



ECONOMIC OUTLOOK

The global economy continues to be sluggish. The latest economic data from the Eurozone points to continued weakness. The situation is particularly worrying in the manufacturing sector. In recent weeks, the escalation screw in the trade conflict between the US and China has continued to turn. After all, the negotiations between the two countries are continuing and the tone has now eased somewhat.

So, what to expect this month? July and August were holiday months that kept central bankers and government officials largely on the side lines. Surely things start to happen soon. Same with asset managers when everyone starts repositioning into year end. Looking ahead, the FED, ECB and tariffs will all be major headlines risks that threaten to swamp any seasonal tailwinds, hence stay cautious.

Looking at the financial markets, central banks around the globe are responding to the slowdown in growth and the persistently low level of inflation with a renewed expansion of monetary policy. In the US, analysts expect two further interest rate cuts this year. Will the ECB follow the FED and drop a bombshell on September 12?

Markets are ready for the ECB to deliver a substantial easing package which consists of a new Quantitative Easing (QE) programme, rate cuts, tiering and new forward guidance. Analysts expect a QE of EUR 45bn over 15 months, implying an overall envelope of EUR 675bn, of which the majority would be sovereign bonds. The ECB will also most probably cut the deposit rate by 10bps to -0.5% and by another 10bps to -0.6% in October. The aim would be to have a stronger front-loaded impact and hence make the TLTRO facility more attractive. These are loans for commercial banks with a term of several

years. Additionally, new interest rate forward guidance will make it clear that rates hikes will happen only long after the end of the new QE programme.

Bond markets have reacted with great uncertainty to the signs of economic weakness and the intensification of the trade conflict. The inversion of the US yield curve is a major cause of the increased fears of recession. Also due to regulatory reasons, such as the deposit of government bonds as collateral, have led to a structurally higher demand for govt bonds among institutional investors. This structural change has distorted the signal effect of the yield curve. We stay neutral in bonds.

Equity indices corrected more than 5% in the last month and volatility doubled in the wake of trade dispute and recession fears. However, fundamental concerns are increasing while we still see return potential for equities. It is too early to focus on European stocks, but a possible QE program by the ECB should be beneficial for this asset class. We remain slightly underweight and still prefer US equities.

EUR/USD remains under pressure although lots of bad news is priced in. However, a rate cut more than 10bp may push EUR lower and due to interest yield differential and funding currency. Gold is still a tactical trade in the wake of the trade dispute and the FED shifted more dovish. We see room for the upside rather than having a correction but would not chase this rally at current levels. For oil September itself is neutral over the past decade with weakness due to hurricane season. Producers used to drive prices up but now the US is producing so much more oil that there is an equal risk of refinery shutdowns boosting inventories. This month it may not be the time to sell oil outright.

TACTICAL ASSET ALLOCATION*

Liquidity	Neutral
Bonds	Neutral
Equities	Slight underweight
Alternative Investments	Neutral

EQUITY INDICATORS*

Valuation	Underweight
Momentum	Attractive
Seasonality	Underweight
Macro	Underweight

*no changes to previous month

Should you require further information or advise, please do not hesitate to contact your Clarus Capital relationship manager.



