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Market Insights

June 2019

Global Economy

- The IMF - the impact of the trade tensions between the US and China that was relatively modest till now can become much stronger due to the latest development. Further downgrades to global growth are expected
- Increasing anticipation for further stimulus of central banks to support the economy and counter the harm effect of the trade tensions and the Brexit uncertainty
- Trade war escalated as the US increased tariffs further and targeted Chinese technology firms in an effort to force China to accept the US impositions. In response, China threatened to retaliate by using its dominance of rare earths production to hit back. Meanwhile, trade volumes are falling due to what seems to be the most significant interruption to global economy, since the financial crisis a decade ago
- Although tariffs are inflationary, the inflation expectation plummeted last month and bond yields dropped all over the world amid the reverse in oil prices and the faltering global growth
- The world equities rebound halted lately as traders that were pricing in a trade agreement hesitate. Emerging markets continue to underperform as they are seen far more exposed to the trade conflict

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United States

- Recent economic data, especially indicators related to corporate America, suggest that the US economy is weaker than hoped

- The manufacturing sector shows signs of weakness and a lack of momentum for business investment is evident. Leading indicators such as the PMI's dropped sharply, impacted by the trade issues, suggests reasons for caution. A key component of new orders fell for the first time since 2009 below the 50 reading, a signal of contraction and a reflection of weak global demand

- However, consumer sentiment is still elevated as it moves in line with the positive job prospects, although it is not yet realized by consumer spending which was flat this year

- At a meeting held on May 1st the Fed kept rates unchanged and pledged patience. The Fed Chair, Jerome Powell, stated after the meeting that "we do think our policy stance is appropriate right now. We don't see a strong case for moving in either direction". However, the Fed Chair included uncertainty around trade as a risk factor to its outlook

- Markets are pricing in a rate cut during 2019 and two more until the end of 2020 amid increasing worries about the trade tensions and growing pressures from president Trump to cut rates. The treasury yield curve has inverted for the first time since March signaling that the possibility of a recession is on the rise

Core Economic Indicator

USA

Economic Indicator	Latest Figure	Reference Period
Growth Rate (Annualized)	3.1%	Q1-2019
Unemployment Rate	3.6%	April-2019
Inflation Rate (Core, YoY)	1.6%	April-19
Fed Funds Target Range	2.25%-2.50%	March-2019
10 Year Treasury	2.12%	April-2019
Ratio of Surplus in Current Account to GDP	-2.34%	Q4-2018
Ratio of Public Debt to GDP	104.14%	July-2018

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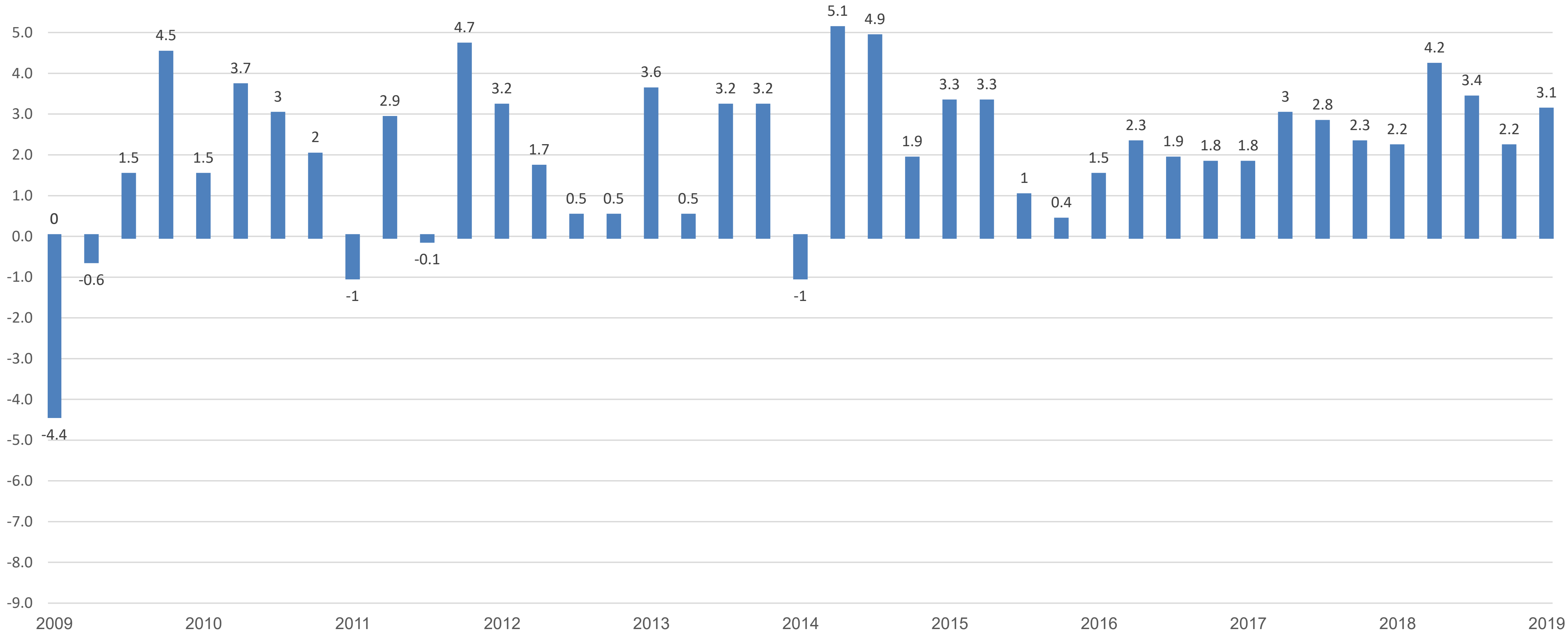
Economic Growth

GDP (Annualized)



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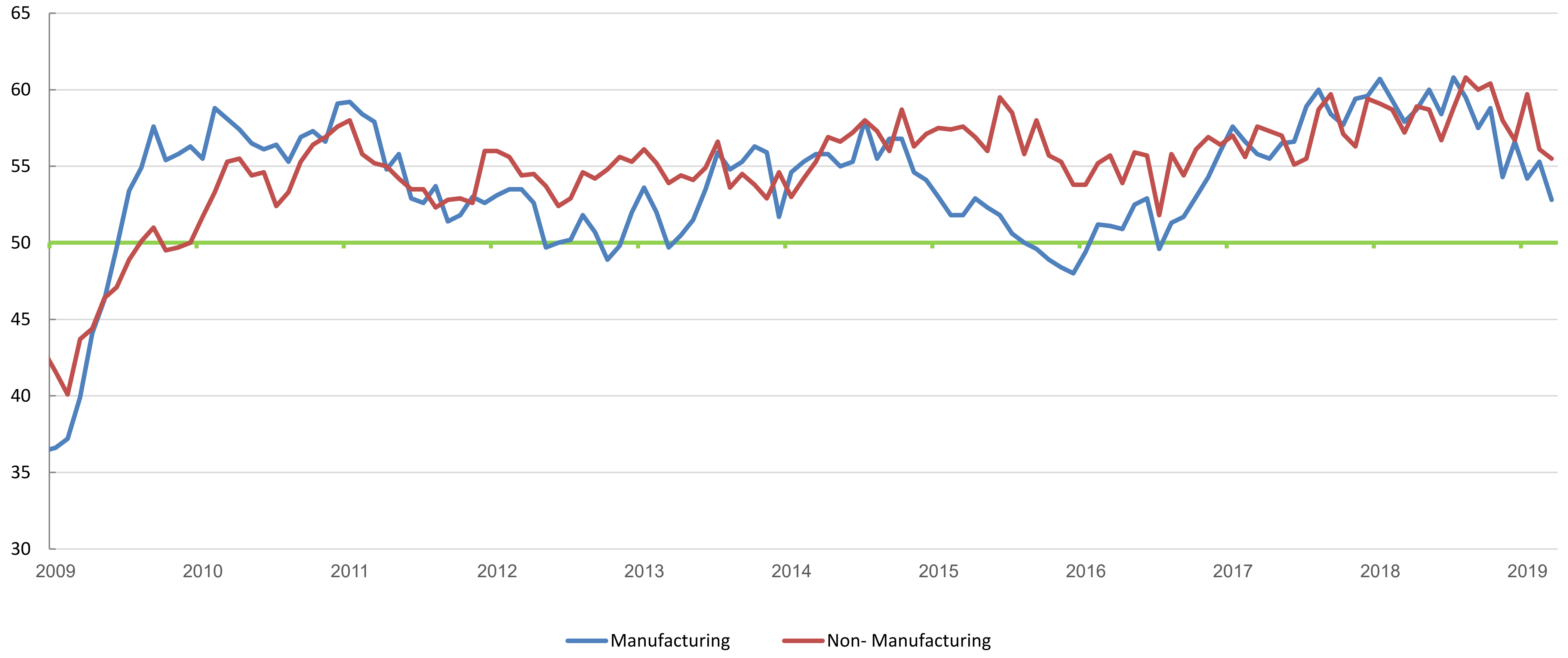
Economic Sentiment

