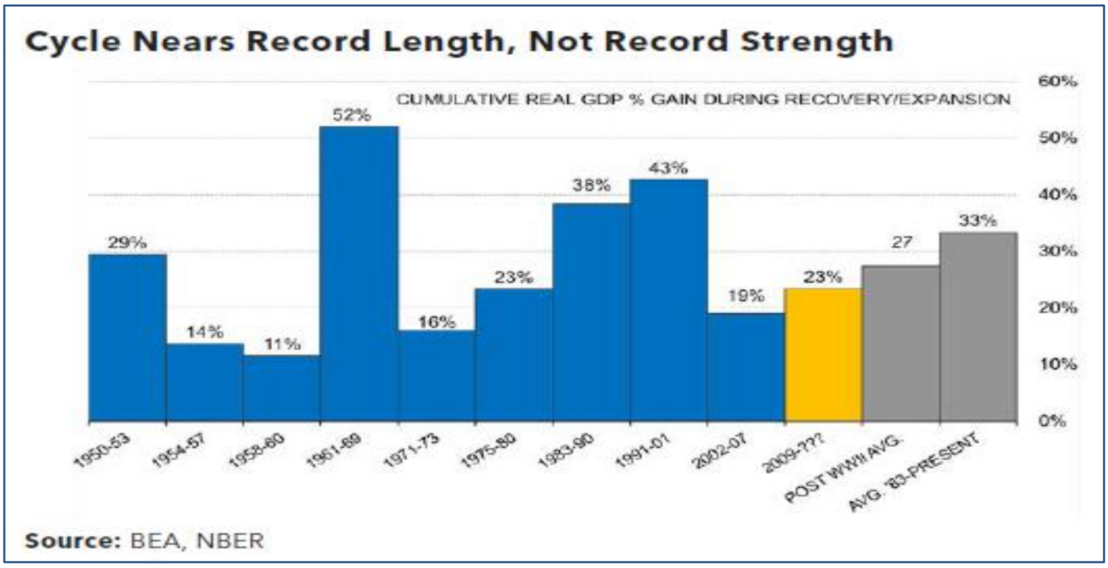
Market review November 2018

In 2017, all the economic stars seemed to be aligned: synchronised global growth, coordinated and accommodating policies of central banks (low interest rates), low inflation, etc. This unmitigated harmony in the style of "goldilocks" (in reference to the fairytale "Goldilocks and the Three Bears" and its famous line: "not too hot, not too cold") seems to have been shattered in 2018.

Firstly, monetary policies have been out of sync, as the US Federal Reserve has become more restrictive while the others have maintained their accommodating policies. The increasing scarcity of USD liquidity has had its first casualties in some emerging markets (Argentina, Turkey). Aided by a tax reform on an unexpected scale at this stage of the economic cycle, US growth has bounced back to above 3%, a rate which has not been seen for years.



3rd longest period of economic growth in the US, albeit on a small scale.

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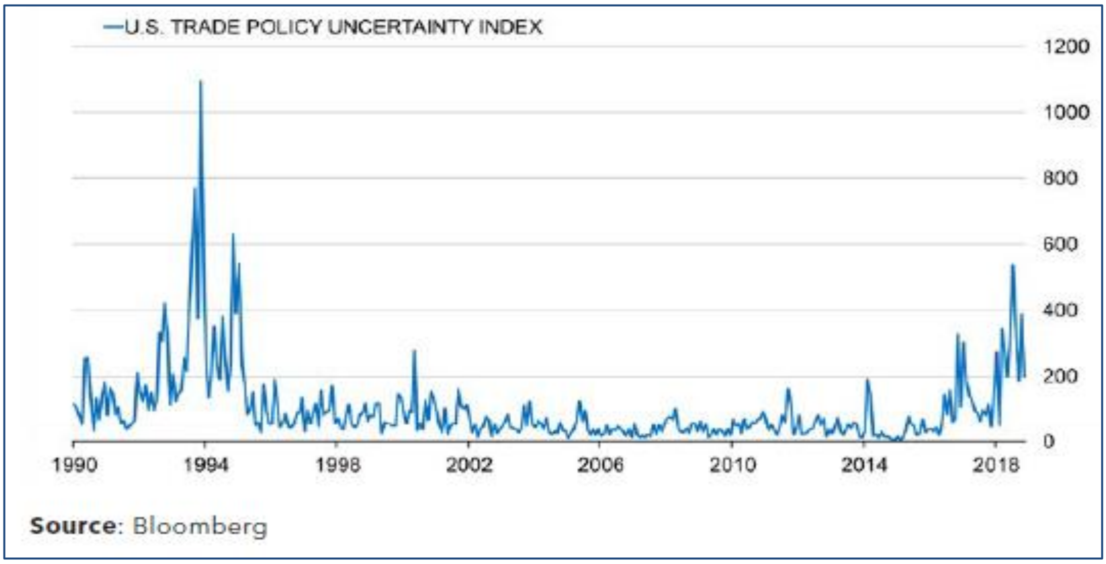
From February onwards, however, some black clouds started to appear on the global horizon. Both Europe and China have shown signs of weakness (especially France and Germany). The situation was exacerbated when President Trump announced his initial intention to renegotiate, in a rather undiplomatic and unilateral manner, a number of treaties and trade agreements (Nafta, China, Europe) to appease his electoral base in the run-up to the mid-terms.