MARKET OVERVIEW AS OF THURSDAY, 05 SEPTEMBER 2019, 2:09 PM

FIXED INCOME

	Rate	Δ 1m	Δ 3m	Δ ytd		Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Overnight	2.09	-0.26	-0.27	-0.29	USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD 1y Swap	1.74	-0.10	-0.45	-1.02	USD Aggregate 1-3y	0.6%	1.3%	3.0%	3.6%
USD 3y Swap	1.35	-0.16	-0.54	-1.25	USD Aggregate 3-5y	1.0%	2.2%	5.1%	6.0%
USD 5y Swap	1.29	-0.19	-0.63	-1.29	USD Aggregate 5-7y	1.2%	2.9%	6.3%	7.4%
USD 10y Swap	1.37	-0.26	-0.74	-1.35	USD Aggregate 7-10y	2.6%	5.6%	10.0%	11.1%
EUR Overnight	-0.36	-0.01	0.00	-0.01	EUR Overnight	0.0%	-0.1%	-0.2%	-0.2%
EUR 1y Swap	-0.50	-0.07	-0.22	-0.27	EUR Aggregate 1-3y	0.2%	0.6%	0.9%	1.0%
EUR 3y Swap	-0.55	-0.08	-0.31	-0.47	EUR Aggregate 3-5y	0.6%	1.9%	2.9%	3.4%
EUR 5y Swap	-0.49	-0.10	-0.39	-0.69	EUR Aggregate 5-7y	1.1%	3.5%	5.7%	6.9%
EUR 10y Swap	-0.23	-0.14	-0.53	-1.04	EUR Aggregate 7-10y	1.7%	5.5%	9.1%	10.9%
CDX Xover 5y	3.42%	-0.20%	-0.33%	-1.07%	US Corp. HY	0.6%	2.9%	4.3%	10.9%
iTraxx Xover 5y	2.52%	-0.34%	-0.40%	-1.01%	EUR HY	0.8%	3.3%	3.8%	8.0%

EQUITY

	Price	P/E	D. Yield	FCF yield		Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	6,199	16.2	2.6%	4.7%	MSCI World	-0.9%	2.8%	2.9%	14.5%
S&P 500	2,906	17.6	2.0%	4.3%	S&P 500	-0.9%	3.7%	4.1%	15.9%
NASDAQ	7,610	21.1	1.1%	4.6%	NASDAQ	-1.1%	6.2%	6.4%	20.2%
Euro Stoxx 50	3,455	14.3	3.7%	5.9%	Euro Stoxx 50	2.3%	3.6%	4.1%	15.1%
SMI	9,922	16.9	3.3%	4.4%	SMI	1.2%	3.4%	5.6%	17.7%
FTSE 100	7,297	12.7	4.9%	7.0%	FTSE 100	-1.5%	1.1%	2.3%	8.5%
DAX	12,051	14.1	3.3%	1.5%	DAX	1.5%	0.7%	4.0%	14.1%
MSCI Asia Pacific	152	13.4	3.0%	6.1%	MSCI Asia Pacific	-2.1%	-0.1%	-4.7%	3.8%
FTSE China A50	13,734	10.3	3.1%	13.3%	FTSE China A50	3.2%	8.4%	5.8%	32.2%
MSCI Emerging Market	973	12.7	3.1%	7.7%	MSCI Emerging Market	-3.0%	-3.2%	-7.6%	0.8%
PH Semiconductor	1,478	18.4	1.8%	5.7%	PH Semiconductor	-0.7%	9.1%	8.4%	28.0%

COMMODITY

	Price	FCST19	FCST20	Δ Future		Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	1,539	1363	1,419	-4.5%	Gold	6.4%	16.3%	19.5%	20.1%
Silver	19.43	15.7	16	-7.9%	Silver	18.4%	29.9%	25.9%	22.0%
Platinum	977	860	900	-3.3%	Platinum	14.5%	18.5%	15.0%	20.4%
Palladium	1,535	1395	1,309	-6.1%	Palladium	9.2%	14.7%	5.5%	33.7%
Crude Oil	54.77	58.6	60	3.0%	Crude Oil	-1.6%	2.0%	-6.7%	14.0%
Brent Oil	58.98	65.5	64	4.2%	Brent Oil	-3.8%	-2.0%	-10.0%	7.1%

