

20 December 2019

Overview

The Boeing Effect: Boeing announced that it is suspending production of its 737 MAX starting in January. This will have a measurable impact on a number of economic data points, but the magnitude will depend on how long the suspension lasts. The impact will be seen in lower ISM, durable goods, industrial production, and 1Q20 GDP data. While these data points will be negatively impacted during the suspension, there will likely be payback in future months once the 737 MAX comes back on line. Boeing has announced it will not furlough or lay off employees, which will limit the direct impacts on the labor market; however, if the suspension lasts a long time, it could affect employment throughout Boeing's supply chain. For reference, if an employee is furloughed, they will not affect the headline employment number, as the employees will be counted as employed in the Establishment Survey, but would affect the unemployment rate as they would be counted as unemployed in the Household Survey.

Brexit Turbulence: Boris Johnson and his conservative party won in a landslide election last Friday. This paves the way for a vote in favor of the Brexit deal in January. However, Johnson has set himself a hard deadline for the transition period for the end of 2020. Many believe ironing out all of the trade negotiations in this time frame is a massive, if not nearly impossible, undertaking. This has reinvigorated fears of a no-deal Brexit, which has led to a slide in sterling—surrendering all of the gain following Johnson's victory. While Johnson's victory aided uncertainty around the U.K.'s path forward, uncertainty surrounding the future trade relationship with the European Union poses a downside risk, as 45% of all U.K. exports went to the EU and 53% of imports were from the EU in 2018.

Avoiding Another Government Shutdown: The House overwhelmingly approved two spending bills this week ahead of the December 20 deadline, to avert another government shutdown. The \$1.4 trillion bills, which will fund the federal government through fall of 2020, is expected to pass in the Senate this week. The bills can be seen as a win for both Democrats and Republicans, with each side giving concessions.