Manufacturing and Non-Manufacturing ISM



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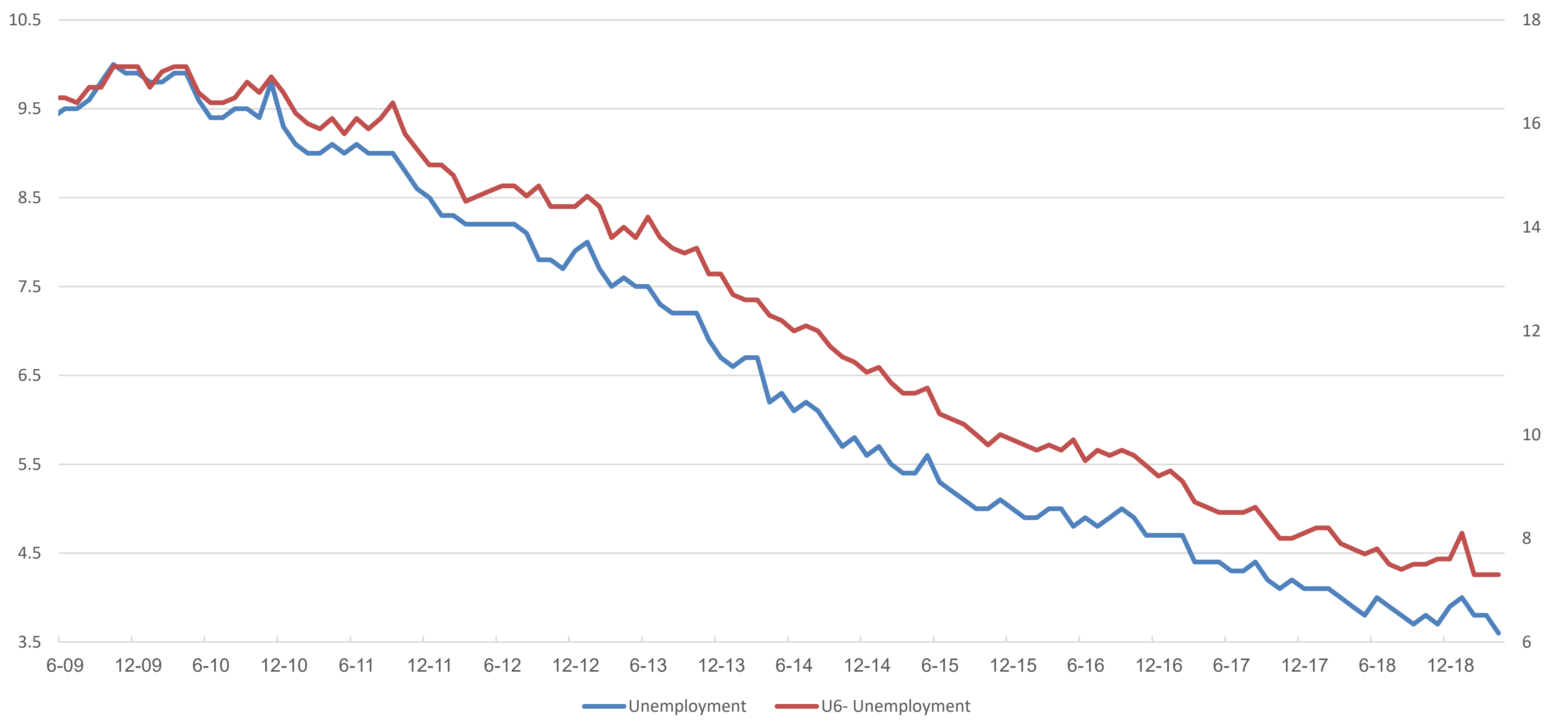
Labor Market

Unemployment Rate (Left) and Under Unemployment Rate, U6 (Right)



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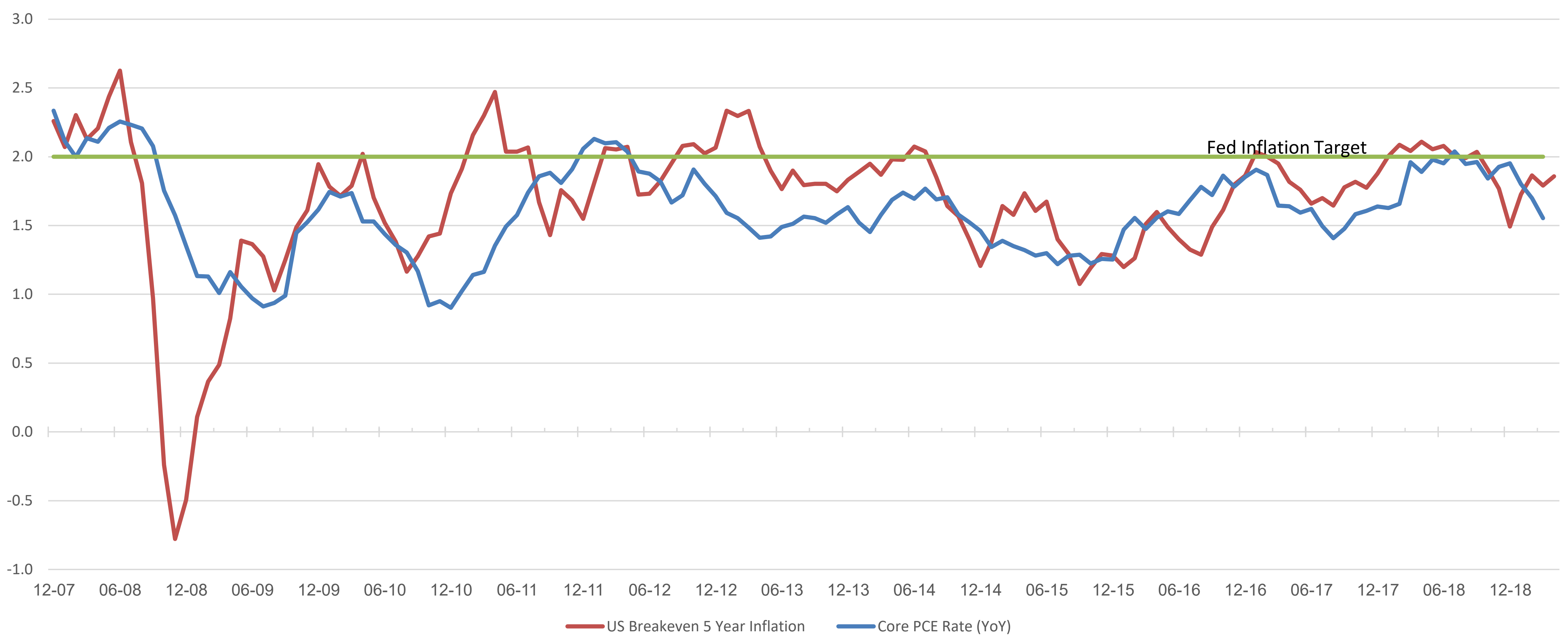
Labor Market

