Equity markets

After four consecutive months of rising prices, equity markets dropped fairly substantially in May, more than wiping out the increase seen in April. The unexpected increase in tariffs on Chinese imports imposed while negotiations were still under way, the additional dimension of the conflict relating to the focus on technology and leading to restrictions on technology transfers to Chinese Huawei, as well as the US threat to impose tariffs on imports from Mexico (unless immigration from that country is curtailed), reminded investors that the markets will have to live with trade tensions for some time to come. Moreover, this uncertainty comes at a time when global economic prospects are already on the downside. Geographically speaking, Asian markets declined most (-8.8% in euro terms), while the other regions lost more than 5%. On a sectoral level, technology and auto industry shares were hit hardest. Nevertheless, the first quarter earnings season finished off better than expected. Specifically, S&P500 companies realized zero profit growth during the first quarter, compared to the -4% forecast made at the beginning of the quarter. Turnover growth came in at 5%. As regards the outlook for the current second quarter, forecasts had also been revised downwards and at the end of May negative earnings growth of around 2% was expected. At the beginning of the quarter that expectation was still 0%. This negative adjustment is in line with the average.

Equity Markets	May	3 months	Since 31/12	12 months
MSCI EMU NR	-5.9%	0.2%	10.7%	-3.8%
MSCI EUROPE NR	-4.9%	0.7%	11.3%	-0.7%
MSCI USA NR	-5.9%	1.3%	13.6%	8.0%
MSCI JAPAN NR	-3.4%	0.1%	6.5%	-5.7%
MSCI EM. MARKETS NR	-6.7%	-2.4%	6.8%	-4.4%
MSCI AC WORLD NR	-5.4%	0.6%	11.9%	3.4%

(Performances in EUR dd. 31/05/2019) (Source : Bloomberg)

Bond markets

Yields on benchmark German and US governments bonds dropped sharply in May. German 10-year bunds continued to fall below zero, matching the low of July 2016 (at -0.20%) reached in the wake of the Brexit referendum and the launch of the ECB's bond purchase program. Risk aversion among investors due to escalating trade tensions in an economy with an already-weak growth outlook pushed yields lower. The rate for US treasuries also fell to its lowest level since September 2017 and is already 100 basis points below the recent peak in autumn 2018. Rates for Italian bonds, however, did not follow the downward trend. This is a result of the strong showing by the Lega in the European elections, which has made the political situation more unstable once again. Moreover, budgetary considerations may once more place the country on a collision course with the European Commission. In this context, the spread between Italian and German bonds increased by 35 basis points. Conversely, yields for Spanish and Portuguese debt were able to follow the falling interest rate trend and even in fact posted slightly tighter spreads. For the first time this year, corporate bonds generated wider spreads, as both the investment grade and high yield segment saw profit-taking.

Government Bond Yield 10 y	Current	May	3 months	Since 31/12
Belgium	0.29	-0.16	-0.40	-0.49
France	0.21	-0.16	-0.36	-0.50
Germany	-0.20	-0.22	-0.39	-0.44
Italy	2.67	0.12	-0.08	-0.07
Greece	2.91	-0.46	-0.75	-1.49
Spain	0.72	-0.29	-0.46	-0.70
United States	2.12	-0.38	-0.59	-0.56
Japan	-0.09	-0.05	-0.07	-0.10

(Evolution until 31/05/2019) (Source : Bloomberg)

Central banks and monetary policy

The US and eurozone central banks stayed in the background in May. Based on the minutes of the most recent meeting, the Federal Reserve appeared to consider that the recent weakness in inflation figures is temporary, as corroborated by its wait-and-see attitude. The ECB, on the other hand, was more prudent about the prospects of an economic upturn in the second half of the year. The Norwegian central bank confirmed last month that it will continue down the path of interest rate increases, perhaps as early as June. More interest rate rises could follow later this year and next. As such, Norway is not adopting the wait-and-see attitude of other central banks, such as the ECB or Sweden's Riksbank.

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 31/05/2019) (Source : Bloomberg)

Currencies

Currencies considered as safe did well in May. The Japanese yen and Swiss franc, and the dollar to a limited extent, benefited more from risk aversion among investors. The Norwegian krone strengthened in the first half of the month due to the central bank's confirmed interest rate outlook, but then fell back due to weaker oil prices. After the British pound's rise since the beginning of this year despite Brexit-related uncertainty, the currency lost a lot of ground in May, with much of this year's gains evaporating. Talks between the Conservative party and Labour did not produce any results, and a fourth attempt to get a withdrawal agreement approved did not even make it to Parliament. As a result, British Prime Minister Theresa May resigned, ushering in a new period of uncertainty. China's currency, the renminbi, weakened by 2.0% in May due to renewed trade tensions, but has not yet exceeded the threshold of 7 against the USD. This has proved to be a support level at the end of both 2016 and 2018.

Currencies	Current	May	3 months	Since 31/12
USD	1.117	0.4%	1.8%	2.6%
GBP	0.884	-2.8%	-3.1%	1.6%
JPY	120.96	3.2%	4.5%	3.9%
CHF	1.118	2.2%	1.5%	0.7%

(Evolution versus EUR until 31/05/2019) (Source : Bloomberg)

Commodities

For the first time this year, oil prices fell in May (-11.4% in USD) and finished the month well below USD 70 per barrel. Rising trade tensions between the US and China are leading to increased uncertainty about economic growth, and therefore demand for oil. In addition, crude oil reserves in the US turned out to be higher than expected. However, after exemptions for the embargo on Iranian oil were not extended last month, there were a number of skirmishes in the Persian Gulf, reminding markets of the vulnerability of supplies from that region. On 25 and 26 June, OPEC, Russia and a number of other producers will meet to discuss the possible extension of production restrictions. Prices for industrial metals fell sharply in May, with copper (-9.2% in USD) falling back to its level at the beginning of this year. A continued uncertain growth outlook and the unexpected flare-up in trade tensions are responsible for this situation. Gold prices fluctuated significantly in the course of the last month but still closed at over USD 1,300 per ounce after President Trump threatened to impose tariffs on Mexican imports. Here, the precious metal was able to benefit from its safe haven status.

Commodities	Current	May	3 months	Since 31/12
Commodities (GSCI)	407.76	-8.7%	-4.4%	8.9%
Oil (Brent)	64.49	-11.4%	-2.3%	19.9%
Gold	1305.58	2.0%	-0.4%	2.3%

(Evolution in USD until 31/05/2019) (Source : Bloomberg)