



Penn State Asset Management Group

C/D Weekly Markets Update

Week of February 18th – February 22nd 2019

Weekly Markets Update

Michael McPeck

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	End of Week Close	End of Week Price Movement
DJIA Futures	26031.81	0.57%
S&P 500 Futures	2792.67	0.62%
Stoxx Europe 600	371.23	0.62%
Shanghai Composite	2804.23	4.54%
U.S. 10 Year Yield	2.65%	-0.02%
Crude Oil	\$57.26	3.00%

Market Data as of Friday (February 22, 2019) 4:00 pm EST

Trade Negotiations

President Trump sited progress in the U.S China trade talks this week, and is looking to extend his March 1st deadline to raise tariffs from 10% to 25% on \$200 bn worth of goods. The President wants to meet with Xi Jinping next month to finalize a broad trade agreement between the two countries. This statement occurred after four days of negotiations with officials from both countries, and these negotiations will continue into the weekend. Officials close to the matter say both sides are very far apart on the key issues, but there was some common ground found in preventing Chinese currency manipulation along with other minor policies that would be viewed as beneficial to both parties. The main points which have not found common ground are Chinese government's pressure on U.S. companies to transfer their technology to Chinese partners, subsidies for Chinese state-owned firms, protection of intellectual property, and how the two countries would enforce any agreement that is made.

FOMC Minutes and Fed Statements

Stocks and Bonds both rose this week on speculation that the Fed is done raising interest rates in the near term; after steadily increasing rates the past four years. Since the last meeting in December, investor sentiment in regards to rate increases this year have become less hawkish. On Wednesday, February 20, the Fed released minutes from the January meeting where a majority of Federal Reserve officials agreed that the Fed has planned to slow the pace of the shrinking balance sheet in tandem with a possible action plan. Since the run-off started in 2017 the central banks' assets have decreased from \$4.5 T to \$4 T.

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Additionally, all Federal Reserve officials supported putting rate hikes on hold until it becomes clear how new risks to economic growth in the U.S. will pan out; some Fed officials slightly lowered their outlooks. Concerns about narrowing spreads between short and long term interest rates and how recessions tend to follow within one to two years were discussed as well. The debate generally revolved around whether to increase rates in the near future or to hold them steady, and where the threshold to stop the rate hikes was. In spite of this, there was absolutely no mention of a rate cut in the minutes.

	End of Week Close	End of Week Price Movement
Eurodollar Futures	\$97.39	3.34 bps
Fed Funds Futures	\$97.60	-0.51 bps
U.S. 2 Year	\$106.05	3.32 bps
U.S. 5 Year	\$114.64	8.18 bps
U.S. 10 Year	\$130.38	6.00 bps

Market Data as of Friday (February 22, 2019) 4:00 pm EST

Lead Products Affected

With January's Fed minutes being released on Wednesday, and multiple Federal Reserve officials giving statements this week in regards to changing outlooks and strategies, Eurodollar futures saw an increase of over three basis points, a significant move for the product, as well as a steepening yield curve. Aside from the debate on when to resume rate hikes or where the threshold to hold them steady should be, Fed officials also talked about halting the balance sheet run-off and considered looking at inflation in a new light. The Central Bank officials are trying to better understand the demand for reserves and how low they can fall before putting pressure on the benchmark policy rate. The timeframe for the run-off to end is rumored to be in the second half of 2019, and the new policy would be to keep the number of assets constant. Separately, with interest rates likely to remain lower than in the past, Fed officials are content with letting inflation rise above the historical 2% target. Powell stated that raising the target would not be the goal, but rather letting it "run symmetric" over 2% as it has hovered roughly between 1.6%-1.9% since 2012.

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Key Events for Next Week

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Monday (2/25):

- **GBP** Prime Minister May Statement on Brexit

Tuesday (2/26):

- **EUR** Gfk Consumer Confidence (MAR) – Previous: 10.8 | Forecast: 10.5
- **USD** Fed Chair Powell Testimony
- **GBP** Parliament Debate on Brexit

Wednesday (2/27):

- **EA** Business Confidence (FEB) – Previous: 0.69 | Forecast: 0.61
- **CAD** Inflation Rate YoY (JAN) – Previous: 2% | Forecast: 1.8%
- **USD** Fed Chair Powell Testimony
- **GBP** Gfk Consumer Confidence (FEB) – Previous: -14 | Forecast: -17
- **CNY** NBS Manufacturing PMI (FEB) – Previous: 49.5 | Forecast: 49.8

Thursday (2/28):

- **EUR** Inflation Rate YoY Prel (FEB) – Previous: 1.4% | Forecast: 1.8%
- **USD** GDP Growth Rate QoQ (Q4) – Previous: 3.4% | Forecast: 2.5%
- **CNY** Caixin Manufacturing PMI (FEB) – Previous: 48.3 | Forecast: 49

Friday (3/1):

- **JPY** Consumer Confidence (FEB) – Previous: 41.9 | Forecast: 41.3
- **EUR** Markit Manufacturing PMI Final (FEB) – Previous: 49.7 | Forecast: 47.6
- **EUR** Full Year GDP Growth (2018) – Previous: 1.6% | Forecast: 1.0%
- **EUR** Government Budget (2018) – Previous: -2.3% | Forecast: -2.6%
- **USD** Personal Income MoM (DEC) – Previous: 0.2% | Forecast: 0.4%
- **USD** Personal Income MoM (JAN) – Previous: N/A | Forecast: 0.3%
- **USD** Personal Spending MoM (DEC) – Previous: 0.4% | Forecast: 0.2%
- **USD** ISM Manufacturing PMI (FEB) – Previous: 56.6 | Forecast: 55

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