

Monthly Market Summary



July 2019

Summary: Moderating growth and the Fed's "mid cycle" easing

In July, both global equity markets and sovereign bonds performed strongly, returning 0.9% and 0.6%, respectively (in local currency). Key events included:

- Fed cuts rates by 25bps to 2-2.25% and ECB signals easing ahead
- Global growth continues to slow, but second quarter earnings respectable
- Mounting risks of a "hard" Brexit as Boris Johnson becomes new UK PM

The prospect of easier monetary policy, persistently low inflation and considerable momentum has now seen a quarter of global investment grade bond yields turn negative. The 10y bund yield fell to a new low of -0.4%, while the entire the Swiss and Danish bond market is now in negative territory, and even some 'junk' bonds are now offering a negative nominal return if held to maturity. Meanwhile, corporate earnings have surprised positively (S&P 500 EPS +3% y/y), dispelling fears of an outright contraction in the second quarter.

US: Brinkmanship avoided, Trade talks resume, Fed eases

The US political backdrop improved. High-level trade discussions resumed, and domestic fiscal uncertainties faded with the suspension of the debt ceiling until 2021 and a bipartisan agreement about next year's federal budget: the risk of another US shutdown has subsided. However, absent any spending cuts, the budget deficit (4.4% of GDP) is poised to exceed \$1tn in 2020. The US economy expanded at a respectable +2.1% (SAAR) in the second quarter, underpinned by healthy consumer spending - US retail purchases expanded at the fastest quarterly pace since 2005. The Fed nonetheless persevered with a 25bp "insurance" rate cut. Fed Chair, Jay Powell, noted "this is not the beginning of a long-series of rate cuts" but also suggested that some more cuts are likely to come.

Europe: Growth slows, New EU line-up, Disorderly Brexit ahead?

Region-wide growth slowed in the second quarter, to +0.8% (SAAR), driven by a weak manufacturing sector and a fragile external backdrop. German survey data and factory orders appear persistently weak and suggest the manufacturing slump at the heart of the Eurozone economy will continue. Meanwhile, the reshuffle at the top of the bureaucratic hierarchy – Ursula von der Leyen as the new EU Commission president and Christine Lagarde as the new ECB President - represents something of a victory for President Macron and will support his aim of further EU integration. Meanwhile, with Boris Johnson confirmed as the new UK Prime Minister, the Brexit debate has seemingly narrowed to a choice between a "hard" exit and no exit at all. Compromise feels even more distant than it did, and is reflected most visibly in further currency weakness, with the pound flirting with post-referendum lows.

Asia: China continues to slow, BoJ remains accommodative

China's economy continues to slow (Q2: 6.2% yoy), albeit modestly, and growth is at its slowest pace since the early nineties. However, the economy is now 13x larger (in real terms) at \$13.6tn (a sixth of global output). The latest monthly data point to some stabilisation, buoyed by ongoing stimulus measures. In June, industrial output staged a small bounce despite continued trade tensions, while retail spending – driven by auto sales - showed renewed strength. Meanwhile, the Bank of Japan remains firmly in 'easing mode' with rates held at all-time lows and its quantitative easing programme still in full swing. Extraordinary monetary stimulus has succeeded in staving off deflation in recent years, but the headline inflation rate (0.7% yoy) remains stubbornly below the central bank's 2% target.

Market summary (total return in local currency)

Fixed Income	Yield	1M %	1 Yr %
US 10 Yr	2.01%	-0.1%	10.6%
UK 10 Yr	0.61%	1.8%	7.8%
Swiss 10 Yr	-0.76%	1.7%	6.2%
German 10 Yr	-0.44%	1.0%	7.4%
Global IG (hdg \$)	2.37%	0.9%	9.9%
Global HY (hdg \$)	5.88%	0.9%	8.0%

Equity Index	Level	1M %	1 Yr %
S&P 500	2,980	1.4%	8.0%
MSCI UK	12,317	2.1%	2.1%
SMI	9,919	0.2%	11.7%
Eurostoxx 50	3,467	-0.1%	2.0%
Nikkei	21,522	1.2%	-2.5%
Hang Seng	27,778	-2.3%	0.6%
MSCI World (lcl)	249	0.9%	4.0%
MSCI World (\$)	2,980	1.4%	8.0%

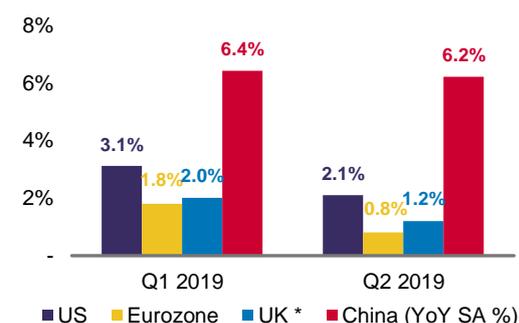
Currencies (trade-weighted, nominal)

US Dollar	0.6%	1.3%
Euro	-1.1%	-3.1%
Yen	-0.1%	3.2%
Pound Sterling	-2.6%	-3.8%
Swiss Franc	-0.0%	2.7%
Chinese Yuan	0.3%	1.0%

Other	Level	1M %	1 Yr %
VIX	16.1	6.9%	25.6%
Brent (\$/b)	65.2	-2.1%	-12.2%
Gold (\$/oz)	1,425	1.1%	16.2%

Sources: Bloomberg, Rothschild & Co

GDP growth (SA, annualised %)



Sources: Bloomberg, Rothschild & Co
* UK Q2 data reflects the 3-month period to May.
Past performance is not a reliable indicator of future results.



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