

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	70,990	-0.36%	7.72%	13.32%
MSCI World Ex-Aus. (Unhedged)	10,364	-1.33%	2.35%	10.73%
MSCI World Ex-Aus. (Hedged)	1,751	-3.03%	-1.06%	1.91%
Bloomberg AusBond 0+ Composite	10,320	0.74%	4.18%	11.30%
BloombergBarclays Global Agg. (Hedged)	1,055	0.75%	3.96%	8.58%
S&P/ASX300 Property	60,769	1.75%	13.37%	23.78%
FTSE/Epra NAREIT (Hedged)	2,823	-0.25%	0.82%	7.47%
S&P Global Infrastructure (Hedged)	5,385	-0.53%	2.68%	9.93%
BarclayHedge Global Hedge Fund Index (USD)	5,788	N/A	1.55%	1.09%
AUDUSD	0.6801	-1.59%	-2.84%	-7.60%
AUDEUR	0.6121	-1.47%	-2.37%	-3.79%
AUDNZD	1.0406	-0.08%	-1.65%	-4.76%
AUDGBP	0.5591	0.17%	3.92%	-1.13%
AUDJPY	72.4950	-3.62%	-7.68%	-13.35%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE/EPRA, Barclays, 4<sup>th</sup> August 2019

The US imposed further tariffs on Chinese imports last week, causing a rally in bond yields and a rise in volatility.

US earnings results and Friday's labour report have done little to offset the negative mood. As the Australian season builds this week, we continue to see expectations on the optimistic side, giving way to valuation concerns.

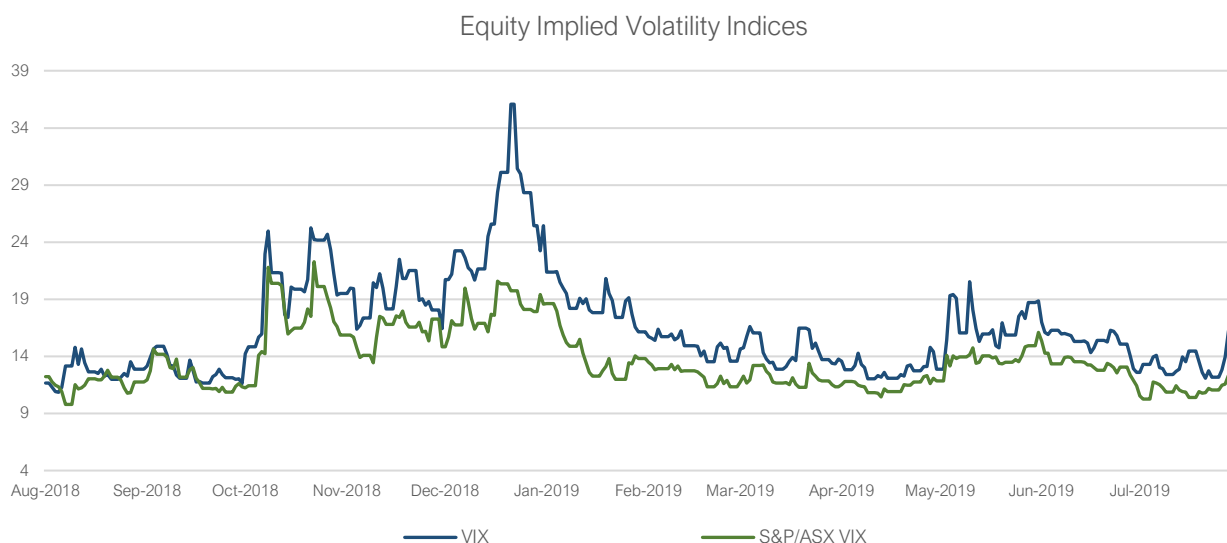
Further global monetary easing in the months ahead now seems highly likely. The RBA meets tomorrow but is expected to remain on hold ahead of Friday's statement on monetary policy.

Markets ended the week in "risk-off" mode following the announcement by President Trump that 10% tariffs would be added to a further \$300bn of Chinese imports from 1<sup>st</sup> September. He followed this with further comments on Friday that tariffs could be increased to a higher level than the 25% currently applied to \$250bn in imports.

The VIX index of S&P500 implied volatility rose on Friday to 17.6, a similar level to that reached in May when earlier talks with China collapsed. Emerging Markets and Europe were hit harder than the US, Japan and Australia, but we expect volatility to spread next week.

