



## When Doves Cry

– Alex Harvey, CFA

There is an old proverb that ‘one swallow does not make a summer’, so what should one read into the dole of doves that flew over Washington last week? Without wanting to lean too heavily towards the US in this week’s blog, the policy decisions that are announced across the pond remain key to the drivers of global risk appetite and asset pricing today. With no explicit change to the policy rate, but a wholesale change to the committee’s forward guidance on policy, does this portend an economic downturn or are the doves extending an olive branch to those who might otherwise take flight (or indeed to Mr Trump, from Mr Powell)?

The Federal Reserve last week completed a remarkable volte-face following the change in language accompanying the December rate hike and their previously steadfast commitment to running down the Fed’s balance sheet. Of the 17 dots that comprise the ‘Dot Plot’ – an estimate of the future federal funds rate by each member of the rate-setting committee – nine of them revised their year end 2019 forecast lower at last week’s meeting; most of those by at least two hikes. The futures market now discounts a zero probability of any hikes in 2019 and a now 64% chance of a rate cut, of which one third implies two cuts. Indeed, just last Friday one of the more closely watched US yield curve measures<sup>1</sup> inverted for the first time since 2007. The ensuing rally in treasuries has seen yields crushed around the world as expectations further afield of more hawkish policy dissipate (notwithstanding the Norges Bank who hiked by 25bps the day after the Fed release).

Data has been mixed. We have some leading indicators that still point towards economic growth, and seemingly robust labour markets around the world with unemployment low and falling, we acknowledge the latest weak non-farm payroll print in the US; whether this continues will be key. Contrast that with the recent poor European PMI numbers – notably in German manufacturing, an historic precursor of European economic health – and the fundamental backdrop could be shifting. Today’s positive IFO<sup>2</sup> survey – both the actual numbers and the upside to consensus – provides a much-needed short term boost.

We would not argue against being in the latter stages of a decade long rally, but we think at this stage we are a few swallows short of calling the summer. History tells us that money can still be made late in the cycle, and with investors carrying the most cash today since January 2009<sup>3</sup> – not far off levels at the most painful point of the crisis – we believe that there is a more than zero probability that data could surprise to the upside. The Fed has taken any hikes off the table for the foreseeable future, and this has created some volatility, but we think this serves to extend the cycle further. And with electioneering soon to start in the US we should expect more conciliatory dialogue in the ongoing Sino-US trade war, which should be welcomed. Stay invested, stay diversified, and Princely gains may await those who play the Fed’s long and patient game.

<sup>1</sup> 10yr US treasury less 3 month treasury bill

<sup>2</sup> The IFO business survey, published monthly by CESifo Group, is a closely watched leading indicator of German economic activity.

<sup>3</sup> BoAML Global Fund Manager Survey



## The Marketplace

- Brent crude had a flat week ending at \$67.10 a barrel
- Gold rose 0.8% to \$1313 per ounce
- Developed market bond yields at record lows as US 10-year treasury curve inverts
- Federal Reserve lowers growth and inflation outlook

## Market Focus

### US

- US equities fell -0.8% last week
- The Federal Reserve left rates unchanged at last Wednesday's policy meeting and projects zero interest rate hikes in 2019, down from the committee's December projection of two hikes. The Fed's projections for economic growth and inflation were both slightly downgraded to 2.1% and 1.8% respectively
- The US Treasury 3-month/10-year yield curve inverted for the first time since 2007. The yield on the US 10-year Treasury note fell 15 basis points to 2.44%
- President Trump was partially exonerated as the US Attorney General claimed the report by Special Counsel Robert Mueller found no direct evidence of collusion with Russia during the 2016 presidential election

### UK

- The EU agreed a two-week Brexit extension until the 12th April in order to hold a third vote on the Withdrawal Agreement. If that vote fails, the UK would have to

- decide a way forward by the 12th of April deadline.
- The UK unemployment rate fell to 3.9% in the three months to January, the lowest level in more than 44-years despite mounting Brexit uncertainty
- Inflation rose to 1.9% in February from 1.8% in January but remains slightly below the Bank of England's 2% target rate
- UK equities fell -0.3% on the week

## Europe

- The ECB has raised concerns over the proposed merger of Deutsche Bank and Commerzbank
- Google was fined €1.49 billion by the EU in an antitrust ruling around exploiting its position as the world's biggest online advertising broker
- The flash eurozone manufacturing PMI fell deeper into contraction territory in March, falling to 47.6 from 49.3 in February. Germany's manufacturing PMI fell to a 6-year low of 44.7. In response, Germany's 10-year bond yield fell into negative territory on Friday, while French and Italian bond yields also declined
- European equities fell -1.6% last week

