

# August 2019 Newsletter

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Traditional Values



## Themes from August

\***Global sell-off** during the first half of August saw leading indices decline between 6% for the S&P and 11.6% for the Hang Seng. The mid cap UK 250 index fell 11% at its worst point tracking global trends.

\***Negative government bond yields** have appeared in Denmark, Finland, the Netherlands and Germany limiting the scope for the ECB and other central banks to reduce interest rates.

\***PM Boris Johnson** has obtained Royal consent for proroguing (dissolving) Parliament for a period from 9<sup>th</sup> September to 14<sup>th</sup> October 2019 – considerably longer than normal dissolutions.

\***Trump Administration** is considering the issue of 50 and 100 year US Treasury bonds extending the maximum duration from the current 30 year period.

\***Altria and Philip Morris** have entered merger talks aimed at re-creating the group originally separated via a 2007 demerger.

\***Apple** launched its Apple card in the US offering a discount of 3% on Apple products.

\***BP** has sold its remaining interest in Alaska's Prudhoe Bay for \$5.6bn to Hilcorp taking a significant step towards its objective of \$10bn in disposals.

\***Micro Focus International** reported a difficult trading environment with sales to end October 2019 now expected to decline around 7%. The CEO is undertaking a strategic review of

## Forthcoming UK Events

<b>2</b> SEPT	Markit / CIPS Manufacturing PMI
<b>3</b> SEPT	Construction PMI / 5 YR Gilt Auction
<b>4</b> SEPT	Markit / CIPS Services PMI
<b>5</b> SEPT	UK New Car Sales/ 10 YR Gilt Auction
<b>6</b> SEPT	Halifax House Price Index
<b>9</b> SEPT	UK Balance of Trade (July)/ GDP (July)
<b>10</b> SEPT	UK Average Earnings/ UK Unemployment Rate
<b>18</b> SEPT	UK Inflation Rate/ UK Retail Price Index
<b>19</b> SEPT	BoE MPC Meeting Minutes
<b>20</b> SEPT	UK Retail Sales/ Public Sector Net Borrowing
<b>25</b> SEPT	UK Mortgage Approvals

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operations.

### Performance of World Markets (30/8/2019)

North America	Value	Change	+/- (1M)%	+/- (1YR)%
DOW JONES (Close)	26,403.28	-460.99	-1.72	-1.69
S&P 500 (Close)	2,926.46	38.62	-1.81	0.86
NASDAQ (Close)	7,962.88	-212.54	-2.60	-1.81

  

Europe/UK	Value	Change	+/- (1M)%	+/- (1YR)%
UK 100 INDEX (Close)	7,207.20	-379.58	-5.00	-3.00
EUROSTOXX 50 (Close)	3,426.76	-40.09	-1.20	+1.03

  

Asia/Far East	Value	Change	+/- (1M)%	+/- (1YR)%
SHANGHAI COMPOSITE (Close)	2,886.24	-46.27	-1.60	5.90
NIKKEI-225 (Close)	20,704.40	-817.10	-3.80	-9.50
HANG SENG (Close)	25,724.70	-2,053.10	-7.40	-7.80

#### United Kingdom

The August decline in global bond yields also featured in UK gilts as investors repositioned and bought mainly medium to long dated gilts. The UK yield curve has inverted with 5 year yields lower than 2 years, and the curve reaching record lows. Notably the 30 year gilt yield is under 1%.

#### China/Japan

China's hardline tactics against the Hong Kong protestors hit investor sentiment, predictably enough. The situation looks like a standoff with neither side at a point of compromise. We view preserving Hong Kong's freedoms as vital to its prosperity and unique role. It is also intrinsic to the deal China signed which promised to preserve Hong Kong's freedoms for 50 years.

