

22 November 2019

Overview

OECD Outlook: *The OECD downgraded global growth to its weakest growth since the global financial crisis. The OECD forecasts global GDP growth of 2.9% in 2019 and remain around 3% in 2020 and 2021—a downgrade from the 3.5% projection last year. The OECD’s largest concerns for the outlook are structural changes such as climate change, digitalization, and trade and geopolitics moving away from the multilateral order of the 1990s—all of which have contributed to heightened uncertainty which is hindering investment. Separately, the report noted that due to structural changes in the Chinese economy, China’s traditional contributions to global growth will slow and change in nature. Simultaneously India will grow more rapidly, but its growth will not be enough to offset the waning support from China on global manufacturing.*

FOMC Minutes: *The minutes from the October FOMC meeting confirmed the Fed’s wait-and-see stance. Consistent with the press conference, and Powell’s subsequent speeches, the Fed will only change course if developments emerge that would require them to make a material reassessment to their outlook. More notably from the minutes, the FOMC members pointed out that policies such as QE would not be as effective as they were during the Great Recession since longer-term interest rates would likely start at a much lower rate. In a review of the repo market operations, the minutes noted the possibility of maintaining a role for repo operation in their framework longer-term in order to support control over the fed funds rate. Separately, all participants agreed that negative interest rates are not currently an attractive monetary policy tool for the U.S.*

Trade Deal Update: *The U.S. and China continue to march on with trade talks as a congressional response to the Hong Kong unrest adds to the list of potential snags the trade deal may have. Despite this move, White House economic adviser Larry Kudlow said talks over the first phase of an agreement with China were coming down to the final stages, with the two sides in close contact. The near-deal that fell apart in May of this year is now being used as the benchmark to decide how much tariffs should be rolled back in the initial phase of the trade agreement. The Chinese have demanded that all tariffs imposed after May be removed immediately and then tariffs imposed before that be lifted gradually.*

