Market Monthly

October 2019

Highlights

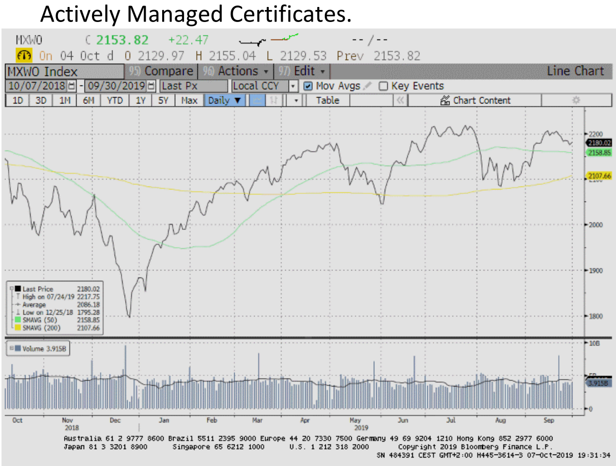
- **Economics:** In the US, the third and final estimate of 2Q19 GDP came in right at expectations (2.0% vs 2.0%) while US unemployment figures remain strong with unemployment at 3.7% as expected. The Eurozone released their final 2Q19 GDP figures slightly higher than expected at 1.2% (1.1% expected). The August unemployment rate in the Eurozone came in better than expected at 7.4% (7.5% expected).
- **Inflation:** US core YoY personal consumption expenditure reported for August came in as expected at 1.8%. Expectations for US inflation for 2019 are at 1.5%. The final Eurozone YoY CPI reading for August came in as expected at 1.0% 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. This has now turned and they reduced their upper bound rate from 2.5 to 2.00 in their last two meetings, 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 has now turned into a system where it offers partial relief its lenders with the possibility of a rate cut open. EM: China RRR[i] at 13.00% (50bps cut), 12M lending rate at 4.35% and 12M deposit rate at 1.5%. India's repo rate was cut by 25bp to 5.15%; Russia cuts at 7.00% (25bp cut) and Brazil SELIC 5.50% (50bps cut).
- **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 and remains in negative range -0.4% to -0.7% in September. Although EUR bond prices remain supported over the longer term, yields in EUR will remain unattractive for some time.

Tactical Asset Allocation

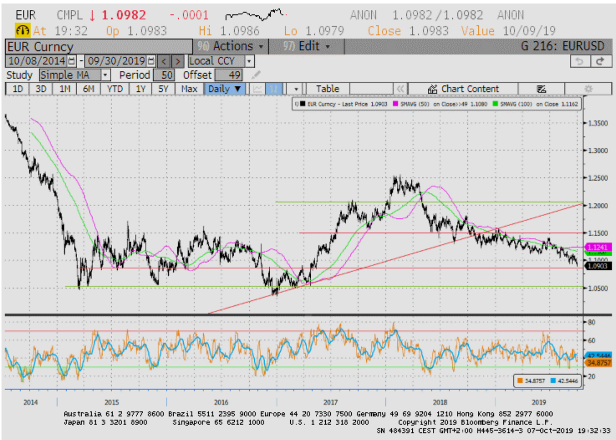
- **Forex:** EURUSD remained sideways, but this time in a lower range 1.10 – 1.12, breaking the 1.10 mark at the end of the month to 1.09. The median EURUSD forecast remains with USD at 1.10 for the end of 2019[ii] and then slightly lower forecast to 1.15 for the end of 2020.
- **Bonds incl. High Yields (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 changes.
- **Equities (N):** Equities have rebounded in September, with the European markets stronger than the American, but uncertainties revolving around trade tensions between the US and China remain. 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 year end.
- **Commodities (N):** Crude Oil (WTI) has moved quite a bit in September, with lows around 53$/bbl and highs touching 62$/bbl, with no clear direction as tensions Saudi Arabia battles with outages after a drone attack on their facilities.

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 07.10.2019 (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