



- S&P 500 corporate earnings expected to fall for a third straight quarter ([link](#))
- European markets remain steady despite disappointing German data ([link](#))
- EM fixed income investors remain relatively optimistic about the near term ([link](#))
- Moody's upgrades Czech Republic to Aa3 with 'positive' outlook. ([link](#))
- Trading in Indian shadow bank bonds ebbs further ([link](#))




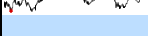







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Markets little changed amid ongoing trade anxiety and political uncertainty

Global markets were mixed overnight, but overall sentiment remains fairly negative. Uncertainty over global trade and the dip in manufacturing remains a concern across Asia and Europe. In the United States, expectations remain low for business investment and manufacturing, and while consumption remains robust on tight labor markets, last week's poor ISM data and slightly below-expectations nonfarm payroll suggest potential for future softening.

Politics will likely dominate the headlines this week as developments over Brexit and impeachment proceedings in the US unfold. The Chinese vice premier is also scheduled to come to the US for high level trade talks. The release of FOMC minutes should help investors better gauge the Fed's course going forward, as will the CPI and PPI releases. In Europe, Germany reports factory orders to kick off the week, with the BoE publishing its quarterly statement mid-week, and with several countries reporting industrial production throughout the week. Japan reports PPI and core machinery orders Thursday. Central banks in Israel and Peru will make policy rate decisions.

Key Global Financial Indicators

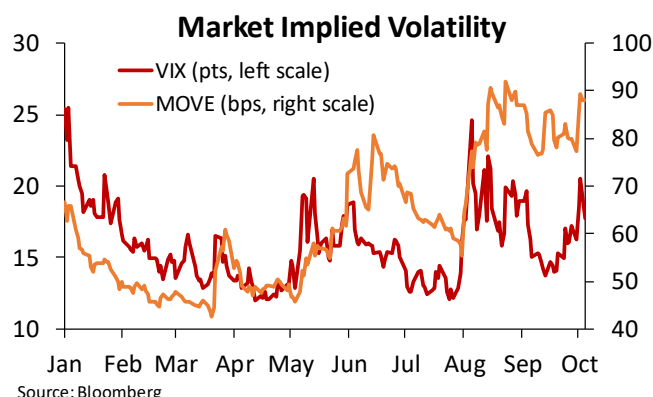
Last updated: 10/7/19 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		2952	1.4	0	-1	2	18
Eurostoxx 50		3459	0.4	-3	-1	3	15
Nikkei 225		21375	-0.2	-2	1	-10	7
MSCI EM		41	-0.2	1	-1	0	5
Yields and Spreads			bps				
US 10y Yield		1.54	-0.5	-13	-2	-170	-115
Germany 10y Yield		-0.59	-0.4	-2	5	-116	-83
EMBIG Sovereign Spread		346	-2	8	6	6	-68
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		60.6	-0.3	1	0	-2	-3
Dollar index, (+) = \$ appreciation		98.9	0.1	-1	0	3	3
Brent Crude Oil (\$/barrel)		59.0	1.0	-3	-4	-30	10
VIX Index (% change in pp)		17.9	0.8	2	3	3	-8

Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

United States

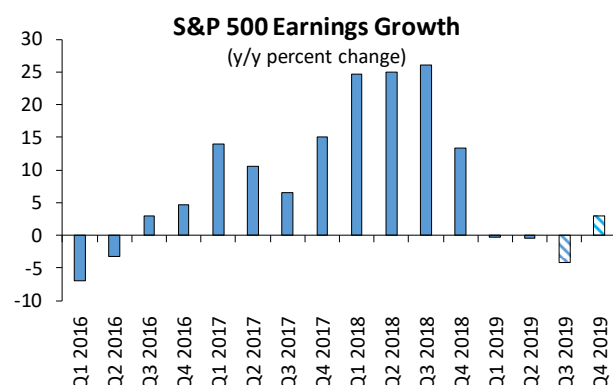
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Equity markets firmed Friday, with major indices trading about 1.4% higher. Gains were broadly based, with financials (+1.9%) and tech stocks (+1.3%) outperforming. For the year, the S&P 500 is up 17.2% and the Nasdaq 19.8%. Implied volatility as measured by the VIX index fell for a second day. The 10-year Treasury yield fell for a 7th straight session. Implied volatility on Treasuries as measured by the MOVE index remains elevated (88 bps) and near its high for the year.

