



## Time for Clear Heads

– James Klemptner, CFA

It all seems a bit breathless at the moment, doesn't it? Long gone are the reassuringly (if artificially) benign times of 2017 where markets were bid up seemingly without any heed being paid to what was going on in the real world. Today, hunkered down in the City's metaphorical ivory towers, there can be no doubt there's plenty going on out there.

Quite a lot of the noise is unhelpful. Barely a day goes by without a Presidential tweet, a Brexit deadline, an inverted yield curve or data surprise to knock the market off its stride. Is it right, however or are the fears overdone presently?

It is easy enough to paint a negative picture at the moment. We are now over a decade past the financial crisis and we are in the longest (and one of the most tepid) economic expansion in history. Simply by sheer dint of time passed it is tempting to think growth can't possibly go on for much longer. But this expansion was pretty long in the tooth a couple of years ago and even then there were plenty of commentators seeing the cracks in growth starting to appear. They were illusory, however. Equity and bond markets have risen sharply this year, driven by the prospect of easier financial conditions, and valuations have become stretched in some areas, notably in fixed income. The economic backdrop has deteriorated, corporate earnings are under pressure especially in sectors most exposed to manufacturing, and markets are largely discounting sizeable policy easing by central banks in coming months.

The extent of the global slowdown needs to be kept in perspective; trade and manufacturing are contracting but the service sector continues to grow, employment remains strong and the consumer is generally in good shape. There are no signs of systemic financial problems and an ensuing liquidity crunch nor of capacity shortages, inflation and a sudden tightening of policy. With inflation subdued central banks have considerable flexibility in keeping policy ultra-loose for much longer, thereby extending this extraordinary cycle.

Furthermore, the corporate sector is in a solid position financially and while it is true to asset that levels of corporate

debt have increased it is also a pretty rational response in response to all time low levels of interest rates. Clearly we live in unusual times. There is about USD15 trillion of government bond issuance in negative territory including the entire German and Swiss yield curves and even the Spanish and Portuguese curves are negative in the short end. It goes without saying that these levels are without precedent. Fundamentally they are only a good deal if one believes protracted recessionary or deflationary periods lie ahead. Global growth is paltry but positive and so the prices of a large proportion of government debt worldwide does not seem to reflect the macro backdrop as it stands today.

The apparent antipathy on the part of market participants may yet prove to be correct. The past year neatly demonstrates the unpredictability of politics and its ability to provide either a positive or a negative impetus to markets. Good fundamental analysis should be rewarded in the long run. Periods of market uncertainty and volatility such as these present a good opportunity to find undervalued assets that can be invested in for the long term. As a result, while it is near impossible to predict political outcomes as a source of investment theses, it is imperative to remain alive to identifying where the markets have mispriced the odds of an outcome compared to other available data.

The falls in interest rates this year, both at the short end and throughout the yield curve, across all government bond markets, provides a strong underpinning to equities and other risk assets, offsetting the more challenging conditions faced by the corporate sector. Against a backdrop of heightened uncertainty some consolidation is overdue, but we believe that the cycle has further to run and any falls in markets will give rise to opportunities to add to risk assets, while at all times maintaining careful diversification in portfolios to provide protection during inevitable shorter term setbacks. Ultimately most equity markets remain reasonably priced and the overarching cautious mood does not suggest the collective exuberance or mania that could so easily tip into a recession. Nevertheless care is warranted from investors today and our central bankers and politicians must demonstrate a similar level of prudence.



## The Marketplace

- Attacks on oil production facilities in Saudi Arabia cause a rise of as much as 20% in oil after market close
- The US-China trade war talks marginally progressed
- Brent crude returned -2.1% (Friday's close), ending the week at \$60.2 per barrel
- Gold fell 1.8% ending the week at \$1490.3 an ounce

## Market Focus

### US

- The jobs report was slightly weaker than expected, with the headline number reading 130,000.
- August core CPI print was higher than expected at +0.3% mom (vs +0.2% expected), with PPI rising to 1.8% (vs 1.7% expected).
- US equities underperformed global equities by 30 basis points, returning only 1.0%.
- US Treasuries fell 2.3% on the week, with US corporate bonds falling 2.2%.

