Blog Post

WEEKLY MARKET UPDATE

September 02, 2019

Suspended U.K. Parliament increases the odds of a no-deal Brexit. "The Week in Review."

Last Week Review

Global equities snap four-week losing streak. Despite increased concerns on the U.S. yield curve (see below), global equities gained 2.0% last week with help from stable economic data and the absence of further escalation in the U.S.-China trade standoff[1]. U.S. equities returned 2.7%, while gains in non-U.S. developed markets (1.0%) and emerging markets (1.1%) were more modest[2]. Through eight months of 2019, global equities are up 14.3%[3].

U.S. yield curve further inverts at the 10-year and 2-year tenors. The 10-year U.S. Treasury yield dropped noticeably below the 2-year yield last Tuesday and stayed that way for the rest of the week[4]. The yield curve steepened slightly to end the week with both the 10-year yield and the 2-year at 1.50%[5]. Our research suggests that a 10-2 year yield curve inversion historically has been followed by a recession, with recessions typically occurring 1-2 years after the initial inversion. However, equities have often held up well in the months after the inversion until the recession hits. The yield curve remains a key item on the list of risks being gauged by investors in addition to trade tensions. On the contrary, others are comforted by overall solid U.S. economic growth figures, a strong labor market and a constructive outlook across the consumer side of the U.S. economy[6].

Headline inflation metrics move lower in Europe. Inflation readings in Europe declined last week, likely pressured by lower oil prices' effect on headline inflation. Germany headline Consumer Price Index (CPI) fell short of consensus expectations and the prior level at 1.4%

year-over-year (y/y), while Europe headline inflation ticked down to 1.0% y/y. In the U.S., core Personal Consumption Expenditures (PCE) was unchanged at 1.6% y/y, still considerably short of the Federal Reserve's 2% inflation target. In other data last week, U.S. consumer sentiment declined significantly from the prior level due to consumer concerns around upcoming increases in U.S. tariffs.

Suspended U.K. Parliament increases the odds of a no-deal Brexit. Last Wednesday, U.K. Prime Minister Boris Johnson suspended Parliament for over a month in a relatively unprecedented move. Johnson's actions diminish Parliament's ability to prevent a no-deal Brexit in late October, though other developments could arise to prevent a no-deal outcome before then as the situation remains fluid. Elsewhere in Europe, government bond yields in Italy declined on news that the Five Star Movement and Democratic (PD) parties reached agreement on forming a governing coalition. Though not fully finalized, a new coalition would remove the need for a snap election and reduce uncertainty around Italy's upcoming budget[7].

This Week Preview

Additional U.S. and China tariffs will be in effect this week. The U.S. and China will both implement part of previously announced trade measures this week. The U.S. will place a 15% tariff on roughly $125 billion of imports from China, while China will be issuing 5-10% tariffs on up to $75 billion of U.S. imports. Further trade talks have been tentatively planned for early September, but there has been little indication recently that either side is eager to make significant concessions in order to reach a deal[8].

No major changes anticipated in U.S. jobs report. U.S. employment figures will be released this Friday and are expected to continue to reflect a strong U.S. labor market. Consensus expectations call for 158k jobs added, just shy of the 165k jobs added on average in each month in 2019 so far. Wage growth is expected to modestly decline from its prior level of 3.2% y/y to 3.0% y/y. Finally, the unemployment rate is expected to remain unchanged at 3.7%.

Minor improvement expected in upcoming growth data. Purchasing Managers' Index (PMI) data will be released in the U.S. and China this week. The ISM manufacturing PMI is expected to remain in expansionary territory (above 50) in the U.S. at 51.2, while China's Caixin manufacturing PMI is expected to remain slightly in contractionary territory at 49.8. Germany manufacturing data will also be released this week including factory orders and industrial production.

Past performance is no guarantee of future results. It is not possible to invest directly in any index and index performance returns do not reflect any management fees, transaction costs or expenses.

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End Notes

1. Bloomberg, MSCI World Index returns 26Aug2019 – 30Aug2019.
2. Bloomberg, MSCI U.S. Equities IMI Index 26Aug2019 – 30Aug2019. MSCI World ex-U.S. IMI Index returns 26Aug2019 – 30Aug2019. MSCI Emerging Market Equities Index returns 26Aug2019 – 30Aug2019.
3. Bloomberg, MSCI World Index returns 02Jan2019 – 30Aug2019.
4. Bloomberg 2-Year Treasury Rate 26Aug2019 – 30Aug2019. Bloomberg, 10-Year Treasury Rate 26Aug2019 – 30Aug2019.
5. Bloomberg 2-Year Treasury Rate 26Aug2019 – 30Aug2019. Bloomberg, 10-Year Treasury Rate 26Aug2019 – 30Aug2019.
6. Leong, Richard. Burns, Dan. Brettell, Karen. Reuters. Explainer: Countdown to recession- What an inverted yield curve means. Retrieved on 03Sep2019 from

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8. Lee, Jason. Reuters. Factbox: Next rounds of Trump’s tariffs on Chinese goods to hit consumers. Retrieved on 03Sep2019 from https://www.reuters.com/article/us-usa-trade-tariffs-factbox/factbox-next-rounds-of-trumps-tariffs-on-chinese-goods-to-hit-consumers-idUSKCN1VL0EX.