Jolts: Job Openings

Inflation

Core PCE (YoY) and 5Y Inflation Forecast



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10YR Treasury Yield to Maturity

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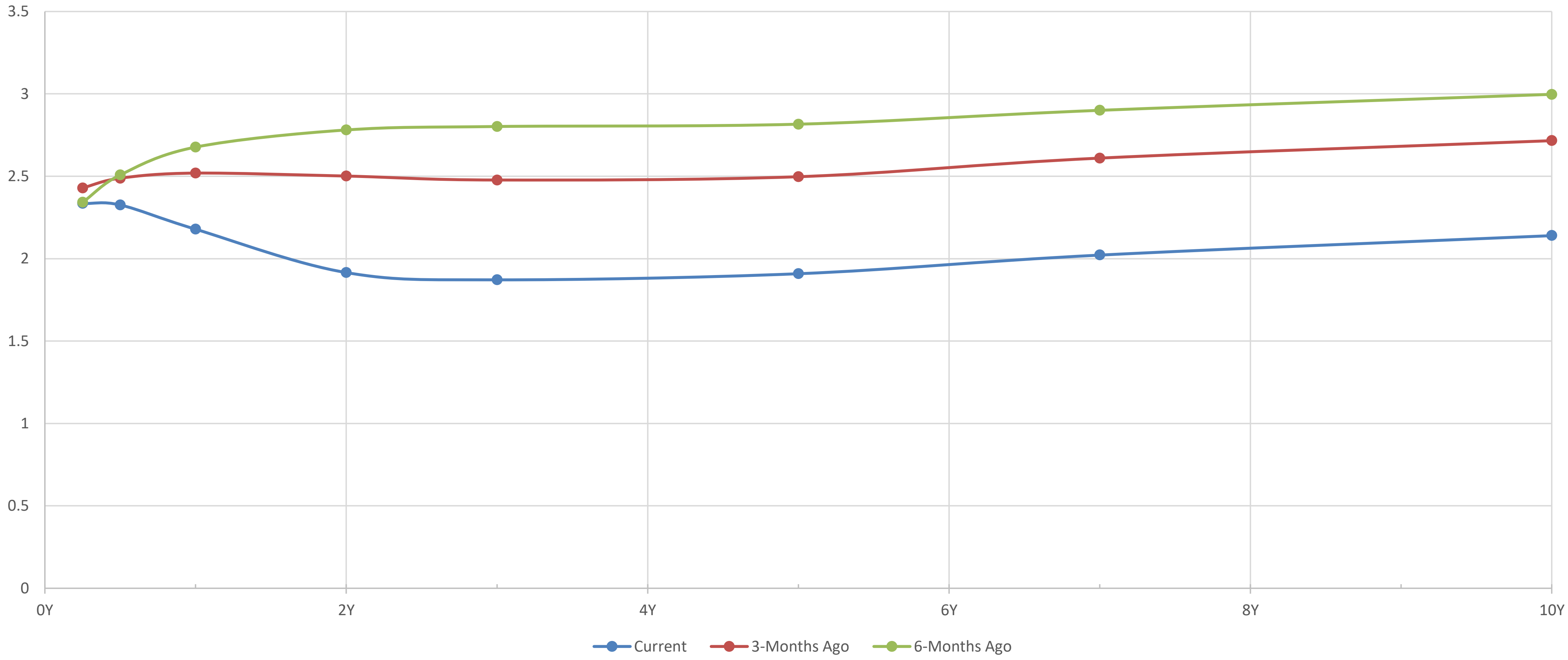
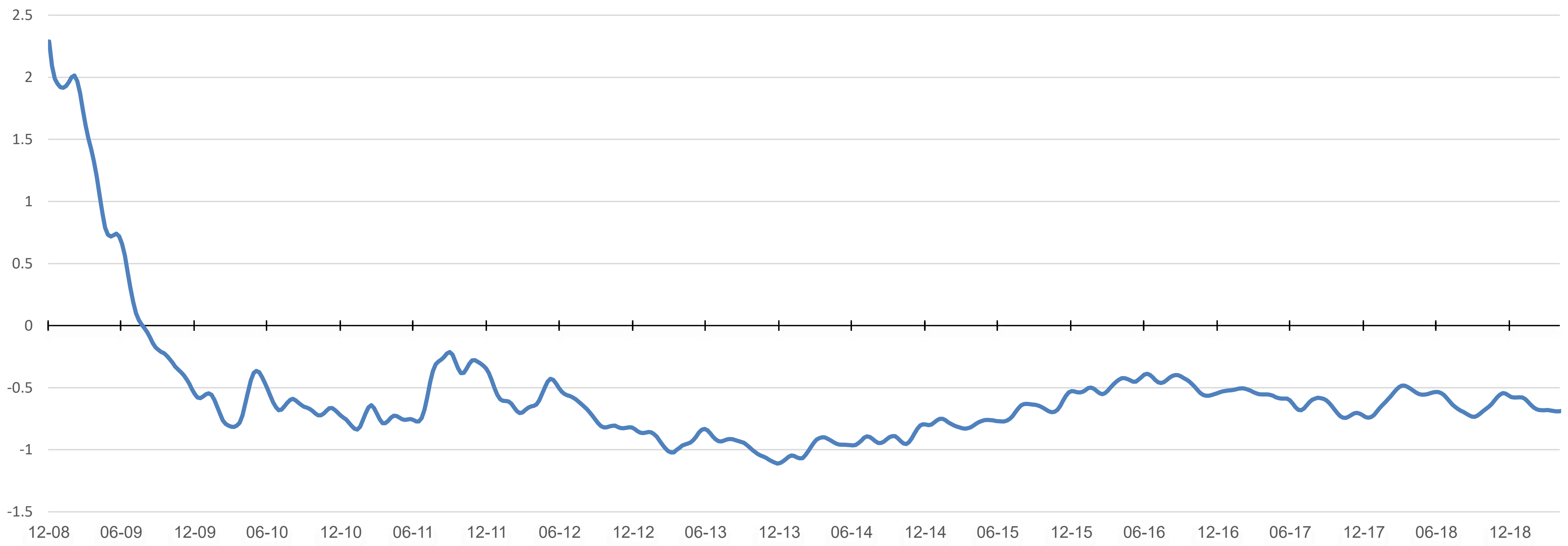
US Treasury Yield Curve