### Europe

- The ECB cut its deposit rate to -0.5% (a 10 basis point cut) and relaunched its quantitative easing programme, stating that it will be purchasing €20bn of securities every month from November.
- European markets gained following this announcement of quantitative easing, ending the week up by 0.9%.

- Germany's institute for economic research cut its growth forecast for this year by 10 basis points to 0.5%, and next year's forecast to 1.2% (from 1.7%).
- European government bonds fell 1.2% with their investment-grade counterparts falling 0.7%.

### UK

- Wage data reported basic earnings growth of 3.8% year-on-year, 10 basis points above the forecasted figure.
- MPs rejected the possibility of holding a mid-October general election for the second time.
- Equity markets gained 1.1% over the week, bringing their year-to-date figure to 13.2%.
- Gilts fell by 2.9% over the week, with their investment grade counterparts also falling by 1.6%.

### Asia/Rest of The World

- August trade data for China printed that the trade balance stood at \$34.8bn compared to \$44.3bn expected, primarily due to exports declining unexpectedly.
- Chinese stocks advanced as the US and China trade war outlook turned more positive and the expectations of more stimulus from Beijing increased.
- Japanese GDP for Q2 produced a disappointing figure as the data printed a growth of 1.3% vs. an estimate of 1.8% (annualised).

Asset Class/Region	Currency	Currency returns			
		Week ending 13 Sept. 2019	Month to date	YTD 2019	12 months
<b>Developed Market Equities</b>					
United States	USD	1.0%	2.8%	21.2%	5.0%
United Kingdom	GBP	1.1%	2.4%	13.2%	5.6%
Continental Europe	EUR	0.9%	3.1%	20.4%	7.9%
Japan	JPY	4.7%	6.5%	9.2%	-3.6%
Asia Pacific (ex Japan)	USD	1.9%	4.4%	10.6%	3.2%
Australia	AUD	0.5%	1.5%	22.2%	13.6%
Global	USD	1.3%	3.2%	18.9%	4.0%
<b>Emerging markets equities</b>					
Emerging Europe	USD	2.4%	5.0%	19.2%	20.8%
Emerging Asia	USD	2.0%	4.4%	8.4%	0.7%
Emerging Latin America	USD	1.1%	4.2%	8.0%	15.1%
BRICs	USD	2.1%	4.7%	12.4%	9.7%
MENA countries	USD	-1.7%	-1.5%	3.0%	3.8%
South Africa	USD	4.5%	9.3%	7.8%	6.8%
India	USD	3.3%	1.2%	1.2%	0.1%
Global emerging markets	USD	1.9%	4.4%	8.5%	3.5%
<b>Bonds</b>					
US Treasuries	USD	-2.3%	-2.5%	6.4%	8.8%
US Treasuries (inflation protected)	USD	-1.9%	-2.3%	7.1%	6.1%
US Corporate (investment grade)	USD	-2.2%	-2.5%	11.1%	10.8%
US High Yield	USD	0.2%	0.5%	11.5%	6.8%
UK Gilts	GBP	-2.9%	-2.9%	8.3%	9.8%
UK Corporate (investment grade)	GBP	-1.6%	-1.6%	9.3%	8.8%
Euro Government Bonds	EUR	-1.2%	-1.5%	8.8%	9.8%
Euro Corporate (investment grade)	EUR	-0.7%	-1.1%	6.5%	5.8%
Euro High Yield	EUR	0.3%	0.4%	9.9%	6.0%
Japanese Government	JPY	-1.1%	-1.7%	3.1%	4.4%
Australian Government	AUD	-0.4%	-1.8%	9.1%	12.0%
Global Government Bonds	USD	-1.8%	-2.1%	5.8%	6.9%
Global Bonds	USD	-1.4%	-1.5%	5.9%	6.5%
Global Convertible Bonds	USD	0.6%	1.2%	7.6%	3.0%
Emerging Market Bonds	USD	-1.8%	-0.4%	8.3%	9.5%

