Equity markets

The equity markets got off to a good start in July, with a small relief rally taking place after the G20 summit held at the end of June. This followed on from the fact that the feared scenario of additional US tariffs on Chinese imports did not materialise, at least temporarily. In the course of the month, however, market momentum weakened, with US equities providing a positive highlight. The S&P 500 hit a new record, topping 3,000 for the first time. Economic figures held up better than expected in the US, and a deal to increase the debt ceiling was found without the situation leading to another shutdown in government services. European equities in turn lagged behind and barely closed in positive territory. Industrial activity in the open European and a fortiori German economy suffering from the slowdown in China, the heavier weighting of financials in European indices, rising trade tensions with the US following the French tax on large (US) technology companies and the increasing risk of a no-deal Brexit, were all elements holding back European markets. With around 55% of S&P 500 companies and 40% of companies in Europe having already published their results at the end of the month, the second quarter seemed to be heading towards a mixed earnings season. Both the number of companies that exceeded expectations and the extent to which they did was in line with the historical average. In the US as well as in Europe, industrial companies reported a more challenging climate. In Europe, profit warnings came from a number of companies in cyclical sectors (BASF, Daimler, etc.), while companies exposed to markets sensitive to the trade conflict (e.g. SAP) also published results below expectations. Semiconductor companies (e.g. ASML) were more positively inclined, with the sector likely nearing the bottom of the cycle. Overall, both regions are expected to show limited negative profit growth figures for the second quarter.

Equity Markets	July	3 months	Since 31/12	12 months
MSCI EMU NR	0.1%	-0.9%	16.5%	-1.3%
MSCI EUROPE NR	0.3%	-0.4%	16.6%	1.6%
MSCI USA NR	3.8%	2.3%	23.4%	12.9%
MSCI JAPAN NR	2.4%	0.4%	10.8%	0.4%
MSCI EM. MARKETS NR	1.0%	-2.0%	12.2%	2.8%
MSCI AC WORLD NR	2.6%	1.2%	19.7%	8.2%

(Performances in EUR dd. 31/07/2019) (Source : Bloomberg)

Bond markets

German interest rates dropped again, reaching -0.40% for 10-year bonds. Other European government issuers, both in the core countries and the periphery, followed in their tracks. The decline in the rate for Italian debt accelerated after the Italian government revised its budget plans to avoid being subject to the European Commission's excessive deficit procedure. Higher expenditure on benefits and pension reform are being postponed. Over the course of one month the 10-year Italian rate fell by 50 basis points to 1.60%, despite the still-shaky coalition between the Lega and the Five Star Movement. The impasse reached with the Spanish government formation – new elections are possible – seemed to have had little impact on the Spanish bond market. US interest rates rose slightly in July but remained close to the recent lowest levels at around 2%. The favourable economic figures did raise the question of whether the Federal Reserve would fall in line with the aggressive market expectations regarding interest rate cuts, but this had little impact on the 10-year rate. Spreads for European corporate bonds declined further in July for the high-quality investment grade bond segment. High-yield corporate bonds showed a more mixed picture, however.

Government Bond Yield 10 y	Current	July	3 months	Since 31/12
Belgium	-0.12	-0.19	-0.57	-0.90
France	-0.18	-0.18	-0.55	-0.89
Germany	-0.44	-0.11	-0.45	-0.68
Italy	1.54	-0.56	-1.01	-1.20
Greece	2.04	-0.41	-1.33	-2.36
Spain	0.28	-0.11	-0.72	-1.13
United States	2.01	-0.01	-0.49	-0.67
Japan	-0.15	-0.01	-0.11	-0.16

(Evolution until 31/07/2019) (Source : Bloomberg)

Central banks and monetary policy

As generally expected, the Federal Reserve decreased rates by 0.25% on the last day of the previous month. This is the first rate cut since the 2008 financial crisis and is generally seen as a precautionary measure. Recent economic figures were better than expected, yet leading indicators show the industrial activity is cooling-off. In this context, the Fed's outlook for future monetary policy was also awaited. It was not as flexible as expected, and an early new rate cut does not seem to be inevitable just yet. Instead, it will depend on how the economy develops in the coming weeks. The European Central Bank left its deposit rate unchanged in July. However, the ECB also clearly indicated that it will cut interest rates in September because inflation remains persistently below target. Other options for loosening monetary policy are also on the table, for example relaunching the bond purchase programme. In any case, an announcement in this regard is expected by the end of Mario Draghi's presidency of the ECB at the end of October. Christine Lagarde, Draghi's successor, is expected to pursue a monetary policy that is at least as accommodative.

Central Bank Rates	Current	Latest adjustment	Date
Fed funds	2.00 - 2.25%	-0.25%	July 2019
ECB refinancing rate	0.00%	-0.05%	Mar. 2016

(Situation on 31/07/2019) (Source : Bloomberg)

Currencies

With Boris Johnson's election as leader of the Conservative Party and new UK Prime Minister, there are no immediate prospects for a way out of the Brexit impasse. The new government, mostly consisting of Brexit supporters, has already stated that it is not prepared to compromise on the Irish backstop and is calling for its complete removal from a new withdrawal agreement. This is a demand the European Union has always refused. As such, the market feels that there is a greater likelihood of a no-deal Brexit on 31 October, a sentiment reflected in the exchange rate for the British pound. Sterling is now close to its lowest level since the Brexit referendum in 2016 against both the euro and the dollar. The USD's weakness in June was short-lived. Due to stronger than expected economic figures in the US, the most aggressive market expectations for a rate reduction were somewhat scaled back. Furthermore, President Trump again attempted to push down the currency's value by issuing various tweets. He also accused other countries of manipulating their currencies, in particular the eurozone. Other "safe haven" currencies such as the Swiss franc and the Japanese yen also performed strongly. Both are up more than 3% over the past 3 months.

Currencies	Current	July	3 months	Since 31/12
USD	1.108	2.6%	1.2%	3.4%
GBP	0.911	-1.7%	-5.9%	-1.3%
JPY	120.47	1.8%	3.6%	4.3%
CHF	1.101	0.8%	3.7%	2.2%

(Evolution versus EUR until 31/07/2019) (Source : Bloomberg)

Commodities

Oil prices went down a little, but on balance fluctuated at about 65 dollars a barrel. The commodity is currently subject to opposing forces. On the one hand, there are the persistent tensions in the Persian Gulf (where a disruption would nevertheless have less of an impact on global supply due to the increased production of US shale oil). Next to this, OPEC and other producers have decided to extend the current production cap of 1.2 million barrels per day by nine months until the end of March 2020. On the other hand, there is slower global growth, which will limit greater demand for oil. Commodity prices remained fairly stable after the drop in previous months, with the exception of nickel. Nickel prices reached the highest level in two years (+14.4% in USD). This is due to a possible export freeze in Indonesia from 2022 onwards intended to promote the development of the country's own stainless steel industry. After a jump in June, stemming from expectations of rate cuts by central banks, gold continued its rise over the past month. This seemed to be primarily attributable to positioning on the part of investors.

Commodities	Current	July	3 months	Since 31/12
Commodities (GSCI)	422.44	-0.7%	-5.4%	12.9%
Oil (Brent)	65.17	-2.1%	-10.5%	21.1%
Gold	1413.78	1.7%	11.8%	12.2%

(Evolution in USD until 31/07/2019) (Source : Bloomberg)