Chicago Feds National Financial (NFCI) Condition Index



The NFCI provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets and the traditional and "shadow" banking systems. Negative values have been historically associated with looser-than-average financial conditions

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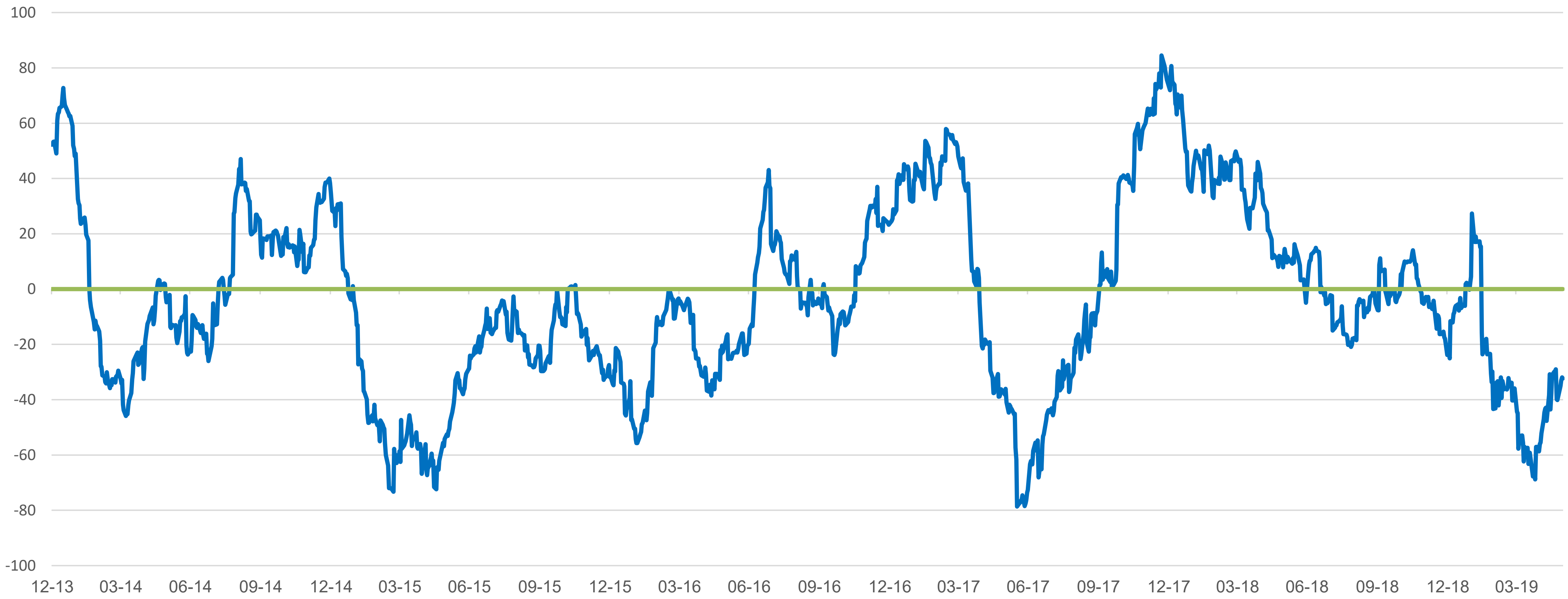
US Dollar Index (DXY)

Citi Economic Surprise



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Eurozone

- Economic indicators signal that the Eurozone growth in Q2 is at best anemic and the outlook is more challenging amid weak global growth, trade tensions and Brexit uncertainty
- The deterioration of the external demand continued to weigh on the manufacturing sector as the PMI dropped to 47.7 below the 50 threshold, a signal of contraction. The service sector continues to expand but at a slow pace
- Consumer sentiment improved in May to its highest level since the beginning of the year as it goes in line with the strong labor market and accommodative financial conditions
- However, in Germany the biggest economy in the continent and the weakest link due to its reliance on export, the unemployment rate increased unexpectedly for the first time in two years. The rise may be a sign that the slowdown in economic activity is spilling to the labor market
- More support for the economy is on the way as the ECB is very concerned about growth and inflation prospect
- 2019 European election: the old political order loses grip on parliament as liberals, Greens and nationalists strengthen. Centrist parties are struggling to maintain a majority (376) of seats and will need to seek new alliances. Eurosceptic parties represent 251 seats (33.4%). These results means rejection of the status quo and a curb in the power's of the EU
- The never ending saga of the Brexit continues as prime minister, Theresa May, resigned due to her inability to get her Brexit agreement approved. The resignation throws the UK into a political turmoil and increases the possibility of leaving the EU without a deal

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Core Economic Indicator

Eurozone

Economic Indicator	Latest Figure	Reference Period
Growth Rate (Annualized)	1.6%	Q1-2019
Unemployment Rate	7.7%	March-2019
Inflation Rate (Core, YoY)	1.3%	April-2019
Central Bank deposit rate	0.00%	April-2019
10 Year Government Bond Yield (Germany)	-0.2%	May-2019
Ratio of Surplus in Current Account to GDP	2.95%	Q4-2018
Ratio of Public Debt to GDP	85.20%	Q4-2018

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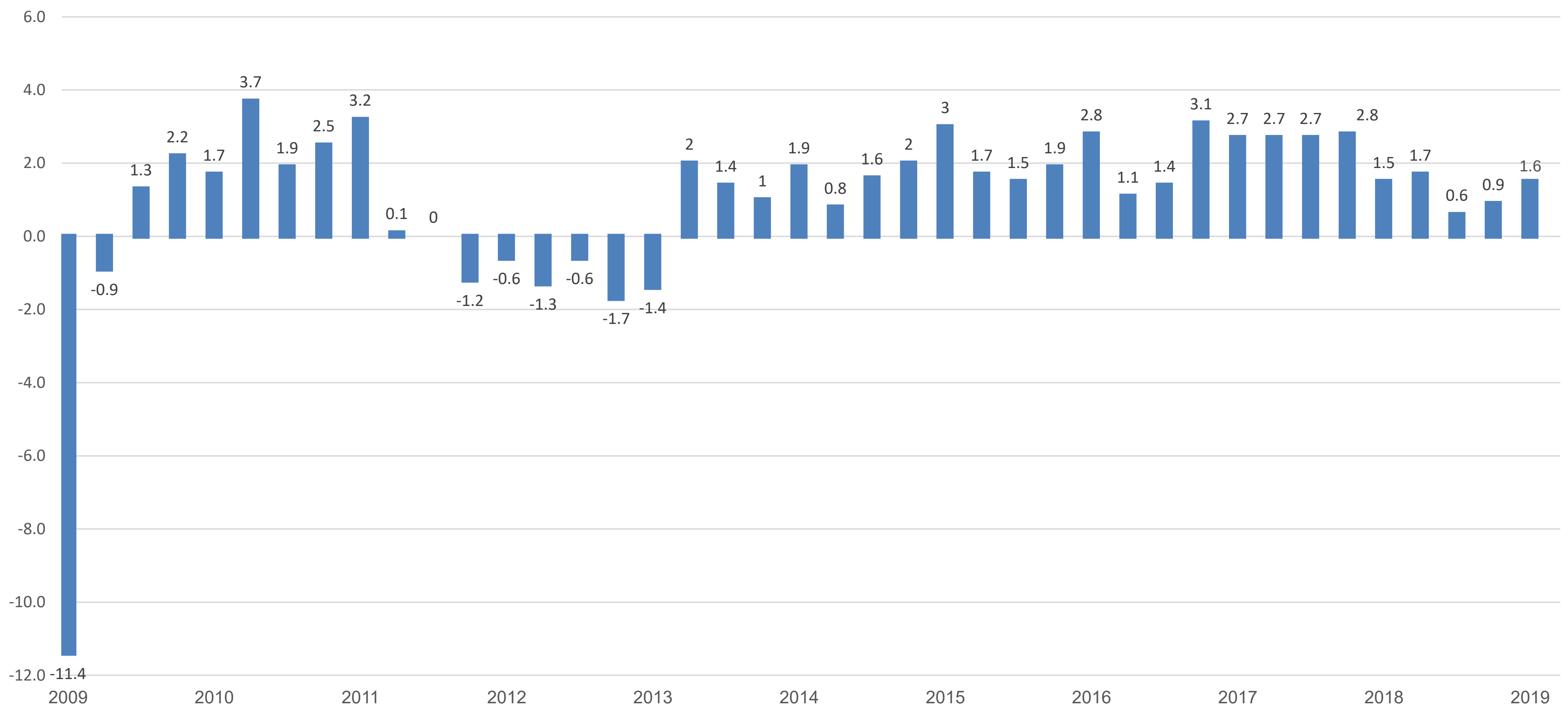
Economic Growth

