

**6 December 2019**

## Overview

**NATO:** *The 70<sup>th</sup> annual NATO summit held in London this week made headlines for several spats between the 29 leaders. The week kicked off with tensions high between U.S. President Donald Trump and French President Emmanuel Macron and ended with a tiff between Trump and Canadian Prime Minister Justin Trudeau. Throughout the summit, Trump made known his displeasure with those NATO allies who have not met their defense spending target of 2% of GDP, while the U.S. is spending above its target. The spotlight on frictions between the allied leaders added to the heightened level of uncertainty around the globe, especially as Trump simultaneously announced tariffs on several countries throughout the week. On a more positive note, the NATO summit concluded with an agreement surrounding the security of communications—particularly the 5G mobile phone networks. While they did not specify Huawei or China in this agreement, a greater emphasis was placed on China during the summit.*

**Leading Indicators:** *Global manufacturing PMIs are aligning with the bottoming out narrative. The Global manufacturing PMI rose for the fourth-consecutive month and entered into expansionary territory, at 50.3, in November. In Europe, despite remaining in contractionary territory, the EZ manufacturing PMI rose for the second-consecutive month to 46.9 in November, and new orders and output notched increases. In Asia-Pacific, both China's official and Caixin manufacturing PMIs posted expansionary numbers in November. Manufacturing in Japan remains stuck in the mud and demand conditions are deteriorating, though the manufacturing PMI edged up from 48.4 to 48.9. There were mixed signals in the U.S., with the ISM manufacturing index coming in below expectations in contraction territory with weak readings in forward-looking details, while the Markit manufacturing PMI rose higher into expansionary territory. While data will likely remain somewhat mixed in coming months, the worst seems to be over for the manufacturing sector.*

**Trade:** *Trade tensions are not easing as quickly as anticipated, which is adding to downside risk as the soft landing many are forecasting hinges on easing in trade tensions. Markets were volatile this week when President Trump initially made a statement that he would be willing to hold off on the trade deal with China until after the 2020 elections; then reports surfaced that the two sides were moving closer to a deal. The White House also noted that euro auto tariffs are not off the table, and threatened retaliatory tariffs on France. Adding to the pile, Trump announced that he will place tariffs on steel and aluminum from Brazil and Argentina, as pressure on U.S. agriculture mounts.*

