LOM OFFSHORE FINANCIAL SERVICES

Monthly Global Market Commentary
September 3, 2019

Geopolitical Turmoil Continues

Most global indices gained last week as investors hoped for an ease in trade tensions. The MSCI World Index gained 2.1%, while the S&P 500 Index ended the week 2.8% higher. U.S Treasuries continued the rally with government bonds notching their best monthly return since 2008. Trade progress between the U.S. and China and higher odds of a no-deal Brexit marked the headlines.
Early last week, President Trump said China "wants to make a deal" at the G-7 summit meeting. China's Vice Premier Liu He said his side wants to "resolve the problems through negotiation and cooperation in a calm manner." The two countries discussed in person discussions to be held in Washington in September. Investors rapidly caught these signs as possible improvement of the situation, equity indices rebounded across the world.

Just as investors renewed optimism for trade progress, trade tensions heated up again over this past weekend. The U.S. imposed a new round of tariffs on Sunday, with 15% duty on $85 to $100 billion of Chinese goods. China on the other hand, began new duties on U.S. crude oil. One day later, China lodged a complaint against the U.S. at the World Trade Organization over tariffs. The Chinese yuan fell to 7.2 versus the greenback in offshore trading, its lowest level in more than a decade.

The two parties are due for a meeting early September; however, the latest escalation just dimmed the chance for high ranking Chinese officials to visit Washington. With China's Communist Party celebrating its 70th anniversary on October 1st, many analysts think that it's unlikely President Xi will make any major concessions prior to that date. Investors still hope that the 15% tariffs on $200 billion of goods scheduled for December 15th will be delayed or cancelled. Experts believe that in order for the trade dispute to achieve a breakthrough, major progress such as the U.S. lifting sanctions on Chinese technology giant Huawei, or China restarting purchases of U.S. agricultures is required.

Over in Europe, the UK Prime Minister Boris Johnson announced his intent to suspend Parliament for five weeks until mid-October, making it harder for lawmakers to block a hard Brexit. The UK government continues the negotiations with the EU about a new deal but there has not been much progress. PM Johnson has made it clear that he wants to push through Brexit no matter whether the two sides reach a deal or not. As we approach October 31, the probability of a no-deal Brexit rises significantly. In such a scenario, European markets would receive a big shock given the UK is currently the financial center of Europe. Global markets will likely also feel the spillover effect as European economies continue to slow.

Bonds continued to rally globally last week as investors seek safe assets in a world of high volatility. Fear of a global growth slowdown has also heightened expectations for monetary easing in major economies. Currently, a record $17 trillion of global debt has a negative yield. Yet demand for bonds remain high as buyers seek to benefit from further increase in bond prices and to avoid greater losses in equity markets.

For the upcoming week, the focus will be on economic data as investors look for the impact of tariffs on U.S. economy. Important data points to watch include the official U.S. job report and the Institute for Supply Management (ISM) surveys. With more challenges to overcome before reaching a trade deal, we think the S&P Index will likely remain range bound between 2800 and 3000. Investors should proceed cautiously and opportunistically.

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Stock Market Performance

	9/3/19	W-o-W	M-o-M	Y-o-Y
DJIA	26,049	1.1%	-1.6%	0.3%
S&P 500	2,904	1.2%	-1.0%	0.1%
MSCI World	2,137	1.5%	-0.6%	-1.7%
S&P/TSX	16,381	1.2%	0.7%	0.7%
BSX	1,961	2.2%	-9.4%	-32.9%
FTSE100	7,259	2.4%	-2.0%	-3.3%
DAX	11,908	1.5%	0.3%	-3.6%
CAC	5,460	1.4%	1.9%	0.9%
Nikkei	20,625	0.8%	-2.2%	-9.2%
Hang Seng	25,528	-0.5%	-5.2%	-7.9%
Shanghai	2,930	1.0%	2.2%	7.7%

Key Rates and Prices

Currencies	9/3/19	Month ago	Year ago
EUR	$1.10	$1.11	$1.16
GBP	$1.21	$1.22	$1.29
JPY	¥105.83	¥106.59	¥111.07
CAD	$0.75	$0.76	$0.76
CHF	$1.01	$1.02	$1.03
AUD	$0.68	$0.68	$0.72
Fixed Income			
3M LIBOR	2.13	2.24	2.32
3M Treasury Bill	1.97	2.06	2.10
2Yr Treasury Note	1.44	1.71	2.63
10Yr Treasury Note	1.43	1.85	2.86
Fed Funds Rate	2.25	2.25	2.00
Commodities			
Gold/oz.	1,548.33	1,440.60	1,200.99
Silver/oz.	19.11	16.20	14.51
Copper/lb.	2.55	2.60	2.71
Oil	53.10	55.66	69.80

Global Economic Calendar (September 3rd - September 6th)

Tues: Construction Spending (US); General Services PMI (CN)
Wed: MBA Mortgage Applications (US); Intl Trade (US)
Thurs: Jobless Claims (US); Money Supply (US); Household Spending (JP)
Fri: Baker-Hughes Rig Count (US); Unemployment Situation (US)

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