

12 December 2019

## Overview

**FOMC Meeting:** As expected, the FOMC voted unanimously during its December meeting to keep the fed funds rate steady at a range of 1.5%-1.75%. After three 25 bps cuts this year, the Fed is signaling it will remain on hold over the year ahead. The median dot for December shows the fed funds target rate remaining at current levels in 2020 and rising slowly in 2021 and 2022. The longer run median projection remained unchanged compared with September at 2.5%. The Fed's outlook was relatively unchanged, and they believe current monetary policy supports sustained expansion. Separately, Fed Chairman Jerome Powell addressed the recent issues in the repo market— noting that the Fed could purchase Treasury coupons if appropriate.

**ECB Meeting:** The European Central Bank kept its main policy rates unchanged during its December meeting, as expected. This follows the eventful September meeting in which they reduced the deposit rate to -0.5%, introduced a new round of QE, and eased TLTRO conditions. This was the first meeting and press conference with Christine Lagarde as president, and all eyes were on how she communicated and any messaging surrounding the strategic review. Lagarde noted that she is neither a dove nor a hawk, but an owl. She said that her style of communication will be different than previous presidents, and warned against over-interpreting her message. In terms of the strategic review, she plans to begin in January and be completed by the end of 2020. Since it has been 16 years since the last review, this one will be comprehensive and touch on aspects such as climate change and rising inequality. In terms of the ECB's outlook, they signaled that they will keep interest rates at current levels until inflation converges sufficiently close to, but below, the 2% target. At the press conference, Lagarde noted that there are signs of stabilization in the euro-area economies, but risks are tilted to the downside.

**Trade:** The U.S. and China have reached an agreement on a "Phase One" deal ahead of the December 15<sup>th</sup> tariffs— which are now delayed. Separately, the House and White House reached an agreement on the USMCA after a year of negotiations. The major changes came in the form of enforcement mechanisms and monitors for labor and environmental standards in the new deal, removal of protections for drug companies, and strengthening the process for dispute settlements. However, the Senate will not vote on USMCA until after the impeachment trial in 2020.

