

Keep Calm and Carry On
By Nan Wang

Last week, the S&P index headed for the worst month since 2009. Concerns about peak earnings and high valuations sent most sectors down with the MSCI World Stock Index falling 3.90%. The safe heaven assets from gold to Treasuries rose as investors sought refuge.

Last Tuesday, Caterpillar Inc. and 3M Co. plunged following their third quarter earnings releases. Both companies reported higher costs due to tariffs. Although these industrial leaders announced they are able to pass the additional costs to consumers, investors fear tariffs will slow corporate growth rates. Caterpillar Inc. fell despite beating earnings and revenue estimates, while 3M Co. sold off after the company cut its full-year earnings forecast. The Dow Jones Industrial Average fell sharply as the market was spooked by worries that earnings may have peaked.

In Europe, the ECB turned down Italian's budget proposal, where the populist government proposed spending plan targeting a deficit of 2.4% of GDP. Italian debt was recently downgraded by Moody's to just one notch above non-investment grade, further raising Italian bonds yields. Italian Finance Minister Giovanni Tria expressed his faith in Euro and Italy's commitment to the Eurozone.

At the ECB conference, ECB President Mario Draghi reaffirmed the plan to end its bond buying program by year-end, and to keep interest rates at the current lows at least through the summer of next year. Despite risks from the trade war, Italian populist policies and a possible hard Brexit, Draghi said the risk factors are not enough to change the ECB's monetary policy. Even after the bond buying program ends, the ECB plans to renew matured bonds, in order to keep borrowing cost down. Draghi expressed confidence in both reaching a deal for Brexit and a resolution for Italian debt. September headline inflation in the Eurozone is up to 2.1% due to higher energy prices, but is due to drop by end of the year.

On Friday, the U.S. commerce department released better-than-estimated third quarter real GDP data. Total economic output rose at an annualized rate of 3.5% from July through September, beating economists' consensus of 3.4%. Growth was mainly driven by strong consumer spending which accounts for more than two-thirds of the U.S. economy. Consumer spending growth is at its highest in four years, which likely has been boosted by low unemployment and the tax cut. On the other hand, rising interest rates are hurting household purchases which are typically financed; auto purchase grew at a slow rate, while housing investment declined. Government spending also contributed to higher GDP number, boosted by military spending. However, the trade deficit widened in the third quarter, pointing to slower fourth quarter growth.

Although this earnings season has raised some red flags, especially in terms of future growth potential, there are reasons to remain optimistic. If one looks closely at the earnings, even though many forecasts are adjusted downward, companies are still expected to grow at a decent rate. In fact, majority of companies that reported earnings so far have beaten consensus expectations. On the political front, although trade talks with China shows no sign of break through, the Trump administration has already struck deals with South Korea, Canada and Mexico; and is actively discussing trade strategies with Japan and the EU. In the coming week, US inflation data, Chinese PMIs and further corporate earnings reports will likely be key market movers.



Stock Market Performance

	10/29/18	W-o-W	M-o-M	Y-o-Y
DJIA	24,930	-1.5%	-5.8%	6.4%
S&P 500	2,691	-2.4%	-7.6%	4.3%
MSCI World	1,982	-3.5%	-9.3%	-2.6%
S&P/TSX	14,984	-2.8%	-6.8%	-6.1%
BSX	2,280	-21.3%	-21.9%	2.8%
FTSE100	7,059	0.2%	-6.0%	-5.9%
DAX	11,399	-1.1%	-6.9%	-13.8%
CAC	5,004	-1.0%	-8.9%	-8.9%
Nikkei	21,150	-6.5%	-12.3%	-3.9%
Hang Seng	24,812	-5.1%	-10.7%	-12.8%
Shanghai	2,542	-4.2%	-9.9%	-25.6%

Key Rates and Prices

Currencies	10/29/18	Month ago	Year ago
EUR	\$1.14	\$1.16	\$1.16
GBP	\$1.28	\$1.30	\$1.31
JPY	¥112.53	¥113.70	¥113.67
CAD	\$0.76	\$0.77	\$0.78
CHF	\$1.00	\$1.02	\$1.00
AUD	\$0.71	\$0.72	\$0.77

Fixed Income

3M LIBOR	2.52	2.40	1.38
3M Treasury Bill	2.33	2.20	1.10
2Yr Treasury Note	2.83	2.82	1.59
10Yr Treasury Note	3.10	3.06	2.41
Fed Funds Rate	2.25	2.25	1.25

Commodities

Gold/oz.	1,230.27	1,192.50	1,273.88
Silver/oz.	14.68	14.70	16.87
Copper/lb.	2.79	2.84	3.10
Oil	67.19	73.25	53.90

Global Economic Calendar (October 29th — November 2nd)

Mon: Unemployment Rate (JP); Money Supply (GB)
Tues: Consumer Confidence (US); Industrial Production (JP)
Wed: Retail Sales (DE); ADP Employment Report (US); EIA Petroleum Status Report (US)
Thurs: Jobless Claims (US); Money Supply (US)
Fri: Baker-Huges Rig Count (US); Employment Situation (US); PMI Construction (GB)

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