Piguet Galland & you.
Market Insights
No. 137 - May 27th, 2019

Essentials

Commodity prices have been very volatile over the past two weeks, with some trends doing an about-turn, no doubt helping to correct an extreme positioning. Oil prices fell as inventories rose, and agricultural products bounced back in the wake of flooding in the USA.

While populist and Eurosceptic parties made gains in the European elections, the good news is that they didn't do as well as expected. But the EU parliament is now very fragmented, which will make future negotiations hard, revealing once again Europe's Achilles heel.

Financial markets did not react to news of Theresa May's resignation, suggesting that investors had already priced in her departure. But the Brexit battle is far from over. Depending on who becomes the next prime minister, the risk of a no-deal Brexit may increase.

	USD / CHF	EUR / CHF	GBP / CHF	EQUITIES SWITZERLAND	EQUITIES EUROPE	EQUITIES USA	EQUITIES JAPAN	EQUITIES EMERGING	GOLD	OIL	ALTERNATIVE FUNDS
*Trend	↘	↘	↘	→	↓	↓	↘	↘	↗	↓	→
% YTD	2.0%	-0.3%	1.7%	14.7%	11.6%	12.7%	3.2%	2.2%	0.2%	27.7%	2.6%

↓ : < -1%　↘ : -1 to -0.25%　→ : -0.25 to + 0.25%　↗ : + 0.25 to 1%　↑ : > 1%

*Weekly trend

Trump, Xi and the bond markets are making things tricky for the Fed

Daniel Varela
Chief Investment Officer

Trade relations between the world's two economic superpowers are now at a standstill. Since the USA brought the battle to the tech sector by threatening to clip Huawei's wings, China seems to be in less of a hurry to return to the negotiating table. The Chinese government may be tempted to leave the next move up to Donald Trump, whose 2020 re-election could be jeopardised if the trade war damages the US economy. The G20 summit in late June will be a chance for Mr Trump and Mr Xi to hold high-level talks to try and break the stalemate. Nobody wants an all-out trade war, except the extreme right wing of the US administration, which wants to rein in China at all costs. In this climate, all the US Federal Reserve can do is stand and watch. At the last FOMC meeting – when it looked like a trade deal would soon be struck – the Fed painted a positive picture for the US economy. In the meeting's minutes, Fed members noted that the slowdown observed in 2018 had come to an end. But that was before the trade talks went off the rails. The Fed may have to rethink its position at its next meeting, on 19 June. The impact of higher customs tariffs will soon be felt despite Mr Trump's optimism. A summer rate cut may be necessary to prevent GDP growth from slowing in the second half of the year. Such a move by the Fed would not come as a surprise. Firstly, inflation is still below target, and the meeting minutes suggest that the Fed chair has now accepted that inflation may remain below the 2% objective over the long run. Secondly, the president of the Saint-Louis Fed, Mr Bullard, and other US central bankers have begun to publicly admit that economic fundamentals were perhaps not quite strong enough to fully warrant a rate hike last December. Finally, the bond market is beginning to expect a rate cut. Both fed funds futures and ten-year yields (currently 2.32%) suggest that an easing is in the making, especially if trade tensions escalate.

USA: “Deal is not coming”...

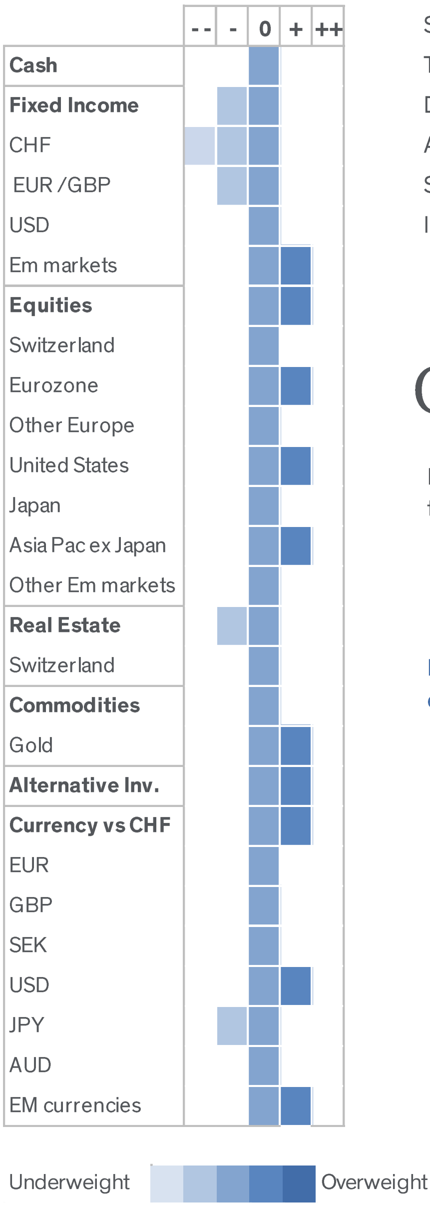
Daniel Steck
Analyst Fund Manager

Just under a month ago, the USA and China looked set to reach a trade deal – a prospect that pushed US equities to new record highs. But not only has an agreement still not been signed, but the situation between the two trading partners has escalated extremely rapidly: both sides have brought in further tariffs and kept up their fighting talk, culminating in US companies being banned from doing business with some China groups, such as the world's second-largest smartphone maker, Huawei.

Surprisingly enough, the S&P 500 index is just 4% off its recent high. Investors have made an about-turn into the most defensive sectors, but don't seem to be anywhere near as panic-stricken as they were at the end of last year.

Yet the USA has much to lose if the trade war drags on. Its tech and agricultural companies – and at the end of the day its consumers – will inevitably feel the pinch from the frosty relations with China. While business and consumer confidence indexes remain robust, they could quickly slide, threatening any potential uptick in economic growth in the second half of the year. We don't think any headway will be made before the G20 summit. That is, if the Chinese are still ready to negotiate with the increasingly unpredictable President Trump – they may decide instead to bide their time until the US presidential election in 2020.

Synoptic view



Recent Recommendations

Sunny Optical Tech	Hold	May 21, 2019
ThyssenKrupp	Hold	May 14, 2019
Daimler AG	Hold	May 7, 2019
Anta Sports Products Ltd	Sell	May 7, 2019
Schneider Electric SE	Hold	May 7, 2019
Ingersoll-Rand	Hold	May 7, 2019

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