LOM OFFSHORE FINANCIAL SERVICES

Monthly Global Market Commentary
June 18th, 2018

Central Banks Under the Spotlight

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Last week, central banks of America, Europe and Japan all had policy updates. While the Fed and the European Central Bank (ECB) sounded more hawkish, the Bank of Japan (BOJ) kept the dovish tone in its policy outlook. The equity markets fluctuated amid renewed concerns of trade war between the world's two largest economies. The S&P 500 index ended the week essentially flat.

Last Monday, President Trump and North Korean leader Kim Jong-un had the first meeting ever between the heads of the two countries. The two parties signed a "historic" document where the North Korean leader "reaffirmed his firm and unwavering commitment to complete denuclearization of the Korean Peninsula.", while Trump agreed to provide security guarantees in return. Although no details on the timing of denuclearization was specified, the meeting showed significant progress in diplomatic relationship between the U.S. and the communist country. President Trump showed optimism in realizing denuclearization during his first term.

Last Wednesday, as widely expected, the FOMC members voted unanimously to raise the Fed target interest rate by another 25 bps. The U.S. unemployment rate reached a new low again in May at 3.8%, while the inflation rate has moved closer to the Fed's target of two percent as its preferred inflation gauge, the core PCE, rose to 1.8% in the latest month. Given the overall positive economic developments, the Fed forecasted two more hikes for the reminder of the year and three more in 2019. Nevertheless, the market is pricing in a less aggressive rate path considering trade tensions and quantitative tightening. The 3-month London Interbank Offered Rate (LIBOR), which typically tracks Fed rate hike expectations, has been relatively flat during the latest quarter, indicating a market view of a slower pace of rate hikes.

Last Thursday, the European Central Bank (ECB) announced the halt of its bond buying program by the end of this year. Although Eurozone inflation is still below target, the ECB's policy is signaling the council's confidence in the economy to combat future uncertainties. As President Mario Draghi commented, the bank will be monitoring financial markets and will take necessary measures to fight an economic downturn should the outlook deteriorate. Bond buying will continue at 30 billion euros per month until September, then the ECB plans to reduce the amount to 15 billion euros monthly in the last quarter, subject to incoming data. Despite the end of net asset purchases, the ECB plans to reinvest maturing debt for an extended period. Also, interest rates will stay at the current levels at least through the summer of 2019.

Meanwhile in Asia, the Bank of Japan (BOJ) kept its short-term interest rate target at minus 10 bps, and the 10-year Japanese government bonds target at 0%, which signals a divergence in policies from other developed countries. Japan's inflation is currently between 0.5% to 1%, below the 1% earlier this year. Given inflation is still far from the target of 2%, the BOJ likely wouldn't start to move toward policy normalization until 2019 or later.

On Friday, the trade tensions between the U.S. and China heightened as the White House moved ahead with slapping 25% tariffs on $50 billion of imports from China, focusing on industrial sectors such as aerospace, information and communications technology, robotics, industrial machinery, new materials, and automobiles. Chinese officials responded that they will impose tariffs with "equal scale and equal intensity" on U.S. goods. Earlier this month, Beijing proposed purchasing close to $70 billion of U.S. goods including agricultural and energy products if the U.S renounced its planned tariffs. This offer would be void now, also all previous trade agreements were put on hold. President Trump warned that additional tariffs would be imposed if China takes retaliatory measure.

Looking back to the past year, our LOM Balanced Fund, which has exposure to equity and fixed income securities, has benefited from an overweight to equities. Given the recent good run in the equity markets, we have started slowly shift weight from equities to safer asset classes by taking profits from certain holdings. Going forward, we will continue to monitor economic development and adjust our strategic allocation accordingly.

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Stock Market Performance

	6/15/18	W-o-W	M-o-M	Y-o-Y
DJIA	25,090	-0.9%	1.6%	17.5%
S&P 500	2,780	0.0%	2.5%	14.3%
MSCI World	2,134	-0.2%	0.7%	11.4%
S&P/TSX	16,314	0.7%	1.3%	7.6%
BSX	2,723	-0.3%	1.6%	33.4%
FTSE100	7,634	-0.6%	-1.2%	2.9%
DAX	13,011	1.9%	0.3%	2.5%
CAC	5,502	0.9%	-0.9%	5.5%
Nikkei	22,852	0.7%	0.1%	15.2%
Hang Seng	30,309	-2.1%	-2.7%	18.6%
Shanghai	3,022	-1.5%	-5.3%	-3.5%

Key Rates and Prices

Currencies	6/15/18	Month ago	Year ago
EUR	$1.16	$1.18	$1.11
GBP	$1.33	$1.35	$1.28
JPY	¥110.66	¥110.35	¥110.93
CAD	$0.76	$0.78	$0.75
CHF	$1.00	$1.00	$1.03
AUD	$0.74	$0.75	$0.76
Fixed Income			
3M LIBOR	2.33	2.32	1.27
3M Treasury Bill	1.92	1.91	1.00
2Yr Treasury Note	2.55	2.58	1.35
10Yr Treasury Note	2.92	3.07	2.17
Fed Funds Rate	2.00	1.75	1.25
Commodities			
Gold/oz.	1,279.55	1,290.52	1,253.92
Silver/oz.	16.57	16.27	16.75
Copper/lb.	3.18	3.09	2.57
Oil	65.06	71.31	44.46

Global Economic Calendar (June 18th — June 24th)

Mon: Housing Market Index (US)
Wed: GDP (NZ)
Thurs: Jobless Claims (US)
Fri: CPI (CA)