The announcement in isolation, need not be a "game-changer" for markets. However, the statement came at the same time as the UK government is attempting to sell to the public a harder line towards the EU and the prospect of "no-deal" Brexit in October being worth the opportunity. The risks to the European economy and financial markets shouldn't be underestimated.

Perhaps more importantly, US economists are starting to question whether the imposition of tariffs is a negotiating tactic, or whether it has been the goal all along. With Japan and Europe the next potential targets, the market may be underappreciating the longer-term effects.



Source: Bloomberg, S&P Dow Jones, 4<sup>th</sup> August 2019

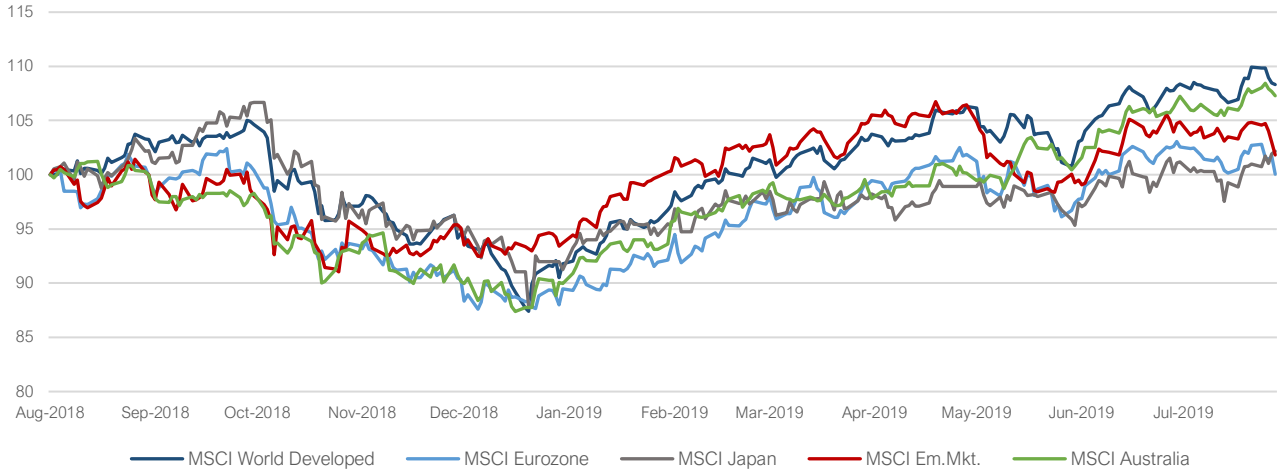
The bond market, as usual, seems to be processing the macro data more efficiently than the stock market. Yields fell further on Friday. It is difficult to get a clean “read”, since the Fed also announced as it cut rates by 0.25% last week that the balance sheet run-off would also end two months early, in August rather than at the end of September. The supply of US treasuries tightened as a result. Even after the cut, with a US 10yr yield at 1.85% and Fed Funds at 2%-2.25%, the yield curve is inverted.

It is now abundantly clear that the global economy is slowing. The 3m moving average in the US payrolls has declined to 140k, significantly below the pace of 2018. There still appears to be slack in the economy. So, the idea that the decline may be due to tightness in the labour market is not convincing. We continue to assign a roughly 50% chance to a US recession in the next 1-2yrs. Next week will see more data out of China and possibly a response to the US increase in tariffs.

Earnings-per-share figures for the MSCI All Country World index peaked in November last year and at the end of July were down 1.3%, compared to a year earlier. Even in the US, the current quarter results are showing only 1.3% growth for the S&P500, a figure which is likely to decline towards the end of the season.

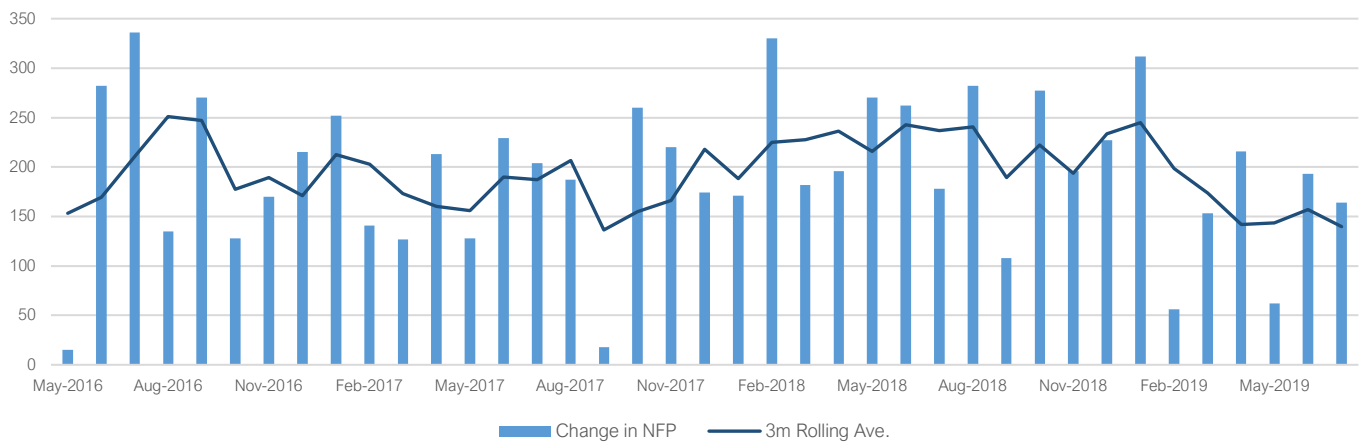
It now seems highly likely that the Fed will have to cut rates several times, in contrast to the picture painted by Jerome Powell last week, before the tariff announcement.

