Guardian Group
Guardian Asset Management

14th October, 2019

Private Wealth Market Brief

"Never invest in any idea you can't illustrate with a crayon."

Peter Lynch

TOP STORIES

Trade deal prompts cautious market optimism

News that the US and China have agreed on a partial trade deal has buoyed the S&P 500 to almost an all-time high. However, the strongest performance has come from traditionally defensive sectors, such as real estate and utilities, suggesting renewed optimism is tempered with caution.

The Wall Street Journal (10/13)

Rate cuts expected to affect banks' Q3 earnings reports

The Federal Reserve's interest-rate cuts are expected to have a significant bearing on banks' third-quarter earnings, as Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley and Wells Fargo prepare to issue reports this week. Banks set aside $12.8 billion in Q2 in case of loan losses, 9% more than the amount in Q2 of 2018, according to the Federal Deposit Insurance Corp.

The Wall Street Journal (10/13)

Fed to launch Treasury purchase program

The Federal Reserve aims to stabilize money markets and to bolster its balance sheet by buying $60 billion in Treasury bills a month. The program will begin Tuesday and will continue "at least into the second quarter of next year.

BNN Bloomberg (Canada) (10/11),

SoftBank reportedly presses for financing deal to take over WeWork

SoftBank has formed a financing package comprising billions of dollars in equity and debt to take control of WeWork and gain a stronger hand in turning around the workspace company, sources say. SoftBank, which owns a third of WeWork, reportedly is negotiating to buy more shares based on a valuation significantly less than the $47 billion obtained in January.

BNN Bloomberg (Canada) (10/13),

Boeing removes CEO from chairmanship

Boeing lead director David Calhoun has replaced CEO Dennis Muilenburg as chairman. The change lets Muilenburg focus on getting Boeing out of the crisis related to the grounding of the 737 Max, the company says.

BNN Bloomberg (Canada) (10/11)

KNOWLEDGE BANK

"According to initial reports, the US and China have agreed that the US will delay a planned 5% tariff increase (from 25% to 30%) on USD250bn worth of Chinese imports scheduled for October 15."

INDEX	Last Price 11-Oct-19	YTD Return	Weekly Return
GLOBAL STOCK MARKETS			
TTSE Comp	1,406.27	↑ 7.97%	↓ -0.06%
JSE Comp	503,227.90	↑ 32.50%	↓ -2.64%
S&P 500	2,970.27	↑ 18.49%	↑ 0.62%
DOW	26,816.59	↑ 14.96%	↑ 0.91%
NASDAQ	8,057.04	↑ 21.43%	↑ 0.93%
LONDON	7,247.08	↑ 7.71%	↑ 1.28%
PARIS	5,665.48	↑ 19.76%	↑ 3.23%
FRANKFURT	12,511.65	↑ 18.49%	↑ 4.15%
MUMBAI	38,127.08	↑ 5.71%	↑ 1.20%
HONG KONG	26,308.44	↑ 1.79%	↑ 1.89%
SHANGHAI	2,973.66	↑ 19.24%	↑ 2.36%
TOKYO	21,798.87	↑ 8.91%	↑ 1.82%
SYDNEY	6,606.81	↑ 17.01%	↑ 1.38%
GLOBAL BOND MARKETS			
INVESTMENT GRADE BONDS	589.39	↑ 7.24%	↓ -1.22%
EMERGING MARKET BONDS	595.13	↑ 13.74%	↓ -0.42%
COMMODITIES			
OIL	54.70	↑ 20.46%	↑ 3.58%
GOLD	1,479.15	↑ 15.65%	↓ -1.33%
CURRENCY/ RATES			
CAD-USD	0.76	↑ 3.30%	↑ 0.83%
GBP-USD	1.27	↓ -0.67%	↑ 2.73%
EUR-USD	1.10	↓ -3.71%	↑ 0.57%
USD-JPY	108.29	↓ -1.28%	↑ 1.26%

INVESTMENT INSIGHT

Lack Of Detail on US-China Trade Negotiations a Potential Warning Sign

The Latest: On October 11 the US and China announced a trade truce following the completion of the 13th round of negotiations in Washington from October 10-11. According to initial reports, the two sides have agreed that the US will delay a planned 5% tariff increase (from 25% to 30%) on USD250bn worth of Chinese imports scheduled for October 15. In return China has agreed to scale up its purchase of US agricultural products to USD40-50bn annually, though the timeline is undetermined as of yet. US President Donald Trump has indicated that the deal will also include agreements on intellectual property rights, currency manipulation and financial services, though he did not offer specifics.

Implications: Despite reported progress in trade talks which saw risk sentiment recover sharply, Fitch analysts remain skeptical that this represents a breakthrough in US-China trade relations and continue to see significant risks of a re-escalation in trade tensions in the months ahead. Many of the details have not been fully agreed between US and Chinese negotiators, with Trump stating that it could take up to five weeks to get the pact written. Since the start of the trade war there have been numerous similar instances of the US and China announcing progress after a round of negotiations, only to backslide when it becomes clear that the two sides do not see eye to eye on the details. Notably, US Treasury Secretary Steven Mnuchin has signalled that 'more work' is needed to reach agreements on currency and access for US financial companies. Moreover, based on statements from US and Chinese policymakers, it appears as if some of the thorniest structural disagreements, such as Chinese subsidies for state-owned enterprises, remain unaddressed. Lastly, plans for a December tariff increase seem to have remained in place, which suggests continued uncertainty ahead.

Although there is limited detail, Trump also seems to be trying to move towards some form of currency pact, likely in a bid to prevent Beijing from devaluing its currency in a bid to boost exports. This could see some form of tacit agreement and could see China's label as a 'currency manipulator' by the US removed over the coming months.

What's Next: It is anticipated that there will be continued negotiations between the US and China in the coming weeks, ahead of the November 16-17 Asia Pacific Economic Conference, which Trump and Chinese President Xi Jinping are scheduled to attend. According to Trump, the latest agreement marks 'phase one' of a much larger deal, which Fitch believes he hopes to finalise at the meeting in Santiago, Chile, in early November. However, failure to make progress has previously seen Trump 'double down', which could lead to a rapid escalation in trade tensions towards the end of the year should negotiations stall in the coming weeks.

Source: Fitch Solutions