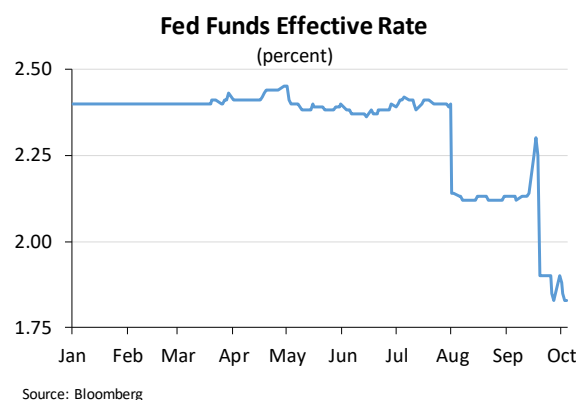


Nonfarm payrolls of 114k came in below expectations (145k) for September, but the August number was revised upwards by another 38k. The headline unemployment rate fell to 3.5% from 3.7%. The average hourly growth was flat m/m and slipped to 3.5% y/y from 3.7% a month earlier. Manufacturing sector jobs fell for the first time since March. Separately, the trade deficit for August was \$54.9 bn

With the third quarter coming to a close, investors will soon be focusing on corporate results coming to market, with the first big wave starting next week. FactSet expects that earnings for the S&P 500 will fall 4.1% y/y, which would mark the third straight quarterly decline—which has not happened since 2015/6. But revenues are expected to increase by 2.8% y/y. The firm is expecting Q4 earnings to increase by 2.9% and revenues by 3.6%. For the year as a whole, it expects earnings to rise an anemic 1.3%. It goes on to point out that a record number of tech companies have been issuing negative EPS guidance for the quarter.



The Federal Reserve is looking to provide ongoing support to short-term funding markets. The New York Fed announced it will conduct a new series of term repos starting tomorrow until the day before the next FOMC meeting on October 30th. Most will be two-week operations of at least \$35 bn. And there will be daily overnight repos of at least \$75 bn through November 4. The Fed funds effective rate fell to 1.83% Friday.



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In Europe, equities (+0.3%) advanced somewhat even after German factory orders disappointed this morning (-0.6% mom in August versus -0.3% mom expected). In the coming days, industrial production and manufacturing data out of France, Germany, and Spain will be closely watched for further indications of slowdown, especially given the critical noises on the ECB's last measures.

Brexit headlines are also likely to be prominent this week. On the U.K. side, the government will be forced to seek an extension if Parliament fails to approve a new deal by Oct. 19. In the EU, president Macron has said that the block will decide by Friday whether a deal is possible. Nevertheless, EU statements so far give little room for hope.

Core sovereign debt yields are 1-2 bps lower across countries. German 10-year yields at -0.60% (-1 bps); French 10-year OATs at -0.29% (-1 bps); Italian 10-yr BTP yield at 0.82% (-2 bps). Portuguese 10-year yields are 2 bps lower at 13 bps, after the Socialist Party (37%, +4.5pp) won the elections. The Socialist Party led by PM Costa fell short of an outright majority. Expectations are for continuity in policy as PM Costa said that he is willing to renew the informal alliance with Communists and the Left Bloc.

Last week, the European 5-year forward 5-year inflation swap, a gauge for inflation expectations, fell 5 bps to 1.13%, from 1.20% at the start of September. Despite the slide in European inflation expectations and weakening European data, the ECB's September package continues to draw sharp criticism.

On Friday, a group of retired senior euro area central bankers published a memorandum unusually critical of current ECB policies. In addition, the authors claim that there was never a risk of deflationary spiral in the euro area. The group includes former governors of Germany, the Netherlands and Austria and a former deputy governor of the Banque de France, as well as the two German former chief economists of the ECB.

HSBC (-0.4%) reportedly plans to reduce global headcount by a further 10,000 jobs. These cuts come in addition to the 4,700 job cuts already announced as interim CEO Quinn seeks to rein in costs quickly. About 238,000 people work for HSBC.

