

12 April 2019

## Overview

**Global Growth:** *The IMF cut its 2019 global growth forecast .2 to 3.3% due to short-term uncertainties, the slowest pace since the financial crisis. The 2020 growth forecast remained unchanged at 3.6%. However, growth in the second half of 2019 is expected to increase, fueled by policy accommodation from major economies and fiscal and monetary stimulus in China.*

**Oil:** *The IEA reaffirmed its global oil demand growth forecast of 1.4 million bpd this year, based on expectations for strong consumption from China and India. Downside risks were noted, given uncertainty around the global economic outlook and differing views on the level of oil prices. The IEA expects crude inventories to continue declining for the rest of the year.*

**Brexit Update:** *The EU agreed to offer the U.K. a Brexit extension until October 31, with a June 3 review at the EU summit. The extension is conditional on the U.K. participating in European elections on May 23. A failure to vote would trigger the U.K. departing the EU on June 1.*

Key Financial Indicators								As of:	4/10/2019
<b>Rates</b>	<b>Yield</b>	<b>1 W Change</b>	<b>1M Change</b>	<b>3M Change</b>	<b>6M Change</b>	<b>12M Change</b>	<b>YTD Change</b>		
Fed Funds	2.50%	0 bps	0 bps	0 bps	25 bps	75 bps	0 bps		
3 Month USD Libor	2.60%	1 bps	1 bps	-19 bps	18 bps	26 bps	-20 bps		
3 Month Euribor	-0.31%	0 bps	0 bps	0 bps	1 bps	2 bps	0 bps		
3 Month U.S. T-Bill	2.42%	-1 bps	-2 bps	0 bps	15 bps	70 bps	-3 bps		
2-Year U.S. Treasury	2.31%	-2 bps	-14 bps	-26 bps	-55 bps	0 bps	-19 bps		
10-Year U.S. Treasury	2.47%	-4 bps	-15 bps	-26 bps	-75 bps	-32 bps	-21 bps		
10-Year German Bund	-0.03%	-3 bps	-10 bps	-23 bps	-60 bps	-55 bps	-27 bps		
10-Year U.K. Gilt	1.09%	2 bps	-9 bps	-17 bps	-64 bps	-32 bps	-18 bps		
10-Year JGB	-0.06%	-1 bps	-3 bps	-8 bps	-21 bps	-9 bps	-5 bps		
<b>Fixed Income</b>	<b>Yield</b>	<b>OAS</b>	<b>1W Return</b>	<b>1M Return</b>	<b>3M Return</b>	<b>12M Return</b>	<b>YTD Return</b>		
Barclays Capital U.S. Government-Treasury	2.43%	N/A	0.2%	1.0%	2.0%	4.1%	1.8%		
Barclays Capital U.S. TIPS	2.65%	N/A	0.5%	1.5%	2.8%	2.8%	3.2%		
Barclays Capital U.S. Aggregate	2.97%	44	0.3%	1.3%	2.8%	4.5%	2.8%		
Barclays Capital Global Aggregate	1.80%	46	0.4%	1.2%	1.6%	-0.4%	2.2%		
Barclays Capital U.S. ABS	2.72%	38	0.1%	0.6%	1.5%	3.7%	1.5%		
Barclays Capital U.S. MBS	3.14%	37	0.2%	1.0%	2.1%	4.4%	2.1%		
Barclays Capital U.S. Corporate Investment Grade	3.63%	114	0.6%	2.1%	5.0%	5.0%	5.3%		
BAML Euro Corporate Investment Grade	0.81%	119	0.2%	1.3%	3.6%	2.6%	2.2%		
Barclays Capital U.S. Corporate High Yield	6.21%	366	0.4%	2.1%	4.8%	6.0%	8.0%		
BAML European Currency High Yield Non-Financial	3.64%	387	0.1%	2.0%	5.1%	2.5%	2.3%		
CS U.S. Leveraged Loans	6.78%	445	0.4%	0.8%	2.2%	4.0%	5.8%		
CS Western European Leveraged Loans Non-USD	4.90%	418	0.2%	0.3%	1.5%	2.2%	3.1%		
JPM CEMBI Broad Diversified	5.67%	326	0.2%	1.7%	4.6%	5.0%	3.9%		
JPM EMBI Global Diversified	5.97%	343	0.2%	2.2%	5.3%	4.4%	2.7%		
JPM GBI-EM Global Diversified	6.13%	N/A	0.8%	1.9%	2.4%	-4.7%	-1.8%		
<b>Equities</b>	<b>Price</b>	<b>Div Yield</b>	<b>1W Return</b>	<b>1M Return</b>	<b>3M Return</b>	<b>12M Return</b>	<b>YTD Return</b>		
S&P 500	2,888.21	1.86%	0.6%	5.5%	11.8%	10.9%	15.9%		
Euro STOXX 600 (Local)	386.68	3.01%	-0.6%	4.3%	10.8%	2.2%	14.5%		
U.K. FTSE 100 (Local)	7,421.91	4.35%	0.0%	4.5%	6.9%	2.1%	10.3%		
Japan Nikkei 225 (Local)	21,687.57	2.07%	-0.1%	3.1%	7.6%	-0.5%	8.4%		
China Shanghai Composite (Local)	3,241.93	2.06%	0.8%	9.2%	27.9%	1.6%	30.0%		
MSCI AC World (Local)	519.26	2.50%	0.4%	5.0%	11.3%	7.3%	6.5%		
MSCI Emerging Markets (Local)	1,096.05	2.63%	1.4%	5.9%	10.7%	0.5%	2.2%		
<b>Commodities/Currencies</b>	<b>Price</b>	<b>1 W Change</b>	<b>1M Change</b>	<b>3M Change</b>	<b>6M Change</b>	<b>12M Change</b>	<b>YTD Change</b>		
S&P GS Commodity Index	453.84	2.3%	7.6%	11.8%	-7.1%	-1.6%	21.2%		
WTI Crude (\$/bbl)	64.62	3.5%	15.9%	23.3%	-11.7%	-1.3%	43.1%		
Copper (\$/lb)	2.92	-0.8%	1.0%	10.6%	5.5%	-6.7%	11.2%		
Gold (\$/oz)	1,305.45	1.2%	0.7%	1.0%	9.8%	-2.5%	2.1%		
U.S. Dollar Index	96.95	-0.1%	-0.4%	1.5%	1.5%	8.2%	0.8%		
Euro (USD/EUR)	1.13	0.2%	0.1%	-2.3%	-2.4%	-8.9%	-1.6%		
British Pound (USD/GBP)	1.31	-0.5%	0.6%	2.4%	-0.8%	-7.7%	2.8%		
Japanese Yen (Yen/USD)	110.94	-0.5%	-0.2%	2.5%	-1.6%	3.5%	1.1%		
Chinese Yuan (CNY/USD)	6.72	0.1%	-0.1%	-0.9%	-2.9%	6.7%	-2.2%		

