BARINGS INVESTMENT INSTITUTE

WEEKLY UPDATE

8 November 2019

Overview

Employment is Better Than it May Seem: *The October employment report showed that the U.S. labor market is in even better health than consensus thought. Payrolls rose 128,000 in October and the previous two months were revised up a net 95,000. Job gains in October were weighed down by the United Auto Workers strike and the layoff of temporary Census Bureau workers—lowering the headline by a combined 66,000 jobs over the month. Adjusting for this, underlying three-month average job growth is clocking in just shy of 200,000—well above the rate needed to keep pace with growth in the working-age population. The UAW strike also weighed on average hourly earnings, which gained 0.2% M/M and 3% Y/Y in October, as the higher-wage manufacturing workers were off payrolls, resulting in a downside compositional bias. The September JOLTs report showed that while hiring slowed amid a tightening labor market, the number of open positions exceeds the number of unemployed, qualified workers are becoming increasingly hard to find, and workers remain confident about job prospects.*

3Q19 Earnings: *Approximately 87% of the S&P 500 has reported earnings with revenues up 3.6% Y/Y and earnings down 1% Y/Y, according to Bloomberg. So far the biggest positive earnings surprises have come from Information Technology, Health Care, and Consumer Discretionary. About 76% of the companies that report in the current season for the Stoxx 600 have announced results, with sales up 0.7% Y/Y and earnings up 0.5% Y/Y. So far, both sales and earnings have surprised to the upside.*

"Phase One" Deal Delay: *The "Phase One" trade deal may now be delayed until December. Despite recent positive market reactions to a deal, a long delay would be a risk to the downside. After the APEC Summit, where the meeting between President Donald Trump and President Xi Jinping was originally scheduled to take place, got canceled, the two countries are struggling to find a new meeting location. China saw a quick turnaround in the partial trade deal as the best path forward for favorable terms. With a possibly much later-than-expected meeting, there is growing uncertainty surrounding the deal. Possible locations include London fallowing a NATO summit, Sweden, and Switzerland, among others, as Iowa seems to have been taken off the table.*