Major MSCI Indices



Source: Bloomberg, MSCI, 4<sup>th</sup> August 2019

Monthly Change in US Non-Farm Payrolls



Source: Bloomberg, BLS, 4<sup>th</sup> August 2019

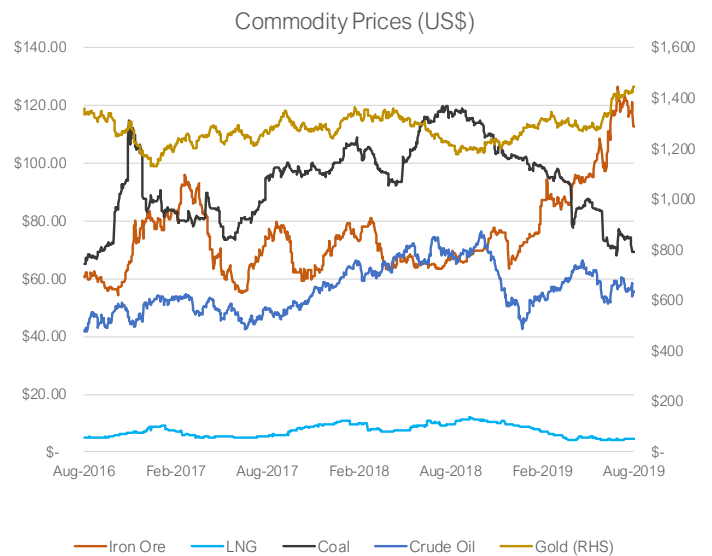
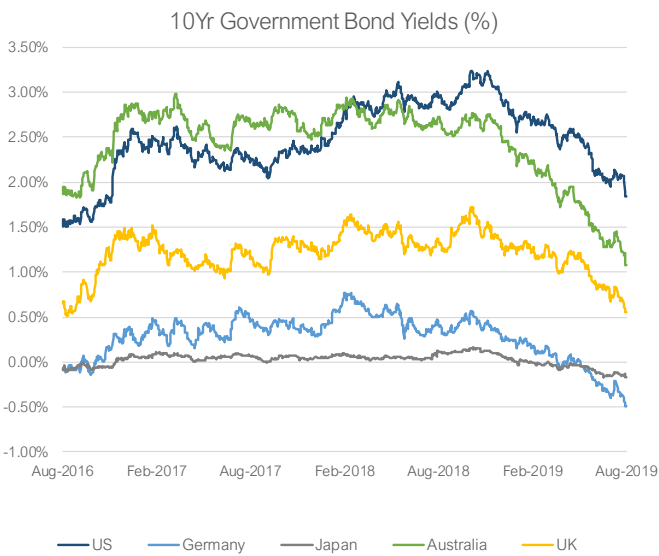
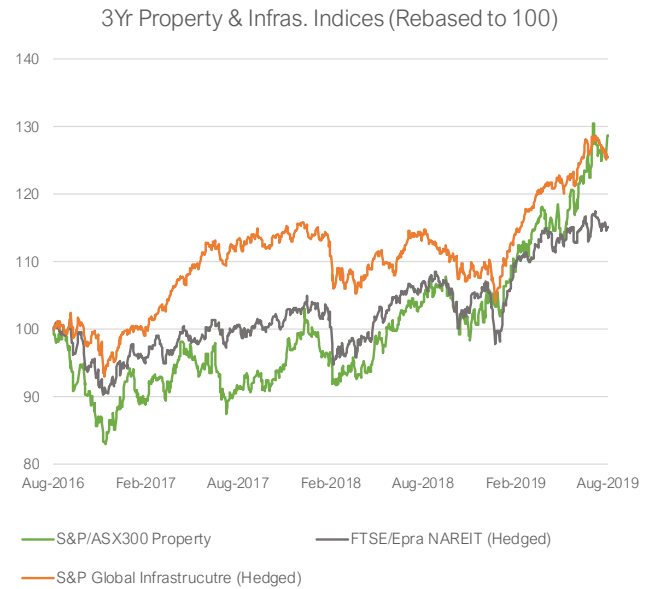
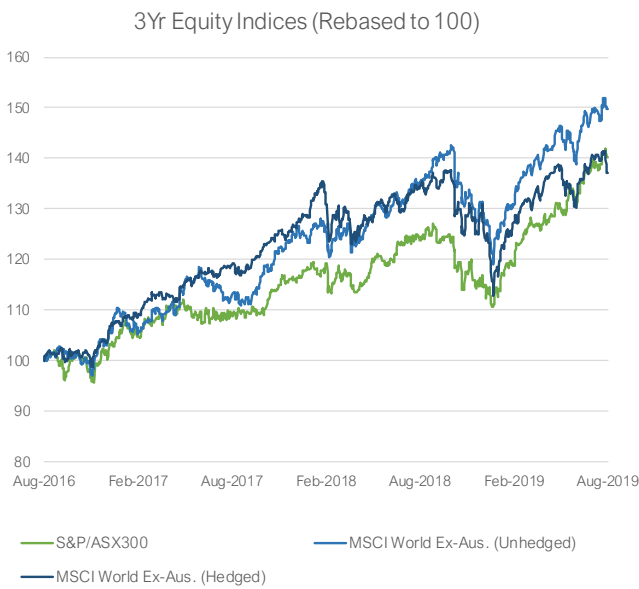
The RBA will meet tomorrow week and is expected to keep rates on hold at 1%. As usual, Friday's quarterly Statement on Monetary Policy will contain more information than Tuesday's statement.

