

Monthly Market Summary

September 2019



Summary: Bond rally interrupted as outlook improves

Volatility eased in September following a tumultuous August, with global equities up 2.2% (in local currency) in the month. Government bonds (\$, unhdg) suffered their first negative month in nearly a year as yields moved higher. Key events included:

- Renewed monetary stimulus in both the US and Europe;
- Eurozone weakness, German recession fears;
- US/China Trade tension continues ahead of the October talks.

The first half of September saw a steepening of the 10yr-2yr US yield curve, whilst stocks and high yield credit rebounded. Oil prices experienced their biggest daily move in recent memory (Brent +14%) following a drone attack on Saudi oil supply but finished the month almost flat. Safe haven currencies (JPY, CHF and USD) fell back, while sterling strengthened despite ongoing political uncertainty. Gold meanwhile declined 3.2% in the month.

US: Political headwinds, Consumers still resilient, Fed cuts

US equities fell at month-end following an announcement that the US may limit Chinese listings on its stock exchange, fuelling concerns of a re-escalation in trade tensions ahead of the October talks. President Trump also faced further political upheaval as the House launched an impeachment inquiry. Meanwhile, a weak US manufacturing sector – highlighted by a string of weak ISM readings – contrasts with a buoyant US consumer, with US retail sales continuing to grow at close to their fastest quarterly pace this cycle. As expected, the US Fed cut rates by a further 25bps, to a 1.75–2.00% range. Separately, a technical liquidity shortage squeezed money market rates above 7%, forcing the Fed to intervene and inject short term liquidity.

Europe: German recession ahead, ECB eases, Brexit woes

A technical recession in Q3 seems ever more likely for Germany, with PMI data falling to 41.4 – the lowest reading in nearly 7 years. Combined readings for services and manufacturing, as well as the closely watched IFO expectations index, suggest Germany is firmly in contractionary territory. The ECB voted to restart its quantitative easing programme at €20bn per month whilst also introducing a tiering for negative deposit rates to reduce costs for banks. Meanwhile, Eurozone bond yields rose at the end of month as Draghi – who is to retire as ECB President later this month – stressed the need for fiscal policy to support long-term growth in the Eurozone. With less than a month left, Brexit troubles loom large as PM Johnson's attempt to suspend parliament was stymied by the Supreme Court. With no working majority, the PM faces an even greater struggle to agree any substantive changes to the withdrawal agreement.

Asia: China slowdown, Tariffs bite, Additional BoJ stimulus

China's manufacturing PMI remained in contraction for the fifth consecutive month and industrial output slowed to its weakest pace of growth (4.4%) in nearly three decades, as the impact of higher tariffs is more keenly felt. However, Beijing's announcement of further cuts to banks' reserve requirements highlights policymakers' desire to balance the need for modest monetary support while avoiding aggressive credit expansion. The Bank of Japan has signalled the potential for cuts to its short-term rates following a policy board meeting in September in their attempt to steepen the yield curve.

Market summary (total return in local currency)

Fixed Income	Yield	1M %	1 Yr %
US 10 Yr	1.66%	-1.1%	14.0%
UK 10 Yr	0.49%	0.0%	10.3%
Swiss 10 Yr	-0.76%	-2.1%	6.0%
German 10 Yr	-0.57%	-1.1%	8.6%
Global IG (hdg \$)	2.24%	-0.5%	11.7%
Global HY (hdg \$)	6.12%	0.6%	6.6%

Equity Index	Level		
S&P 500	2,977	1.9%	4.2%
MSCI UK	12,152	2.9%	2.8%
SMI	10,078	2.0%	14.6%
Eurostoxx 50	3,569	4.3%	8.9%
Nikkei	21,756	5.7%	-7.9%
Hang Seng	26,092	1.9%	-2.7%
MSCI World (lcl)	250	2.2%	2.5%
MSCI World (\$)	2,977	1.9%	4.2%

Currencies (trade-weighted, nominal)

US Dollar	-0.1%	3.6%
Euro	-1.2%	-4.3%
Yen	-2.0%	6.3%
Pound Sterling	1.7%	-1.4%
Swiss Franc	-0.8%	0.5%
Chinese Yuan	0.3%	-1.5%

Other	Level		
VIX	16.2	-14.4%	34.0%
Brent (\$/b)	60.8	0.6%	-26.5%
Gold (\$/oz)	1,471	-3.3%	23.3%

Sources: Bloomberg, Rothschild & Co

Manufacturing PMI "heatmap"

	2019								
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
US	55	53	52	53	51	51	50	50	51
UK	53	52	55	53	49	48	48	47	48
EZ	51	49	48	48	48	48	47	47	46
France	51	52	50	50	51	52	50	51	50
Germany	50	48	44	44	44	45	43	44	42
China	50	49	51	50	49	49	50	50	50

Sources: Bloomberg, Rothschild & Co
Manufacturing PMIs are economic indicators derived from monthly surveys of companies (>50= expansionary).



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