Key Financial Indicators

As of: 12/18/2019

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	1.91%	2 bps	1 bps	-25 bps	-48 bps	-88 bps	-90 bps
3 Month Euribor	-0.40%	-1 bps	0 bps	-1 bps	-8 bps	-9 bps	-9 bps
3 Month U.S. T-Bill	1.56%	-1 bps	0 bps	-40 bps	-65 bps	-82 bps	-89 bps
2-Year U.S. Treasury	1.63%	2 bps	4 bps	-12 bps	-23 bps	-103 bps	-87 bps
10-Year U.S. Treasury	1.92%	14 bps	11 bps	14 bps	-14 bps	-90 bps	-76 bps
10-Year German Bund	-0.26%	6 bps	9 bps	25 bps	5 bps	-50 bps	-49 bps
10-Year U.K. Gilt	0.78%	-1 bps	5 bps	13 bps	-8 bps	-56 bps	-56 bps
10-Year JGB	-0.02%	-2 bps	7 bps	15 bps	11 bps	-5 bps	-2 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.85%	N/A	-0.7%	-0.4%	-0.2%	7.5%	6.7%
Barclays Capital U.S. TIPS	2.03%	N/A	-0.3%	0.5%	0.9%	8.5%	8.3%
Barclays Capital U.S. Aggregate	2.36%	40	-0.4%	0.0%	0.6%	9.0%	8.5%
Barclays Capital Global Aggregate	1.46%	39	-0.2%	0.0%	0.1%	7.3%	6.3%
Barclays Capital U.S. ABS	2.08%	40	-0.1%	0.0%	0.5%	4.7%	4.4%
Barclays Capital U.S. MBS	2.59%	42	-0.1%	0.0%	0.8%	6.7%	6.1%
Barclays Capital U.S. Corporate Investment Grade	2.89%	96	-0.4%	0.6%	1.8%	14.1%	14.2%
BAML Euro Corporate Investment Grade	0.47%	95	0.0%	0.2%	0.0%	6.5%	6.5%
Barclays Capital U.S. Corporate High Yield	5.12%	322	1.0%	1.9%	2.1%	12.4%	14.0%
BAML European Currency High Yield Non-Financial	2.95%	333	0.5%	1.7%	1.5%	10.2%	10.5%
CS U.S. Leveraged Loans	6.33%	464	0.6%	1.6%	1.3%	7.1%	7.9%
CS Western European Leveraged Loans Non-USD	4.55%	408	0.2%	0.6%	0.6%	4.0%	4.2%
JPM CEMBI Broad Diversified	4.98%	311	0.5%	1.0%	2.1%	12.8%	12.7%
JPM EMBI Global Diversified	4.92%	290	0.9%	1.6%	1.3%	14.6%	14.7%
JPM GBI-EM Global Diversified	5.22%	N/A	1.2%	1.8%	2.8%	13.4%	11.9%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,191.14	1.77%	1.6%	2.4%	6.7%	27.9%	29.8%
Euro STOXX 600 (Local)	414.38	3.42%	2.0%	2.1%	6.4%	21.7%	22.7%
U.K. FTSE 100 (Local)	7,540.75	4.36%	4.5%	3.2%	3.1%	12.5%	12.1%
Japan Nikkei 225 (Local)	23,934.43	1.89%	2.3%	2.2%	9.0%	13.4%	19.6%
China Shanghai Composite (Local)	3,017.04	2.28%	3.2%	3.7%	1.1%	17.1%	21.0%
MSCI AC World (Local)	559.61	2.40%	2.0%	2.5%	6.4%	24.4%	26.1%
MSCI Emerging Markets (Local)	1,109.18	2.66%	3.9%	4.9%	7.7%	18.3%	18.1%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	433.11	3.1%	4.2%	3.9%	5.5%	11.7%	15.7%
WTI Crude (\$/bbl)	60.93	3.7%	7.2%	4.7%	13.1%	32.1%	35.0%
Copper (\$/lb)	2.82	1.2%	7.6%	8.5%	4.1%	5.5%	7.2%
Gold (\$/oz)	1,474.05	0.5%	0.4%	-2.0%	9.9%	18.3%	15.3%
U.S. Dollar Index	97.40	0.0%	-0.4%	-1.2%	-0.2%	0.3%	1.3%
Euro (USD/EUR)	1.11	0.4%	0.4%	0.6%	-0.5%	-2.1%	-2.7%
British Pound (USD/GBP)	1.31	-0.8%	0.8%	4.7%	4.2%	3.5%	2.6%
Japanese Yen (Yen/USD)	109.59	0.8%	1.0%	1.3%	1.0%	-2.7%	-0.1%
Chinese Yuan (CNY/USD)	7.00	-0.6%	-0.2%	-1.2%	1.1%	1.5%	2.0%

Source: FactSet and Bloomberg

Economics

UNITED STATES

Housing: The NAHB housing market index beat expectations, rising to its highest level in 20 years. All three components notched gains, signaling strength in the single-family market will continue. Housing starts also surprised to the upside, rising 3.2% M/M, with increases in both single- and multifamily. Permits gained 1.4% M/M, a good sign for starts in coming months. A decline in completions due to supply constraints will keep a cap on new-home sales. Existing-home sales slid 1.7% M/M in November due to limited inventory, while the median existing-home price rose 5.4% Y/Y amid elevated demand.

Industrial Production: Industrial production rebounded more than expected in November, rising 1.1% M/M after declining for three-consecutive months. The resolution of the UAW strike led motor vehicle and parts output to jump 12.4% M/M, as well as unseasonably cold weather and wildfire prevention measures pushing utility output up 2.9% M/M.

Retail Sales: Retail sales underwhelmed in November, rising 0.2% M/M. The headline was likely affected by the later Thanksgiving holiday, as holiday shopping was pushed into December. However, the weaker reading points to a moderation in consumption in 4Q19 compared with the robust growth in the third quarter.

EUROPE

EZ PMI: The flash EZ Composite PMI held steady in December at 50.6. The services PMI rose to a four-month high of 52.4, while the manufacturing PMI fell from 47.4 to 45.9. While manufacturing data will be noisy in the near-term, easing trade tensions and a bottoming in slowing global growth will support stabilization in the manufacturing sector.