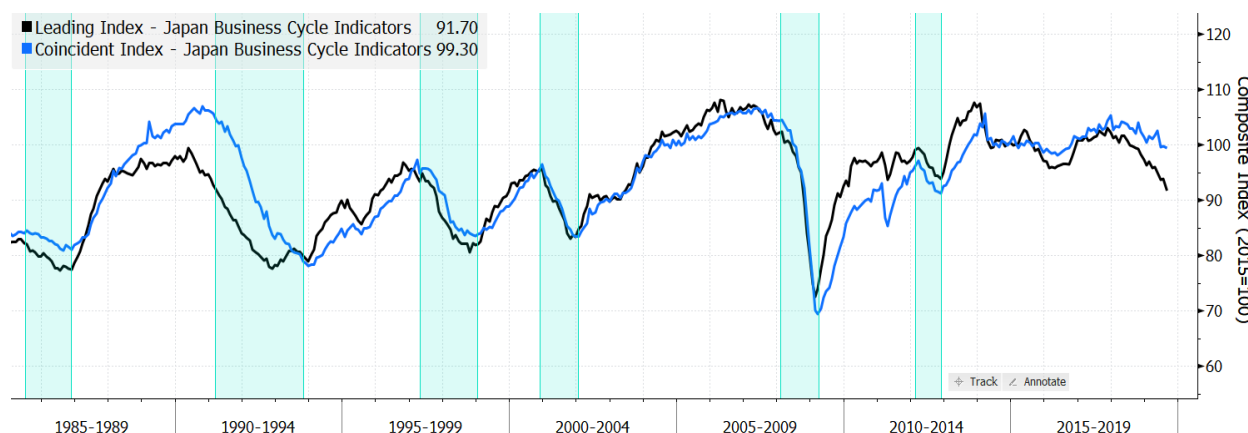
Other Mature Markets

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Japan

Japanese equities traded mostly flat on Monday. The Topix was unchanged while the Nikkei inched down 0.2%. The 10-year yield on JGBs shed 1 bp to -0.22%.

Various activity gauges in Japan are increasingly pointing to a higher chance of recession. The Leading Index of Japan's business cycle, for instance, dropped in August to 91.7 (from 93.7 in July), its lowest level since 2009. The Coincident Index, in turn, stood at 99.3, compared to 99.7 the month prior.













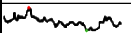



Emerging Markets

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Emerging market equities had a mixed open to the week as investors reassessed the outlook for a trade deal and the Fed. Stocks gained in Thailand (+0.5%) and South Korea (+0.1%) but dropped in India (-0.4%) and the Philippines (-0.3%). Chinese bourses were closed on holiday. In EMEA, Egypt (+1.3%), Turkey (+1.2%) and Kuwait (+1.1%) posted the largest gains, while Bulgaria (-0.5%) and Saudi Arabia (-0.4%) saw the largest losses. Currencies across Asia and EMEA weakened about 0.3% to the dollar, except the Turkish lira (-0.7%) which posted larger losses. Latin American equity markets, in contrast, ended the week on a high note. Mexico (+2.0%), Colombia (+0.3%), Chile (+0.8%), Brazil (+1.0%) all closed the session higher, and Peru (+1.5%) also rebounded after a challenging week driven by political turmoil. Sovereign dollar bond yields mostly fell across the region, with 10-year yields dropping by around 10 bps in Chile, 7 bps in Colombia, 6 bps in Mexico, and 2 bps in Brazil. Currencies were mostly stronger, with the Brazilian real up 0.7%, the Mexican peso up 0.6%, and Colombian peso up 0.5% against the dollar.

In the week ahead, data releases in China include services PMI and new yuan loans (scheduled within the week); trade data for the Philippines (Thursday), and the 2020 budget in Malaysia (Friday). Retail sales for the Czech Republic are due on Tuesday and inflation data on Thursday. In Latin America, Mexico, Colombia, and Brazil will release inflation data, Peru has a monetary policy meeting, and Mexico's central bank will release September meeting minutes.