The Beijing leadership views Hong Kong as a manageable risk. When the former UK colony reverted to the mainland in 1997, it comprised

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## Gilt Yields

NAME	COUPON	PRICE	YIELD	1 DAY	1 MONTH	1 YEAR
GTGBP2Y.GOV UK Gilt 2 Year Yield	3.75	106.79	0.35%	+1	-7	-38
GTGBP5Y.GOV UK Gilt 5 Year Yield	1.00	103.21	0.30%	+1	-11	-76
GTGBP10Y.GOV UK Gilt 10 Year Yield	0.88	104.25	0.44%	+1	-18	-100
GTGBP30Y.GOV UK Gilt 30 Year Yield	1.75	120.02	0.96%	-1	-39	-82

Source: [www.bloomberg.com](http://www.bloomberg.com)

UK midcaps saw more M&A interest. Entertainment One accepted a takeover from Hasbro Inc at a 31% premium to EOne's average price, an offer worth 560p per share. The global sell-off hit UK equities in a rather indiscriminate way. Financials were worst hit, with oil majors, miners and retailers not far behind. Drug stocks were relatively unscathed.

## Europe

Speculation remains that outgoing ECB chief Mario Draghi will unveil a new monetary initiative prior to his departure on 31<sup>st</sup> October 2019. However the move in bond yields over August could limit options.

Over August, Denmark, Finland, the Netherlands and Germany saw their government bond yields go negative along the yield curve. This is an unprecedented event that reduces portfolio and saver returns and amounts a new challenge for the EU commercial banks.

## Bund Yields

NAME	COUPON	PRICE	YIELD	1 DAY	1 MONTH	1 YEAR
GTD2Y.GOV Germany Bund 2 Year Yield	0.00	101.88	-0.93%	0	-16	-31
GTD5Y.GOV Germany Bund 5 Year Yield	0.00	104.80	-0.91%	0	-23	-69
GTD10Y.GOV Germany Bund 10 Year Yield	0.00	107.21	-0.70%	0	-30	-104
GTD30Y.GOV Germany Bund 30 Year Yield	0.00	105.52	-0.18%	+1	-35	-119

Source: [www.bloomberg.com](http://www.bloomberg.com)

German bond yields are inverted and negative along the yield curve. August saw big moves deeper into negative territory. The ECB's new challenge is how to manage the fact of negative yield without precipitating a disorderly market reversal.

around 18.5% of China's GDP. But China has moved on, Hong Kong is now 3% of China's GDP (which is experiencing 6% GDP growth).

HSBC has been the epicentre of the damage to Hong Kong exposed stocks, declining 11.3% over August. The board took out full page advertisements in the HK press urging both sides to find a peaceful solution. So far HSBC has not warned on the profit impact and is pursuing a market share "grab" in the UK mortgage market.

## United States

August saw a substantial drop in US bond yields with the yield curve inverting and shallowing. The yield on the US 30 year bond moved under 2% for the first time, providing stimulus for US mortgagees.

## Treasury Yields

NAME	COUPON	PRICE	YIELD	1 MONTH	1 YEAR
GB3.GOV 3 Month	0.00	1.94	1.98%	-8	-11
GB6.GOV 6 Month	0.00	1.83	1.87%	-19	-40
GB12.GOV 12 Month	0.00	1.70	1.75%	-23	-69
GT2.GOV 2 Year	1.50	99.92	1.54%	-31	-111
GT5.GOV 5 Year	1.25	99.17	1.42%	-42	-133
GT10.GOV 10 Year	1.63	100.92	1.52%	-53	-133
GT30.GOV 30 Year	2.25	105.88	1.99%	-59	-102

Source: [www.bloomberg.com](http://www.bloomberg.com)

Some market participants expect a near 1% cut in the Federal Funds rates by mid-2020. The Federal Reserve, notwithstanding the President's near daily diatribes, has been cautious, given the underlying strong US economic data and hiring conditions.

The US central bank is mindful of negative government bond yields, both acting as a stimulus to the economy, by encouraging US government and consumer overspending and causing problems for US banks and shadow banking institutions.

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