BARINGS INVESTMENT INSTITUTE

WEEKLY UPDATE

15 November 2019

Overview

Trading Troubles: *The "Phase One" trade deal talks have hit a rocky patch over agriculture. While President Trump had said China would buy up to $50 billion in agricultural products, China is now leery of committing to a specific dollar amount. Meanwhile, the U.S. is asking for stronger Chinese regulation on IP protections and to open up financial markets. Additionally, questions are now being raised about whether or not Trump would be willing to roll back tariffs already in place. If China and the U.S. are not able to iron out these wrinkles soon, the markets will be disappointed after rallying on the back of the announced partial deal last month. Elsewhere, talks of a larger-than-expected trade deal between the U.S. and Turkey are heating up.*

IEA Oil Forecast: *The International Energy Agency (IEA) released its forecast this week stating the U.S. shale-oil production will reshape global energy markets in the years to come, bolstering the country's influence over OPEC nations. The IEA said that even as annual U.S. production growth slows from its pace in recent years, policies already announced mean that the country will account for 85% of the increase in global oil production to 2030.*

A Tale of Two Speeches: *Federal Reserve Chairman Jerome Powell in his speeches to both the Joint Economic Committee and the House Budget Committee reinforced the Fed's 'wait-and-see' approach, signaling a fourth rate cut is unlikely in December. However, Powell did not take a change in the fed funds rate in 2020 off the table. He noted that downside risks for the economy remain. Separately, after being prompted, Powell noted that negative rates are inappropriate for the U.S. economy.*

