

Monthly Market Summary

August 2019



Summary: Trade tensions, falling yields and political volatility

After a volatile month, global equities ended August down 2% (in local currency), while sovereign bonds prices rallied as yields fell globally to new lows. Key events included:

- An escalation in US-Chinese trade tariffs as Trump turned up the pressure;
- An inversion in the US yield curve as 10 Yr. yields fall below 2 Yr. yields;
- Escalating violence in Hong Kong, new government in Italy, Brexit tension.

A volatile month that included two one-day declines of 3% in USD stocks finished on an uptick. Volatility ebbed and flowed on fears of the impact of a worsening global trade dispute and slowing economic data in Europe and Asia. The 10yr-2yr segment of the US yield curve inverted for the first time since 2007, while the highest-quality corporate bonds saw their best monthly price gains in almost 40 years. Gold meanwhile traded at a 6-year high (+7.5% in August), and USD strengthened. Despite the Jackson Hole symposium yielding few signals, markets continue to factor in three further interest rates cuts by the Fed this year.

US: Tariffs increase, economic data cools, US yield curve

August saw an escalation in the US-China trade war with the US President announcing 10% trade tariffs on \$300bn of Chinese imports starting from September. Implementation of roughly half of these tariffs, on consumer goods such as laptops and mobile phones, has now been delayed until December. The move nevertheless triggered retaliation from China, which applied tariffs of 5-10% on \$75bn of US exports, and subsequent tit-for-tat from the US, which increased tariffs on all outstanding \$550bn worth of Chinese imports. Meanwhile, the US economy showed signs of slowing as business investment made a weaker-than-anticipated start in Q3 and July PMIs showed the weakest pace of expansion in both manufacturing and non-manufacturing sectors for three years.

Europe: ECB to resume QE, Germany falters, no-deal Brexit

Germany's central bank warned the country may tip into recession in Q3 2019 as global trade tensions weighed on Germany's manufacturing sector. A sharp drop in July retail sales, -2.2% reinforced this forecast. The ECB meanwhile remains "ready and prepared" to resume asset purchases and decrease interest rates in September, indications which fuelled a rally in Eurozone government bonds and pushed yields to historic lows. Chances of a no-deal Brexit for the UK increased as the incoming PM, Boris Johnson suspended Parliament for five weeks from 10th September, pushing GBP lower. Meanwhile, Italy's government collapsed and reformed as a coalition of Five Star and Centre-Left parties.

Asia: Renminbi falls, trade tariffs bite, Hong Kong protests

Trade tensions saw China's renminbi suffer its biggest monthly fall in almost 25 years vs. USD, as President Trump labelled it a currency manipulator. Hong Kong saw its worst month of violence since anti-Chinese protests began in June with China mobilising its military on the border but falling short of entering the territory. The Caixin survey showed China's economy enjoyed a small rebound in manufacturing in August, after weaker-than-forecast PMIs in July. At month-end Beijing signalled it will re-open trade talks with US, lifting market sentiment.

Market summary (total return in local currency)

| Fixed Income | Yield | 1M % | 1 Yr % |
|--------------------|--------|-------|--------|
| US 10 Yr | 1.50% | 4.0% | 13.7% |
| UK 10 Yr | 0.48% | 1.6% | 9.2% |
| Swiss 10 Yr | -1.02% | 1.6% | 7.0% |
| German 10 Yr | -0.70% | 1.9% | 8.5% |
| Global IG (hdg \$) | 2.13% | 2.3% | 11.9% |
| Global HY (hdg \$) | 6.16% | -1.4% | 7.4% |
| Equity Index | Level | 1M % | 1 Yr % |
| S&P 500 | 2'926 | -1.6% | 2.9% |
| MSCI UK | 11'804 | -4.2% | 1.2% |
| SMI | 9'896 | -0.2% | 13.9% |
| Eurostoxx 50 | 3'427 | -1.1% | 4.8% |
| Nikkei | 20'704 | -3.7% | -7.5% |
| Hang Seng | 25'725 | -7.1% | -4.5% |
| MSCI World (Icl) | 244 | -2.0% | 0.8% |
| MSCI World (\$) | 254 | -2.4% | -0.3% |

Currencies (trade-weighted, nominal)

| | | |
|----------------|-------|-------|
| US Dollar | 2.5% | 3.2% |
| Euro | 0.8% | -2.3% |
| Yen | 4.5% | 7.6% |
| Pound Sterling | 1.2% | -2.7% |
| Swiss Franc | 1.6% | 1.7% |
| Chinese Yuan | -2.7% | -2.7% |

| Other | Level | | |
|--------------|-------|-------|--------|
| VIX | 19.0 | 17.7% | 47.6% |
| Brent (\$/b) | 60.4 | -7.1% | -16.3% |
| Gold (\$/oz) | 1'520 | 7.5% | 26.6% |

Sources: Bloomberg, Rothschild & Co

Manufacturing PMI "heatmap"

| | 2019 | | | | | | | |
|-----------|------|----|----|----|----|----|----|----|
| | J | F | M | A | M | J | J | A |
| US | 55 | 53 | 52 | 53 | 51 | 51 | 50 | 50 |
| UK | 53 | 52 | 55 | 53 | 49 | 48 | 48 | 47 |
| Euro area | 51 | 49 | 48 | 48 | 48 | 48 | 47 | 47 |
| FR | 51 | 52 | 50 | 50 | 51 | 52 | 50 | 51 |
| DE | 50 | 48 | 44 | 44 | 44 | 45 | 43 | 44 |
| China | 50 | 49 | 51 | 50 | 49 | 49 | 50 | 50 |

Sources: Bloomberg, Rothschild & Co

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



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