

# Piguet Galland & you.

## Market Insights

### No. 84 - March 5<sup>th</sup>, 2018



## Essentials

Arms have been at the centre of the political stage in recent days. First, the Chinese government announced that military spending would increase by 8.1% versus 2017, and then Mr Putin spent much of his annual address to the Russian parliament praising his army's (new) weapons capabilities.

Haruhiko Kuroda, who was re-elected as governor of the Bank of Japan, stated that the country's 2% inflation target was "not set in stone". This announcement contradicted previous statements, which had sought to reassure the financial markets. This abrupt about-turn caused the yen to rise and the stock market to slide.

Global concerns about US trade policy returned, as Mr Trump's announced steel and aluminium tariffs sparked a sell-off in commodity currencies.

	USD / CHF	EUR / CHF	GBP / CHF	SMI	EURO STOXX 50	S&P 500	TOPIX	MSCI EMERGING	GOLD	BRENT	ALTERNATIVE FUNDS
Latest	0.937	1.155	1.294	8'629	3'325	2'691	1'708	1'182	1'323	64.37	1'271
*Trend	→	↗	↓	↓	↓	↓	↓	↓	↘	↓	↓
% YTD	-3.8%	-1.3%	-1.7%	-8.0%	-5.1%	0.7%	-6.0%	2.0%	1.5%	-3.7%	-0.3%

↓ : < -1%

↘ : -1 to -0.25%

→ : -0.25 to +0.25%

↗ : +0.25 to 1%

↑ : > 1%

\*Weekly trend

## Trump steals the limelight from Powell



Daniel Varela  
Chief Investment Officer

Investors and economists hadn't even finished going over the speech made by the new chair of the Federal Reserve when the media's attention shifted abruptly. Last Thursday, Donald Trump announced a tariff of 25% on imported steel and 10% on imported aluminium. Stock markets slumped around the world as investors' fears of an escalation in protectionist measures grew. A large-scale trade war would be damaging to the global economy. While such conflicts have been rare throughout history, trade tensions focused on specific products are quite frequent, especially when it comes to the USA. It's almost certainly too early to worry that the tariffs will have any serious adverse effects. As long

as they target a few products, the impact will be limited. How the USA's trade partners react will also play a role, and there will no doubt be counter-measures. But at the end of the day, Trump's announcement comes as no real surprise. He promised such measures during his presidential campaign and, above all, is looking to score points with his electorate in the run-up to the mid-term elections, particularly in the country's heartland, which voted heavily in his favour. What is more surprising is that China, the most frequent target of such attacks by the US administration, will not be impacted by these tariffs, which will mainly affect the USA's strategic trading partners. The renegotiation of the North American Free Trade Agreement with Canada and Mex-

ico promises to be tense, since these two countries account for a quarter of US steel imports. In addition to the economic impact, we'll be keeping an eye on the knock-on effects that these tariffs will have on inflation. As long as they remain limited to steel and aluminium, their impact will be marginal. The US car industry has hinted at a cost increase of USD 40 in the price of a car worth USD 30,000, which alone won't trigger a hike in consumer prices. Last week, we learnt that the Fed's leading inflation indicator remained steady: the personal consumption expenditures deflator rose 1.7% year over year (+1.5% excluding energy and food prices). But this reassuring news went largely unnoticed by the markets.

# Italy: head in the stars



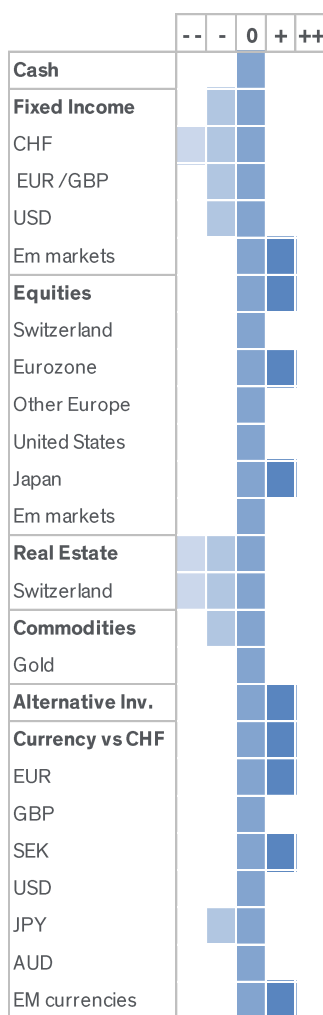
**Christina Carlsten**  
Analyst-Fund Manager

As expected, there was no parliamentary majority following Italy's elections, and anti-establishment parties recorded major gains. Talks will now begin, and it could be a long and uncertain process. At the time of writing, the reaction to the Italy elections was more muted than expected, as this news was offset by the announcement of a new government being formed in Germany. The Italian elections sparked less uncertainty than other political events in the eurozone in recent

months. The Milan stock market has been one of the top performers in Europe, and yields on Italian bonds have remained at record lows. There are several reasons for this more moderate reaction. First, these elections took place in a brighter economic climate: in 2017, Italy's GDP rose 1.5%, its fastest pace since 2010. Second, an electoral law passed last year favours parties that can form a coalition. And finally, populist parties have toned down their talk of Italy leaving

the eurozone, which reduces the systemic risk significantly. The political risks seem under control in the short term: the 2018 budget has been approved and the economy is doing well. Depending on who makes up the new government, however, the structural reforms that Italy needs could be put on the back burner, which would make the country extremely vulnerable during the next recession.

## Synoptic view



## Recent Recommendations

Sunny Optical	Hold	February 27, 2018
ABB	Buy	February 27, 2018
HDFC Bank	Buy	February 21, 2018
TDK	Buy	February 19, 2018
Powershares Nasdaq 100 (EQQQ)	Buy	February 9, 2018
Lonza	Buy	February 2, 2018

## Our “expertise” events

Piguet Galland organises regular events for its clients. Please do not hesitate to register on our website: <https://www.piguetgalland.ch/fr/agenda/>

Do not hesitate to contact your adviser or write to us at the following e-mail address: [advisory@piguetgalland.ch](mailto:advisory@piguetgalland.ch)

Underweight Overweight