**Key Financial Indicators**
**As of: 12/4/2019**

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	1.75%	0 bps	0 bps	-50 bps	-75 bps	-50 bps	-75 bps
3 Month USD Libor	1.89%	-3 bps	-2 bps	-23 bps	-59 bps	-85 bps	-92 bps
3 Month Euribor	-0.39%	1 bps	1 bps	5 bps	-7 bps	-8 bps	-8 bps
3 Month U.S. T-Bill	1.55%	-5 bps	1 bps	-40 bps	-79 bps	-87 bps	-90 bps
2-Year U.S. Treasury	1.58%	-4 bps	-1 bps	14 bps	-30 bps	-123 bps	-92 bps
10-Year U.S. Treasury	1.78%	1 bps	-1 bps	32 bps	-34 bps	-114 bps	-90 bps
10-Year German Bund	-0.33%	4 bps	2 bps	33 bps	-13 bps	-62 bps	-57 bps
10-Year U.K. Gilt	0.73%	6 bps	2 bps	22 bps	-27 bps	-62 bps	-61 bps
10-Year JGB	-0.04%	8 bps	15 bps	25 bps	7 bps	-11 bps	-3 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.75%	N/A	0.0%	0.2%	-1.4%	9.1%	7.4%
Barclays Capital U.S. TIPS	1.92%	N/A	0.2%	0.5%	-0.5%	8.6%	8.5%
Barclays Capital U.S. Aggregate	2.30%	44	0.0%	0.3%	-0.6%	10.2%	8.8%
Barclays Capital Global Aggregate	1.42%	42	0.2%	-0.3%	-1.1%	7.9%	6.4%
Barclays Capital U.S. ABS	2.00%	37	0.1%	0.3%	0.0%	5.3%	4.5%
Barclays Capital U.S. MBS	2.53%	45	0.1%	0.1%	0.3%	7.6%	6.1%
Barclays Capital U.S. Corporate Investment Grade	2.87%	105	0.0%	0.7%	0.0%	15.1%	14.1%
BAML Euro Corporate Investment Grade	0.51%	103	-0.1%	-0.2%	-0.9%	6.4%	6.3%
Barclays Capital U.S. Corporate High Yield	5.63%	378	0.1%	0.0%	1.0%	9.4%	12.1%
BAML European Currency High Yield Non-Financial	3.27%	365	0.2%	1.1%	0.7%	8.7%	9.5%
CS U.S. Leveraged Loans	6.51%	495	0.3%	0.7%	0.7%	4.3%	6.7%
CS Western European Leveraged Loans Non-USD	4.64%	420	0.1%	0.3%	0.5%	3.1%	3.8%
JPM CEMBI Broad Diversified	5.04%	331	0.0%	0.4%	1.7%	12.5%	12.0%
JPM EMBI Global Diversified	5.15%	327	-0.2%	-0.9%	-1.6%	13.4%	12.6%
JPM GBI-EM Global Diversified	5.25%	N/A	0.9%	-1.6%	1.5%	10.6%	9.7%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,112.76	1.81%	-1.3%	1.3%	6.5%	17.6%	26.5%
Euro STOXX 600 (Local)	403.19	3.32%	-1.6%	-0.1%	5.2%	12.5%	19.4%
U.K. FTSE 100 (Local)	7,188.50	4.57%	-3.2%	-2.5%	-1.7%	2.4%	6.8%
Japan Nikkei 225 (Local)	23,135.23	1.96%	-1.3%	1.2%	12.0%	5.0%	15.6%
China Shanghai Composite (Local)	2,878.12	2.40%	-0.9%	-3.3%	-2.7%	8.0%	15.4%
MSCI AC World (Local)	542.95	2.46%	-1.5%	1.2%	5.9%	14.7%	22.4%
MSCI Emerging Markets (Local)	1,036.57	2.82%	-1.6%	-0.3%	4.4%	7.2%	11.6%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	418.75	-0.4%	-0.1%	3.7%	2.9%	0.4%	11.9%
WTI Crude (\$/bbl)	58.43	0.5%	3.7%	3.9%	9.2%	9.8%	29.4%
Copper (\$/lb)	2.64	-1.1%	-0.9%	2.5%	-1.1%	-3.8%	0.6%
Gold (\$/oz)	1,475.10	1.4%	-2.3%	-4.6%	11.4%	18.9%	15.3%
U.S. Dollar Index	97.65	-0.7%	0.1%	-0.8%	0.6%	0.7%	1.5%
Euro (USD/EUR)	1.11	0.8%	-0.6%	0.5%	-1.3%	-2.3%	-3.0%
British Pound (USD/GBP)	1.31	1.8%	1.5%	7.5%	3.4%	3.0%	2.9%
Japanese Yen (Yen/USD)	108.82	-0.5%	0.3%	2.5%	0.5%	-3.7%	-0.8%
Chinese Yuan (CNY/USD)	7.07	0.6%	0.6%	-1.2%	2.3%	3.3%	3.0%

Source: FactSet and Bloomberg

## Economics

### UNITED STATES

**Leading Indicators:** The ISM manufacturing index fell unexpectedly in November, sliding from 48.3 to 48.1—the fourth-consecutive month in contractionary territory. Details were weak, with new orders and employment falling. This is more noise than signal, and manufacturing should stabilize in coming months. The ISM service index stayed in expansion territory but fell from 54.7 to 53.9. The decline was led by a drop in business activity, while forward-looking indicators ticked higher.

**Trade:** The trade deficit narrowed in October to \$47.2 billion from a revised \$51.1 billion in September—the lowest level in 16 months. Exports fell 0.2% and imports dropped 1.7%. The trade deficit with China narrowed over the month, but has widened with countries such as Brazil. October's data suggests that the drag from trade on U.S. GDP growth may lift in Q4.

**Factory Orders:** Factory orders rose 0.3% M/M in October, as expected. Core capital goods shipments—a good indicator of business equipment spending plans—rose 0.8% after falling for three months, but uncertainty will keep a lid on growth.

