

5 April 2019

## Overview

**1Q Earnings:** FactSet's Earnings Insights are estimating a -3.9% Y/Y decline in S&P 500 EPS for 1Q19, based on a bottom-up aggregation. This compares to expectations for 1Q19 EPS growth of 2.9% on 12/31/18. If 1Q19 Y/Y earnings do decline, it will mark the first Y/Y earnings drop since 2Q16. All 11 sectors have lower growth rates now versus December due to downward EPS estimates. The largest declines were in the Energy, Materials and Technology sectors.

**Global Services Growth:** Worries over global growth may be subsiding following better services PMIs out of China and Europe. China's private Caixin services PMI rose to 54.4 in March (the highest since January 2018) from a four-month low of 51.1 in February. The Euro area services PMI improved to 53.3 in the final March reading from 52.8 in February and a weak preliminary reading.

**Brexit Update:** U.K. House of Commons passed a bill to prevent a no-deal Brexit by a razor-thin 313-312 vote. PM Theresa May's government is holding intensive talks with the opposition Labour Party to find a compromise on Brexit.

Key Financial Indicators								As of:	4/3/2019
<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%	0 bps	0 bps	-20 bps	19 bps	28 bps	-21 bps		
3 Month Euribor	-0.31%	0 bps	0 bps	0 bps	1 bps	2 bps	0 bps		
3 Month U.S. T-Bill	2.43%	0 bps	0 bps	2 bps	20 bps	69 bps	-2 bps		
2-Year U.S. Treasury	2.32%	12 bps	-23 bps	-6 bps	-53 bps	5 bps	-18 bps		
10-Year U.S. Treasury	2.52%	14 bps	-23 bps	-5 bps	-64 bps	-27 bps	-17 bps		
10-Year German Bund	0.00%	9 bps	-19 bps	-16 bps	-48 bps	-50 bps	-24 bps		
10-Year U.K. Gilt	1.07%	9 bps	-24 bps	-13 bps	-49 bps	-28 bps	-20 bps		
10-Year JGB	-0.05%	2 bps	-3 bps	-5 bps	-19 bps	-8 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	2.45%	N/A	-0.7%	1.6%	0.7%	3.9%	1.5%		
Barclays Capital U.S. TIPS	2.69%	N/A	-0.4%	1.6%	1.9%	2.3%	2.7%		
Barclays Capital U.S. Aggregate	3.02%	45	-0.6%	1.7%	1.8%	4.2%	2.5%		
Barclays Capital Global Aggregate	1.83%	48	-0.6%	1.1%	1.2%	-0.7%	1.8%		
Barclays Capital U.S. ABS	2.74%	39	-0.2%	0.7%	1.1%	3.6%	1.4%		
Barclays Capital U.S. MBS	3.19%	38	-0.5%	1.3%	1.3%	4.2%	1.8%		
Barclays Capital U.S. Corporate Investment Grade	3.69%	118	-0.6%	2.2%	4.0%	4.7%	4.7%		
BAML Euro Corporate Investment Grade	0.84%	121	0.0%	1.4%	2.9%	2.4%	2.0%		
Barclays Capital U.S. Corporate High Yield	6.30%	373	0.6%	1.2%	7.4%	6.4%	7.6%		
BAML European Currency High Yield Non-Financial	3.65%	387	0.9%	1.5%	5.9%	2.7%	2.2%		
CS U.S. Leveraged Loans	6.92%	455	0.6%	0.3%	4.3%	3.8%	5.4%		
CS Western European Leveraged Loans Non-USD	4.98%	425	0.1%	0.2%	1.6%	2.1%	2.9%		
JPM CEMBI Broad Diversified	5.69%	325	0.2%	1.6%	5.3%	4.8%	3.6%		
JPM EMBI Global Diversified	5.98%	340	0.4%	1.8%	7.0%	4.3%	2.5%		
JPM GBI-EM Global Diversified	6.16%	N/A	1.1%	0.1%	3.7%	-6.8%	-2.6%		
<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	2,873.40	1.87%	2.5%	2.6%	18.0%	12.1%	15.2%		
Euro STOXX 600 (Local)	388.92	3.01%	3.1%	3.9%	16.5%	5.4%	15.2%		
U.K. FTSE 100 (Local)	7,418.28	4.36%	3.1%	4.4%	10.8%	5.5%	10.3%		
Japan Nikkei 225 (Local)	21,713.21	2.07%	1.6%	0.5%	8.5%	2.0%	8.5%		
China Shanghai Composite (Local)	3,216.30	2.08%	6.4%	7.4%	30.5%	2.5%	29.0%		
MSCI AC World (Local)	517.28	2.50%	2.5%	2.8%	14.5%	8.8%	6.1%		
MSCI Emerging Markets (Local)	1,079.80	2.67%	3.0%	2.8%	12.8%	0.3%	0.8%		
<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	443.51	2.0%	5.3%	16.3%	-11.7%	-0.8%	18.5%		
WTI Crude (\$/bbl)	62.46	5.2%	12.0%	33.1%	-18.2%	-1.5%	38.3%		
Copper (\$/lb)	2.95	3.1%	0.4%	14.6%	4.4%	-3.6%	12.1%		
Gold (\$/oz)	1,290.45	-1.5%	-1.6%	0.0%	7.4%	-3.2%	0.9%		
U.S. Dollar Index	97.09	0.3%	0.6%	0.8%	1.4%	7.6%	1.0%		
Euro (USD/EUR)	1.12	-0.2%	-1.4%	-1.4%	-2.7%	-8.5%	-1.8%		
British Pound (USD/GBP)	1.32	-0.2%	-0.6%	4.4%	1.2%	-6.3%	3.3%		
Japanese Yen (Yen/USD)	111.49	1.0%	-0.4%	3.6%	-2.3%	4.6%	1.6%		
Chinese Yuan (CNY/USD)	6.71	-0.2%	0.0%	-2.4%	-2.5%	6.7%	-2.3%		