Key Emerging Market Financial Indicators

Last updated: 10/7/19 8:05 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		40.97	-0.2	1	-1	0	5
MSCI Frontier Equities		28.11	0.0	0	-1	0	7
EMBIG Sovereign Spread (in bps)		346	-2	8	6	6	-68
EM FX vs. USD		60.59	-0.3	1	0	-2	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		7.15	-0.4	0	0	-4	-4
Indonesian Rupiah		14163	-0.2	0	-1	7	2
Indian Rupee		71.03	-0.2	0	1	4	-2
Argentine Peso		57.73	0.0	-1	-3	-34	-35
Brazil Real		4.06	0.6	3	1	-4	-4
Mexican Peso		19.56	-0.2	1	0	-3	0
Russian Ruble		64.91	-0.4	0	1	3	7
South African Rand		15.14	-0.6	0	-2	-2	-5
Turkish Lira		5.74	-0.8	-2	0	6	-8
EM FX volatility		8.11	1.3	0.0	-0.1	-2.9	-1.7

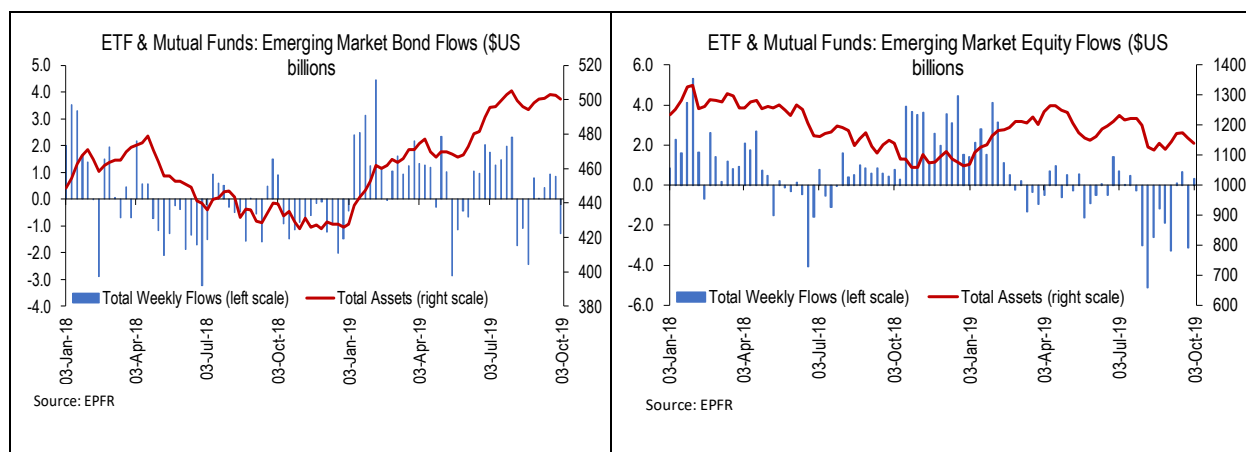
Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

EM Fixed Income

EM fixed income investors remain relatively optimistic about the near term, despite ongoing worries about the trade war and global growth, according to end of quarter survey results from Citigroup. Close to half of survey respondents expected EMBI credit spreads to tighten modestly through the first half of 2020; though the EMBIG sovereign spread has already widened by around 14 bps thus far in October, with other analysts (separately) noting weak economic data from the US and Europe may be driving higher risk premia. For Latin America, respondents responded favorably to policy and reform developments in Brazil (tax, pensions, privatizations) and Mexico (energy), though the newly watered-down pension bill working its way through Brazil's legislative process may not be fully reflected in the survey. Mexico's efforts to support PEMEX were generally well-received by investors at least for the near term, potentially delaying any downgrade, though the long-term structural problems for PEMEX's financial and production outlook have not been resolved. On Argentina, market participants are focused on recovery rates for the eventual debt restructuring, with a plurality anticipating something in the \$30-40 range, though many expect broad confusion and delay from the first several months of the expected Fernandez administration. A majority of respondents expected resolution to take 2-3 years.

Capital Flows

Emerging market fund flows turned negative last week as bond funds ended five consecutive weeks of inflows, with total outflows of \$1.3 billion, according to EPFR data. Equity inflows rebounded to \$300 million for the week, but have struggled more broadly since mid-July, with aggregate outflows of \$19 billion over the last 12 weeks. A strong September for bond inflows helped offset a dismal August when global financial markets proved to be volatile on the back of heightened trade tensions, with aggregate flows up \$2.3 billion for the same twelve-week period. For the most recent week of data, hard currency ETFs (-\$740 million) and local currency mutual funds (-\$798 million) were the big losers despite a resilient showing for hard currency mutual funds (\$418 million).