Source: FactSet and Bloomberg

## Economics

### UNITED STATES

**Employment:** The March employment report was a relief, as payroll growth came in above expectations following a weak February print, while the unemployment rate steadied at 3.8% and wage growth slowed to 3.2% Y/Y. The report should relieve concerns about the extent of recent economic weakness, while providing the Fed adequate room to be patient on monetary policy decisions.

**Inflation:** March headline inflation was higher than expected as CPI increased .4% M/M (+1.9% Y/Y) driven by higher gasoline and food prices. Core CPI rose .1% M/M, lowering the Y/Y rate to 2.0% from 2.1%. The further decline in the core CPI rate reinforces the dovish sentiment and likely signals little chance of an upside breakout in the near future.

**FOMC Minutes:** Minutes from the March meeting noted most participants favored keeping rates on hold throughout 2019, although their views remain data dependent. Curve flattening was downplayed, while some noted that, if the economy evolves according to expectations, it may be appropriate to hike rates later this year.

### EUROPE

**ECB Meeting:** The ECB kept its policy settings on hold, as expected, after announcing new bank loans and extending rate guidance last month. At the press conference, Mario Draghi confirmed the ECB will consider whether mitigating its negative rate policy is needed to support banks, indicating rates may stay lower for longer than current guidance suggests.

**German Industrial Production:** February industrial production was better than estimated, rising .7% M/M compared to consensus of +.5%, and the prior month was revised higher. The report was welcome news following other data that showed growing weakness in Germany's key manufacturing sector.

**U.K. Trade:** The February U.K. trade deficit narrowed to £14.1 billion from £14.6 billion in January. Exports rose .3% M/M to £30 billion while imports declined 1% M/M to £44.1 billion. The balance of trade in oil shrunk to -£305 million in February from -£383 billion in January.