Key Financial Indicators
As of: 11/20/2019

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	1.90%	-1 bps	-5 bps	-25 bps	-62 bps	-75 bps	-91 bps
3 Month Euribor	-0.41%	0 bps	0 bps	2 bps	-9 bps	-9 bps	-10 bps
3 Month U.S. T-Bill	1.56%	-1 bps	-10 bps	-37 bps	-81 bps	-82 bps	-88 bps
2-Year U.S. Treasury	1.57%	-6 bps	0 bps	6 bps	-66 bps	-122 bps	-93 bps
10-Year U.S. Treasury	1.74%	-13 bps	-1 bps	18 bps	-68 bps	-131 bps	-95 bps
10-Year German Bund	-0.35%	-5 bps	3 bps	33 bps	-27 bps	-71 bps	-59 bps
10-Year U.K. Gilt	0.72%	-3 bps	1 bps	28 bps	-43 bps	-72 bps	-61 bps
10-Year JGB	-0.11%	-5 bps	4 bps	12 bps	-6 bps	-20 bps	-10 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.72%	N/A	0.8%	0.2%	-0.6%	10.0%	7.6%
Barclays Capital U.S. TIPS	1.91%	N/A	0.7%	0.5%	-0.1%	8.9%	8.2%
Barclays Capital U.S. Aggregate	2.27%	46	0.6%	0.4%	0.1%	11.0%	8.8%
Barclays Capital Global Aggregate	1.39%	43	0.6%	-0.1%	-0.7%	8.5%	6.4%
Barclays Capital U.S. ABS	1.96%	37	0.3%	0.3%	0.3%	5.4%	4.5%
Barclays Capital U.S. MBS	2.50%	49	0.2%	0.4%	0.7%	8.4%	6.0%
Barclays Capital U.S. Corporate Investment Grade	2.87%	108	0.8%	0.8%	0.6%	15.5%	13.9%
BAML Euro Corporate Investment Grade	0.51%	105	-0.1%	0.0%	-1.1%	6.5%	6.2%
Barclays Capital U.S. Corporate High Yield	5.81%	397	-0.3%	-0.1%	1.4%	9.8%	11.6%
BAML European Currency High Yield Non-Financial	3.45%	384	-0.1%	0.3%	0.6%	7.8%	8.7%
CS U.S. Leveraged Loans	6.52%	501	0.1%	0.3%	0.4%	3.5%	6.3%
CS Western European Leveraged Loans Non-USD	4.77%	433	0.1%	0.0%	0.4%	2.7%	3.6%
JPM CEMBI Broad Diversified	5.06%	337	0.2%	0.5%	1.6%	12.6%	11.7%
JPM EMBI Global Diversified	5.25%	340	-0.2%	-0.8%	-0.3%	14.5%	12.3%
JPM GBI-EM Global Diversified	5.21%	N/A	0.6%	-0.6%	1.9%	11.7%	9.6%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,108.46	1.82%	0.5%	4.3%	7.7%	20.1%	26.2%
Euro STOXX 600 (Local)	403.82	3.32%	-0.5%	3.1%	8.8%	15.0%	19.6%
U.K. FTSE 100 (Local)	7,262.49	4.53%	-1.2%	1.6%	1.9%	4.5%	7.9%
Japan Nikkei 225 (Local)	23,148.57	1.96%	-0.7%	2.9%	12.0%	7.3%	15.7%
China Shanghai Composite (Local)	2,911.05	2.37%	0.2%	-0.9%	1.1%	10.0%	16.7%
MSCI AC World (Local)	543.76	2.47%	0.3%	3.8%	7.0%	17.7%	22.7%
MSCI Emerging Markets (Local)	1,052.00	2.86%	0.7%	2.9%	6.7%	12.6%	13.0%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	415.38	-0.6%	2.1%	3.9%	-6.3%	-0.7%	11.0%
WTI Crude (\$/bbl)	57.05	0.3%	6.1%	1.5%	-9.6%	6.9%	26.4%
Copper (\$/lb)	2.65	0.4%	0.8%	2.8%	-3.3%	-4.3%	0.7%
Gold (\$/oz)	1,471.70	0.6%	-1.2%	-2.2%	15.3%	20.3%	15.1%
U.S. Dollar Index	97.93	-0.4%	0.7%	-0.3%	0.0%	1.1%	1.8%
Euro (USD/EUR)	1.11	0.5%	-0.7%	-0.2%	-0.9%	-3.0%	-3.2%
British Pound (USD/GBP)	1.29	0.6%	0.1%	6.4%	1.4%	0.7%	1.4%
Japanese Yen (Yen/USD)	108.64	-0.1%	0.1%	2.2%	-1.2%	-3.5%	-1.0%
Chinese Yuan (CNY/USD)	7.04	0.3%	-0.6%	-0.4%	1.8%	1.4%	2.5%

Source: FactSet and Bloomberg

Economics

UNITED STATES

Retail Sales: Retail sales beat expectations, rising 0.3% M/M in October, but the underlying details weren't as strong. Retail sales excluding auto and gas rose just 0.1% M/M, and 7 of the 13 major categories posted declines. The three-month annualized growth rate, at 2%, was the lowest in eight months, pointing to slower consumer spending growth in 4Q19 compared with the robust 2.9% rise in 3Q19.

Industrial Production: Industrial production fell more than expected, dropping 0.8% M/M October, but isn't cause for concern. The headline was weighed down by a 7.1% drop in motor vehicles and parts output, due in part to the UAW strike, as well as a 2.6% decline in utility production which was hurt by unfavorable weather conditions. With the strike resolved, industrial production is expected to rebound in November.

Housing: Housing starts rose 3.8% M/M in October, with both single- and multifamily notching increases. Permits also trended higher, rising 5% M/M, signaling strength in the U.S. new-home market will continue in coming months. The NAHB Housing Market Index edged down from 71 to 70 in November, but remains elevated, showing strong builder confidence.

EUROPE

Germany Inflation: Producer prices slid more than expected in October, falling 0.2% M/M (-0.6% Y/Y). Weakness was concentrated in the energy and basic goods components. Excluding energy, producer prices rose 0.3% Y/Y.