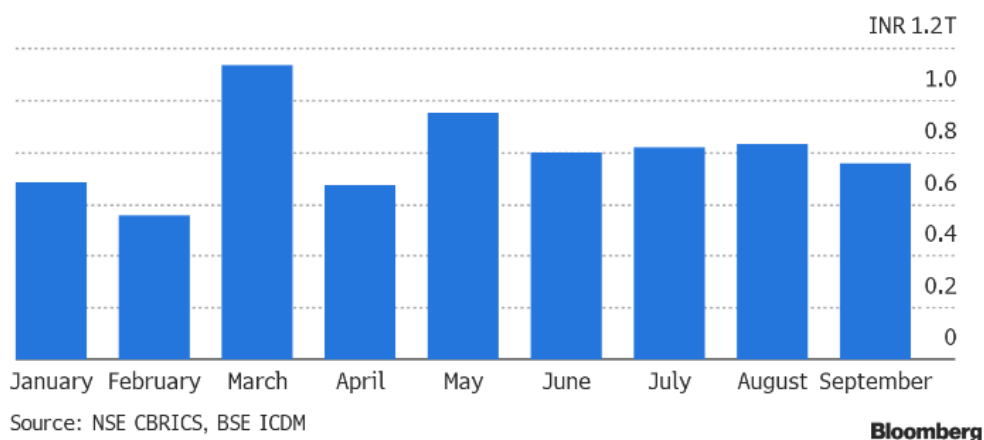
Czech Republic

Moody's upgraded the Czech Republic to Aa3 (from A1) with 'positive' outlook. The agency noted an improvement in the sovereign's fiscal variables and the positive impact of recent government reforms. Separately, macroeconomic data this morning came in much weaker than expected. August's industrial output printed at -3.8% (nsa, y-o-y) compared to an expected contraction of 3.3% and an expansion of 5.6% y-o-y the month prior; construction output fell 2.4% y-o-y, compared to +3.7% y-o-y the month prior. The Czech krona weakened about 0.3% to the dollar today.

India

Trading in India's "shadow banking" bonds dropped to a five-month low in September. Secondary-market trading of bonds issued by non-bank financial corporations (NBFC) stood at \$10.6 bn last month, according to Bloomberg data. The drop comes as mutual funds have continued to curtail their investments in NBFC. Analysts have noted an increase in risk-aversion towards the sector amid various notable cases of distress in NBFC companies over the last year.

Secondary market trading in shadow bank bonds falls to five-month low



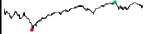





















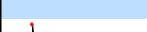


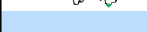


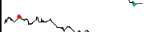
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Global Financial Indicators

Last updated: 10/7/19 8:05 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		2952	1.4	0	-1	2	18
Europe		3459	0.4	-3	-1	3	15
Japan		21375	-0.2	-2	1	-10	7
China		2905	-0.9	-2	1	3	16
Asia Ex Japan		66	0.0	1	-1	0	5
Emerging Markets		41	-0.2	1	-1	0	5
Interest Rates			basis points				
US 10y Yield		1.54	-0.5	-13	-2	-170	-115
Germany 10y Yield		-0.59	-0.4	-2	5	-116	-83
Japan 10y Yield		-0.22	-1.1	-1	2	-38	-23
UK 10y Yield		0.45	0.2	-4	-6	-128	-83
Credit Spreads			basis points				
US Investment Grade		129	-1.7	0	-7	31	-18
US High Yield		493	-4.5	32	5	169	-28
Europe IG		58	0.1	3	10	-14	-30
Europe HY		254	5.8	23	15	-37	-99
EMBIG Sovereign Spread		346	-2.0	8	6	6	-68
Exchange Rates			%				
USD/Majors		98.87	0.1	-1	0	3	3
EUR/USD		1.10	0.1	1	-1	-4	-4
USD/JPY		106.8	0.1	1	0	6	3
EM/USD		60.6	-0.3	1	0	-2	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		59	1.0	-3	-4	-30	10
Industrials Metals (index)		115	0.0	0	-2	-5	6
Agriculture (index)		39	-0.1	0	6	-10	-6
Implied Volatility			%				
VIX Index (% change in pp)		17.9	0.8	1.6	2.9	3.1	-7.5
10y Treasury Volatility Index		5.2	-0.2	-0.2	0.4	1.0	0.6
Global FX Volatility		7.1	0.1	-0.1	-0.1	-1.3	-1.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		197	3.7	6	-26	-196	-218
Italy		142	-0.1	2	-10	-143	-108
Portugal		72	-0.8	-1	-11	-65	-76
Spain		71	-0.4	0	-10	-29	-46

Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations.

Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 10/7/2019 8:06 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.15	-0.4	-0.4	0	-4	-4		3.2	0.0	4	8	-44	0
Indonesia		14163	-0.2	0.2	-1	7	2		7.3	-1.9	-6	-13	-116	-83
India		71	-0.2	-0.2	1	4	-2		6.8	0.7	-13	8	-151	-69
Philippines		52	-0.2	-0.1	0	4	1		4.3	-0.9	-3	-4	-212	-197
Thailand		30	0.0	0.5	1	8	6		1.5	-0.5	-3	0	-141	-113
Malaysia		4.19	-0.2	-0.1	0	-1	-1		3.4	-0.6	-3	6	-72	-71
Argentina		58	0.0	-0.7	-3	-34	-35		64.9	-22.6	-25	-227	4195	4190
Brazil		4.06	0.6	2.5	1	-4	-4		6.3	-0.3	-6	-39	-342	-185
Chile		716	-0.1	1.7	0	-5	-3		2.8	-1.1	-7	20	-204	-169
Colombia		3435	0.5	0.7	-1	-12	-5		5.6	0.6	-2	-8	-104	-88
Mexico		19.56	-0.2	0.9	0	-3	0		6.9	1.4	-14	-22	-117	-185
Peru		3.4	-0.2	0.1	0	-2	0		4.4	-4.1	-7	7	-139	-136
Uruguay		37	0.0	-0.8	-1	-11	-13		10.8	-4.9	13	-35	45	7
Hungary		304	-0.2	1.2	-2	-7	-8		1.0	-2.8	-6	-7	-166	-119
Poland		3.94	-0.1	1.8	0	-5	-5		1.7	-2.4	-9	-2	-95	-56
Romania		4.3	0.1	0.8	-1	-6	-6		3.8	-1.0	8	11	-60	-48
Russia		64.9	-0.4	-0.1	1	3	7		6.8	-7.2	-7	-6	-160	-162
South Africa		15.1	-0.6	0.0	-2	-2	-5		9.3	-6.7	-13	5	-56	-31
Turkey		5.74	-0.8	-1.6	0	6	-8		13.3	-8.0	-7	-162	-833	-358
US (DXY; 5y UST)		99	0.1	-0.5	0	3	3		1.35	0.5	-19	-8	-172	-116

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		2905	0.0	-2	1	3	16		190	0	4	3	8	-4
Indonesia		6001	-1.0	-3	-5	5	-3		189	-1	2	9	0	-47
India		37532	-0.4	-3	1	9	4		137	0	3	-4	-23	-59
Philippines		7683	-0.3	-1	-3	9	3		82	-2	2	8	-18	-39
Malaysia		1559	0.1	-2	-3	-12	-8		127	0	4	4	3	-35
Argentina		31817	4.8	10	15	5	5		2163	0	32	134	1505	1348
Brazil		102551	1.0	-2	0	25	17		253	-1	11	19	-24	-20
Chile		5040	0.8	0	4	-4	-1		142	0	2	10	22	-24
Colombia		1593	0.3	1	2	7	20		187	-1	1	11	17	-41
Mexico		43417	2.3	1	2	-10	4		323	-1	5	-7	65	-31
Peru		19270	1.5	-2	0	0	0		129	-1	-6	13	-3	-39
Hungary		39729	-0.2	-2	-1	8	2		111	-4	12	16	3	-37
Poland		55897	-0.1	-2	-1	-4	-3		43	-3	10	10	-4	-42
Romania		9472	0.3	-1	2	11	28		206	-3	12	-1	38	-15
Russia		2715	0.8	-1	-3	11	15		203	-3	10	9	-11	-49
South Africa		54213	0.4	-1	-2	0	3		342	-1	12	34	30	-23
Turkey		105129	1.6	0	6	11	15		476	-1	10	-21	6	47
Ukraine		526	0.0	0	0	-4	-6		519	-6	8	53	-40	-268
EM total		41	-0.2	1	-1	0	5		346	-2	8	6	6	-68

Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

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