LOM OFFSHORE FINANCIAL SERVICES

Monthly Global Market Commentary
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Protectionism Shakes the Markets
By Nan Wang, CFA

Equity markets fluctuated last week amid geopolitical concerns. Despite the turmoil, the S&P 500 ended the week higher after the release of strong job data on Friday.

In recent years, we have seen a rising force of nationalist politics across the world. U.S. President Donald Trump and Italy's two leading parties, for example, have emphasized putting their own countries first, ahead of globalization. Periodic announcements of protectionist policies have tended to tumble the markets amid fears they will slow growth by impeding trade.

Over the weekend, Moody's placed Italian government debt on "credit watch," citing concerns that the new government's policies to increase spending and cut taxes would deteriorate the country's credit profile. Last Tuesday, global equity markets sold off amid concern that an upcoming Italian election might result in Italy's exit out of the European Union (EU). Investors fled Italian debt, fearing political uncertainties. Italian government bond suffered the worst day in 25 years as the spread between the Italian government bond and the benchmark German bund reached the highest in four years. Meanwhile, the U.S. 10-year Treasury yield dropped to below 2.8% as a result of the flight-to-quality.

In March, Italy's general election failed to vote an absolute majority party for its two houses of Parliament. The two leading parties, the anti-establishment Five Star Movement and the far-right League party, must reach an agreement in order to form a government. The parties initially recommended a euro-skeptic economist, Paolo Savona, as finance minister; which President Sergio Mattarella rejected him. With the President blocking the formation of a coalition government, the market saw a rising possibility of a snap election, where Italy might exit the EU and abolish the Euro. If Euro zone's third largest economy goes to "Italexit", the markets fear that other countries would then follow thereby threatening the existence of the entire European Union.

On Wednesday, equities and bonds markets across the globe essentially reversed Tuesday's large swing as Italian bond panic eased. Equity markets recovered and Treasuries pared gains on hopes that a new Italian government could be formed without a second election. However, the positive sentiment only lasted until President Trump slapped tariffs on America's closest allies. On Thursday, the White House announced steel and aluminum tariffs on EU, Canada and Mexico, effective last Friday. U.S. officials commented they are open to further discussions with all parties involved in trade issues.

Even though these tariffs will have a relatively small impact on the GDP of their respective countries, this action is alarming as the U.S. has now initiated unfriendly terms on its key partners. The market is concerned a full-blown trade war will be triggered. Indeed, all targeted countries have responded they would retaliate by imposing tariffs on imports from the U.S. The EU and Canada also intend to complain to the World Trade Organization.

Concerns of a global trade war were further escalated as Trump signaled possible tariffs on auto imports, which will mostly impact Canada, Japan, German and Mexico. As the border countries challenge the U.S. tariffs, it will be increasingly difficult to renegotiate the North America Free Trade Agreement (NAFTA). Also last week, just a few days after the two sides called a truce, the Trump administration surprised the Chinese government by declaring their plan to move forward with tariffs on $50 billion of imports from China. Trump also threatened to impose tariffs on high technology imports from China, in order to fight back against intellectual property theft. On the other hand, China announced tariffs cuts in more than 1000 lightly traded categories, most of which are not from America. The products covered only about 1.1 percent of China's annual imports, but the move sends a friendly signal to many European countries and other trading partners.

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On Friday, a strong U.S. job report boosted investors confidence in the world's largest economy. As hiring rose more than forecast in May, the unemployment rate reached the lowest in 48 years. The average hourly earnings growth, which is highly correlated with the core personal consumption expenditure (PCE), came out strong at 0.3% month-over-month. Although the average monthly wage gain in the past six months was only 0.2%, last month's improvement signaled a potential pick up in core PCE. The payroll numbers increased probability of another rate hike this month.

Looking to the week ahead, the annual G7 summit will be hosted by Canada this Friday at Charlevoix, Quebec. Leaders from the seven largest democratic economies and heads of the United Nations, the International Monetary Fund, the Organization for Economic Co-operation and Development, and the World Bank will gather to discuss issues including economic growth and environment protection. Prime minister of Canada, Justin Trudeau also invited a dozen countries from South America, Africa, Asia and Europe. The summit participants will aim to reach trade agreements, while the U.S. unilateral trade policy puts Trump at a one against six showdown.

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Stock Market Performance

	6/4/18	W-o-W	M-o-M	Y-o-Y
DJIA	24,635	-0.5%	2.2%	16.5%
S&P 500	2,735	0.5%	3.0%	12.5%
MSCI World	2,109	-0.1%	1.2%	9.7%
S&P/TSX	16,044	-0.2%	2.7%	3.7%
BSX	2,696	-3.1%	2.8%	37.1%
FTSE100	7,702	-0.4%	2.4%	2.1
DAX	12,724	-1.7%	0.9%	0.5%
CAC	5,466	-1.4%	-1.0%	2.8%
Nikkei	22,171	-1.2%	-1.5%	11.6%
Hang Seng	30,493	-0.3%	-1.0%	18.1%
Shanghai	3,075	-2.1%	-0.2%	-0.9%

Key Rates and Prices

Currencies	6/4/18	Month ago	Year ago
EUR	$1.17	$1.20	$1.12
GBP	$1.33	$1.36	$1.29
JPY	¥109.54	¥109.86	¥111.37
CAD	$0.77	$0.78	$0.74
CHF	$1.01	$1.00	$1.03
AUD	$0.76	$0.75	$0.74

Fixed Income

3M LIBOR	2.32	2.35	1.22
3M Treasury Bill	1.91	1.84	0.97
2Yr Treasury Note	2.47	2.51	1.29
10Yr Treasury Note	2.90	2.97	2.21
Fed Funds Rate	1.75	1.75	1.00

Commodities

Gold/oz.	1,293.73	1,303.91	1,265.95
Silver/oz.	16.41	16.17	17.30
Copper/lb.	3.13	3.06	2.59
Oil	65.81	67.25	48.36

Global Economic Calendar (June 4th — June 8th)

Mon: Factory Orders (US)
Tues: JOLTS (US); PMI Services Index (US)
Wed: International Trade (US); Productivity and Cost (US); EIA Petroleum Status Report (US)
Thurs: Jobless Claims (US); EIA Natural Gas Report (US); Consumer Credit (US); Money Supply (US)
Fri: Baker-Hughes Rig Count (US)

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