GDP (Annualized)



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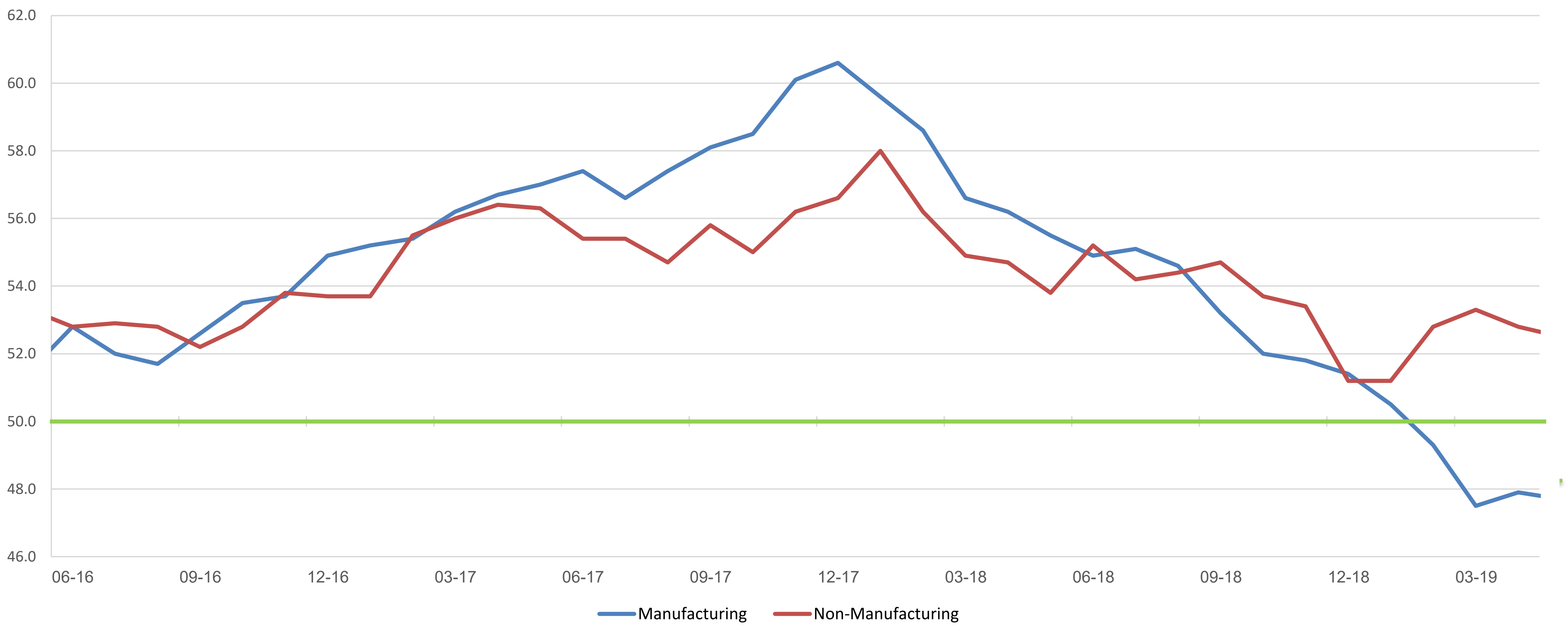
Economic Sentiment

Manufacturing and Non-Manufacturing PMI



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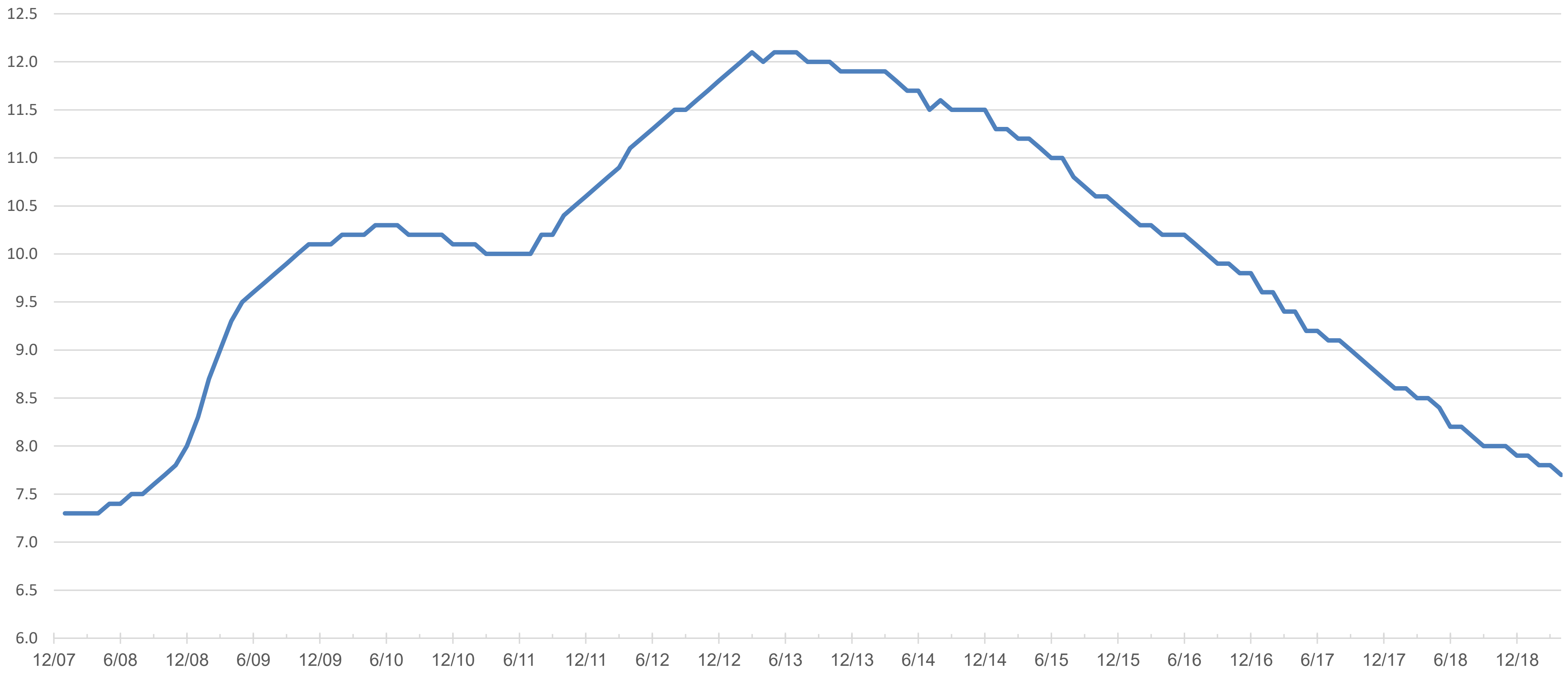
Labor Market