**Key Financial Indicators**

As of: 12/11/2019

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%	0 bps	-2 bps	-24 bps	-56 bps	-89 bps	-92 bps
3 Month Euribor	-0.39%	0 bps	0 bps	4 bps	-7 bps	-8 bps	-8 bps
3 Month U.S. T-Bill	1.57%	2 bps	2 bps	-39 bps	-70 bps	-85 bps	-88 bps
2-Year U.S. Treasury	1.61%	3 bps	-6 bps	-6 bps	-32 bps	-116 bps	-89 bps
10-Year U.S. Treasury	1.78%	0 bps	-16 bps	5 bps	-35 bps	-109 bps	-90 bps
10-Year German Bund	-0.32%	1 bps	-6 bps	25 bps	-11 bps	-60 bps	-56 bps
10-Year U.K. Gilt	0.78%	6 bps	-1 bps	15 bps	-16 bps	-42 bps	-55 bps
10-Year JGB	0.00%	3 bps	6 bps	20 bps	11 bps	-5 bps	0 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.77%	N/A	0.0%	1.1%	0.2%	8.8%	7.4%
Barclays Capital U.S. TIPS	1.95%	N/A	0.1%	1.2%	1.0%	9.2%	8.6%
Barclays Capital U.S. Aggregate	2.30%	43	0.1%	1.1%	0.9%	10.0%	8.9%
Barclays Capital Global Aggregate	1.43%	41	0.1%	0.9%	0.3%	8.1%	6.5%
Barclays Capital U.S. ABS	2.01%	37	0.0%	0.4%	0.5%	5.0%	4.5%
Barclays Capital U.S. MBS	2.52%	45	0.1%	0.4%	0.8%	7.3%	6.2%
Barclays Capital U.S. Corporate Investment Grade	2.85%	102	0.4%	1.9%	2.0%	15.4%	14.6%
BAML Euro Corporate Investment Grade	0.47%	100	0.2%	0.3%	-0.2%	6.8%	6.5%
Barclays Capital U.S. Corporate High Yield	5.39%	353	0.6%	0.8%	1.2%	10.6%	12.8%
BAML European Currency High Yield Non-Financial	3.13%	353	0.4%	1.1%	1.2%	10.4%	10.0%
CS U.S. Leveraged Loans	6.38%	479	0.5%	1.1%	1.0%	5.8%	7.3%
CS Western European Leveraged Loans Non-USD	4.58%	413	0.2%	0.5%	0.5%	3.7%	4.0%
JPM CEMBI Broad Diversified	5.02%	328	0.2%	0.7%	1.8%	12.7%	12.2%
JPM EMBI Global Diversified	5.04%	315	1.0%	0.7%	0.3%	14.3%	13.6%
JPM GBI-EM Global Diversified	5.22%	N/A	0.9%	0.1%	2.3%	12.8%	10.6%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,141.63	1.79%	1.0%	2.0%	5.2%	21.6%	27.7%
Euro STOXX 600 (Local)	406.22	3.42%	0.8%	0.2%	4.2%	18.0%	20.3%
U.K. FTSE 100 (Local)	7,216.25	4.56%	0.4%	-1.5%	-1.7%	6.0%	7.3%
Japan Nikkei 225 (Local)	23,391.86	1.94%	1.1%	0.3%	8.3%	10.6%	16.9%
China Shanghai Composite (Local)	2,924.42	2.35%	1.6%	0.5%	-2.8%	12.7%	17.3%
MSCI AC World (Local)	548.40	2.45%	0.9%	0.9%	4.6%	19.3%	23.6%
MSCI Emerging Markets (Local)	1,058.23	2.78%	1.8%	-0.2%	3.9%	13.4%	13.6%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	420.28	0.4%	0.9%	4.0%	3.2%	2.6%	12.3%
WTI Crude (\$/bbl)	58.74	0.5%	3.8%	5.5%	10.2%	13.7%	30.1%
Copper (\$/lb)	2.78	5.2%	4.6%	7.1%	4.0%	0.6%	5.9%
Gold (\$/oz)	1,466.80	-0.6%	0.6%	-1.6%	10.8%	17.8%	14.7%
U.S. Dollar Index	97.41	-0.2%	-0.8%	-1.2%	0.8%	0.0%	1.3%
Euro (USD/EUR)	1.11	0.0%	0.5%	0.8%	-2.0%	-2.1%	-3.0%
British Pound (USD/GBP)	1.32	0.5%	2.4%	6.7%	3.6%	5.2%	3.5%
Japanese Yen (Yen/USD)	108.70	-0.1%	-0.4%	0.9%	0.1%	-4.1%	-0.9%
Chinese Yuan (CNY/USD)	7.04	-0.4%	0.5%	-1.1%	1.8%	2.0%	2.5%

Source: FactSet and Bloomberg

## Economics

### UNITED STATES

**Employment:** Job gains blew expectations out of the water in November, rising 266,000 with a net 41,00 upward revision for the previous two months. The unemployment rate fell from 3.6% to 3.5% as labor force gains moderated somewhat. Average hourly earnings rose 3.1% Y/Y (0.2% M/M) with upward revisions to previous months, though a material acceleration in wages is not yet upon us.

**Inflation:** Headline CPI rose 0.3% M/M and accelerated to 2.1% Y/Y. Core CPI rose 0.2% M/M and remained steady at 2.3% Y/Y. PPI underwhelmed in November, remaining unchanged M/M, and rising just 1.1% Y/Y. Core PPI slid 0.2% M/M, and decelerated to 1.3% Y/Y. Inflation pressures remain muted—keeping the Fed from raising rates any time soon.

**Small Business Optimism:** The NFIB Small Business Optimism Index beat expectations, rising 2.3 points to 104.7 in November—the largest monthly gain since May 2018. Details were strong, as a sharp improvement in earnings was the largest driver of the gain, and seven of the 10 components notched increases.

### EUROPE

**German Sentiment:** The ZEW survey showed economic sentiment significantly rebounded in December. This is yet another sign of a bottoming out in the German economy, as sentiment should continue to rise as global trade tensions ease.

