

Equity markets

August began with Donald Trump's tweet to levy an import tax on Chinese goods (effective September 1, 2019). Additional tariff increases on both sides followed, and China responded with a new trade weapon: devaluing the Yuan. As a result, fear rose that competitive depreciations would follow. This triggered a market correction and prices fell by 5%. In addition, weak economic figures in China and the Eurozone (especially Germany) also fuelled the market correction. Investors indeed feared that the global economy will not only experience a slowdown, but that it is also heading for a recession. The decline in long-term bond rates led to a yield-curve inversion, which is considered as a rather accurate (but not infallible) leading indicator of recession.

Other risks, like the Argentina's economic situation, the greater probability of a hard Brexit, and the government crisis in Italy also weighed on investor sentiment. By the end of August however, equity markets covered part of the incurred losses. In euro terms, the different regions performed quite similarly, with the exception of emerging market equities that posted the weakest performance.

Equity Markets	August	3 months	Since 31/12	12 months
MSCI EMU NR	-1.2%	3.9%	15.1%	0.2%
MSCI EUROPE NR	-1.4%	3.2%	14.9%	2.4%
MSCI USA NR	-0.7%	7.9%	22.5%	8.0%
MSCI JAPAN NR	0.1%	4.1%	10.9%	-0.3%
MSCI EM. MARKETS NR	-3.8%	1.0%	7.9%	1.0%
MSCI AC WORLD NR	-1.3%	5.6%	18.1%	5.4%

(Performances in EUR dd. 31/08/2019) (Source : Bloomberg)

Bond markets

The bond market in August was driven by two trends that pushed interest rates down further. First, the publication of weaker than expected economic figures in Europe and China lowered bond yields and supposed the introduction of new monetary stimulus measures by central banks. Second, because of high political risks, investors sought refuge in safer government bonds.

In the US, 10-year bonds yields fell under 2-year yields (marking the yield-curve inversion) and 30-year interest rates dropped below 2% for the first time. In Germany, 10-year rate continued its decline and sank to -0.7%, while the 30-year rate fell below 0% for the first time. In Italy, the fall of the government led to a short-lived upturn in the long-term interest rate: +35 basis points in 2 days. But with the surprising rapid alliance between the Five-Star Movement and the Democratic Party, Italy's 10-year interest rates dropped below 1% for the first time in history. Corporate bond spreads widened and, while investment-grade bonds showed a limited increase, high-yield spreads showed greater volatility.


Government Bond Yield 10 y	Current	August	3 months	Since 31/12
Belgium	-0.34	-0.22	-0.63	-1.12
France	-0.40	-0.22	-0.61	-1.11
Germany	-0.70	-0.26	-0.50	-0.94
Italy	1.00	-0.54	-1.67	-1.74
Greece	1.63	-0.41	-1.28	-2.77
Spain	0.11	-0.18	-0.61	-1.31
United States	1.50	-0.52	-0.63	-1.19
Japan	-0.27	-0.12	-0.18	-0.27

(Evolution until 31/08/2019) (Source : Bloomberg)

Central banks and monetary policy

August was also marked by the annual central bankers' symposium in Jackson Hole. Federal Reserve Chairman Powell presented a moderately positive view of the US economy and repeated that the Fed would take action to support further expansion. This seems to be in line with market expectations of a new interest rate decrease of 25 basis points in September.

The European Central Bank is also expected to take action in September, and a number of other central banks also made comments in the past month. Norway's central bank kept its interest rate unchanged as expected, but showed more caution about the future after previous interest rate hikes (the most recent in June). Due to the Brexit and trade conflict uncertainties, future rate increases are in jeopardy. New Zealand's central bank surprised with a larger than expected rate cut of 50 basis points, down to 1% (the lowest level ever). The international context is affecting business confidence and New Zealand's housing market is cooling.

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 31/08/2019) (Source: Bloomberg)

Currencies

The escalating trade conflict impacted the foreign exchange market as well. Most striking development was the depreciation of the Chinese Yuan: below 7 Yuan per US dollar (for first time since 2008). With the escalation in the trade conflict, authorities seem to be prepared to tolerate a weaker currency. After all, it makes Chinese goods cheaper for export and can (partly) compensate for the imposed US tariffs.

As in the previous month, safe haven currencies, like the Yen and the Swiss franc, performed strongly in August. Conversely, emerging market currencies were weak. Brexit developments led to a high volatile British Pound and it briefly matched its post-Brexit low point. The currency closed with a slight difference against the Euro however. The Norwegian krone fell by 2% against the Euro, following the central bank's cautious stance and weak oil prices. New Zealand's dollar lost 3% against the euro after the unexpected fall in interest rates.

Currencies	Current	August	3 months	Since 31/12
USD	1.099	1.3%	1.6%	4.1%
GBP	0.903	0.9%	-2.2%	-0.5%
JPY	116.87	3.3%	3.5%	7.0%
CHF	1.088	1.2%	2.7%	3.3%

(Evolution versus EUR until 31/08/2019) (Source : Bloomberg)

Commodities

Commodity prices (GSCI index) fell sharply in August with -6% in USD, largely due to the oil component (-5.9%), while industrial metals limited the damage to -1.5% and precious metals improved strongly with +6.9%. The oil price was under fire, as a result of the China-US trade dispute. Brent dropped below \$60 per barrel, in particular at the beginning of the month. Industrial metals also suffered from the global slowdown and trade tensions. As in the previous month, Nickel was the exception to the rule: +24% in USD. The metal price increased due to supply-side in Indonesia. Gold prices kept its momentum going thanks to its safe haven status and the declining risk-free rates.

Commodities	Current	August	3 months	Since 31/12
Commodities (GSCI)	397.06	-6.0%	-2.6%	6.1%
Oil (Brent)	60.43	-7.3%	-6.3%	12.3%
Gold	1523.10	6.4%	16.7%	19.4%

(Evolution in USD until 31/08/2019) (Source : Bloomberg)