Source: FactSet and Bloomberg

## Economics

### UNITED STATES

**Leading Indicators:** ISM manufacturing index topped estimates in March, rising to 55.3 from a two-year low of 54.2, as measures for employment, new orders and prices paid increased. The reading may provide some reassurance after the index fell from a 14-year high in August, although the impact of the trade war was evident with export and import measures hitting new two-year lows. ISM service index declined more than expected in March, dropping 3.6 to 56.1. Despite drags from business activity and new orders, the report suggests services moderating, but growth remains solid.

**Consumer Spending:** Consumer spending fell short of forecasts in January, rising .1% M/M following a .6% drop in December. Nondurable and services spending saw positive growth, while durable goods spending declined for the second consecutive month. A weaker than expected core PCE deflator shows inflation easing and provides support for the Fed's call of no rate hikes in 2019. Separately, February's weaker-than-expected retail sales report adds to mounting evidence that consumer spending has slowed at the start of the year, although the impact was muted some by an upward revision to the January retail sales report.

**Durable Goods:** Headline durable goods orders fell 1.6% in February, less than expected. Top-line weakness was driven by a sharp drop in the volatile commercial aircraft orders segment. Ex-transportation orders rebounded modestly from January's small decline.

### EUROPE

**EZ Inflation:** Inflation unexpectedly slowed in March to 1.4% Y/Y from 1.5% in February. Higher energy costs were offset by lower food and services prices. Core CPI hit an 11-month low of .8% Y/Y, with measures of underlying inflation weakening. The ECB remains cautious about the price outlook having reduced its inflation forecasts recently.

**German Industry:** German factory orders declined at their fastest rate in two years in February, with new orders falling 4.2% M/M as exports dropped 6% and domestic orders decreased 1.6%. Trade tensions and Brexit uncertainty are likely the main factors driving the slump, along with weaker demand for autos from China.

**U.K. Leading Indicators:** Markit's manufacturing PMI came in better than expected for March, rising to 55.1 from 52.1 in February, while the services PMI fell more than forecast, dipping to 48.9 from 51.3. Brexit uncertainty continues to take its toll as services and construction sectors are both in contraction, while manufacturing was supported by stockpiling, which limited the decline in the composite reading to 50.

