

North America

Last week markets performed well, on the back of less tension on U.S. and China trade talks. It caught our attention that the announcement that both countries will resume negotiations as early as October had a **ripple effect of “risk-on” through developed and emerging markets** as a whole. It is worth highlighting that **China will be celebrating China National Day on October 1st and some of the measures that the country has announced**, including the truce in trade war and the cut in their reserve requirement rate, **are aligned in stimulating economic activity and boosting financial indicators ahead of the event**. We believe that this trend should persist, at least until the end of the month, when the country will feel more comfortable to make controversial decisions such as signing a deal with U.S.

In U.S., economic data was mixed with the manufacturing activity contracting, falling to a three-year low, while **non-manufacturing activity (which accounts for the majority of economic activity) expanded and accelerated** versus the pace of activity in July.

In Canada, the jobs report showed that hiring remains robust with solid wage growth, a positive for the economy and consumer spending (the largest contributor to GDP). This comes to reinforce the Bank of Canada's view to extend the pause in rate cuts announced at the last meeting.

Equity

Last week, U.S. and Canada stocks finished the week higher after the **U.S. August jobs report came lower than expected, giving an extra push for the Federal Reserve to cut interest rates** again, later this month. Stable jobs and consumer spending are key factors that have been supporting the scenario of no rate cuts and any fragility should be followed up closely. The Federal-funds futures are pricing in a 92% chance of the Fed lowering its benchmark rate by 25 basis points, prompting the S&P 500 to finish up six of the past seven trading sessions and finish the week less than 2% away from its July record, accumulating almost 19% return since the beginning of the year.

S&P 500 performance was driven mainly by cyclical sectors with Energy +2.64%, Consumer Disc. +2.61%, Tech +2.41%, Communications Services +1.95%, Financials +1.87%, Industrials +1.80% **while the most of the underperformers were defensive sectors**: REITs +1.38%, Consumer Spls. +1.17%, Materials +0.87%, Healthcare +0.67%, Utilities +0.36%.

Fixed Income

Last week, yield on 3-month U.S. Treasury Bills decreased by 3 bps, while yields on 2-year and 10-year US government bonds increased by 2 bps and 5 bps respectively. China and U.S. announcing that negotiations on ending their tariff war will be held in October, together with August's better-than-expected non-manufacturing PMI and cyclical-low unemployment rate, led to the 12-bps two-year yield surge last Thursday, the biggest move in two-year yields since July 2009. Other factors such as heavily overweight positioning, end of convexity-hedging activities, and heavy corporate issuance were also contributing to the magnitude of the rate hike.

Fed funds futures curve continued suggesting that the market expected more than a mid-cycle adjustment in the medium term. However, as **U.S. economic data remained resilient and risky assets were able to rise**, investors seemed to wean themselves off central bank's easing policy. The low-borrowing-cost environment led to the significant surge in corporate debt issuance (i.e. last week recorded \$74 billion in investment-grade issues, the highest issuance amount since 1972), which would potentially help contribute to a further rise in risky assets.

Canadian employment data was strong as the labor market added an unexpectedly positive 81,000 job in August. Part-time jobs accounted for most of the gain, but full-time employment was trending healthy. Unemployment rate was steady at 5.7% and wages continued to rise at a healthy pace. **Employment data left Bank of Canada comfortable with its more-neutral-than-expected stance**, as Deputy Governor Schembri, in his economic progress report, emphasized that the Canadian economy is close to full capacity and inflation is within Bank of Canada's 2% target. Schembri also stated that Bank of Canada's monetary policy will be based on domestic conditions and not affected by external policy developments. As such, the central bank continued to withstand from monetary policy stimulus set by global central banks and held interest rates steady at 1.75% last Wednesday.

Europe

German manufacturing PMI rose slightly to 43.5, remaining contraction for an eight-month in a row, as companies scale back production and cut jobs mainly due to weak demands. The report released also showed that sentiment about future output fell to a record low, pointing to pessimism among manufacturers. As a result, manufacturers sped up job cuts, leading to a rise in unemployment in August. UK Services PMI in August fell to 50.6 from 51.4 in July, adding to questions

over Britain's ability to bounce back from an economic contraction in the second quarter. Meanwhile, UK composite PMI, covering both the manufacturing and services sectors, has underperformed the eurozone equivalent in August. **These negative signs of the economy will raise the stakes in the political crisis gripping Britain.**

Last Tuesday, Boris Johnson, the prime minister of UK, lost his first House of Commons vote because of 21 Conservative MPs against his non-deal Brexit on October 31. Mr. Johnson responded by sacking the MPs and seeking a snap general election.

Last Wednesday, Christine Lagarde, the European Central Bank president-elect, urged the EU's rich countries with low deficits, such as Germany and the Netherlands, to co-operate closely over fiscal policy to stimulate eurozone economy. She also signalled that she intended to continue Mr. Draghi's policies. On the **ECB meeting next week, further monetary loosening, including cutting interest rates and restarting bond-buying programme, is expected.**

Asia

Frustrated by the ineffectiveness of recent rate cuts, the Reserve Bank of India announced that banks will be required to index new retail and business loans to an external benchmark. The RBI has decreased the country's benchmark repo rate by 110 bps this year, but only 29 bps of the first 75 bps in cuts have been transmitted to the borrower according to estimates. Under the new guidelines, banks can select among the repo rate, the government's 3 or 6-month treasury yield, or another benchmark rate published by the Financial Benchmarks India Pvt. Ltd. This demonstrates RBI's commitment to revive flagging private consumption, which dragged the country's GDP to a six-year low.