### EUROPE

**EZ PMI:** Leading indicators supported the bottoming out narrative in manufacturing. Markit's November manufacturing PMI remained in contractionary territory for the 10th-consecutive month, but edged higher from 45.9 in October to 46.9 in November. Encouragingly, new orders and output increased. The service index remained in expansion territory, but slid from 52.2 to 51.9 in November as some of the pain is seeping over into services.

**EZ Inflation:** Consumer inflation remains below the ECB's target rate. November's CPI rose 1% Y/Y and the core rate increased 1.3% Y/Y, both up from October. Energy remains a drag on a year-ago basis, but this will fade in coming months.

**U.K. Leading Indicators:** The manufacturing PMI took a step back in November, falling from 49.6 in October to 48.9 in November as heightened uncertainty and a Brexit delay weighed on businesses. The details were weak with output, new orders, and employment posting declines. The services PMI slipped into contractionary territory, falling from 50 to 49.3 in November—the steepest rate of decline in eight months.

### ASIA - PAC

**China PMIs:** China's manufacturing activity improved in November. The official PMI increased to 50.2 from 49.3 in October—the first expansionary reading in seven months, while the private Caixin manufacturing PMI rose from 51.7 to 51.8.

**Japan PMIs:** The Markit manufacturing PMI rose from 48.4 to 48.9 in November, in contraction territory for the seventh-consecutive month as demand deteriorates. The service sector index entered expansion territory, up from 49.7 to 50.3.

**South Korea GDP:** Economic growth moderated in the third quarter in line with expectations, rising 0.4% compared with 1.1% in the second quarter. Continued trade uncertainty will keep a weight on the export-dependent economy.

## Policy

### UNITED STATES

**Chinese Trade:** Despite President Trump telling reporters that he has no deadline for a partial trade deal, and passing a U.S. bill that could see new sanctions over human rights abuses against Muslim minorities threatening to further slow up proceedings, the U.S. negotiators expect a deal to be completed before American tariffs are set to rise on December 15. Final issues in the talks include how to guarantee China's purchases of U.S. agricultural goods and which tariffs to roll back. Many speculate that President Trump's comments downplaying the urgency of a deal does not mean the talks were stalling.

**EU Tariffs:** The U.S. threatened to unleash tariffs on \$2.4 billion of imports from France. The office of the U.S. Trade Representative announced the move in response to the imposition of a 3% "digital tax" by French President Macron's administration targeting American companies such as Facebook and Google. The levies are due to come into force in early 2020. The Trump administration also threatened to place tariffs as high as 100% on French wine, cheeses, and handbags. The U.S. is also exploring whether to open investigations into similar digital levies in Austria, Italy and Turkey.

**South American Steel:** President Trump said he is reinstating tariffs on steel and aluminum from Argentina and Brazil. The move amounts to retaliation against two nations that have become big suppliers of soybeans to China, grabbing market share away from the U.S. during the trade war. U.S. farmers, a key constituency for President Trump, stand to benefit from the move. Trump accused the countries of manipulating their currencies, which have weakened recently, making Brazilian and Argentine products less expensive in other countries, most notably China.

### GLOBAL

**Chinese Response to HK Bill:** China's first retaliation to the U.S. bill supporting pro-democracy movements in Hong Kong has avoided any measures related to trade. A Foreign Ministry spokeswoman said sanctions would be put on U.S. human-rights organizations operating in the city, while Hong Kong port visits by U.S. Navy ships would be suspended.

**Germany:** Chancellor Angela Merkel's government was thrown into doubt after her coalition partners, the Social Democrats, elected new leaders. In his victory speech, Norbert Walter-Borjans insisted he would improve the current coalition rather than take it down, but it creates a significant headache for Merkel to keep the government together and an extra political risk for European investors to take into account.

**Iran:** Protests erupted after a steep increase in the price of gas was announced on November 15. In the resulting government crackdown, Iranian security forces opened fire on the demonstrators. The scope of the violence is now becoming clear after an internet blackout was lifted. Many Iranians have directed their hostility at the country's supreme leader, Ayatollah Ali Khamenei, who called the response a justified reaction to a plot by Iran's enemies. The gas price increase came as Iran struggles to fill a budget gap, created in large part by American restrictions on the country's oil exports.

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