Unemployment Rate



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Inflation

CPI and Core CPI (YoY)

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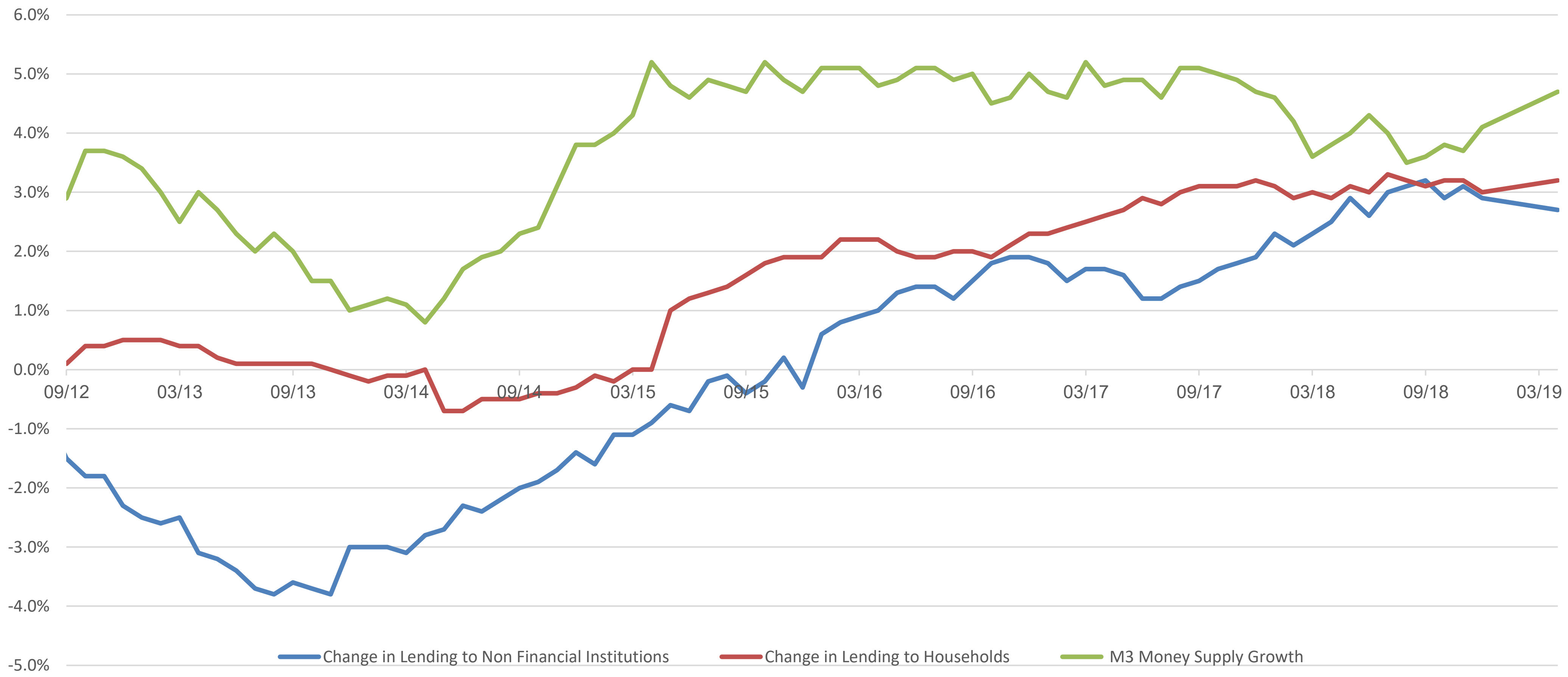
Money Supply and Credit

Growth in Money Supply, Loans to Real Sector



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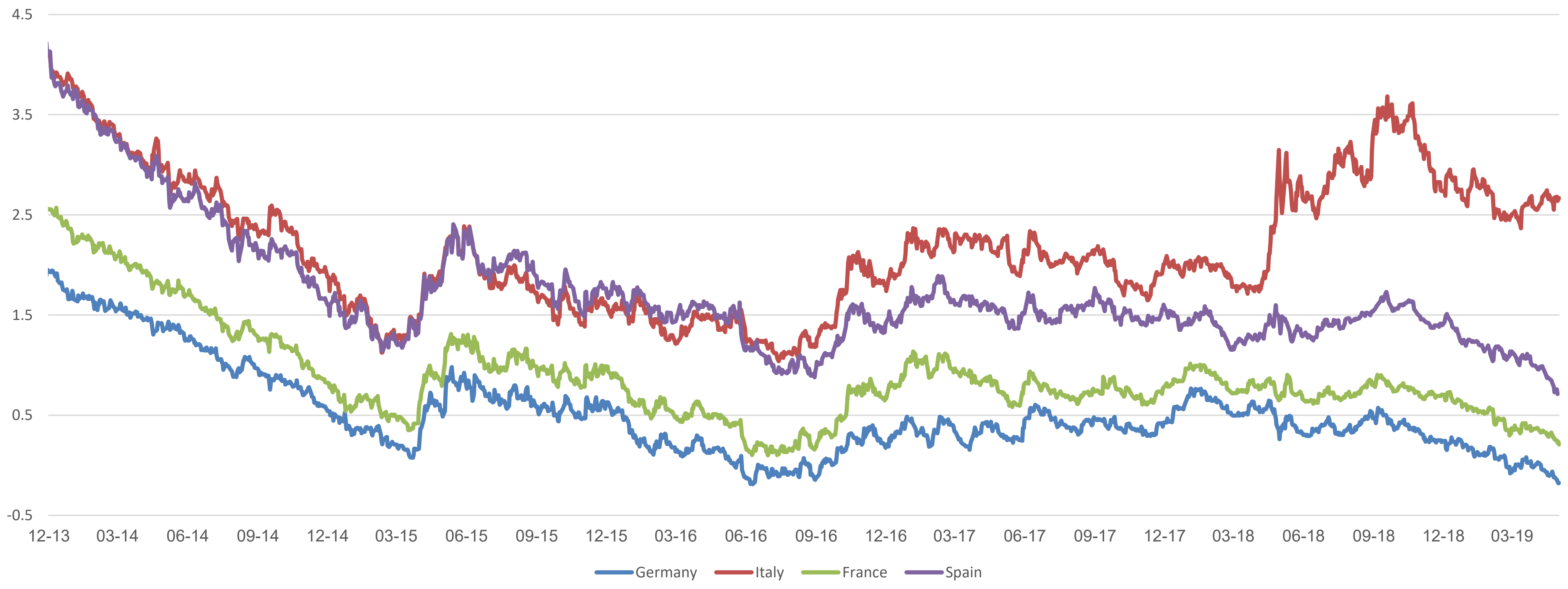
10YR Government Bond Yield



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Exchange Rate

EUR Index (Left) EURUSD (Right)