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Key Financial Indicators						As of:	11/6/2019
Rates	**Yield**	**1 W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
Fed Funds	1.75%	-25 bps	-25 bps	-50 bps	-75 bps	-50 bps	-75 bps
3 Month USD Libor	1.90%	0 bps	-12 bps	-28 bps	-66 bps	-69 bps	-90 bps
3 Month Euribor	-0.41%	-1 bps	2 bps	-2 bps	-10 bps	-9 bps	-10 bps
3 Month U.S. T-Bill	1.56%	-6 bps	-14 bps	-48 bps	-86 bps	-80 bps	-89 bps
2-Year U.S. Treasury	1.60%	-2 bps	21 bps	-1 bps	-71 bps	-132 bps	-90 bps
10-Year U.S. Treasury	1.81%	1 bps	30 bps	7 bps	-69 bps	-140 bps	-87 bps
10-Year German Bund	-0.33%	4 bps	26 bps	21 bps	-33 bps	-75 bps	-57 bps
10-Year U.K. Gilt	0.73%	5 bps	29 bps	11 bps	-48 bps	-79 bps	-60 bps
10-Year JGB	-0.09%	4 bps	13 bps	11 bps	-3 bps	-21 bps	-8 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%	-1.7%	0.0%	10.5%	7.0%
Barclays Capital U.S. TIPS	1.97%	N/A	0.6%	-0.7%	0.4%	9.3%	8.0%
Barclays Capital U.S. Aggregate	2.32%	44	0.0%	-1.0%	0.6%	11.2%	8.3%
Barclays Capital Global Aggregate	1.42%	41	-0.1%	-0.9%	-0.3%	8.5%	6.2%
Barclays Capital U.S. ABS	2.05%	41	0.1%	-0.3%	0.3%	5.5%	4.2%
Barclays Capital U.S. MBS	2.54%	46	0.1%	-0.1%	0.7%	9.1%	5.8%
Barclays Capital U.S. Corporate Investment Grade	2.92%	107	0.1%	-0.8%	1.2%	14.7%	13.3%
BAML Euro Corporate Investment Grade	0.46%	99	0.1%	-0.3%	-0.5%	6.0%	6.5%
Barclays Capital U.S. Corporate High Yield	5.62%	375	0.1%	1.0%	2.2%	8.2%	12.0%
BAML European Currency High Yield Non-Financial	3.38%	378	0.4%	0.9%	1.1%	5.3%	8.8%
CS U.S. Leveraged Loans	6.68%	508	0.0%	0.0%	-0.1%	2.6%	5.9%
CS Western European Leveraged Loans Non-USD	4.83%	437	-0.1%	-0.3%	0.3%	2.2%	3.4%
JPM CEMBI Broad Diversified	5.07%	331	0.1%	0.5%	1.4%	11.9%	11.5%
JPM EMBI Global Diversified	5.12%	320	0.3%	-0.3%	0.2%	13.7%	13.1%
JPM GBI-EM Global Diversified	5.12%	N/A	0.2%	1.5%	3.0%	13.0%	11.0%
Equities	**Price**	**Div Yield**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
S&P 500	3,076.78	1.82%	1.0%	4.3%	7.3%	14.0%	24.8%
Euro STOXX 600 (Local)	405.07	3.08%	1.6%	6.5%	10.2%	11.7%	20.0%
U.K. FTSE 100 (Local)	7,396.65	4.44%	0.9%	3.4%	3.1%	5.1%	9.9%
Japan Nikkei 225 (Local)	23,303.82	1.94%	2.0%	8.8%	13.2%	5.2%	16.4%
China Shanghai Composite (Local)	2,978.60	2.32%	1.3%	2.5%	7.2%	12.0%	19.4%
MSCI AC World (Local)	541.90	2.47%	1.3%	5.0%	7.8%	13.2%	22.0%
MSCI Emerging Markets (Local)	1,068.87	2.82%	2.4%	6.3%	9.2%	11.2%	14.1%
Commodities/Currencies	**Price**	**1W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
S&P GS Commodity Index	416.93	1.3%	4.4%	4.9%	-5.2%	-6.7%	11.4%
WTI Crude ($/bbl)	56.35	2.7%	6.6%	5.1%	-9.6%	-9.3%	24.8%
Copper ($/lb)	2.66	-0.7%	4.1%	4.3%	-6.2%	-2.5%	1.3%
Gold ($/oz)	1,486.05	-0.4%	-0.9%	1.4%	16.2%	20.7%	16.2%
U.S. Dollar Index	97.95	0.3%	-0.9%	0.3%	0.4%	1.7%	1.8%
Euro (USD/EUR)	1.11	-0.4%	0.9%	-1.0%	-1.1%	-3.0%	-3.1%
British Pound (USD/GBP)	1.29	0.0%	4.7%	5.8%	-1.7%	-1.6%	1.1%
Japanese Yen (Yen/USD)	109.03	0.1%	2.0%	2.5%	-1.7%	-3.8%	-0.6%
Chinese Yuan (CNY/USD)	7.00	-0.8%	-2.0%	-0.5%	3.4%	1.2%	1.9%

Source: FactSet and Bloomberg

Economics

UNITED STATES

Employment: The October employment report was stronger than expected with payrolls rising 128,000. The previous two months were revised higher by a net 95,000. The unemployment rate edged up slightly to 3.6%, as there was a rise in participation. Wage growth rose 0.2% M/M and 3% Y/Y. The report aids the stance to hold rates steady in December.

Leading Indicators: The ISM manufacturing index rose to 48.3 in October from 47.8 in September but remains in contractionary territory. New orders and employment both edged higher. The ISM service index increased more than expected in October, rising to 54.7. The U.S. service sector is holding strong, counteracting the weakness in manufacturing.

Trade: The trade deficit narrowed in September to $52.5 billion from a revised $55 billion the previous month. Exports slid 0.9% M/M while imports fell 1.7% M/M. Both goods exports to and imports from China slid over the month. The decrease in the deficit will reduce net export's drag on 3Q19 GDP.

