Equity markets

The confirmation that Presidents Trump and Xi would finally meet at the G20 summit in Japan - even though expectations for a resolution to the trade conflict were not high - and the prospects of a more flexible monetary policy from the central banks led to an improvement of investor sentiment in June. Tensions in the Middle East were not a cause for concern, because oil prices hardly increased. As a matter of fact, the S&P500 was even able to reach a new historical record. In line with this, the second quarter closed with positive figures for the European and US stock exchanges. Geographically, the large regions performed fairly uniformly over the past month (expressed in euros). Emerging markets also followed the upward trend, partly due to the somewhat weaker dollar. The main straggler was Japan. Revisions of earnings expectations are still fairly negative, and the announced VAT increase in October may weigh on the economy. At the end of the second quarter investors await the start of the 'earnings season'. For the S&P500 companies, the consensus expects a negative profit growth of -2.6%. This is still somewhat lower than a month ago, but the momentum of the negative adjustments has decreased. If this were to be the final earnings growth figure, it would represent the second consecutive quarter of negative profit growth for US equities.

Equity Markets	June	3 months	Since 31/12	12 months
MSCI EMU NR	5.1%	4.0%	16.4%	2.0%
MSCI EUROPE NR	4.4%	3.0%	16.2%	4.5%
MSCI USA NR	4.7%	2.7%	18.9%	12.4%
MSCI JAPAN NR	1.5%	-0.4%	8.2%	-1.8%
MSCI EM. MARKETS NR	4.0%	-0.8%	11.0%	3.8%
MSCI AC WORLD NR	4.3%	2.2%	16.7%	8.4%

(Performances in EUR dd. 30/06/2019) (Source : Bloomberg)

Bond markets

German and US government bond rates fell further in June. German 10-year interest rates reached a new historical low of -0.33% in the course of the month, with the US rate falling to 1.99%. To illustrate the intensity of the movement we have to remember that, at the start of the downward trend at the beginning of October, these interest rates were still 0.5% and 3.2% respectively. The outlook for monetary policy in the light of slower economic growth, lower inflation figures and risks linked to protectionism are responsible for this. The market outlook for medium-term inflation dropped further in June, reaching a level below 1.2% for the euro area, which is lower than the previous low of 2016. At the time it served as the signal for the European Central Bank to launch its quantitative easing program. Yields on euro periphery bonds followed the downward trend of core bonds, and Spanish and Portuguese bonds posted a tighter spread, for Spain matching the previous low at the beginning of 2018. Italian bond yields also fell after the Italian government indicated that it was making new efforts to consolidate its budget. However, both the absolute level of the rate and the spread are still significantly above previous lows. In a better risk environment, corporate bonds were able to offset some of the wider spreads accumulated in May. Corporate bonds can count on continued interest from investors as government bond yields continue to fall.

Government Bond Yield 10 y	Current	June	3 months	Since 31/12
Belgium	0.07	-0.22	-0.35	-0.71
France	-0.01	-0.22	-0.32	-0.72
Germany	-0.33	-0.13	-0.26	-0.57
Italy	2.10	-0.57	-0.39	-0.64
Greece	2.45	-0.46	-1.29	-1.95
Spain	0.40	-0.32	-0.70	-1.02
United States	2.01	-0.12	-0.40	-0.68
Japan	-0.16	-0.06	-0.08	-0.16

(Evolution until 30/06/2019) (Source : Bloomberg)

Central banks and monetary policy

Central banks' comments on a more accommodative monetary policy gained momentum over the past month. As expected, the Federal Reserve left its federal funds rate unchanged in June, but Chairman Jerome Powell stated that the FED would take appropriate action to keep economic expansion going. The market anticipates a reduction in interest rates by 25 basis points as early as the end of July, and there is even a small chance of a decrease in interest rates by 50 basis points. However, other market players believe that the latter could be interpreted as confirmation by the Federal Reserve that the US economy is heading for a sharp slowdown. A more nuanced action (limited interest rate reduction or a reduction only in September) would be more in line with the Fed's message of a "precautionary interest rate reduction". ECB President Draghi was once again more explicit by saying that monetary policy would become more accommodative unless there were an improvement in the economic and inflation outlook. A reduction in interest rates and the relaunch of quantitative easing are among the possibilities. The Norwegian central bank countered the trend and, as expected, increased its policy rate by 25 basis points to 1.25% in June. This is already the third rate hike in this cycle (since September 2018), and the Norges Bank expects two further rate increases, the next one possibly as soon as September.

Central Bank Rates	Current	Latest adjustment	Date
Fed funds	2.25 - 2.50%	+0.25%	Dec. 2018
ECB refinancing rate	0.00%	-0.05%	Mar. 2016

(Situation on 30/06/2019) (Source : Bloomberg)

Currencies

The US dollar lost some ground last month against most other major currencies. The Federal Reserve has been even more explicit about the prospect of more relaxed monetary policy over the past month. Although this is also the case for other central banks, such as the ECB, market expectations regarding the Fed are more aggressive than those for other central banks. Even though the interest compensation in USD remains higher than in EUR, in relative terms the US currency is less supported. Whether the dollar is indeed heading for a weaker period will depend on whether the aggressive market outlook for interest rate cuts becomes a reality. Pound sterling weakened further pending the appointment of a new leader of the Conservative Party and Prime Minister. This is expected by 23 July, after which the British Parliament will leave on summer recess until the beginning of September, with the 31 October deadline approaching. The Norwegian krone strengthened somewhat (+0.8% against the EUR) following last month's widely anticipated interest rate increase.

Currencies	Current	June	3 months	Since 31/12
USD	1.137	-1.8%	-1.4%	0.8%
GBP	0.896	-1.3%	-4.1%	0.4%
JPY	122.66	-1.4%	1.4%	2.5%
CHF	1.110	0.7%	0.5%	1.3%

(Evolution versus EUR until 30/06/2019) (Source : Bloomberg)

Commodities

In June oil prices recovered somewhat from their substantial drop in May (+3.2% in USD). All in all this was a limited increase, considering the increasing tensions in the Persian Gulf. Oil tankers were attacked there once again, and a US military drone was shot down. Iran was blamed for these events, and a US military operation in retaliation against Iran was called off at the last minute. For the time being, concerns about demand (the IEA has adjusted the forecast for global demand downwards due to the slowdown in growth) and supply (increasing US shale oil production, the OPEC+ meeting on the extension of the production restriction was postponed to early July) seem to be weighing more heavily on oil prices than a potential conflict in the region. Gold (+7.8% in USD) benefited from geopolitical uncertainty and was additionally supported by central bank monetary easing prospects, resulting in lower bond yields. Gold prices rose to above USD 1,400 per ounce for the first time since 2013. The somewhat weaker dollar also contributed to the rise in the value of the precious metal. Industrial metals also recovered partially from a decline in May, with a further increase depending on additional economic stimulus measures in China.

Commodities	Current	June	3 months	Since 31/12
Commodities (GSCI)	425.36	4.3%	-2.0%	13.6%
Oil (Brent)	66.55	3.2%	-2.7%	23.7%
Gold	1409.55	7.8%	8.9%	10.3%

(Evolution in USD until 30/06/2019) (Source : Bloomberg)