LOM OFFSHORE FINANCIAL SERVICES

Monthly Global Market Commentary
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Fed and White House Leave Investors on Edge
By Nan Wang

Last week, global equity markets plunged on renewed concerns over trade and interest rates. The week started with a decline in technology sector shares triggered by an apparent data leak at social media giant, Facebook. Then the broad market dropped further on Wednesday following the monthly FOMC meeting which indicated more aggressive fed funds rate hikes down the road. Thursday, Trump's declaration of new tariffs to be levied on Chinese imports triggered fears of a global trade war. The stock market suffered one of its worst days since the beginning of the year.

Last Wednesday, as widely expected, the Fed Open Market Committee (FOMC) members unanimously voted for another quarter point rate hike, which brought the federal funds target rate up to the 1.5% to 1.75% range. The committee projected a stronger economic outlook for the next two years, with GDP growth expectation raised to 2.7% for 2018, and 2.4% for 2019. Fed officials also projected a median inflation estimate of 2.1% by the last quarter of 2020; while core PCE, or inflation excluding food energy, could reach 2.1% in 2019. This is the first time their median inflation estimates reached above the two percent target.

At the press conference later on Wednesday, chairman Jerome Powell stated "Our inflation objective is symmetric in the sense that we are trying to prevent persistent deviations from 2 percent in either direction." Persistently low inflation tends to indicate a weak economy, where consumers hold off their spending, and wage growth tends to be slow. On the other hand, a high inflation rate erodes future purchasing power, therefore encourages consumers and businesses to spend sooner rather than later. If the supply of money far exceeds demand, the result is hyperinflation. With the Fed's effort to achieve price stability, policymakers are now forecasting faster rate hikes in the coming two years, with the federal fund rate expected to reach 2.9% by end of next year and to be maintained at that level in the long run.

On Thursday, president Trump signed an executive memo instructing tariffs on $50 to $60 billion of Chinese imports. The U.S. Trade representative will make a proposal on the list of products to impose higher tariffs within the next two weeks. The plan will then be reviewed within the next 30 days. Trump commented this order has been long planned to address the intellectual property violation situation. Wei Jianguo, the executive deputy director of the China center for International Economic Exchange, responded that China is prepared to retaliate with tariffs on U.S. exports of agricultural products, automobile, aircraft and chips. China will also bring the case to the World Trade Organization to seek fair treatment. All major equity markets across the world tumbled amid fears that a trade war would cause collateral damage globally.

We think the market overreacted to the news. First of all, $60 billion of tariffs represent one eighth of the total Chinese export to the U.S., and would only decrease Chinese GDP growth by 0.1%. The Chinese retaliation would likely then have an even smaller impact on the U.S. economy. Secondly, the tariff plan is still at in its beginning stages of development and will likely be altered. In the recent steel tariff case, investors initially panicked upon hearing the tariff announcement, but eventually all major exporters of steel got exempted, including Canada, Mexico and the European Union.

Some may argue that Beijing was Trump's main target, citing America's large trade deficit with the world's second biggest economy and a history of likely unfair trading practices. The Chinese Premier Li Keqiang said earlier last week that the country prefers a sustainable balanced trade, encouraging the U.S. to ease restrictions on exports of high technology products to China as a way to fill the trade gap. "In opening manufacturing further, China won't force foreign companies to transfer technology to domestic ones and will protect intellectual property. "Li Keqiang said, addressing one of Trump's main concerns. China's spokesperson clarified that they are willing to engage in friendly negotiations with the U.S. to reach a mutually beneficial agreement. As business leaders from Amazon and other companies warned, any import tariffs will result in higher prices which will be paid by U.S. producers and consumers, not by Chinese manufacturers. Therefore, it is in the best interest of all parties to avert a trade war.

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Stock Market Performance

	3/26/18	W-o-W	M-o-M	Y-o-Y
DJIA	23,533	-4.4%	-8.5%	14.3%
S&P 500	2,588	-4.6%	-6.9%	10.4%
MSCI World	2,037	-3.5%	-5.7%	10.3%
S&P/TSX	15,224	-2.3%	-3.1%	-1.4%
BSX	2,575	0.4%	-0.3%	34.1%
FTSE100	6,948	-1.4%	-4.7%	-5.3%
DAX	11,955	-2.1%	-4.6%	-0.9%
CAC	5,115	-2.1%	-4.3%	1.9%
Nikkei	20,766	-3.3%	-6.3%	7.8%
Hang Seng	30,549	-3.1%	-3.0%	25.4%
Shanghai	3,134	-4.4%	-5.9%	-4.2%

Key Rates and Prices

Currencies	3/26/18	Month ago	Year ago
EUR	$1.24	$1.23	$1.08
GBP	$1.42	$1.40	$1.25
JPY	¥105.13	¥106.93	¥111.34
CAD	$0.78	$0.79	$0.75
CHF	$1.06	$1.07	$1.01
AUD	$0.77	$0.79	$0.76
Fixed Income			
3M LIBOR	2.29	1.98	1.15
3M Treasury Bill	1.74	1.64	0.76
2Yr Treasury Note	2.29	2.22	1.26
10Yr Treasury Note	2.85	2.86	2.41
Fed Funds Rate	1.75	1.50	1.00
Commodities			
Gold/oz.	1,348.64	1,333.47	1,243.45
Silver/oz.	16.66	16.66	17.77
Copper/lb.	3.02	3.23	2.63
Oil	65.86	63.91	47.97

Global Economic Calendar (March 26th — March 29th)

Mon: Chicago Fe National Activity Index (US)
Tues: Consumer Confidence (US), S&P Corelogic Cas-Shiller HPI (US)
Wed: GDP (US), International Trade in Goods (US), EIA Petroleum Status Report (US)
Thurs: Jobless Claims (US), Personal Income & Outlays (US), Baker-Hughes Reg Count (US)
Fri: Good Friday Holiday (US)

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