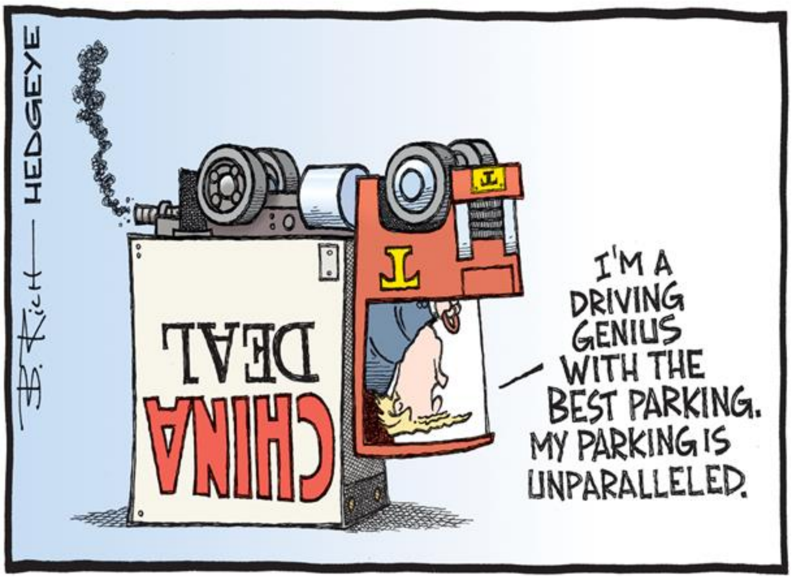
Market review September 2019



We can only rejoice at the performance of the stock indices throughout 2019. However, Q4 2018 and the fear of a large-scale trade war did not augur well this time last year. That was then compounded by the threat that the Fed would raise interest rates, which caused an extreme reversal of the markets at the end of 2018.

The storm clouds have not blown over. Instead, they have got even murkier. It seems that markets are no longer fixated on the multiple twists and turns of Brexit or even the trade war. Only the pound sterling has picked up in recent weeks in the hope that an end to the process, albeit a delayed one, is just around the corner. It also seems that the prospect of a hard Brexit has been ruled out.

Market trends at end of September 2019

			Equities in Local Currencies					
End of October	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	UK	Hong Kong
Perf 1 Month	2.45%	2.04%	0.98%	0.92%	0.14%	1.40%	-2.16%	3.12%
Perf 3 Month	2.10%	1.92%	3.97%	3.82%	3.19%	3.03%	-4.46%	-3.14%
Perf YTD	18.56%	21.17%	20.09%	21.12%	8.40%	21.24%	7.73%	4.11%

		Commodities				Currencies vs EUR		
End of October	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	0.20%	-0.90%	2.75%	1.26%	-2.17%	-2.04%	2.97%	-1.05%
Perf 3 Month	-7.51%	-7.58%	7.00%	-2.19%	-0.16%	-0.39%	5.75%	-0.21%
Perf YTD	19.31%	11.95%	17.97%	-2.82%	2.71%	4.36%	4.28%	2.36%

			Bloomberg Indices Bonds Total returns					
End of October	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
Perf 1 Month	0.67%	0.30%	-0.92%	0.16%	-2.99%	1.08%	0.81%	0.53%
Perf 3 Month	1.67%	2.35%	0.44%	3.01%	0.37%	2.24%	-0.29%	0.82%
Perf YTD	7.03%	8.85%	7.43%	10.07%	13.68%	10.17%	9.64%	11.38%

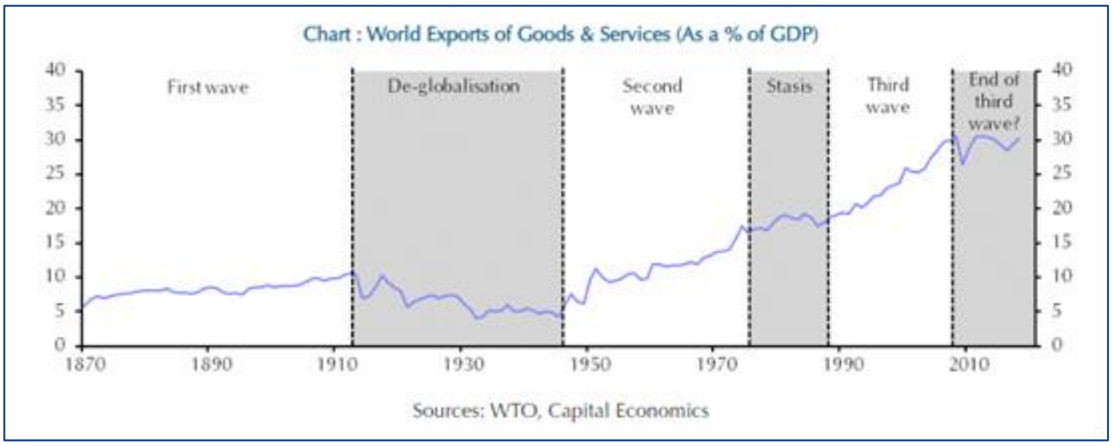
Source : Bloomberg 31/10/19.

Although the markets seem to be ignoring the economic problems, the figures do not lie. In view of the uncertain outlook, global growth is now slowing down. A global recession is still some way off.

Weisshorn Asset Management SA – 7, rue des Alpes, Case Postale 1800. CH – 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

But we are seeing particular weaknesses for economies strongly dependent upon trade and exports (not least Germany).