The concern for Australia is that the economic cycle tends to follow the US, albeit with an approximately 18m lag. But with fiscal and monetary stimulus already in place, it is not clear how much further the RBA will cut. We have so far tended to think that 0.75% may be the bottom. But with the latest trade escalation, the risks of more cuts have increased. Nevertheless, in the context of global easing, the case for a large drop in the currency is not easily made. But last week confirmed that the exchange rate remains sensitive to falling commodity prices.

Commodity prices have indeed underpinned not only the exchange rate, but also earnings expectations for this season. Currently the market is expecting roughly 8% in semi-annual earnings growth, according to Bloomberg. That number seems a little high. We have written for several months that the Australian market appears overvalued by some margin. Nothing has occurred in the last week to make us reconsider that view.

Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
<b>Australia</b>		<b>Building Approvals</b>	<b>CPI; Private Sector Credit</b>	<b>CoreLogic House Prices; Commodity Price Index;</b>	<b>Retail Sales; PPI</b>
<b>US</b>	<b>Dallas Fed Manuf. Activity Index</b>	<b>PCE Inflation; Conf.Board Cons.Conf.;</b> Personal Income & Spending; S&P CoreLogic House Prices; Pending Home Sales	<b>FOMC Rate Decision; ADP Employment; Employment Cost Index; MBA Mortgage Applications; MNI Chicago PMI</b>	Challenger Job Cuts; Weekly Jobless Claims	<b>Labour Report (including Non-Farm Payrolls); ISM Manuf. Survey</b>
<b>Europe</b>	Spanish CPI & Retail Sales; UK Mortgage Approvals	<b>French, Swedish, Belgian &amp; Austrian Q2 GDP; German &amp; Belgian CPI</b>	<b>Eurozone, Italian &amp; Spanish Q2 GDP; Eurozone, Italian &amp; French CPI; UK House Prices</b>	<b>Bank of England Meeting; UK, Dutch, Spanish, Italian, Danish, Irish &amp; Greek PMIs</b>	<b>Italian Ind.Prod.;</b> Spanish & Norwegian Unemployment; Swiss CPI
<b>Japan</b>	<b>Retail Sales</b>	<b>Bank of Japan Meeting; Ind.Prod.; Jobless Rate</b>	Housing Starts	Vehicle Sales	Monetary Base
<b>China</b>			<b>Official PMIs</b>	<b>Caixin PMI</b>	



Source: Bloomberg, S&P Dow Jones, MSCI, FTSE/EPRA, 4<sup>th</sup> August 2019

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