Equity markets

Equity markets closed higher in March for the third consecutive month. This brings the first quarter of 2019 to a close with double-digit performances for the large regions, helped in some cases by gains in currencies. As a result, the markets have reversed the sharp decline seen in the last quarter of 2018. The economic outlook and earnings expectations have been revised further downwards in the past quarter, implying that equity markets have been undergoing a rerating. This was made possible by the change of course in the central banks' monetary policy outlook. Their more flexible position (postponement or cancellation of interest rate increases) is supporting the economy and company valuations. However, not all companies are benefitting equally from these adjusted interest rate forecasts. For example, banks, which benefit from a larger interest margin, were substantial underperformers on the stock exchanges. In Europe, the automotive industry lagged behind because trade negotiations between the US and Europe did not go very smoothly and, moreover, figures for car sales were disappointing. At the end of the quarter, markets are keeping an eye out for the start of the earnings publications. In the US, the consensus forecast for S&P500 companies is a 3.7% drop in profits (the first decrease since the second quarter of 2016). At the beginning of the quarter, on January 1, that expectation was still +2.9% (Factset data). The weak figures are the result of a more difficult basis for comparison in relation to the first quarter of 2018 (when the tax reform in the US had an impact for the first time), slower growth (especially outside the US) and pressure on margins (higher costs, including wages).

Equity Markets	March	3 months	Since 31/12	12 months
MSCI EMU NR	1.3%	11.9%	11.9%	0.4%
MSCI EUROPE NR	2.0%	12.8%	12.8%	5.5%
MSCI USA NR	3.2%	15.8%	15.8%	19.2%
MSCI JAPAN NR	2.0%	8.6%	8.6%	0.9%
MSCI EM. MARKETS NR	2.3%	11.9%	11.9%	1.4%
MSCI AC WORLD NR	2.7%	14.2%	14.2%	12.4%

(Performances in EUR dd. 31/03/2019) (Source : Bloomberg)

Bond markets

German 10-year rates fell below zero once again, the first time since October 2016. The US interest rate in turn fell by 31 basis points, to below 2.40%. Other countries' interest rates followed, ranging from the Japanese to the New Zealand rate, which reached its lowest point ever. The reason lies in the weaker global economic outlook and the adjustments to the monetary policy outlook announced by the central banks in response. Today, policy rate increases are no longer an option for most central banks, and a US inverse yield curve (long-term interest rates have fallen below short-term interest rates) has led some investors to seek the safety of government bonds. In the past, an inverse interest rate curve has in some cases been the precursor to recession. In the eurozone, peripheral countries' bonds had some difficulty keeping pace with declining German interest rates, leading to slightly higher spreads. The decline in corporate bond spreads slowed down somewhat in March after the strong months of January and February. This was particularly noticeable in the high yield segment.

Government Bond Yield 10 y	Current	March	3 months	Since 31/12
Belgium	0.41	-0.28	-0.36	-0.36
France	0.32	-0.25	-0.39	-0.39
Germany	-0.07	-0.25	-0.31	-0.31
Italy	2.49	-0.26	-0.25	-0.25
Greece	3.74	0.07	-0.66	-0.66
Spain	1.10	-0.08	-0.32	-0.32
United States	2.41	-0.31	-0.28	-0.28
Japan	-0.08	-0.06	-0.08	-0.08

(Evolution until 31/03/2019) (Source : Bloomberg)

Central banks and monetary policy

Following its last meeting, the European Central Bank expressed a more cautious position. The prospect of a first rate hike was shifted from “after the summer of 2019” to “after the end of 2019”. This realignment is due to the significant downward adjustment in growth expectations (from 1.7% to 1.1% for this year) and inflation (including core inflation) for the euro area for 2019 and subsequent years. The central bank also announced new long-term loans (TLTROs) to finance the banking sector. As generally expected, the Norwegian central bank raised its policy rate by 0.25% to 1%, citing the robust growth of the economy as an argument for its decision. A second rate hike later this year can be expected. As expected, the US Federal Reserve reduced its outlook and will not change interest rates in 2019. The central bank also announced that it would stop reducing its balance sheet in September. However, the Fed’s cautious stance was most evident in halving the rhythm of the balance sheet reduction between May and September. That move had not been anticipated by the market. New Zealand’s central bank surprised by announcing that its next monetary action would be a cut in interest rates, while only last month it stated that interest rates would be kept stable in 2019 and 2020. The central bank is concerned about weaker global growth prospects and about a slowdown in internal growth.

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 31/03/2019) (Source : Bloomberg)

Currencies

The euro weakened against most currencies due to weak economic figures and the protracted Brexit saga. The tumultuous month in London understandably caused volatility in the pound sterling exchange rate, but against the euro sterling closed virtually unchanged from last month. The market continued to assume during March that a no-deal Brexit can be avoided and that the chances of a softer exit from the EU had increased. Since the beginning of this year, the British currency has risen by 4.3% against the euro. The increase in interest rates by the Norwegian central bank initially resulted in a somewhat stronger currency, but since the move was widely anticipated the change was rather limited. The Brazilian real weakened considerably (-3.0% against the euro) after ex-President Temer was arrested on corruption charges. The flare-up of political uncertainty is giving rise to the fear that the economic reforms that current President Bolsonaro wants to implement (including regarding pension benefits) will be more difficult to pass through due to the already-fragmented parliament. Emerging market currencies in turn generally experienced a weaker month.

Currencies	Current	March	3 months	Since 31/12
USD	1.122	1.3%	2.2%	2.2%
GBP	0.861	-0.4%	4.3%	4.3%
JPY	124.35	1.8%	1.2%	1.2%
CHF	1.116	1.6%	0.8%	0.8%

(Evolution versus EUR until 31/03/2019) (Source : Bloomberg)

Commodities

Despite weaker global growth prospects, oil prices remain fairly robust, and even closed somewhat higher in March. On the supply side, OPEC+'s production restrictions are being only moderately followed up by most members. However, overall compliance with the production restriction is in line with the targets because Saudi Arabia is doing more than its share. There is currently no clarity as to whether the restriction will continue after June, but it is likely. US sanctions against Venezuela are also having an impact on supply. Industrial metals decreased slightly in March (-0.2% in USD terms) and remain at a firm level on balance. Although China's current stimulus measures focus more on fiscal measures than on infrastructure works, they should still be sufficient to keep demand for commodities from the country up to standard. On balance, gold prices remained fairly stable and recovered after a decline at the beginning of the month thanks to lower interest rates and their outlook.

Commodities	Current	March	3 months	Since 31/12
Commodities (GSCI)	434.13	1.8%	16.0%	16.0%
Oil (Brent)	68.39	3.6%	27.1%	27.1%
Gold	1292.38	-1.3%	1.3%	1.3%

(Evolution in USD until 31/03/2019) (Source : Bloomberg)