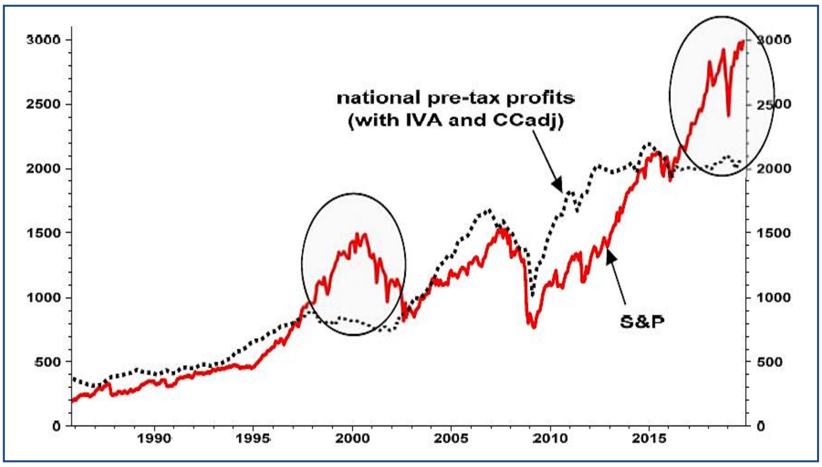
The warning signs are there for all to see: latent trade wars, the desire to take back control of national destiny (Brexit, Salvini, etc.), middle-class protests around the world, etc. We take the view that a dematerialisation of the economy is not very likely. On the other hand, we could certainly see an end to this integration phenomenon. And what about the consequences? Slower economic progress.



Global growth is slowing down. In the short term, stock markets will focus on two aspects: the supporting monetary policies of central banks and the growth of corporate profits.
The central banks of most countries have lowered their interest rates. The latest meeting of the US Federal Reserve suggests that rates would only be lowered at a later date if the US economy was beset by any distinct weakness. We should not therefore hold our breath for further support in this respect.

In terms of profits, we have seen stagnation which is no longer related to the upturn in markets.
However, we should note that 76% of companies which have already published their quarterly results have exceeded the consensus.

The S&P 500 index seems to be out of touch with profits, as was the case at the end of the 1990s.



Source: SG, Datastream

The policy of low, or even negative, rates distorts the reflection prism. However, we must maintain our critical sense. The current market value should reflect future profit expectations. However, if we disregard 2018, which was marked by a very beneficial tax reform for US companies, these profits are stagnant.

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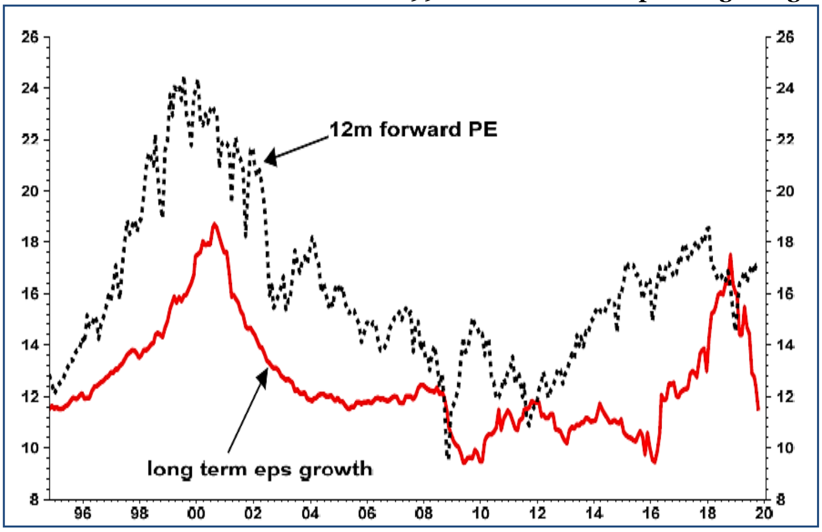
The US market valuation was inflated at the end of the 1990s based on the hope of high long-term profit growth.



Source: SG, Datastream

This discrepancy between profit stagnation and market progress is a cause for concern in the short term because an adjustment will be necessary sooner or later.

We are in a downturn. The next question that comes to mind is what will spur growth in the future... At the beginning of the 2000s, from 2003 onwards, China was the engine with its immense industrial and infrastructure-based development. It was marked by the greatest migration in the history of humanity, from the countryside to the city. This movement spread to all emerging markets.

The boom which followed the 2008 crisis was, admittedly, not only supported by China but also by other forces which took the reins. Technological advances, which blossomed at the start of the 2000s, enjoyed unparalleled success in the space of a decade. Their development may have a significant impact on human and geopolitical relations. Economic exchanges have already raised many questions. Indeed, in the space of a decade, disparities in wealth have grown and reached similar levels to those seen at the start of the previous century, which pre-dated the deglobalisation phase and the major world wars.

How is global growth going to be propelled in the future? It must cover all supporting factors common to previous cycles: not only population growth, rise in middle-class purchasing power and technological advances, but also new constraints by which we are all affected: optimisation of the consumption of resources, transparency requirements on consumers and citizens. Christine Lagarde, recently appointed to the ECB, has already proposed several measures in this regard.

Emerging markets could fulfil many of these criteria. It would be simplistic to generalise as this concept covers a number of particular features. We believe that the age pyramid in many Asian and African countries, the rise in consumption and the adoption of new technologies without existing infrastructure constraints could spark off the next cycle.

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