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Monthly Global Market Commentary
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High Volatility: the New Norm

By Nan Wang

The first two weeks of August saw elevated volatility in the equity markets. The Chicago Board Options Exchange Volatility Index (VIX), which reflects market estimates of future volatility, traded at the highest level since January 5th of this year. Markets have recently experienced a roller coaster ride driven by geopolitical events and macroeconomic data. During the first half of August, The S&P 500 index had an intraday move of more than 1% for 13 straight sessions. Last Friday, risk sentiments eased and the S&P 500 index ended on a positive note, although still 3% below the value at the end of July. The MSCI World Stock Index dropped by 3.6% during the same period.

Earlier this month, President Donald Trump announced 10% tariffs on an additional $300 billion of Chinese imports, to be effective on September 1st. This round of tariffs includes mostly consumer goods that will directly affect retail sales. Last Tuesday, the Trump administration announced a delay of tariffs on electronics, toys, baby products, kitchen items and certain clothing products from September 1st to December 15. The president commented that he wanted to avoid an impact on holiday shopping. Following the announcement, Chinese representatives scheduled another visit to Washington in September to continue the trade talks.

All eyes were on the Treasury market last Wednesday as the 10-year Treasury yield briefly fell below the two-year yield for the first time since 2007. Furthermore, the 30-year Treasury yield traded below the 2% level for the first time ever. The two-to-ten year inversion has historically been a recession indicator, with recession occurring within two years of the inversion.
In a growing economy, the cost of living in the future should be higher than present costs due to inflation, so investors typically demand a higher return for longer duration bonds in order to compensate for the time value of their money. An inverted yield curve signals investor's concern over the economy in the short-term; bondholders believe the central bank will cut interest rates to boost the economic growth, so they are willing to accept lower yields on longer term bonds.

In the last 50 years, a yield curve inversion occurred prior to the last seven recessions; however, the lagging period is on an average of 18 months. Past performance is not necessarily a prediction for the future. In our view, the recent low U.S. Treasury yields are mainly driven by low interest rates in other developed economies. There is currently $15 trillion worth of foreign bonds that pay negative interest rates, which make U.S. government bonds attractive to global investors. Furthermore, if the central bank acts quickly to lower the Fed Fund Target rate, the short end of the curve will be brought lower and therefore should "un-invert" the yield curve.

On the international front, Germany's second quarter GDP contracted by 0.1% as global tensions slowed down its exports. Europe worries its largest economy is entering recession. Markets sentiment eased later after Finance Minister Olaf Scholz suggested Germany could muster 50 billion euros of fiscal stimulus in case of financial crisis. Scholz said Germany has reduced its national debt to less than 60% of gross domestic product, which gives the government leeway in a crisis.

Over the last weekend, President Trump tweeted "doing very well with China, and talking!" Following the tweet, U.S. Commerce Secretary Wilbur Ross announced a sanction delay by 90 days on Huawei, the Chinese telecommunication giant. U.S. stocks continued to climb for a third day as the Trump administration signaled progress on trade negotiations.

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For the upcoming week, investors will once again focus on the U.S. central bank. Release of the July Federal Open Market Committee (FOMC) meeting minutes will give more hints on central bankers' view of the economy. More importantly, Fed Chairman Jerome Powell will give remarks at the annual central banking symposium in Jackson Hole, Wyoming, on Friday. Markets will watch closely for hint of how accommodative the monetary policy will be.

Even though we may currently have a break from the trade war, we think we are still a long way from the U.S. and China reaching a final agreement. Global economic growth is slowing down; the U.S.' economy is holding up relatively well given the low unemployment number, strong retail sales data, and moderate inflation. However, headwinds will be felt from trading partners. As trade negotiations progress, we expect to see continued market swings in the short-term. In this new world of ultra-low interest rates and high volatility we view gold as a safe-haven commodity, a good diversification in many portfolios. At the July Investment Policy Committee meeting, we added to our existing gold exposure in the LOM Balanced Fund and have since gained an additional 6% on the position. We are also adding to our equity holdings on market dips.

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Stock Market Performance

	8/19/19	W-o-W	M-o-M	Y-o-Y
DJIA	26,180	1.1%	-3.6%	2.0%
S&P 500	2,927	1.5%	-1.7%	2.7%
MSCI World	2,109	-0.4%	-3.9%	-1.4%
S&P/TSX	16,295	0.4%	-1.2%	-0.2%
BSX	1,921	0.3%	-9.8%	-34.4%
FTSE100	7,190	-0.5%	-4.2%	-4.9%
DAX	11,715	0.3%	-4.4%	-4.1%
CAC	5,372	1.2%	-3.3%	0.5%
Nikkei	20,563	-0.6%	-4.2%	-7.7%
Hang Seng	26,292	1.8%	-8.6%	-3.4%
Shanghai	2,883	2.4%	-1.4%	8.0%

Key Rates and Prices

Currencies	8/19/19	Month ago	Year ago
EUR	$1.11	$1.12	$1.14
GBP	$1.21	$1.25	$1.27
JPY	¥106.55	¥107.71	¥110.50
CAD	$0.75	$0.77	$0.77
CHF	$1.02	$1.02	$1.00
AUD	$0.68	$0.70	$0.73

Fixed Income

3M LIBOR	2.14	2.26	2.31
3M Treasury Bill	1.90	2.07	2.04
2Yr Treasury Note	1.54	1.82	2.61
10Yr Treasury Note	1.60	2.06	2.86
Fed Funds Rate	2.25	2.50	2.00

Commodities

Gold/oz.	1,502.09	1,425.37	1,185.05
Silver/oz.	16.99	16.21	14.81
Copper/lb.	2.61	2.75	2.69
Oil	55.81	55.63	65.91

Global Economic Calendar (August 19th - August 23rd)

Mon: E– Commerce Retail Sales (US)
Tues: Redbook (US)
Wed: MBA Mortgage Applications (US); EIA Petroleum Status Report (US) Existing Home Sales (US)
Thurs: Jobless Claims (US); Money Supply (US); Retail Trade (NZ); Leading Indicators (US)
Fri: Baker-Hughes Rig Count (US)