Key Financial Indicators						As of:	11/13/2019
Rates	**Yield**	**1 W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
Fed Funds	1.75%	0 bps	-25 bps	-50 bps	-75 bps	-50 bps	-75 bps
3 Month USD Libor	1.91%	1 bps	-9 bps	-25 bps	-61 bps	-71 bps	-90 bps
3 Month Euribor	-0.40%	0 bps	2 bps	0 bps	-9 bps	-9 bps	-9 bps
3 Month U.S. T-Bill	1.57%	1 bps	-10 bps	-43 bps	-84 bps	-78 bps	-88 bps
2-Year U.S. Treasury	1.63%	3 bps	2 bps	-4 bps	-56 bps	-127 bps	-87 bps
10-Year U.S. Treasury	1.87%	6 bps	12 bps	19 bps	-53 bps	-127 bps	-81 bps
10-Year German Bund	-0.31%	2 bps	13 bps	32 bps	-26 bps	-70 bps	-55 bps
10-Year U.K. Gilt	0.74%	1 bps	5 bps	15 bps	-44 bps	-77 bps	-59 bps
10-Year JGB	-0.06%	3 bps	14 bps	18 bps	0 bps	-17 bps	-5 bps
Fixed Income	**Yield**	**OAS**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
Barclays Capital U.S. Government-Treasury	1.81%	N/A	-0.3%	-0.6%	-0.7%	9.8%	6.7%
Barclays Capital U.S. TIPS	2.04%	N/A	-0.5%	0.1%	-0.7%	8.6%	7.5%
Barclays Capital U.S. Aggregate	2.35%	43	-0.2%	-0.1%	0.1%	10.6%	8.1%
Barclays Capital Global Aggregate	1.45%	41	-0.4%	-0.5%	-1.0%	8.4%	5.7%
Barclays Capital U.S. ABS	2.06%	41	0.0%	0.1%	0.3%	5.4%	4.2%
Barclays Capital U.S. MBS	2.57%	43	0.0%	0.2%	0.9%	8.8%	5.8%
Barclays Capital U.S. Corporate Investment Grade	2.95%	105	-0.2%	0.3%	0.5%	14.2%	13.0%
BAML Euro Corporate Investment Grade	0.49%	100	-0.2%	0.0%	-0.9%	5.9%	6.3%
Barclays Capital U.S. Corporate High Yield	5.71%	377	-0.1%	0.6%	1.7%	8.6%	11.9%
BAML European Currency High Yield Non-Financial	3.41%	379	0.0%	0.7%	1.2%	5.8%	8.8%
CS U.S. Leveraged Loans	6.65%	502	0.2%	0.4%	0.4%	2.8%	6.2%
CS Western European Leveraged Loans Non-USD	4.81%	435	0.1%	-0.1%	0.4%	2.2%	3.5%
JPM CEMBI Broad Diversified	5.10%	329	-0.1%	0.5%	1.7%	11.8%	11.5%
JPM EMBI Global Diversified	5.21%	323	-0.5%	-0.4%	0.3%	13.7%	12.5%
JPM GBI-EM Global Diversified	5.24%	N/A	-1.8%	-0.6%	1.5%	12.9%	9.0%
Equities	**Price**	**Div Yield**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
S&P 500	3,094.04	1.82%	0.6%	4.3%	6.3%	16.0%	25.6%
Euro STOXX 600 (Local)	405.86	3.32%	0.2%	3.6%	9.0%	11.4%	20.2%
U.K. FTSE 100 (Local)	7,351.21	4.47%	-0.6%	1.4%	1.4%	4.2%	9.3%
Japan Nikkei 225 (Local)	23,319.87	1.94%	0.1%	7.0%	14.0%	6.9%	16.5%
China Shanghai Composite (Local)	2,905.24	2.38%	-2.5%	-2.3%	3.9%	9.4%	16.5%
MSCI AC World (Local)	541.88	2.47%	0.2%	4.0%	9.2%	14.6%	22.3%
MSCI Emerging Markets (Local)	1,043.83	2.88%	-1.6%	3.2%	8.0%	11.7%	12.2%
Commodities/Currencies	**Price**	**1W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
S&P GS Commodity Index	418.03	0.3%	2.1%	3.1%	-3.1%	-2.0%	11.7%
WTI Crude ($/bbl)	57.08	1.3%	4.2%	0.1%	-6.4%	2.6%	26.4%
Copper ($/lb)	2.64	-0.9%	0.7%	0.5%	-3.4%	-1.9%	0.3%
Gold ($/oz)	1,462.90	-1.6%	-1.1%	-2.4%	12.9%	21.7%	14.4%
U.S. Dollar Index	98.37	0.4%	0.1%	0.6%	1.1%	1.1%	2.3%
Euro (USD/EUR)	1.10	-0.6%	-0.2%	-1.6%	-2.1%	-2.4%	-3.7%
British Pound (USD/GBP)	1.28	-0.3%	1.2%	6.4%	-1.1%	-1.2%	0.8%
Japanese Yen (Yen/USD)	108.74	-0.3%	0.1%	2.0%	-0.4%	-4.6%	-0.9%
Chinese Yuan (CNY/USD)	7.02	0.2%	-1.2%	-0.7%	2.1%	0.9%	2.2%

Source: FactSet and Bloomberg

Economics

UNITED STATES

Inflation: Core consumer prices increased in line with expectations in October, rising 0.2% M/M (+2.3% Y/Y). The headline CPI measure was up 0.4% M/M (+1.8% Y/Y). The September tariff increase has not yet passed through to core goods prices, though it is likely to happen next month. Core producer prices, rose 0.3% M/M (+1.6% Y/Y) in October after sliding 0.3% M/M. The headline PPI was up 0.4% M/M (+1.1% Y/Y). Energy was a major lift to both monthly headline inflation numbers.

Small Business Optimism: The NFIB Small Business Optimism Index rose from 101.8 to 102.4 in October, though it remains shy of cyclical highs. The headline was pushed higher amid optimism surrounding the "Phase One" trade deal. The details were positive, with improvements in capex and hiring as well as better prospects for expansion.

Consumer Sentiment: The initial reading of the University of Michigan consumer sentiment survey for November increased more than expected, as a rise in the expectations index more than offset a decrease in the current conditions index.