Asset Class/Region	Currency	Currency returns			
		Week ending 13 Sept. 2019	Month to date	YTD 2019	12 months
<b>Property</b>					
US Property Securities	USD	-1.5%	-0.1%	22.3%	10.9%
Australian Property Securities	AUD	-0.7%	-3.4%	16.3%	9.6%
Asia Property Securities	USD	1.5%	3.8%	9.8%	12.8%
Global Property Securities	USD	-0.3%	1.0%	17.4%	10.3%
<b>Currencies</b>					
Euro	USD	0.4%	0.8%	-3.3%	-5.2%
UK Pound Sterling	USD	1.4%	2.5%	-2.2%	-4.9%
Japanese Yen	USD	-1.2%	-1.6%	1.4%	3.5%
Australian Dollar	USD	0.5%	2.3%	-2.3%	-4.3%
South African Rand	USD	1.4%	4.2%	-1.3%	1.6%
Swiss Franc	USD	-0.3%	0.0%	-0.8%	-2.3%
Chinese Yuan	USD	0.5%	1.1%	-2.8%	-3.1%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	0.8%	2.5%	5.5%	-5.0%
Agricultural Commodities	USD	3.8%	2.6%	-7.8%	-8.9%
Oil	USD	-2.1%	-0.3%	11.9%	-23.0%
Gold	USD	-1.8%	-2.2%	16.3%	23.8%
Hedge funds	USD	-0.2%	0.3%	5.6%	-0.2%

For more information, please contact your adviser or alternatively contact:

**Financial Partners Ltd.**  
泛柏資產管理有限公司  
9th Floor, Centre Mark II  
305-313 Queen's Road Central  
Sheung Wan, Hong Kong

Tel +852 2827 1199  
Fax +852 2827 0270  
[client.services@f-p.hk](mailto:client.services@f-p.hk)  
[www.f-p.hk](http://www.f-p.hk)

### Important notes

This communication is issued by Financial Partners Limited 泛柏資產管理有限公司 and/or a Financial Partners' related company (collectively, and individually "FP") solely to its clients, qualified prospective clients or institutional and professional investors. Unless stated otherwise, any opinions or views expressed in this communication do not represent those of FP. Opinions or views of any FP company expressed in this communication may differ from those of other departments or companies within FP, including any opinions or views expressed in any research issued by FP.<sup>1</sup> P may deal as Distributor or Agent, or have interests, in any financial product referred to in this email.<sup>1</sup> P has policies designed to negate conflicts of interest. Unless otherwise stated, this e-mail is solely for information purposes.

This message may contain confidential information. Any use, dissemination, distribution or reproduction of this information outside the original recipients of this message is strictly prohibited. If you receive this message by mistake, please notify the sender by reply email immediately.

Unless specifically stated, neither the information nor any opinion contained herein constitutes as an advertisement, an invitation, a solicitation, a recommendation or advice to buy or sell any products, services, securities, futures, options, other financial instruments or provide any investment advice or service by FP.

No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any figures, forecasts, prospects or returns (if any) contained in the message. Such figures, forecasts, prospects or returns are by their nature subject to significant uncertainties and contingencies. The assumptions and parameters used by FP are not the only ones that might reasonably have been selected and therefore FP does not guarantee the sequence, accuracy, completeness or timeliness of the information provided herein. None of FP, its group members or any of their employees or directors shall be held liable, in any way, for any claims, mistakes, errors or otherwise arising out of or in connection with the content of this e-mail.

This e-mail and any accompanying attachments are not encrypted and cannot be guaranteed to be secure, complete or error-free as electronic communications may be intercepted, corrupted, lost, destroyed, delayed or incomplete, and/or may contain viruses.<sup>1</sup> P therefore does not accept any liability for any interception, corruption, loss, destruction, incompleteness, viruses, errors, omissions or delays in relation to this electronic communication. If verification is required please request a hard-copy version. Electronic communications carried within the FP system may be monitored.