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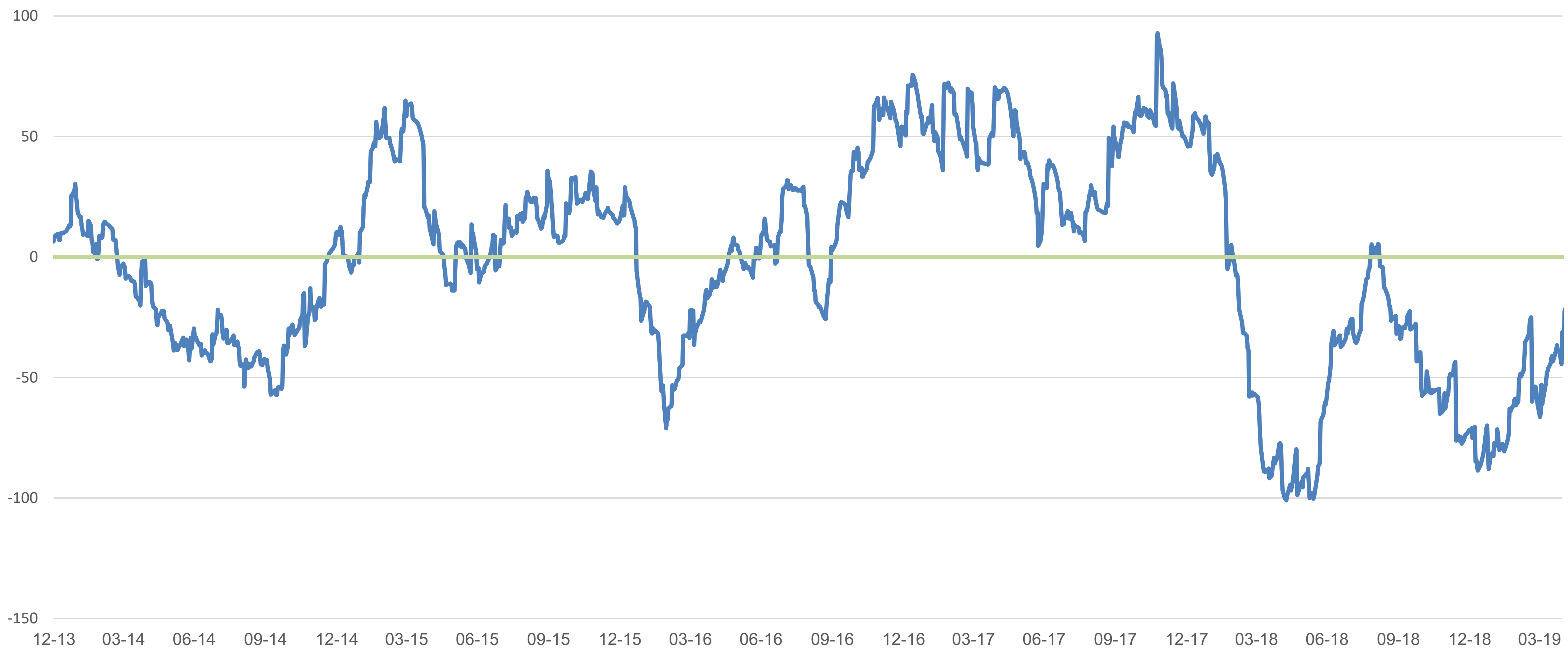
Citi Economic Surprise



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Israel

- Q1 GDP rose 5.2% (annualized), above market expectation, and Q4 2018 was upwardly revised to 3.9%. However, the main contributor (2.5%-3%) to the fast growth was a sharp increase in car sales, spurred by a tax change
- The trend of moderation of household consumption expenditure (Ex durable goods), that began in 2017, continues
- Looking ahead, the darkening global outlook and the political turmoil will make it difficult for the local economy to utilize its potential
- The IMF warned that “leaving debt on a rising path will constrain Israel’s ability to use fiscal policy to cushion shocks to the economy”. Due to the latest political events it is reasonable to assume that there is no ability to take the right steps in order to reduce back the budget deficit, which now equals to 3.8% from GDP
- Unemployment dropped to 3.8% due to the labor force participation rate decline. Increasing signs of weakness in the labor market as the number and percentage of open jobs decreased, jobless claims are on the rise and the number of jobs that the economy is producing is decelerating
- Inflation stabilized in the last few months above but close to the lower range of the inflation target (1%-3%). Inflation expectation dropped due to the strong Shekel, drop in oil prices and parallel to a similar decline abroad. These dynamics will increase market expectation for a slower path of monetary normalization

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Core Economic Indicator

Israel

Economic Indicator	Latest Figure	Reference Period
Growth Rate (Annualized)	5.2%	Q1-2019
Unemployment Rate	3.8%	April-2019
Inflation Rate (YoY)	1.3%	April-2019
Central Bank Interest Rate	0.25%	June-2019
10 Year Government Bond Yield	1.71%	May-2019
Ratio of Surplus in Current Account to GDP	2.98%	Q4-2018
Ratio of Public Debt to GDP	61%	Q4-2017

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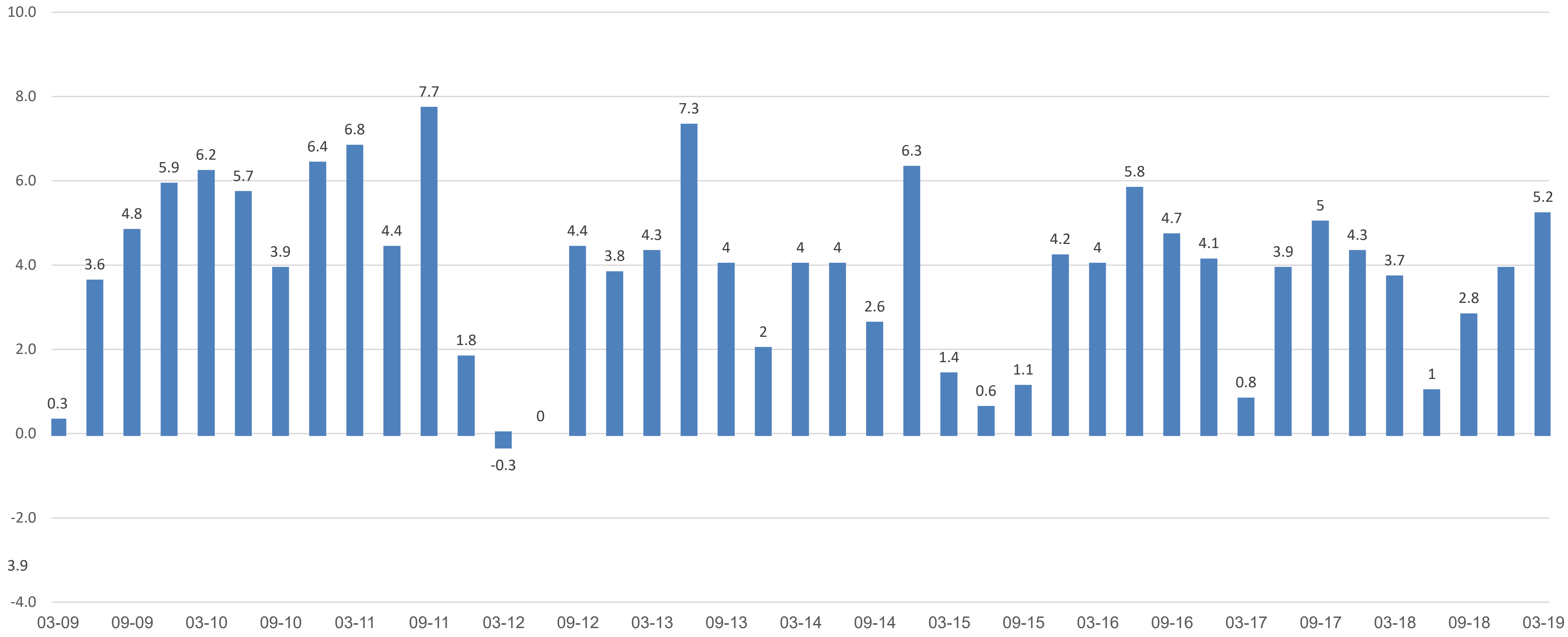
Economic Growth

