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Weekly Insight

January 23, 2019

The government shutdown entered day 34 with rising concerns the ultimate resolution, regardless of solution, will push yields higher. As the shutdown persists, it weighs on the growth potential of the economy, which at some point could push the dollar lower and rates higher. However, as the spending battle risks colliding with the debate over the debt ceiling, the risk of a hasty resolution that ramps up spending could also push the dollar lower and rates higher and lead to a credit downgrade as it did in 2011. Senators are hoping the bills up for vote Thursday will pave the way for compromise.

Michigan sentiment plummeted from 98.3 to 90.7 in January as news about the shutdown dominated headlines and the stock market sell-off in December weighed on survey responses. However, the Markit Manufacturing PMI for January picked up from 53.8 to 54.9, suggesting little material impact on the business sector from the shutdown. The Services PMI was mostly unchanged, falling from 54.4 to 54.2. That said, the pace of hiring has slowed to a rate of growth last seen in April 2017.

As economic data continued to disappoint last year, the European Central Bank (ECB) retained its accommodative monetary policy stance despite early pronouncements normalization was the goal. In December, the ECB formally ended its asset purchase program even as both Germany and Italy saw GDP fall in the third quarter. Yesterday, ECB President Draghi finally acknowledged the eurozone economy is slowing and the risks to growth "have moved to the downside." This is a material shift in outlook from six weeks ago when he characterized the risks as "broadly balanced." This assessment is more in line with the tenor of the World Economic Forum currently being held in Davos where global leaders are discussing the mounting evidence of a slowing global economy, slowing world trade and other dark subjects.

The Bank of Japan (BoJ) kept its target short-term interest rate at -0.1% but lowered inflation expectations again for the 2019 fiscal year. The central bank targets a 2% inflation rate, and at the beginning of 2013 embarked on a huge bond-buying program expected to meet that target within two years. In October, the BoJ outlined an expected range for inflation of 1.5-1.7%, and Wednesday it lowered that range sharply to 1.0-1.3% due to the decline in oil prices, suggesting the central bank's next move could be to ramp up stimulus.

Weekly Market Topics

- **Economy**
- **Fixed Income Markets**
- **Equity Markets**

All data is as of the above referenced date.

Interest Rates (%)	Current	12M Ago	3YR Ago
Fed Funds Rate (Upper bound)	2.50	1.50	0.50
3-Month T-Bill	2.40	1.44	0.23
10-Year Treasury	2.74	2.59	2.03
30-Year Treasury	3.06	2.86	2.81
10-Year Corporate AA	3.67	3.33	3.26
10-Year High Yield Corp.	6.53	5.37	6.35
Commodity Prices ($)	**Current**	**12M Ago**	**3YR Ago**
Gold ($/oz.)	1,282.72	1,326.84	1,088.88
Oil (WTI, $/barrel)	52.62	60.03	43.14
Currencies	**Current**	**12M Ago**	**3YR Ago**
USD (Dollar Index Spot)	96.12	90.54	98.96
USD/EUR	0.88	0.82	0.92
USD/JPY	109.60	111.29	116.98

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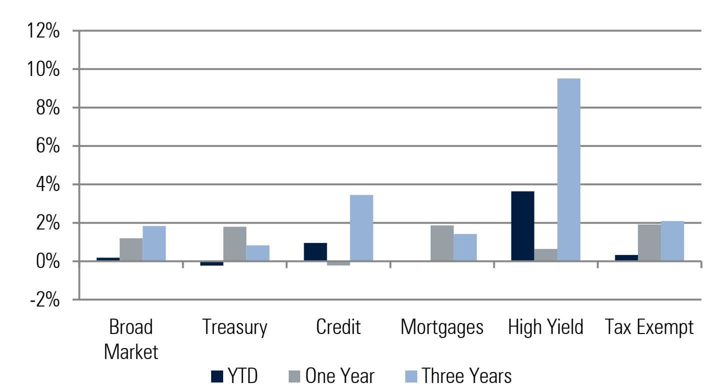
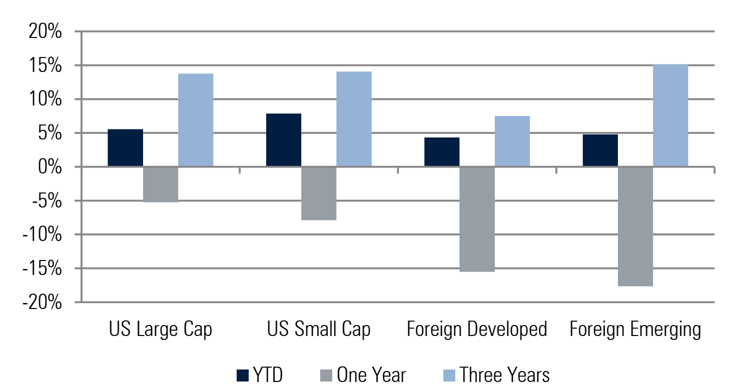
Bond Market Total Returns



Equity Market Total Returns



Source: BTC Capital Management, Bloomberg LP, Ibbotson Associates.
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