### ASIA - PAC

**China Leading Indicators:** • China Inflation: CPI inflation accelerated to 2.3% Y/Y in March from 1.5% Y/Y in February. The jump occurred due to temporary food supply factors that sent vegetable and pork prices higher. Core prices, excluding food and energy, were flat at 1.8% Y/Y in March. Factory prices increased with PPI rising .4% Y/Y from .1% Y/Y in February. A rebound in commodity prices was the main driver of the pickup in inflation.

**Japan Machine Orders:** Core machine orders rose 1.8% M/M in February, less than expected, following a 5.4% drop in January. The weak rebound indicates capital expenditures can be expected to remain sluggish.

**Japan Producer Prices:** Producer prices increased 1.3% Y/Y in March, beating estimates for a 1% rise. The increase was driven by a 2.9% M/M rise in petroleum and coal product prices in March. Other categories, including beverages and food, and transportation equipment, saw prices remain unchanged M/M.

## Policy

### UNITED STATES

**EU Trade:** President Donald Trump is proposing to impose tariffs on about \$11 billion in imports in response to a 14-year dispute between the U.S. and the EU at the World Trade Organization (WTO). The U.S. claims that EU subsidies for Airbus has caused “adverse effects” on its rival Boeing. According to the U.S. Trade Representative, the administration’s ultimate goal is to end all WTO-inconsistent subsidies to large civil aircraft. The proposal, which is unlikely to be implemented until the WTO’s final ruling in the summer, will target goods, including jetliners, cheese, wine and motorcycles. Separately, trade talks between the U.S. and the EU are expected to begin by April 15 if EU trade ambassadors are able to approve the mandates that will guide the Commission this week.

**Iran:** The Trump administration has designated the Iranian Revolutionary Guard Corps (IRGC) as a foreign terrorist organization. This marks the first time such a designation has been applied to a government entity. National Security Adviser John Bolton and Secretary of State Mike Pompeo have been strong proponents of the move. Note that the IRGC has a ground force of 100,000 and runs the country’s ballistic missile programs.

**Cannabis Bill:** The Strengthening the Tenth Amendment Through Entrusting States (STATES) Act picked up an important Republican party ally following House Judiciary Committee Ranking Member Doug Collins’ (R-GA) support for the bill. Recall that the bill seeks to directly amend the Controlled Substances Act (CSA) by having the CSA not apply to “any person acting in compliance with State law relating to [...] marijuana.” The bill also “addresses financial issues caused by federal prohibition.”

**Net Neutrality:** President Trump is threatening to issue a veto if House Democrats vote to reinstate net neutrality. It is unknown whether the bill would pass the Senate. Recall that the Trump administration’s FCC voted to repeal the Obama-era rules in 2017.

**Personnel:** Homeland Security Secretary Kirstjen Nielsen resigned following the administration’s decision to drop Ron Vitiello for consideration to head the U.S. Immigration and Customs Enforcement. Customs and Border Protection Commissioner Kevin McAleenan was named acting Homeland Security Secretary.

## GLOBAL

**Brexit:** The U.K. has been offered a delay on Brexit until October 31. The decision is a compromise for member countries in the EU, which had mixed opinions on either giving the U.K. an extension until June (France) or March 2020 (Germany). This move would mean the U.K. would have to hold European elections next month and marks a clear defeat for Brexiteers in Prime Minister Theresa May's government.

**China:** The National Audit Office, China's central auditing authority, announced caution on the surge of bad debt at small banks around the country. According to the office's report, banks in Henan province of Central China was home to 42 banks with non-performing loan rates that had "crossed the warning line" of 5%, with 12 banks seeing rates above 20%, and "a few" with NPLs exceeding 40%. This marks the first time officials have disclosed such high rates of NPLs.

**Cryptocurrencies:** China's National Development Reform Commission, the country's economic planner, announced its intent to ban cryptocurrency mining, citing "seriously wasted resources." The agency will seek public feedback until May 7 before issuing a formal ruling.

**Israel:** Following national elections April 9, Prime Minister Benjamin Netanyahu is poised to win a fifth term, confirming the country's rightward trajectory. Netanyahu is on track to receive as many as 65 seats in the country's 120-member Knesset. If the support holds, he will become Israel's longest-serving PM.

**IMPORTANT INFORMATION**

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