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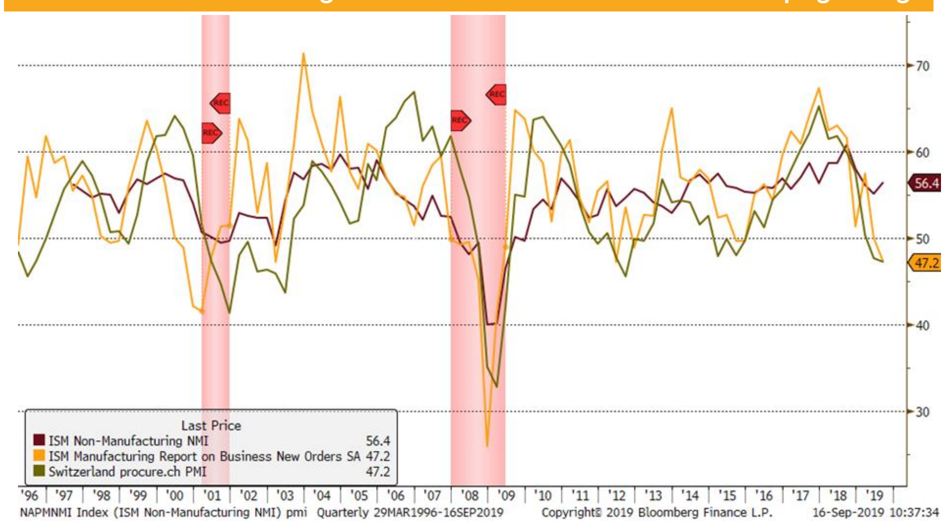
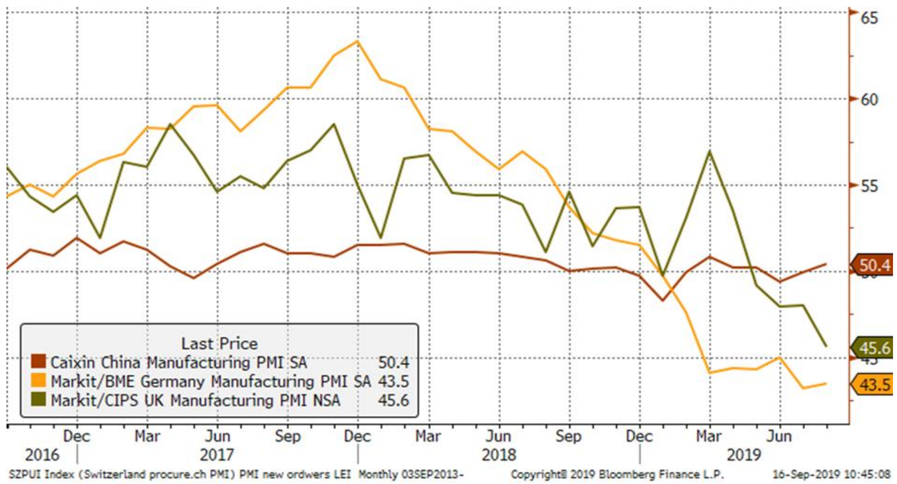
Market and Macro Update

- The latest US job data were mixed. Forward looking indicators showed that the US service sector is growing at a faster pace while the manufacturing sector is slowing down. Meanwhile the Fed has cut its policy rate as expected. But this decision was very controversial at the FOMC (Federal Open Market Committee) because the US economy is growing at a moderate pace and wouldn't need stimulus right now. However, due to Trump's pressure and the awkward Fed speak the market participants have expected a cut.
- In Europe the latest PMI data were disappointing and in this context the ECB rate cut decision is partially justify. The ECB has particularly decided to cut the deposit rate by 10 bps to minus 0.5% and to restart the asset purchase program in November with a EUR 20bln purchase per month for a undisclosed (surprisingly) time period.
- The other surprising part at the ECB press conference was that TLTRO (bank credit facilities) program was modified: The maturity was prolonged from 2 year to 3 years and the interest rate was reduced to 0%. I.e. banks can now get a credit from the ECB for 3 years at 0% interest!

