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FINANCIAL SERVICES

# Market Monthly

# September 2019

## Highlights

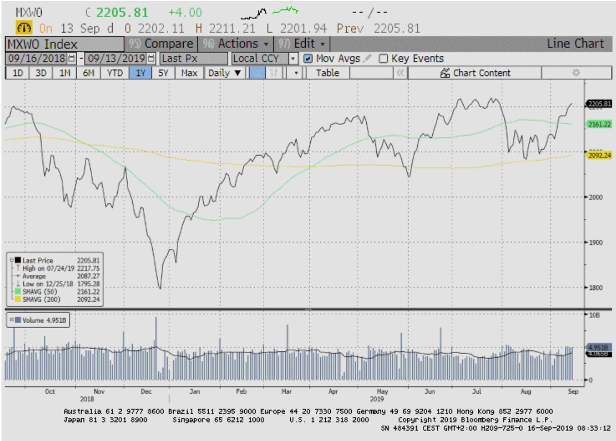
- **Economics:** In the US, the final estimate of 2Q19 GDP came in right at expectations (2.0% vs 2.0%) while US unemployment figures remain strong with unemployment at 3.7%, a bit higher than the 3.6% expected. The Eurozone released their first 2Q19 GDP figures as expected at 1.1%. The May unemployment rate in the Eurozone came in as expected at 7.5%.
- **Inflation:** US core YoY personal consumption expenditure reported for July came in as expected at 1.4%. Expectations for US inflation for 2019 are at 1.5%. The final Eurozone YoY CPI reading for July came in below expectations at 1.0% vs 1.1% while the 2019 forecast is at 1.2%. The CPI's forecasts for 2019 are: Russia 4.8%; for China 2.3%, Brazil 3.8%; world at 2.9%.
- **Central bank interest rates:** The Fed funds rates took a breather at the beginning of 2019 with the Fed indicating that they can wait until they raise rates again, and as indicated they reduced their upper bound rate from 2.5 to 2.25, leaving the possibility of further cuts open. Current expectations for 2019 are further rate cuts. The ECB's tapered asset purchase program has ended at the end of 2018 leaving the markets to anticipate their first rate hike. EM: China RRR[i] at 13.50%, 12M lending rate at 4.35% and 12M deposit rate at 1.5%. India's repo rate was cut by 35bp to 5.40%; Russia at 7.50% and Brazil SELIC cut by 50bps at 6.50%.
- **Capital market rates:** 10yr US treasury yields has been range bound, but lately have moved lower down to 1.5% as market uncertainties increased. The 10yr Bund has moved even lower into negative range -0.4% to -0.7% in August. Although EUR bond prices remain supported over the longer term, yields in EUR will remain unattractive for some time.

## Tactical Asset Allocation

- **Forex:** EURUSD remained sideways, but this time in a lower range 1.10 – 1.12. The median EURUSD forecast has also come down, predicting USD at 1.10 for the end of 2019[ii] and then up to 1.16 for the end of 2020.
- **Bonds incl. High Yields (U[iii]):** Since near-zero/negative policy rates and negative real rates are seen persisting in Europe for several years, we continue investing in up to 2028 maturities of European DM bonds to improve yield and look for USD bonds with shorter maturities ahead of future rate hikes.
- **Equities (N):** Equities have corrected a bit in August due to, once again this year, uncertainties revolving around trade tensions between the US and China. Compared to the beginning of the year, the markets remain up and an improvement in geopolitical trade tensions would be needed to boost markets going toward the end of the year.
- **Commodities (N):** Crude Oil (WTI) has moved quite a bit in August, with lows around 51$/bbl and highs touching 58$/bbl, with no clear direction as tensions in the Middle East remain and various outages have added to the increase in price.

## Investment Ideas[iv]

- We remain positioned for a market rebound within our Actively Managed Certificates.




Performance Equity Markets MSCI World YTD[v]


EURUSD Technical Chart, Bloomberg

[i] Required Deposit Reserve Ratio, or the minimum capital Chinese banks must hold with the PBoC. Currently at 14.5%, cut in from 20% at the beginning of 2015
[ii] Source: Bloomberg 10.09.2019 (98 bank contributors)
[iii] How to read: (U) underweight; (N) neutral; (O) overweight
[iv] See rationales on our web page www.aspermontcapital.ch
[v] Return from beginning of the year till current date