LOM OFFSHORE FINANCIAL SERVICES

Monthly Global Market Commentary
July 15, 2019

Fed Boost
By Nan Wang

The US equity market had another record week, with major equity indices hitting historical highs. The S&P index surpassed 3000 for the first time, while the Dow Jones Industrial Average topped 27000. The Fed head's dovish tone was the primary driver of market gains.

Earlier last week, in his testimony before Congress, Federal Reserve Chairman Jerome Powell revealed the Fed's willingness to have a more accommodative monetary policy. "We're learning that the neutral interest rate and the natural rate of unemployment is lower than we thought," he said in the second day of semi-annual testimony on Capitol Hill. "So monetary policy hasn't been as accommodative as we had thought." Despite the latest trade truce and a strong June job report, Powell commented the US economy is under pressure from the ongoing trade dispute. Concern of a European and Emerging market slow down also weighed on the US economy. Powell's indication of an expansionary monetary policy boosted equity markets, as investors expect a lower interest rate to encourage spending and investment. Based on Fed Fund futures, markets currently estimate a 100% probability of a rate cut at the July 31st FOMC meeting. The question remains whether we will see one or two cuts this year.

Since the 2008 financial crisis, the Central Bank maintained interest rates at zero for 7 years until 2015. Since then, the Fed has hiked rates eight times to an upper bound of 2.5% in December 2018. The London Interbank Offered Rate (LIBOR), which is the benchmark for variable rate loans, has been steadily rising following expectations of rate increases. At the same time, the "flight-to-safety" move has driven longer-term Treasury prices up. The yield curve became inverted in March this year, indicating the market's concern about a slowing economy in the short-term. Following the Fed head's statement last week, the yield curve flattened with LIBOR moving downward and the 10-year Treasury yield moving upward. After last year's bear market in bonds, rates have changed direction.

The June trade report came as a surprise with the Chinese trade surplus with the US increasing 11% month-over-month. While Chinese exports decreased, imports fell a higher rate. A number of manufactures are moving supply chains from China to other countries with lower production costs, such as Vietnam, India, Taiwan, and Malaysia. Those companies which cannot find suppliers outside of China, are suffering reduced in profit margins. More than 100 companies have thus applied for exemption from the 25% tariffs for this reason.

As we begin to enter Q2 earnings season, reports of major firms will likely be the biggest market movers in the upcoming weeks. On May 10th, President Donald Trump raised tariffs on $200 billion in Chinese goods from 10% to 25%. The full impact of these tariffs is yet to be seen in the second quarter's earnings. Also, as 40% of the S&P 500's earnings are earned overseas, the slowdown in the global economy may be reflected in US companies' revenues. JPMorgan, Bank of America, and Goldman Sachs Group are among companies due to report this week.

Other key data release this week including retail sales and industrial production, set guidance for second quarter GDP, which is currently projected at 2%. The strength of the upcoming economic data will ultimately set the path for Fed's move in the second half of the year.

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Stock Market Performance

	7/15/19	W-o-W	M-o-M	Y-o-Y
DJIA	27,334	2.0%	4.8%	9.3%
S&P 500	3,013	1.3%	4.4%	7.6%
MSCI World	2,213	0.8%	3.8%	3.7%
S&P/TSX	16,505	0.3%	1.2%	-0.3%
BSX	2,154	-1.1%	-3.0%	-19.6%
FTSE100	7,537	-0.2%	2.6%	-1.6%
DAX	12,399	-1.2%	2.5%	-1.1%
CAC	5,586	-0.1%	4.1%	2.9%
Nikkei	21,686	0.7%	2.7%	-4.0%
Hang Seng	28,555	0.8%	5.3%	0.1%
Shanghai	2,942	0.3%	2.1%	3.9%

Key Rates and Prices

Currencies	7/15/19	Month ago	Year ago
EUR	$1.13	$1.12	$1.17
GBP	$1.25	$1.26	$1.32
JPY	¥107.93	¥108.56	¥112.38
CAD	$0.77	$0.75	$0.76
CHF	$1.02	$1.00	$1.00
AUD	$0.70	$0.69	$0.74
Fixed Income			
3M LIBOR	2.32	2.40	2.34
3M Treasury Bill	2.13	2.17	1.97
2Yr Treasury Note	1.84	1.84	2.58
10Yr Treasury Note	2.10	2.08	2.83
Fed Funds Rate	2.50	2.50	2.00
Commodities			
Gold/oz.	1,408.45	1,341.85	1,241.45
Silver/oz.	15.28	14.86	15.81
Copper/lb.	2.69	2.64	2.83
Oil	60.39	52.51	71.01

Global Economic Calendar (July 15th - July 19th)

Mon:
Tues: Industrial Production (US); Labour Market Report (GB); Retail Sales (US)
Wed: MBA Mortgage Applications (US); EIA Petroleum Status Report (US)
Thurs: Retail Sales (GB); Jobless Claims (US); Money Supply (US)
Fri: Baker-Hughes Rig Count (US)