U.K. Budget: U.K. government borrowing rose more sharply than expected, to its highest level in five years. Government borrowing is up 28% from levels a year ago. With both candidates running for office promising increased spending, the budget deficit is only set to rise.

EZ Consumer Confidence: Consumer confidence edged higher from -7.6 to -7.2 in November, but remains below levels last year. The consumer remains the bedrock of the EZ economy as manufacturing continues to weigh on growth.

ASIA - PAC

Japan Trade: The trade deficit narrowed from ¥64.3 billion to ¥34.7 billion in October. Exports fell 9.2% Y/Y, the 11th consecutive decline, led by steep drops in exports to the U.S. and China. Imports fell 14.8% Y/Y. The U.S.-China trade war and recent Typhoons are weighing heavily on Japan's trade activity.

South Korea Trade: Exports in the first 20 days of November declined 9.6% Y/Y while imports fell 11.2% Y/Y. South Korea trade is a good proxy for global trade.

PBOC: The PBOC unexpectedly announced that it was lowering the seven-day reverse repurchase rate from 2.55% to 2.5%. This is the first cut in four years, and shows that the PBOC is willing to act to prop up the economy from slowing growth.

Policy

UNITED STATES

Trade: The completion of a phase one deal may be pushed back into next year as time is running out for both Chinese and American leaders to meet in person for the signing. The near-deal that fell apart in May is now being used as the benchmark to decide how much tariffs should be rolled back in the initial phase of an agreement. Both sides have been sending signals that they desire a deal; including China lifting a ban on American poultry that began in 2015, after the U.S. Department of Agriculture made a similar decision to allow Chinese poultry into the U.S.

House Spending Bill: The House passed a temporary government funding bill Tuesday to hold off a shutdown for a few more weeks. The legislation now heads to the Senate. Mitch McConnell, Senate majority leader, said the White House indicated President Donald Trump would support a plan to keep the government running through Dec. 20. The president's backing suggests the GOP-held Senate will pass the measure.

Supporting Hong Kong: The Hong Kong Human Rights and Democracy Act was passed in Congress with a veto-proof majority in reaction to rising unrest in Hong Kong. The move angered Beijing as it aims to support protesters in Hong Kong and warns China against a violent suppression of the demonstrations. The bill calls for an annual review of the special treatment Hong Kong receives from the mainland and gives the president the ability to impose sanctions on those carrying out torture or forced confession of any individual in Hong Kong. China responded to the U.S. by threatening to impose unspecified retaliation if the bill becomes law.

Healthcare: President Trump announced two regulatory changes for greater transparency in the healthcare system. The first targets hospitals, finalizing a rule that requires them to display their negotiated rates to patients starting in January 2021. The second is a proposal to make insurance companies show patients their expected out-of-pocket costs through an online tool. The proposed rules are subject to 60 days of public comment, and it's unclear when it would go into effect.

GLOBAL

United Kingdom: The first debate between, U.K. Prime Minister Boris Johnson and Labour's Jeremy Corbyn, took place and polls suggested Johnson came out ahead. Johnson announced plans to cancel a 2020 tax cut, saying the freeze would allow the Treasury to spend £6 billion (\$7.8 billion) on public services. And while Johnson conceded that many at the event would not have voted to leave the EU, he urged them nonetheless to back his plan to "Get Brexit Done."

Protests: Paris authorities detained 173 people and deployed tear gas during unrest on the first anniversary of the "Yellow Vests" movement. In Iran, security forces detained hundreds protesting a sudden surge in fuel prices. Various Latin American countries also continue testing the resilience of police and governments for issues ranging from raising prices of public goods in Chile to disputed election results in Bolivia, protesting is now a theme on multiple continents.

Japan: The country's lower house of parliament approved a limited trade deal Prime Minister Shinzo Abe agreed with the U.S., clearing the way for roughly 10% tariff cuts next year on items including U.S. farm goods and Japanese machine tools.

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