FOREIGN EXCHANGE

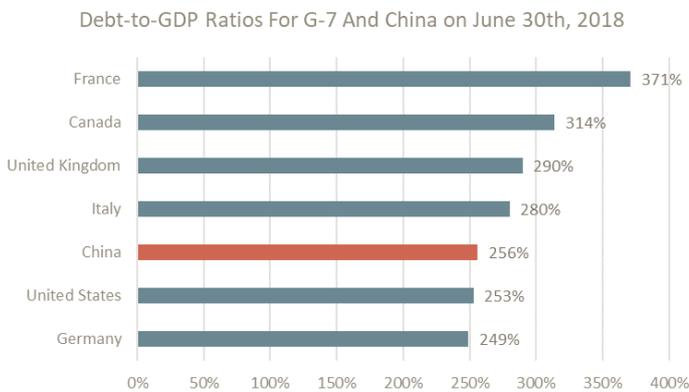
	Price	FCST19	FCST20	Δ Spot		Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/ USD	1.1016	1.1200	1.1700	6.0%	EUR/ USD	-1.7%	-2.0%	-2.8%	-3.8%
GBP/ USD	1.2202	1.2300	1.3200	7.9%	GBP/ USD	0.4%	-3.8%	-7.4%	-4.3%
USD/ CHF	0.9844	0.9800	0.9700	-1.5%	USD/ CHF	-1.3%	1.0%	1.6%	-0.2%
USD/ JPY	106.23	105.00	103	-3.1%	USD/ JPY	-0.3%	1.9%	5.2%	3.2%
EUR/ CHF	1.0845	1.1000	1.1300	4.1%	EUR/ CHF	0.5%	3.0%	4.5%	3.8%
USD/ RUB	66.45	66.00	64.25	-3.4%	USD/ RUB	-1.4%	-2.0%	-1.1%	4.9%
EUR/ RUB	73.20	73.70	76.54	4.5%	EUR/ RUB	0.0%	0.2%	1.8%	8.5%

Source: Clarus Capital Group, Bloomberg

SPECIAL TOPIC: CHINA DEBT

CLOSER ACQUAINTANCE WITH CHINA'S DEBT PROBLEM

China's debt-to-GDP ratio had always been relatively low and stable, until the occurrence of Global Financial Crisis which is considered to be the origin of China's debt problem. However, although the seriousness of the Chinese debt problem does appear significant and repellent at first glance, a further insight into the mechanisms of how the Chinese debt is structured is very likely to cause a rather slacked attitude to such. It can be seen further that **the majority of the world's most advanced economies Debt-to-GDP ratios are higher than that of China.**



One of the main properties of the Chinese debt situation is that **potential debts do not belong to households but to corporates**, although being highest when compared to other countries. Rather than devaluating its own currency in order to boost its exports, China decided to invest in infrastructure in order to simultaneously create as many new jobs as possible. What differentiates China from most of the countries is that **fiscal stimulus was financed from bank loans but not by government spending, and the loans in turn went directly to state owned enterprises**, all of which carried responsibility for construction projects.

It is also worth mentioning that all banks in China are under tight government regulation, and all of the governmental entities around the country are branches of the main governmental body, unlike, for example, the US where those acts independently. Moreover, not only Chinese stimulus had a positive impact on its own economy, but it also put a floor under global economic growth. The **overall risk picture is therefore**

relieved by the fact that these are state controlled entities (SOEs) that owe to state-controlled banks.

What concerns the corporate risk, along with the stimulus state owned enterprises have been actively shutting down unused capacities that positively influenced companies' financials, with the overall Debt to GDP ratio rising less rapidly. Generally, various debt types present in China are less risky when compared to major world's economies due to the way they are organized. An example is home mortgages, which used to create significant problems in both US and UK, however, are **not as such in China as homes are not purchased by speculators** and the average cash down payment is 30% compared to such of 2% in the US in 2006. Also, there are very few mortgage backed securities. Therefore, the **only real problem of the Chinese economy is the Corporate debt**. The debt to GDP ratio started increasing from 93% after the stimulus in early 2009 was applied and currently stands at 153%.

However, as mentioned above, these are SOEs owing to state-controlled banks in turn. Significant is the fact that the debt is spread among a small number of companies, which makes it rather easy to be "cleaned up" in the end. The **only significant risk exposure could come from a government's failure to control the future growth of debt** by so-called local government finance vehicles.



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IMPRESSUM

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