**German Inflation:** Headline CPI held steady at 1.1% Y/Y in November, as energy prices were a weight. Removing volatile energy and food, core inflation rose 1.6% Y/Y. Inflation will remain below the 2% target through year-end.

**U.K. Industrial Production:** Industrial production rose 0.1% M/M, but fell 1.3% Y/Y. Manufacturing led the decline, but weakness was broad-based, as headwinds from policy uncertainty, trade wars, and slow global growth weigh on the U.K.

### ASIA - PAC

**China Trade:** Exports unexpectedly fell 1.1% Y/Y in November, versus estimates for a 0.8% increase. Meanwhile, imports bucked expectations and rose 0.3% Y/Y. Imports of soybeans jumped 41% Y/Y, while imports from the U.S. rose 2.7% Y/Y.

**China Inflation:** CPI inflation accelerated to 4.5% Y/Y in November from 3.8% in October. The rise was driven by higher food prices (+19.1% Y/Y) due to the African swine flu causing pork prices to more than double in one year. Excluding food, the CPI rose only 1% Y/Y. It will take time for increased imports to ease food prices. PPI fell 1.4% Y/Y, after sliding 1.6% in October. Despite higher food prices, the overall inflation level remains subdued.

**Japan Machine Orders:** Core machine orders bucked expectations, sliding 6% M/M in October—the fourth-consecutive monthly decline. The typhoon and sales tax hike weighed on orders, but weakness doesn't bode well for capital spending or fourth quarter growth.

## Policy

### UNITED STATES

**Chinese Trade:** U.S. negotiators made a last-second offer to slash existing tariffs by as much as half on roughly \$360 billion of Chinese-made goods as well as to cancel a new round of levies set to take effect on Sunday, as the two sides continue to deliberate a phase-one trade deal. Discussions have centered on getting China to commit to annual purchases of between \$40 billion and \$50 billion of U.S. farm products. U.S. officials are also pressing China to buy more U.S. energy and manufactured products.

**Boeing:** Federal Aviation Administration Administrator Stephen Dickson said the agency won't complete the necessary approvals for the 737 MAX's return until 2020. The troubled 737 MAX was the subject of a House Transportation Committee hearing this week, as a panel of senior FAA officials defended their certification process and a former company senior manager-turned whistleblower provided details on safety lapses of which he claims to have first-hand knowledge. This delay now marks another instance when the airplane maker's timetable proved too aggressive.

**USMCA:** Democrats and the White House are close to agreement on the final terms of the revised North American free trade deal. Nancy Pelosi said she had agreed to a deal with U.S. President Donald Trump to allow ratification of USMCA - the trade deal reached last year with Canada and Mexico to replace NAFTA. Senate Majority Leader Mitch McConnell (R-Kentucky) told reporters, "We will not be doing USMCA in the Senate between now and next week. That will happen, in all likelihood, right after the impeachment trial is finished in the Senate." The Bill will likely pass in the early part of next year.

**Impeachment:** As the House announced two articles of impeachment, Senate Republicans say there's an early consensus building within their ranks for a short trial that could see the GOP-led chamber vote on a likely acquittal of President Donald Trump if he is impeached by the House.

### GLOBAL

**Political Uncertainty:** In Germany, Chancellor Angela Merkel will meet with the new leaders of her coalition after they demanded a series of concessions to keep the pact alive. France is set to face intensified protests over pension reforms that President Emmanuel Macron has pushed ahead with. Spain's acting Prime Minister Pedro Sanchez was invited by the king to form a government. Israel faces a third election in less than a year after neither of its major parties formed a government.

**European Trade:** In response to the loss of the WTO's appellate body, Europe is seeking an upgrade to existing legislation that would allow it to target nations that are undermining global trade rules, a decision aimed at the U.S. The body would give parties the right to apply trade penalties such as tariffs against law-breaking countries. E.U. Trade Chief Phil Hogan sought the legislation and is expecting EU capitals and the bloc's Parliament to endorse the measure by mid-2020.

**U.K. Election:** Exit polls are suggesting a Tory majority of 86 and are in favor of Prime Minister Boris Johnson, as the Conservative Party maintains a 10% lead over the main opposition Labour Party.

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