EUROPE

EZ PMI: Leading indicators signal weakness in manufacturing continued as Markit's October manufacturing PMI remained in contractionary territory for the ninth-consecutive month. However, it edged up from 45.7 in September to 45.9 in October, and new orders and employment turned up. The service index remains in expansion territory at 52.2.

BOE Meeting: As expected, the BOE kept its interest rate unchanged at 0.75%. Surprisingly, the vote was split with two members voting for a 25 bp cut and the other seven voting to remain on hold. Rates may rise if the U.K. and EU reach a deal but could fall under a no-deal scenario or if there is a negative shock to the economy.

EZ Retail Sales: Retail sales rose 0.1% M/M and 3.1% Y/Y in September, better than consensus expectations of no change M/M and 2.4% Y/Y. Food sales took a step back after jumping in August, while nonfood retail sales gained 0.1% M/M. 3Q19 sales rose 0.5% Q/Q after rising 0.6% Q/Q, signaling growth in household spending in the near-term.

ASIA - PAC

China Leading Indicators: The private Caixin manufacturing PMI rose from 51.4 to 51.7 in October. However, this is contrary to the official PMI which slid further into contractionary territory in October.

Japan PMI: The Markit manufacturing PMI slid for the third-consecutive month to a 40-month low of 48.4 in October. This is down from 48.9 in September and 52.9 a year ago. The driver behind the decline was a sharp drop in new orders, which does not bode well for manufacturing in the near-term.

PBOC: The PBOC cut the interest rate on its 1Y MLF for the first time since 2016. The small 5 bp cut won't provide much stimulus, but symbolizes a more proactive stance.

Policy

UNITED STATES

SEC: The Securities and Exchange Commission announced that American securities firms will get a further three-year reprieve from Europe's tough investment research rules, saying it needs additional time to evaluate the measures. Relief granted from the rules in 2017 was due to expire in July of next year, so banks now have until 2023. Some brokerages have been in favor of adopting European rules in the U.S. as maintaining two separate business models has proven costly.

Trade War: President Donald Trump and Chinese President Xi Jinping may not be able to sign a partial deal until December, while two U.S. locations have been ruled out for their meeting. Both sides are still attempting to reach a pact that would see the U.S. dropping some tariffs on Chinese imports in exchange for Beijing resuming purchases of American farm goods. The phase one agreement may also provide a road map for rolling back existing tariffs in future phases, and could possibly even include a lifting of the September 1st tariffs as a first step.

FCC: The FCC discussed potentially banning cellular providers from using government subsidies to buy equipment from Chinese companies like Huawei and ZTE, which the FCC will vote on at next month's open meeting. This was in reaction to the potential of surveillance and espionage if equipment originates from Chinese telecommunications companies and used in US communication networks.

GLOBAL

Brexit: Parliament has been dissolved and the 2019 election campaign has formally begun. The victor of the election will help determine the fate of Brexit. Prime Minister Boris Johnson wants a deal, the Liberal Democrats would stop the whole thing if they could—but the public isn't clear on Labour's Brexit policy. Most businesses in the U.K. aren't taking Johnson's "Get Brexit Done" slogan too seriously, according to Bloomberg.

Iran: The country has increased nuclear activity for the fourth time this year, gaining the attention of foreign leaders to revisit the nuclear deal. Emmanuel Macron, the French president, has been driving European diplomatic efforts to save the deal originally signed in 2015 with the U.S., France, Germany, the U.K., China and Russia providing Iran with economic benefits. The French president proposed offering Iran a $15 billion credit line to help offset the decline in the republic's oil exports, which have plummeted from 2.8 million barrels a day in May 2018 to less than 500,000 b/d. But Macron's initiative would require a tacit approval from the Trump administration which is unlikely.

Germany: Chancellor Angela Merkel's Finance Minister, Olaf Scholz, announced an end from years of European deadlock over a banking union. Berlin is ready to consider a form of joint European deposit insurance, which would stabilize the financial system by reducing the risk of bank runs. The goal of a more closely-knit banking system in the euro area is to reduce the interdependence between lenders and their home countries. Breaking down national barriers could also facilitate deals to bolster Deutsche Bank AG and Commerzbank AG, the floundering giants of German banking.

IMPORTANT INFORMATION

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