LOM OFFSHORE FINANCIAL SERVICES

Monthly Global Market Commentary
October 21, 2019

Heading Towards Inflection – 10/18/2019
By Peter Goodall, CFA, FRM

Global markets rallied to near record highs on the back of a possible amicable resolution to Brexit and detente in the US-China trade war before giving back some of their gains for the week. The MSCI World Index gained 0.74% while the S&P 500 gained 0.55%.

Brexit

The pound rallied on expectations of a resolution to Brexit have been rising. Boris Johnson able to negotiate a pathway to a modified exit from the European Union. The deal went before Parliament on Saturday only to be pushed back to Monday. Prime Minister Johnson will have his work cut out for him as many in Parliament have expressed outrage at his illegal closure of Parliament. France's President Macron came out on Friday against an extension to the October 31st Brexit deadline. Since all members of the EU have to agree to an extension for the UK to remain in the EU while seeking better terms, Saturday is a real inflection point for the global economy. Were the UK to fail to agree to the new Brexit plan and the EU elects not to extend the timeline for the UK again, the country will default to the WTO's most favored nation tariff standards.

US-China Trade Deal

While not a complete resolution to the trade dispute, US and Chinese trade officials appear to be circling around a framework for a partial trade deal. It was a strange byproduct of a Chinese buckling under the pressure of a global slowdown and trade tariffs while President Trump's position has weakened under impeachment inquiries. Markets viewed a potential de-escalation of the trade conflict positively, with the US gaining about 0.95% by Thursday while Chinese markets (MXCN Index) gained 1.56% in USD terms over the same period.

Democratic Primary Debate

The 4th Democratic Party debates were held on Wednesday, with 12 candidates vying for the spotlight. Not much of substance came out of the process. Elizabeth Warren experienced an uptick in her popularity coming out of the 3rd debate, which led the other candidates to focus their criticisms on her as they jockey for the nomination. Joe Biden is still the front runner in most opinion polls.

US Allies Fight Each Other

President Trump ordering the withdrawal of US troops from the "endless wars" in Syria has left a power vacuum in the region. Turkey took the opportunity to attack the Kurds, US allies on the Turkish border, with the goal of eliminating a regional rival and creating an area for Syrian refugees that have become politically undesirable within Turkeys borders. The move has resulted in a border conflict, the release of ISIS members and the political realignment of former US allies in the region towards the Syrian dictator. Russia has taken the opportunity to increase its regional influence. The US decision to leave Syria generated broad criticism from Congress and the EU.

Global Growth Expectations Cut

The IMF continued to cut global growth expectations for the remainder of 2019. The cuts were largely due to impacts of a global synchronized slowdown and the impact of the trade war. The IMF is calling for fiscal stimulus in the wake of limited abilities of monetary easing as interest rates are so low that two thirds of the bonds in the Global Aggregate Index are now producing negative yields.

Negative interest rates present a number of challenges. From the central bank perspective, negative interest rates make the local currency less attractive. Financial institutions are also hurt as their margins get compressed and raise the risk that they stop lending (why lend $100 to get $95 back?). Consumers hording cash to avoid negative yields becomes a broader concern.

Earnings Seasons

Banks kicked off third quarter reporting this year with the sector broadly outperforming expectations. The US Financial sector outperformed the broader US market (1.23% vs 0.55%). Larger winners for the week were JP Morgan (3.81%) and Bank of America (4.98%) as they lead the financial sector in beating expectations.

LOM OFFSHORE FINANCIAL SERVICES

Stock Market Performance

	10/21/19	W-o-W	M-o-M	Y-o-Y
DJIA	26,827	1.3%	-1.4%	5.9%
S&P 500	2,971	1.1%	-1.2%	7.4%
MSCI World	2,179	1.3%	-1.2%	5.6%
S&P/TSX	16,415	-0.1%	-1.6%	6.5%
BSX	2,035	-2.1%	-1.8%	-30.7%
FTSE100	7,213	0.2%	-2.1%	3.1%
DAX	12,488	3.2%	0.2%	8.4%
CAC	5,648	2.3%	-0.1%	10.8%
Nikkei	21,799	2.0%	-0.9%	-3.9%
Hang Seng	26,522	2.7%	-3.0%	2.8%
Shanghai	3,008	3.5%	-0.8%	15.4%

Key Rates and Prices

Currencies	10/21/19	Month ago	Year ago
EUR	$1.10	$1.11	$1.16
GBP	$1.26	$1.25	$1.32
JPY	¥108.33	¥108.09	¥112.21
CAD	$0.76	$0.75	$0.77
CHF	$1.00	$1.01	$1.01
AUD	$0.68	$0.69	$0.71

Fixed Income

3M LIBOR	2.00	2.14	2.44
3M Treasury Bill	1.67	1.96	2.27
2Yr Treasury Note	1.60	1.80	2.86
10Yr Treasury Note	1.73	1.90	3.16
Fed Funds Rate	2.00	2.25	2.25

Commodities

Gold/oz.	1,491.19	1,488.65	1,217.95
Silver/oz.	17.63	17.45	14.61
Copper/lb.	2.63	2.71	2.86
Oil	53.23	54.85	71.34

Global Economic Calendar (October 21st - October 25th)

Mon:
Tues: Existing Home Sales (US); Redbook (US)
Wed: MBA Mortgage Applications (US); EIA Petroleum Status Report (US)
Thurs: Jobless Claims (US); Money Supply (US); Fed Balance Sheet (US)
Fri: Baker-Hughes Rig Count (US)