EUROPE

Germany GDP: Germany narrowly avoided a recession, as GDP rose 0.1% Q/Q in 3Q19, after sliding a downwardly revised 0.2% Q/Q (previously 0.1%) in the second quarter. Growth in services outweighed weakness in manufacturing. However, growth remains weak and the upward surprise in GDP now reduces the likelihood of fiscal stimulus.

U.K. Inflation: CPI decelerated more than expected, rising 1.5% Y/Y in October—the lowest reading since November 2016. The cooling in the headline is largely due to changes in Ofgem's (Office of Gas and Electricity Markets) energy price cap and oil base effects, as core inflation held steady at 1.7% Y/Y in October. Inflation will likely remain below BOE's target this year.

EZ Industrial Production: September industrial production rose 0.1% M/M, despite consensus expectations for a 0.2% decline. Capital goods and non-durable consumer goods led the rise. This marks the second-consecutive monthly increase, aiding the changing views about the European economies.

ASIA - PAC

China Activity: Activity in China came in below expectations in October. Industrial production rose 4.7% Y/Y in October, after gaining 5.8% in September. Meanwhile, retail sales decelerated from 7.8% Y/Y to 7.2% Y/Y in October, and fixed asset investment growth decelerated to 5.2% YTD.

China Credit: China's credit expansion weakened significantly in October, which foreshadows continued slowing in the Chinese economy. The broad-based weak data contributes to the need for a reprieve in the trade war with the U.S.

Japan GDP: 3Q19 GDP underwhelmed, rising 0.2%, after gaining an upwardly revised 1.8% in 2Q19.

Policy

UNITED STATES

China Deal: While there were snags this week, White House economic adviser Larry Kudlow confirmed that tariff agreements and concessions would be part of a phase one China trade deal. There does seem to be some division within the administration over the timing of the move, with trade adviser Peter Navarro saying that there is no agreement in place to ease tariffs, adding that only President Trump can make that decision.

Turkey Deal: President Trump said he'll discuss a trade deal with Turkey's President Recep Tayyip Erdogan that could expand trade between the two countries, from about $20 billion to as much as $100 billion, Trump said. The sudden trade curveball comes after Trump threatened sanctions against Turkey last month following its incursion into Syria.

Auto Tariffs: Trump will again this week push back a self-imposed deadline on whether to put up to 25% tariffs on national security grounds on imported cars and parts from the European Union and Japan. Officials expect Trump to announce a six-month delay as he faces the deadline this week.

Drug Pricing: The Trump administration announced that it was increasing senior citizens' premiums and deductibles for Medicare Part B, which covers injected and infused prescription drugs administered in a physician's office or hospital. Although the increases are small in real dollar terms, $9 monthly in premiums and $13 annually in deductibles, the political optics of increasing costs for Medicare beneficiaries remain toxic.

GLOBAL

Brexit: Right now, the Tories are still comfortably ahead in the polls. Data seems to show that for stocks, whoever is in charge doesn't matter as much as one might assume. Nigel Farage is coming under pressure to stand aside and let U.K. Prime Minister Boris Johnson deliver Brexit after the general election on December 12. Leavers fear Farage could split the pro-Brexit vote, help Jeremy Corbyn into Downing Street, and undermine Britain's departure from the European Union.

Spain: The Socialists lost ground and the right wing party has surged in response to the turmoil in Catalonia, where hundreds of thousands are protesting direct Spanish rule. The Spanish Acting Prime Minister Pedro Sanchez's Socialists cut a deal to work together with the anti-establishment Podemos party to govern the country, adding at least some degree of certainty. The two parties have yet to find enough votes to form a majority.

Hong Kong: The result of nearly 90 arrests and one shot have battered local stocks, as we approach the 26th week of protests. For Europe, luxury-goods firms, hotel operators and Asia-focused banks have all taken a hit from the protests, and that may well persist. Early data indicate the economy is still suffering the effects of the unrest and local banks are telling staff to cancel meetings, and schools are shutting down. Hong Kong officials and Chinese state media warned of consequences if violence continues.

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