### ASIA - PAC

**China Leading Indicators:** China's manufacturing activity unexpectedly returned to expansion in March as the official PMI increased to 50.5 from 49.2 in February. The private Caixin manufacturing PMI showed similar results, rising to 50.8 in March from 49.9.

**China Stimulus:** China's State Council announced cuts to various government fees and operating service charges including personal postal tax, electricity, broadband services and real estate registration to decrease the burden on businesses and individuals.

**Japan Tankan:** The BOJ's Tankan survey showed manufacturing sentiment deteriorated more than expected in 1Q. Businesses making China-bound products were especially hard hit, while the sentiment decline outside of manufacturing was limited.

## Policy

### UNITED STATES

**China Trade:** High-level negotiations between the U.S. and China continued this week. Ahead of meetings on April 4 and 5, the Chinese government announced an extension to the suspension of retaliatory tariffs on U.S. autos and included the opioid fentanyl in a list of controlled substances. The moves should help create a positive atmosphere at the talks. Recent indications suggest that the potential agreement may give China until 2025 to meet agreed upon commitments such as agricultural purchases and market opening.

**Trumpcare:** The GOP has signaled that votes on any new healthcare overhaul will wait until after the 2020 election amid the resistance any bill would face in the Democratic controlled House. Similarly, President Donald Trump tweeted that the new plan will likely be released in 2021, although some argue that this is indicative that a plan is yet to exist.

**Presidential Nominees:** Senate GOP members have unilaterally moved to reduce debate time on most presidential judicial and executive branch nominees by changing rules to only require a simple majority. The move is widely seen as a "nuclear option," given its potential to cause future political fallout.

**2020 Election Chatter:** Democratic presidential-hopefuls such as former Representative Beto O'Rourke, current Senator Elizabeth Warren and current Senator Bernie Sanders are talking up proposals to reduce corporate power in the U.S. through restrictions on lobbying, stricter antitrust enforcement and jail time for executives. While far from being implemented, the topics are quickly becoming a policy test for candidates on the left.

**Congestion Charging:** New York City is set to become the first city in the country to implement congestion charging on vehicles entering parts of the city. The congestion fee, which is expected to begin in 2021, will be set by a yet-to-be established panel run by the Metropolitan Transit Authority or MTA, which runs the state's subway, buses and commuter rails.

## GLOBAL

**Brexit:** Prime Minister Theresa May, in order to break the Brexit impasse ahead of the extended deadline next week, is turning to cross-party talks, reaching across the aisle to begin talks with Labour leader Jeremy Corbyn. The move isn't without downside, however, as some of May's own MPs are calling it a "betrayal," with at least one minister quitting so far. May is reportedly also planning to ask for a further delay from the EU. Recall that the U.K. is scheduled to leave the EU on April 12.

**Europe Trade:** EU and U.S. trade talks are facing risks of delay as EU governments are struggling to reach a consensus on what mandate to give for the European Commission to start negotiations. EU officials have maintained that the talks will only include industrial goods and have so far resisted including a mandate on agricultural trade. Other sticking points include the role of climate and government, given earlier indications that the EU is seeking trade deals only with countries that have signed up for the Paris Agreement. A mandate is a prerequisite requirement for the Commission, which negotiates on behalf of all EU members, before it can begin formal negotiations with the U.S.

**Turkey:** Turkey's biggest cities, including the capital Ankara and other big urban centers along the Mediterranean coast, turned against Recep Tayyip Erdogan's nationalist alliance party for the first time since 1994 in municipal elections held last Sunday. The votes are widely viewed as a referendum on President Erdogan's economic policies. Erdogan's ruling bloc largely stood its ground across much of the country's rural interior.

**Ukraine:** Volodymyr Zelensky, a comedian with no political experience, took the lead in the first round of Ukraine's presidential elections. Zelensky received 30% of the vote but fell short of the required 50%, which means he will face incumbent President Petro Poroshenko, who came in second with 16% of the vote, in a second-round runoff election on April 21.

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