Industrial PMIs below the growth area while US Service sector keeps growing



UK and Germany are contracting, while China grows at a slow pace



- The latest Chinese import and export data showed a significant drop. This increases the pressure for persistent Xi to make a deal with the US. In the meantime the central bank of China (PBOC) did cut its reserve requirement ratio (RRR) by 50 bps to boost the economy.
- Globally most central banks are stimulating their economy. In various Emerging market countries central banks were cutting rates anticipating a Fed rate cut. We therefore believe that all these measurements will stimulate the world economy.
- However, there are various risk or drags to this scenario: Tariff conflicts between the US and China and probably with Europe will negatively affect growth. An unorderly Brexit will as well reduce growth not only in the UK but also in continental Europe.
- There is an urgent need for structural reforms and fiscal stimulus in Europe. Especially in Germany the government should finally start spending more and for instance invest in infrastructure. In contrast such countries as France, Italy or Greece have scaring debt to GDP ratios and should implement structural reforms as soon as possible. However, they have little support among their populations to change anything.

Investment Outlook: High yielding bonds continue to offer relative attractive yields

Liquidity

- British pound appreciated significantly after the a new law, which forbids an unorderly Brexit, passed both UK-parliaments
- Euro weakened after the ECB decision against USD and GBP.
- The Japanese Yen appreciated against all major currencies after the news about the oil field attack reached the market participants. This is an expected reaction, since Yen can be considered a save haven currency (like Swiss Franc) and rises regularly after high vola events.

Equities

- After the attack to the Saudi Arabian oil fields energy stock rallied. Remarkable was that the broad market lost less then 1%. Awaiting more stimulus equity investors bet on rising markets.
- Overall equity markets recovered in September the losses which occurred during August.
- Rumors about a temporary deal between China and the US supported as well the market rally.
- After an impeachment process was started in the US and the a British court decided that UK parliament vacation was illegal equity markets are consolidating. Mister Trumps verbal attack on Iran and China had a immediate negative impacts on equity markets.

Fixed Income

- Since the ECB announcement we have seen higher yields in most European government bond markets. The new QE program in Europe might not further depress yields. Similar to what we have seen during the first ECB QE program.
- For risk takers EU-peripheral government bonds might offer an interesting trading opportunity, i.e. we might see yields falling and higher bond prices.
- Corporate spreads have widened during the last months but since the beginning of September we have seen a rally (tightening) in corporate bonds. As long as there is no global recession such bonds still offer an attractive return potential.
- US 10-year government bond yields are falling since the impeachment process was started, while US corporate bonds were not affected by now.

The Bund yield tends to stabilise once QE announcement is made

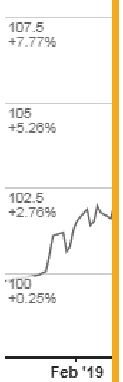
Source: www.fuw.ch

Alternative Investments

- Gold and Silver: Precious metals were rallying until recently and are now correcting. Based on the expected further rate cuts gold might be considered to protect a part of your wealth.

- Oil: The recent attack of the Saudi oil facility has changed the supply situation drastically. Before the attack the market was oversupplied by roughly 0,7 million barrels per day. Now after 5,7 million barrels per day cannot be produced, we have an undersupply of around 5 million barrels per day. The oil price spiked 20%, we would therefore argue that some mean reverting (i.e. falling oil prices) will occur over the coming weeks

- Soft commodities: Due to a swine fiver in China, the Chinese government is considering not only to order from the US pork meat but also soya beans and other agriculture products. This cooperation would soften tensions between USA and China, and consequently drive up prices of all asset classes, not only soft commodities.



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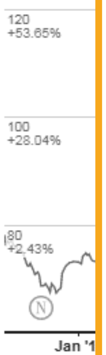
Equity

Price D



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