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Market Insights
No. 145 - August 26th, 2019

Essentials

Preliminary economic data out last week point to a further decline in US manufacturing output in August. More unexpectedly, demand for services, which had been holding up well, is also waning. These latest figures suggest that there won't be a rapid uptick in US growth anytime soon.

As the trade war took another turn for the worse, gold prices continued on their uptrend, nearing USD 1,550/ounce. Gold is being buoyed by its safe-haven status and fears of a softer dollar.

Investors reacted well to the collapse of Italy's League and Five Star coalition government, since there's a chance that a new government might stick to the country's budget commitments. However, it's still not clear how things will pan out – we can't rule out the possibility of further elections and renewed uncertainty as we head into the autumn.

	USD / CHF	EUR / CHF	GBP / CHF	EQUITIES SWITZERLAND	EQUITIES EUROPE	EQUITIES USA	EQUITIES JAPAN	EQUITIES EMERGING	GOLD	OIL	ALTERNATIVE FUNDS
*Trend	↘	→	↗	→	→	↓	↑	↗	↗	↑	↗
% YTD	-0.8%	-3.5%	-4.5%	15.6%	11.1%	13.6%	0.5%	0.8%	19.1%	10.3%	5.3%

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

*Weekly trend

Playground tactics

Daniel Varela
Chief Investment Officer

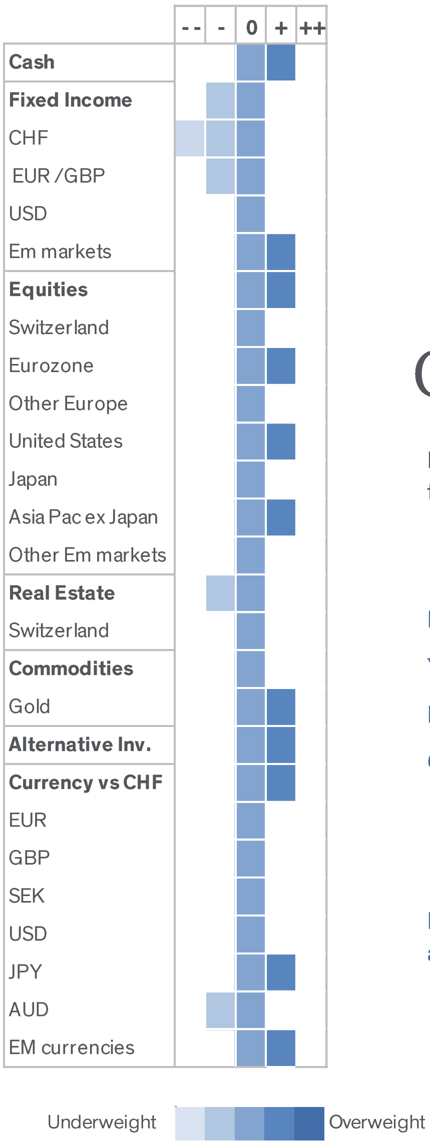
The world's major powers have seldom been so divided. And this at a time when political, economic and environmental challenges are piling up. As the leaders of the seven most advanced economies (at least by 1975 standards) met in Biarritz this past weekend for the G7 summit, we saw just how many issues they disagree on and just how tempting it is for each of them to act out of self-interest. The US administration, embroiled in its trade war with China, has become adept at taking a hard line. It announced further tariff hikes in response to China's retaliatory measures, fuelling an unavoidably destructive cycle. The only real progress made at the summit was on the diplomatic front, with an easing of tensions surrounding Iran. This might at least prevent a sharp rise in oil prices, especially since the global economy is at its most fragile since 2008. The atmosphere was more sedate in Jackson Hole as central bankers – a more mild-mannered bunch – met for their annual symposium. Central bank independence was almost certainly on the agenda. It has increasingly been put at risk, especially in the USA, where the Fed chair continues to be the target of vindictive tweets by the president. Central bankers will also have discussed the threats to an already sluggish global economy brought about by the trade tensions. Officials are determined to keep these risks in check by loosening monetary policies, given that inflation is near rock bottom around the globe. The Fed has started to lower its rates and is expected to make further cuts. Other central banks will probably follow suit. We are waiting to see what happens at the European Central Bank's next meeting, in September – it is likely to display its improvisational skills again as it looks to bring in more unconventional policy measures. In addition to pushing key rates further into negative territory, we expect the ECB to announce a new asset purchase programme. It should soon start buying government and corporate bonds, and maybe even bank debt. While we can be sure that central banks will step up their support, it might not always be enough to make up for the irresponsible behaviour of certain political figures. For the time being, we will remain cautious on risk assets until common sense prevails once again – as a reminder, we reduced our equity allocation in early August.

Looking beyond the tariffs

Ed Yau
Analyst Fund Manager

Given the rate at which the president can tweet, it's not easy to keep track of what tariffs will be applied and on how much in imports. In the space of just three weeks, the world has watched as new tariffs, tariff increases and tariff delays have all been announced. The recent back and forth has been a bit like a game of chess between a careful, rational player and an impulsive opponent who's nonetheless one step ahead in the game. Player one is prepared to accept the repercussions of the trade war, while player two is still denying that he is the cause of the economic slowdown, blaming the Fed chair instead – and who needs China anyway? It's downright naive to think that the world's largest economy can do without the second largest one, and vice versa. With such an unpredictable opponent, China is hardly likely to want to compromise. After all, a deal could be scrapped at any moment by the current president or the one elected in 2020. The uncertainty created by the trade spat is more to blame for the recent slowdown than monetary policy is. How can companies plan their capital expenditure when production costs and supply chains could be disrupted at any moment? It's impossible to tell what the next move will be in this particular game of chess. In early August, the chances of a deal being reached were thin – but so were the chances of a further escalation. Given how quickly things can change, it would be a good idea to prepare for the possibility of a tariff-ridden world and stay away from companies that are overly exposed to the trade war.

Synoptic view



Recent Recommendations

Wanda Sports Group	Buy	August 22, 2019
Sunny Optical	Sell	August 20, 2019
Dufry AG	Hold	August 19, 2019
Europcar Mobility Group	Hold	August 14, 2019
SPDR S&P Regional Banking	Sell	August 7, 2019
General Dynamics Corp	Sell	August 6, 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/

Economic Outlook :

Neuchâtel : Tuesday 24th September 2019 from 07:45 am

Yverdon : Wednesday 25th September 2019 from 11:45 am

Lausanne : Tuesday 1st October 2019 from 11:45 am

Geneva : Wednesday 2nd October 2019 from 08:00 am

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