

Monthly Market Summary

October 2019



Summary: Earnings and 'Phase One' trade deal help markets

October was a positive month for global equities, ending up 2.0% (in local currency). Government bond prices (\$, unhdg) weakened as yields moved higher. Key events included:

- The US Fed cutting rates for a third time in the year, signalling a pause;
- Global growth slowing, reflected in US, Euro Area and China Q3 GDP;
- Better-than-expected corporate earnings for Q3 2019.

S&P 500 reached all-time highs as Q3 earnings exceeded expectations to date, and signs of progress on US-China trade supported equities. Agreeing on a 'Phase One' trade deal, the US delayed a planned tariff increase in exchange for Chinese purchases of US agricultural goods. Global growth continued to slow, led by China where it touched a 27-year low. In the UK, sterling strengthened in a volatile month with prospects of a no-deal Brexit fading as the EU agreed a third extension. Meanwhile, gold and oil strengthened 2.8% and 1.7% in the month.

US: Growth eases, Fed cuts while indicating pause

Economic growth slowed slightly in Q3, with US GDP growing at a 1.9% annualised rate. Consumer spending, which accounts for over two-thirds of economic activity, remained resilient over the period despite a fall in September retail sales. In line with expectations, the US Fed cut interest rates by 25bps for a third time this year – to a 1.50%-1.75% range – as it stated that monetary policy to now be *"in a good place"*. With the Fed removing its pledge to act as appropriate to sustain the economic expansion, the latest move was perceived by markets as a rate cut pause. Meanwhile, a reversal in the decline of manufacturing activity saw the PMI survey touch a six-month high at 51.5, as the preliminary reading showed output, new orders and employment all rise.

Europe: German weakness, ECB maintain policy, UK election

Weakness in German manufacturing activity persisted into Q4, with the PMI (41.9) only marginally higher compared to a prior reading. GDP in the Euro Area expanded at 1.1% annualised in Q3, whilst core inflation at 1.1% remains well below the ECB target, despite a small increase in October. Ending an eight-year term as ECB President, Mario Draghi said in his last press conference that the *"risks surrounding the euro area growth outlook remain on the downside"*. Having announced accommodative monetary policy in September, the ECB made no new policy moves in October with Christine Lagarde set to take office on 1 November. In the UK, modest Q3 GDP growth, 0.3% contrasted with a crescendo in the political impasse – the UK will now hold its first December election since 1923 as the EU granted its third and flexible Brexit extension up until 31 January 2020.

Asia: China GDP slowdown, BoJ signalling future rate cuts

Impacted by the protracted trade war with the US, China's Q3 economic growth slowed to its weakest pace in 27 years – rising only 6.0% year-on-year – and lower than the 6.2% growth seen in Q2. A phase one trade deal with the US helped investor sentiment but a 5.3% fall in China's industrial profits and a sixth consecutive month of contraction in factory activity highlights the issues faced by Beijing in its attempt to support a soft landing of the economy. Meanwhile, Hong Kong slid into a technical recession for the first time in a decade, as domestic demand declined. Elsewhere, the Bank of Japan maintained its negative interest rate of -0.10% while offering forward guidance that it may cut rates further.

Market summary (total return in local currency)

Fixed Income	Yield	1M %	1 Yr %
US 10 Yr	1.69%	0.2%	14.6%
UK 10 Yr	0.63%	-0.9%	7.9%
Swiss 10 Yr	-0.56%	-1.5%	4.1%
German 10 Yr	-0.41%	-1.4%	6.2%
Global IG (hdg \$)	2.19%	0.4%	13.1%
Global HY (hdg \$)	6.16%	0.4%	8.5%

Equity Index	Level	1M %	1 Yr %
S&P 500	3'038	2.2%	14.3%
MSCI UK	11'898	-2.1%	5.7%
SMI	10'220	1.4%	17.1%
Eurostoxx 50	3'604	1.1%	17.0%
Nikkei	22'927	5.4%	6.8%
Hang Seng	26'907	3.3%	11.6%
MSCI World (lcl)	255	2.0%	12.4%
MSCI World (\$)	266	2.7%	12.6%

Currencies (trade-weighted, nominal)

US Dollar	-1.6%	-0.6%
Euro	0.5%	-1.7%
Yen	-1.5%	4.6%
Pound Sterling	3.2%	2.0%
Swiss Franc	-0.7%	2.5%
Chinese Yuan	0.3%	-1.4%

Other	Level		
VIX	13.2	-18.6%	-37.7%
Brent (\$/b)	60.2	1.7%	-10.6%
Gold (\$/oz)	1'513	2.8%	24.6%

Sources: Bloomberg, Rothschild & Co

Manufacturing PMI "heatmap"

	2019									
	J	F	M	A	M	J	J	A	S	O
US	55	53	52	53	51	51	50	50	51	52
UK	53	52	55	53	49	48	48	47	48	50
EA	51	49	48	48	48	48	47	47	46	46
FR	51	52	50	50	51	52	50	51	50	51
DE	50	48	44	44	44	45	43	44	42	42
CN	50	49	51	50	49	49	50	50	50	49

Sources: Bloomberg, Rothschild & Co

Manufacturing PMIs are economic indicators derived from monthly surveys of companies (>50= expansionary).



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