End of excessive globalisation?

A wave of panic then took hold of global stock exchanges in October. The US mid-terms somewhat relieved the situation for investors at the beginning of November. But the stock markets fell once again following the dramatisation of the Sino-US trade war, which came to a head at the G-20 summit in Argentina in late November. The nerves were palpable as some investors capitulated (the FAANG stock that had been carrying the stock markets up to that point entered a correction phase).

Market trends at end of November

			Equities in Local Currencies					
End of November	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	UK	Hong Kong
Perf 1 Month	0.96%	1.79%	-0.76%	-1.76%	2.07%	0.17%	-2.07%	6.11%
Perf 3 Month	-6.17%	-4.87%	-6.48%	-7.45%	-3.42%	0.72%	-6.08%	-4.95%
Perf YTD	-2.95%	3.24%	-9.44%	-5.81%	-9.62%	-3.67%	-9.20%	-11.41%

	Commodities				Currencies vs EUR		
End of November	WTI Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	-22.02%	0.64%	3.44%	-0.10%	-0.48%	-0.12%	0.90%
Perf 3 Month	-27.03%	1.76%	3.73%	2.49%	-0.31%	0.88%	0.59%
Perf YTD	-15.71%	-6.18%	-14.47%	6.06%	5.33%	0.07%	3.49%

			Bloomberg Indices Bonds Total returns			
End of November	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year	German 10 Year	Emerging Sovereign USD
Perf 1 Month	0.31%	0.60%	0.24%	1.39%	0.81%	-0.16%
Perf 3 Month	-1.66%	-0.84%	-0.04%	-0.34%	0.37%	-0.22%
Perf YTD	-3.16%	-1.79%	-0.23%	-1.81%	4.75%	-3.77%

Source Bloomberg 30/11/18

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As shown by the cartoon on the first page, the media intervention of the US Federal Reserve Governor Jerome H. Powell once again saved the markets from collapse, as his speech was deemed to be more accommodating. If the US Federal Reserve still indicates a final rate increase for this year at the end of December, the markets no longer seem to be convinced by three future increases of 2019 in any way, shape or form.

This welcome intervention is certainly not the result of chance. Admittedly, the Fed is the guarantor of US monetary policy, but it cannot ignore the global situation or the impact that its interest rate policy and the strength of the dollar have on global trade. While he was still a young Finance minister, former French President Valéry Giscard d'Estaing described the advantage gained by the US from the unique position of its currency in the global economy as an "exorbitant privilege", with the main benefit being that demand for the dollar is used to finance public debt at a lower cost.

Mr. Powell's more conciliatory comments helped to defuse the G-20 situation a few days later. Therefore, China and the US have, for the time being, decided to bring a welcome halt to their escalating retaliatory economic measures. Markets welcome this superficial armistice for now. But let us not fool ourselves; that this latent war, with issues of global economic supremacy at stake, will continue beyond the grace period of 3 months. Irrespective of the outcome.

Asymmetrical relationship

2019 therefore promises to be a complicated year.