GDP (Annualized)



Labor Market

Unemployment Rate

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Inflation

CPI (YoY)

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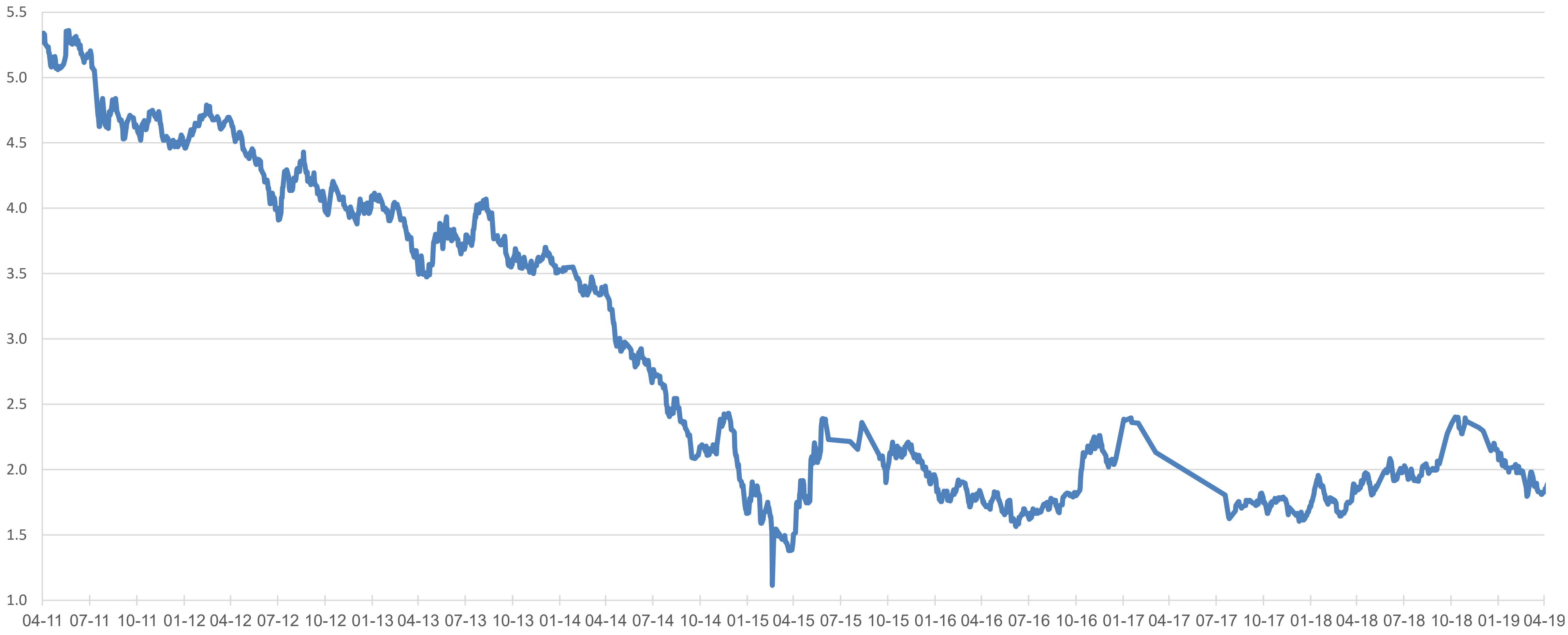
10YR Government Bond Yield



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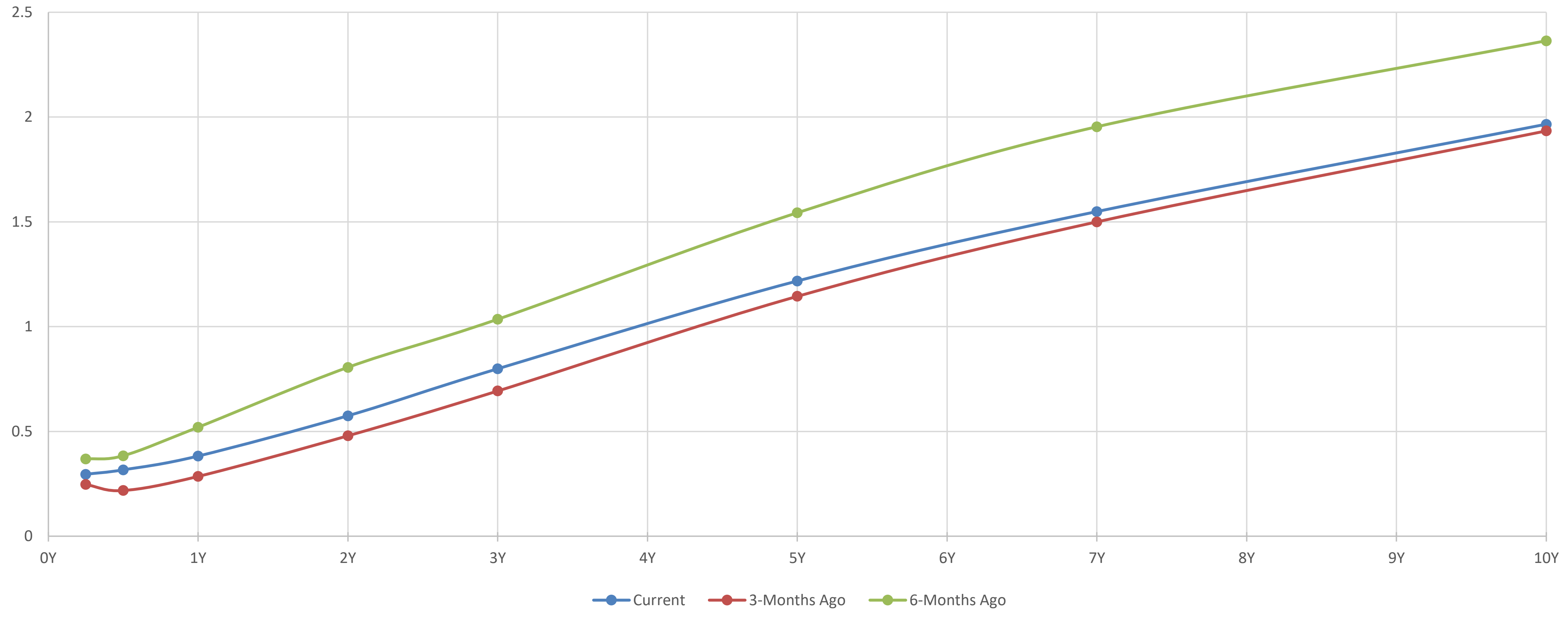
Government Bond Yield Curve



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Hedging Costs

USDILS 1YR Forward Premium

Exchange Rate

USDILS (Left) BoI Nominal Effective Rate (Right)

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CONNECTING THE RIGHT DOTS

CREATING THE RIGHT PICTURE

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