.

BOJ Meeting: The BOJ kept policy settings unchanged, as expected, though the growth and inflation outlook was lowered for the three-year projection period due to lower oil prices and weak global demand.

Japan Industrial Production: Japan's industrial production surprised to the upside, gaining 1.4% M/M and 1.1% Y/Y in September. Shipments of capital goods rose sharply ahead of the October 1 sales-tax hike, but weak global demand and the sales tax will weigh on production in 4Q19.

Policy

UNITED STATES

Boeing: Legislation is likely to pass in the wake of the Boeing 737 MAX debacle, once investigations are completed. Members of Congress are preparing to bring forward legislation that would overhaul current Federal Aviation Administration (FAA) rules, which allow for companies to test their own products, albeit with regulatory oversight. Boeing appears to be in the “final stages” of testing a software update to the MCAS, which the company hopes will allow the MAX to fly again.

C-band: The House Energy and Commerce Committee’s Subcommittee on Communications and Technology held a hearing that would require the Federal Communications Commission (FCC) to conduct a public auction of C-band spectrum. Lawmakers said that the FCC, not the satellite industry, should conduct an upcoming auction to transfer C-band spectrum to the 5G wireless industry. The FCC is expected to decide on how to reallocate some or all of the 500 megahertz of C-band satellite downlink spectrum for cellular 5G services by the end of this year.

Drug Pricing: Democrats in the House have made it a priority to move to eight years of data protection that would allow a biosimilar to use an innovator’s clinical drug trials sooner than the existing U.S. law of 12 years. A change like this reduces the return on invested capital for biotech and helps generics/biosimilars. Although the bill advanced quickly through the chamber’s relevant committees of jurisdiction, its consideration on the House floor will be delayed until mid-November as final issues over the legislation’s contents are resolved.

USMCA: While a deal is not guaranteed, negotiators are close (a deal this week would tee up a vote in early December). Attempting to pass a federal budget is also constraining resources for Mexico’s labor enforcement. Democrats want to include greater environmental standards and a pension fix in legislation authorizing the USMCA, which would help gain the support of organized labor. This budget impasse is the biggest risk to the USMCA being ratified.

GLOBAL

Brexit: The European Union agreed to delay Brexit by three months to January 31, 2020. Britain will hold a general election December 12, giving the public another say on how, or even if, their country should leave the E.U. Prime Minister Boris Johnson is betting that he can win the parliamentary majority he currently lacks by selling voters a Brexit plan that Parliament has held up. The election should provide competing visions of Britain’s future: Mr. Johnson’s, based on a swift exit from the European Union; or the opposition Labour Party’s, based on holding a second referendum on whether to leave at all. In Johnson’s current exit deal, Scotland would not only lose the benefits of EU, single market and customs union membership, but will also be at a competitive disadvantage in relation to Northern Ireland.

Argentina: As the country struggles with a deep recession, Argentinian voters favored left-wing populist Alberto Fernandez ousting pro-market President Mauricio Macri in this week’s election. The outcome was at least partially priced-in in August, when Fernandez handily outpaced Macri in primary elections. Investors are worried about a return to Peronism, an anti-elite political movement that traditionally favors workers over business owners, and a risk of Argentina defaulting for the ninth time.

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