Where does Europe stand in all this commotion? The region is still growing, although considerable disparities have emerged. Some countries are stagnating and flirting with a technical recession. The political climate is no longer relaxed and most governments are walking on eggshells with every decision. There is a growing sense of protest in most major countries (Germany, France, Italy, Spain, etc.). With the exception of Germany where indebtedness has been reduced, the situation of the others has worsened in the past decade. Room for manoeuvre is therefore restricted as budgets are being tightened. Italy is trying to force through a recovery plan and more fiscal laxity. France may follow suit ... Recent events in France point to significant social tension and a growing divide between large cities which benefit from the pulse of international economic activity and rural territories which are left behind by globalisation.

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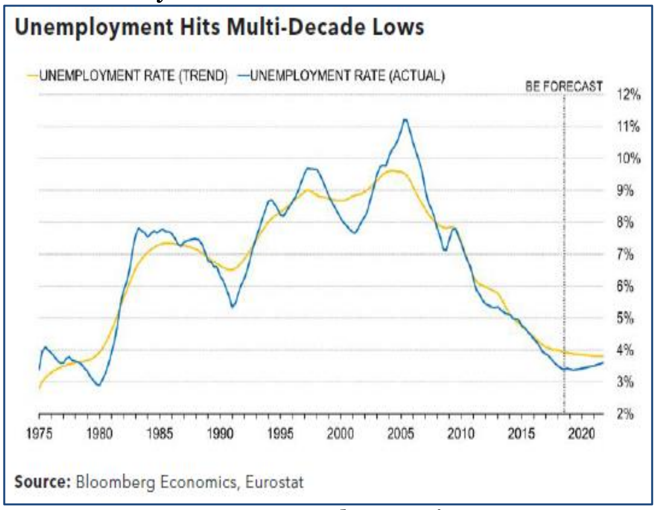
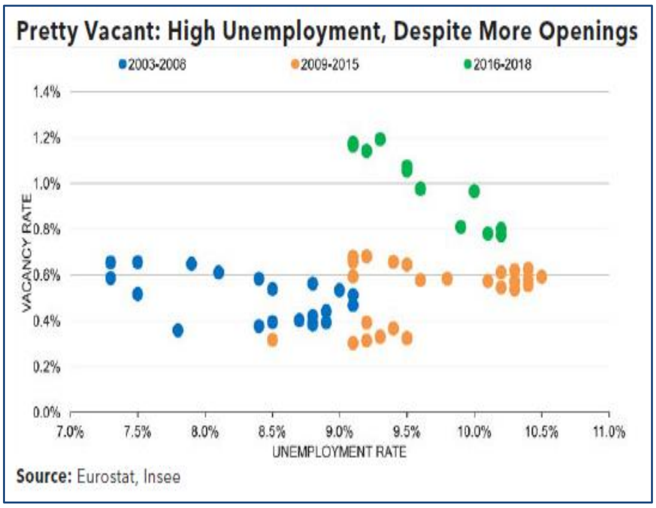
The very structure of the labour market is striking in this regard. In contrast to Germany, which has seen its unemployment rate decline sharply in recent years (demographic atrophy has also been a factor), France still endures high unemployment (around 9%); this is despite the fact that we are seeing an increasing number of unfilled positions. It is a structural problem of mobility and training. There is no short-term miraculous cure. In the past, successive governments have resorted to indebtedness. But in this aspect, room for manoeuvre is restricted, with debt approaching 100% of GDP and a poorly balanced 2019 budget.
If Italy has recently joined the list of unpleasant surprises that could destabilise markets, France could be the second mystery guest in 2019. We do not believe that the premium that rewards bond investors is sufficiently lucrative in relation to the risks incurred.



Unemployment in Germany



Unemployment in France

Suffice it to say that the European Central Bank has its work cut out for 2019.

An event is also approaching at a rate of knots: Brexit! The months go by, forecasts are rife but the closer we get to the fateful date (29 March 2019), the greater the lack of certainty as we enter the final stages (deal, no deal, change of government, etc.)

This month of December could bring some calm to proceedings with a halt to the trade war. But 2019 promises to pose a number of economic and geopolitical challenges. Although there is much uncertainty about, growth can still very much be a reality. Greater flexibility will therefore be necessary in order to anticipate phases of volatility and also take advantage of market aberrations.

Merry Christmas season.

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