U.K. PMI: The U.K. flash PMI underwhelmed in December, with both the services and manufacturing sectors sinking further into contractionary territory. However, the weaker-than-expected reading could be partially due to firms putting off major decisions until after last week's election. With Brexit uncertainty fading, both soft and hard data should improve.

Germany Business Climate: The Ifo business climate index beat expectations, rising from 95.1 in November to 96.3 in December, with gains in both current conditions and expectations. Sentiment is steadily improving as soft data stabilizes.

ASIA - PAC

Japan PMI: Markit's flash PMI remained relatively unchanged in December. The manufacturing PMI edged down to 48.8 from 48.9, while the services PMI rose from 50.3 to 50.6. Fiscal stimulus will help boost growth in 2020.

China Activity: Activity in China showed a solid rebound in November. Industrial production rose 6.2% Y/Y in November after rising 4.7% in October. Retail sales accelerated to 8% Y/Y, while fixed asset investment growth held steady at 5.2% Y/Y.

BOJ Meeting: As expected, the BOJ remained on hold in December, while keeping an accommodative bias. The BOJ will likely remain in a holding pattern as they wait for fiscal stimulus to support the economy.

Policy

UNITED STATES

Phase Two: The next round of trade talks between the U.S. and China have yet to be set, said U.S. Trade Representative Robert Lighthizer. For now, the two sides are focused on implementing phase one, which is expected to be signed in January. The U.S. will reduce tariffs on imports from China. Beijing has promised to significantly increase purchases of U.S. farm goods and adhere to new commitments on intellectual property, forced technology transfer and currency.

USMCA: The US and Mexico have resolved a spat over labour enforcement provisions for the USMCA trade pact, helping to clear the way for the US House of Representatives to vote this week on ratifying the deal. The President of Mexico, Mr. López Obrador, has made it a priority to maintain harmonious relations with Mr. Trump and wants the USMCA pact ratified.

Spending Bills: The House overwhelmingly approved legislation that would avert a government shutdown by the weekend. Separately, the Senate approved a \$738 billion defense bill, one of the most expensive military measures in U.S. history. Congressional negotiators published a \$1.3tn legislative package to fund the federal government for the rest of the year. The proposed legislation also allocates \$1.4bn for Mr Trump's border wall, bans sales of tobacco to anyone under the age of 21 and repeals the "Cadillac tax" on generous private health insurance plans — a levy that stemmed from the Affordable Care Act but ended up being unpopular with labour unions and members of both political parties.

GLOBAL

Chinese Threats: In Germany, China's ambassador, Wu Ken threatened Berlin with retaliation if it excludes Huawei Technologies Co. as a supplier of 5G wireless equipment, citing the millions of vehicles German carmakers sell in China. It comes as some German lawmakers challenge Chancellor Angela Merkel's China policy with a bill that would impose a broad ban on "untrustworthy" 5G vendors.

Hong Kong: Hong Kong's demonstrators clashed with police as Chief Executive Carrie Lam began a visit to Beijing, where she's expected to update Chinese President Xi Jinping and other senior officials on the violent protests over the past six months. The clash followed a more subdued weekend for the city's demonstrations. Hong Kong also canceled its traditional New Year's Eve fireworks show over security concerns, the latest popular event to be scrapped.

North Korea: China and Russia have circulated a draft resolution to the UN Security Council that would ease sanctions against North Korea for its nuclear program. The resolution comes as Trump urges renewed talks over denuclearization.

Brexit: U.K. Prime Minister Boris Johnson won a decisive victory over Jeremy Corbyn's Labour Party in the general election, clearing the way for the Tory leader to take Britain out of the European Union on January 31st. The Conservative party gained 47 seats to 364, while the main opposition Labour party lost 59 in the 650-seat parliament. Once Britain leaves, Johnson will first need to strike a trade deal with the EU by the end of 2020. Boris Johnson moved to change the law to guarantee the Brexit transition phase isn't extended beyond the end of next year, reviving the threat that the country could leave the European Union without an agreement.

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