## Rest of The World

- Hopes for a quick resolution to the US-China trade war faded this week as President Trump said his administration was considering leaving tariffs on China for a period of time to ensure compliance with a potential trade deal
- Japanese equities rose 0.9% on the week
- Brazilian equities rose 3.9% in the week on the prospects for a pension reform bill that, if passed, is expected to help control government debt

Asset Class/Region	Currency	Currency returns			
		Week ending 22 Mar. 2019	Month to date	YTD 2019	12 months
<b>Developed Market Equities</b>					
United States	USD	-0.8%	0.7%	12.1%	7.4%
United Kingdom	GBP	-0.3%	2.1%	8.3%	8.2%
Continental Europe	EUR	-1.6%	0.7%	11.1%	3.1%
Japan	JPY	0.9%	0.6%	8.3%	-4.3%
Asia Pacific (ex Japan)	USD	1.0%	1.6%	11.5%	-5.8%
Australia	AUD	0.3%	0.9%	11.1%	9.0%
Global	USD	-0.6%	0.6%	11.7%	3.1%
<b>Emerging markets equities</b>					
Emerging Europe	USD	0.0%	0.2%	9.5%	-7.2%
Emerging Asia	USD	1.1%	2.1%	11.4%	-8.7%
Emerging Latin America	USD	-4.8%	-3.8%	6.5%	-7.8%
BRICs	USD	-0.8%	1.8%	13.2%	-6.4%
MENA countries	USD	1.5%	1.6%	7.3%	6.9%
South Africa	USD	-0.4%	-2.7%	3.3%	-22.5%
India	USD	-0.1%	8.7%	6.5%	8.0%
Global emerging markets	USD	0.2%	0.9%	10.0%	-9.3%
<b>Bonds</b>					
US Treasuries	USD	0.9%	1.6%	1.8%	4.5%
US Treasuries (inflation protected)	USD	0.9%	1.9%	3.3%	3.3%
US Corporate (investment grade)	USD	1.1%	2.0%	4.6%	5.2%
US High Yield	USD	0.3%	0.6%	6.9%	5.6%
UK Gilts	GBP	2.9%	4.2%	4.3%	5.0%
UK Corporate (investment grade)	GBP	1.4%	2.7%	4.6%	4.1%
Euro Government Bonds	EUR	0.9%	1.8%	2.5%	2.3%
Euro Corporate (investment grade)	EUR	0.5%	1.1%	2.9%	2.1%
Euro High Yield	EUR	0.1%	0.7%	4.9%	1.4%
Japanese Government	JPY	0.4%	0.7%	1.5%	2.1%
Australian Government	AUD	0.9%	1.8%	3.6%	8.6%
Global Government Bonds	USD	1.1%	1.6%	2.0%	-0.7%
Global Bonds	USD	0.9%	1.4%	2.3%	-0.1%
Global Convertible Bonds	USD	0.0%	0.3%	6.3%	-1.5%
Emerging Market Bonds	USD	0.3%	0.7%	5.7%	2.9%

Asset Class/Region	Currency	Currency returns			
		Week ending 22 Mar. 2019	Month to date	YTD 2019	12 months
<b>Property</b>					
US Property Securities	USD	0.5%	1.9%	14.6%	20.3%
Australian Property Securities	AUD	0.9%	5.4%	13.2%	18.9%
Asia Property Securities	USD	3.3%	5.3%	14.4%	6.4%
Global Property Securities	USD	1.2%	2.9%	13.4%	9.9%
<b>Currencies</b>					
Euro	USD	-0.2%	-0.7%	-1.4%	-8.2%
UK Pound Sterling	USD	-0.6%	-0.5%	3.6%	-6.4%
Japanese Yen	USD	1.3%	1.2%	-0.3%	-3.9%
Australian Dollar	USD	0.0%	-0.2%	0.6%	-8.2%
South African Rand	USD	-0.5%	-2.9%	-0.7%	-18.6%
Swiss Franc	USD	0.8%	0.3%	-1.1%	-4.3%
Chinese Yuan	USD	-0.1%	-0.4%	2.4%	-5.7%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	0.3%	0.7%	9.6%	-1.7%
Agricultural Commodities	USD	0.8%	1.5%	0.4%	-7.9%
Oil	USD	-0.2%	1.5%	24.6%	-2.7%
Gold	USD	0.8%	-0.2%	2.4%	-1.1%
Hedge funds	USD	-0.1%	0.1%	2.9%	-3.6%

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