China's foreign exchange reserves held steady in Aug. despite a 3.8% depreciation in the CNY. According to the People's Bank of China, reserves increased to \$3.107 trillion, beating median estimates of \$3.1 trillion. The figure is watched closely by many in the hedge fund community as an indicator for signs of capital outflow. The size of the reserve peaked in 2014 at \$3.8 trillion before declining dramatically in 2015-2016.

Commodities

Oil prices rose above \$61 a barrel on Friday after the Fed Chair Jerome Powell said the U.S. central bank will act "as appropriate" to sustain an economic expansion.

The prolonged U.S.-China trade war had a dampening effect on oil prices, even though they have risen over the year due to production cuts by the Organization of the Petroleum Exporting Countries and Russia in an effort to deplete their crude inventories. Over last week, Brent crude was up by 1.8% and settled at \$61.54 a barrel, while **U.S. West Texas Intermediate (WTI) crude increased by 2.6% and ended the week at \$56.52 a barrel. U.S. officially stated that the United States will continue to impose sanctions on whoever purchases Iran's oil or conducts business with the country.** Due to the existing sanctions imposed by President Donald Trump, Iran's crude oil exports have been slashed by more than 80% over the sanction period.

The U.S.-China trade dispute left a negative impact on China's trade activities, as the heated battle has led to four-straight-month shrinking factory activities in China. As a result, China's aluminum exports fell by 4.3% and copper imports dipped by 12.5% in August, as slowdown in the world's top copper consumer raised concerns over demand for the metal. However, there were positive movements in China's trade results as crude oil imports gained approximately 3% in August from prior month, supported by a recovery in refining margins but offset by a surplus of oil products and lackluster crude demand. Additionally, China's soybean imports increased by 9.7% in August to hit the highest level in the last one and a half years, as some shipments booked earlier cleared customs after a delay.

Interesting Reads

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<https://www.bloomberg.com/news/articles/2019-09-07/china-s-foreign-exchange-reserves-rise-slightly-after-july-dip>

Key Rates

	Levels (%)			
	Current Level	Last Week	Last Month	Last Year
Canada				
Overnight	1.75	1.75	1.75	1.50
2Y Treasury	1.49	1.35	1.38	2.03
10Y Treasury	1.29	1.16	1.24	2.22
30Y Treasury	1.50	1.43	1.48	2.25
3M CDOR *	1.96	1.96	1.98	1.98
USA				
Fed Funds	2.13	2.13	2.13	1.92
2Y Treasury	1.53	1.50	1.60	2.64
10Y Treasury	1.55	1.50	1.73	2.88
30Y Treasury	2.02	1.96	2.25	3.06
3M LIBOR	2.13	2.14	2.19	2.33

Currencies and Commodities

	Return (%)			
	Current Level	1 Week	1 Month	1 Year
CAD	1.3169	(1.0)	(0.5)	(0.4)
Oil	56.52	2.6	5.4	(16.6)
Gold	1,509.00	(0.9)	2.1	25.9

Major Indices

	Current Level	Index Return (%)			
		1 Week	QTD	YTD	1 Year
TSX Composite	16,535.33	0.6	0.9	15.4	2.7
S&P500	2,978.71	1.8	1.3	18.8	3.5
DJIA	26,797.46	1.5	0.7	14.9	3.1
Nasdaq	8,103.07	1.8	1.2	22.1	2.3
Russell Growth	1,630.87	1.5	2.8	24.1	6.0
Russell Value	1,246.00	2.0	(0.7)	13.9	0.2
STOXX 600 EUR	387.14	2.0	0.6	14.7	3.7
German DAX	12,191.73	2.1	(1.7)	15.5	2.0
FTSE 100	7,282.34	1.0	(1.9)	8.2	(0.5)
Nikkei 225	21,199.57	2.4	(0.4)	5.9	(5.7)
Hang Seng	26,690.76	3.8	(6.5)	3.3	(1.1)

Major Economic Events

Day	Events	Est.	Previous
Mon	UK GDP (QoQ)	(0.10%)	(0.20%)
	UK Manufacturing Production (MoM) (Jul)	(0.10%)	(0.20%)
Tue	UK Average Earnings Index +Bonus (Jul)	3.70%	3.70%
	UK Claimant Count Change (Aug)		28.0K
	US JOLTs Job Openings (Jul)	7.300M	7.348M
Wed	US PPI (MoM) (Aug)	0.10%	0.20%
	US Crude Oil Inventories	(2.488M)	(4.771M)
Thu	ECB Monetary Policy Statement		
	ECB Interest Rate Decision (Sep)	0.00%	0.00%
	US Core CPI (MoM) (Aug)	0.20%	0.30%
	ECB President Draghi Speaks		
Fri	US Core Retail Sales (MoM) (Aug)	0.10%	1.00%
	US Retail Sales (MoM) (Aug)	0.20%	0.70%
Sun	CN Industrial Production (YoY) (Aug)	5.20%	4.80%

Editors

Vitor Angrisani, CQF
 Jieping Zhang, CFA, FRM
 Andrew Zhang
 Hiep Tran