Equity markets

Equity indices are flirting with the highest levels of the year. The S&P 500 was actually able to make a new historical high at the end of last month. There are hardly any new elements that drive the markets. But the equity markets remain in a fairly positive mood since the worst case scenarios of recent months concerning the trade conflict, Brexit, corporate earnings and the economy have been avoided for the time being. Since the last few weeks, US equity markets are underperforming (in euros) other equity exchanges. Defensive sectors, which have a significant weighting in US equity market indices, are less attractive to investors due to diminishing uncertainties. European exchanges that have a higher weighting in cyclical sectors are profiting from this trend. The somewhat weaker dollar has also weighed on the performance of US equities. Emerging markets, on the other hand, performed well, including those in Latin America, despite the context of political uncertainty (presidential elections in Argentina) and social unrest (Chile). In the US, about half of the S&P 500 companies published their third-quarter results. Earnings growth so far is -3.3% (source: Factset), which is slightly better than expected at the end of Q3. The results are less bad than what leading economic indicators had suggested in recent months, especially in industry. If these results are confirmed, this is nonetheless the third consecutive quarter with negative earnings growth. In Europe, earnings growth for STOXX 600 companies in Q3 is also negative at 5.3%. This is lower than was expected at the start of the earnings season.

Equity Markets	October	3 months	Since 31/12	12 months
MSCI EMU NR	1.2%	3.7%	20.8%	12.7%
MSCI EUROPE NR	0.9%	3.1%	20.3%	12.6%
MSCI USA NR	-0.2%	1.8%	25.7%	15.4%
MSCI JAPAN NR	2.5%	7.8%	19.4%	10.9%
MSCI EM. MARKETS NR	1.8%	0.8%	13.1%	13.6%
MSCI AC WORLD NR	0.4%	2.2%	22.3%	14.3%

(Performances in EUR dd. 31/10/2019) (Source : Bloomberg)

Bond markets

The 10-year reference rate in the United States and in the euro zone rose in the general climate of diminishing risk aversion. The German 10-year interest rate (and those of other euro zone core countries) remains clearly in negative territory, but the low point of -0.72% in August is behind us. The peripheral countries were able to record somewhat narrower spreads, but not spectacularly. The new Italian government has submitted a budget proposal for 2020 to the European Commission with an anticipated deficit of 2.2% (compared to 2.1% in 2019). A rise in VAT is not included in the budget proposal. The spread for Spanish government bonds narrowed somewhat despite the demonstrations in Catalonia and the upcoming national parliamentary elections on 10 November. These elections are due to the fact that no government could be formed after the elections in April of this year. Polls appear to suggest that it will not be easier after these elections. Corporate bond spreads also narrowed somewhat, for both the “investment grade” and for the “high yield” segments. As from November, the ECB will again start purchasing bonds worth EUR 20 billion per month

Government Bond Yield 10 y	Current	October	3 months	Since 31/12
Belgium	-0.10	0.16	0.02	-0.88
France	-0.10	0.18	0.09	-0.81
Germany	-0.41	0.16	0.03	-0.65
Italy	0.92	0.10	-0.62	-1.82
Greece	1.16	-0.18	-0.87	-3.24
Spain	0.24	0.09	-0.05	-1.18
United States	1.69	0.03	-0.32	-0.99
Japan	-0.13	0.08	0.02	-0.14

(Evolution until 31/10/2019) (Source : Bloomberg)

Central banks and monetary policy

The Federal Reserve cut its policy rate for the third time in a row. This was generally expected. However, in its comments, the Fed appears to want to dampen market expectations about additional interest rate cuts. Chairman Powell suggested that a number of risks regarding economic activity have decreased. At the same time, business investment remains weak and inflation is too low. Further action by the US central bank will depend on the evolution of the employment figures and the resilience of the US consumer. The Australian central bank also cut its official short-term rate by 25 basis points to 0.75%. It is the third rate cut since June. Concerns about the economy and the competitiveness of the currency contributed to this decision. The Swedish central bank left its interest rate unchanged, but confirmed the prospect of a rate hike in December. The Riksbank was admittedly more cautious for its expectation for monetary policy, and it is now assuming to keep interest rates flat for a long period after December.

Central Bank Rates	Current	Latest adjustment	Date
Fed funds	1.50 - 1.75%	-0.25%	Oct. 2019
ECB deposit rate	-0.50%	-0.10%	Sept. 2019
(Situation on 31/10/2019)			(Source : Bloomberg)

Currencies

In October, Brexit again experienced some unexpected twists. These ultimately resulted in a new extension of the Brexit deadline until 31 January and new elections in the UK. The British pound strengthened by 2.9% against the euro in October and even gained 8% against the low point of August as the risk of no-deal on 31 October was averted. The euro strengthened against most other currencies, primarily against the safe haven currencies such as the US dollar, the yen and the Swiss franc, all of which fell by around 2% against the euro. The other dollar currencies remained fairly stable over the past month, despite Australia's more accommodative monetary policy and Canada's political uncertainty. Outgoing Prime Minister Trudeau lost his majority in the parliamentary election but nevertheless achieved a better than expected result. The Scandinavian currencies are weak. The Norwegian krone lost considerable ground (-3.5% against the euro) without a clearly identifiable reason and the Swedish krona (-0.3%) also traded close to its lowest level against the euro.

Currencies	Current	October	3 months	Since 31/12
USD	1.115	-2.2%	-0.2%	2.7%
GBP	0.862	2.9%	5.4%	4.1%
JPY	120.37	-2.1%	0.4%	4.2%
CHF	1.100	-1.1%	0.2%	2.3%

(Evolution versus EUR until 31/10/2019) (Source : Bloomberg)

Commodities

The gold price remained fairly stable in October at just above $1,500 per ounce. The decline in uncertainties (less interest for safe haven investments) was counterbalanced by the weaker dollar. Commodity prices (+1.5% in USD for industrial metals) rose as a result of signs of stabilisation in industrial activity in China and other regions. The unrest in some Latin American countries that produce commodities (e.g. Chile, Peru) also contributed to the higher prices. The copper price ended the month 1.2% higher in USD. Oil prices left a turbulent September behind and were flat in October. The market expects OPEC to announce additional production cuts to keep supply and demand in balance.

Commodities	Current	October	3 months	Since 31/12
Commodities (GSCI)	407.51	1.0%	-3.5%	8.9%
Oil (Brent)	60.23	-0.9%	-7.6%	12.0%
Gold	1512.41	2.8%	5.4%	18.2%

(Evolution in USD until 31/10/2019) (Source : Bloomberg)