

# Macro Markets



EURIZON'S INVESTMENT VIEWS  
ON MAIN ASSET CLASSES

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**Eurizon Capital SGR S.p.A.**

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# SCENARIO

## In short

The financial markets performed very well in the past month. The main source of support for the markets were the Central Banks, whereas macro data remained weak. The accommodative turn taken by the Central Banks, combined with the stimulus the Chinese authorities are injecting into their economy, should counterbalance the restrictive effects generated by trade tensions, allowing global growth to continue.

## A closer look

**The financial markets performed very well in the past month.** Interest rates dropped across maturities. The US curve steepened, while staying much flatter than usual. All German rates moved downwards and are now negative up to the 18-year maturity.

Risk assets performed positively. The US stock market (S&P 500 index) hit new all-time highs, while the MSCI All Country World global index recovered almost fully from its correction in May. The absolute highs for this index are still those hit at the beginning of 2018, around 5% higher than current levels. Rates down and spreads narrower for Investment Grade, High Yield and emerging market bonds. Italy-Germany spreads have tightened sharply.

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The **Federal Reserve**, faced with persistent trade tensions between the US and China, has set the stage for an interest rate cut. The move will probably be decided at the FOMC meeting on 31 July. Furthermore, Fed Funds futures price in a continuation of the accommodative phase over the following months. As we write, four rate cuts are being priced in, each by 25bps, by mid-2020. If in the next few months a trade agreement is reached, or if the next round of macro data outline a stabilisation, the Federal Reserve's loosening could prove smaller than currently expected. However, it is reassuring to know that in the present context of low inflation, the US Central Bank is declaredly ready to ease monetary conditions as soon as any uncertainty should emerge to threaten the global growth trend.

The **ECB** also signalled a more accommodative monetary policy stance. On occasion of the forum on Central Banking held in Sintra, Mario Draghi showed openness to new stimulus measures. The ECB has less leeway than the Fed on interest rates, as it has not yet started the normalisation process. At the moment, EONIA futures are pricing in a 15bps decline of the ECB deposit rate within the first few months of 2020 (to -0.55%). However, the sharp drop of government bond rates across Eurozone countries indicates that investors are also taking into account the possibility of a reopening of quantitative easing, to include asset purchases. The timing and details of the move are uncertain, although the initial tangible decisions will probably be taken by the end of the autumn, before Draghi leaves the ECB helm to his successor.

For what concerns **trade tensions**, following the mutual introduction of new tariffs decided in the first half of May, at the G20 meeting in Japan at the end of June Trump and Xi agreed on a new truce, replicating the December 2018 deal. The two sides will therefore resume negotiations, put on hold in May, and in the meantime will suspend the enforcement of new



tariffs. While the final outcome is still uncertain, for the time being the markets should be shielded from heated tones and the related turbulences.

**With respect to macro data, weakness continued to prevail.** Most importantly, the industrial cycle and import-export trade sent further indications of a slowdown, as a direct consequence of trade tensions and as a delayed effect of the increase in US interest rates last year. **The fact that rates are now coming down, and that China is injecting stimulus into its economy, are both factors that bode well for a reacceleration in the second half of the year. The recent stabilisation of business confidence indicators in the Eurozone could be an initial sign, although investors will seek reassurances in the months ahead.**

**In Old Continent,** following the pro-Europe outcome of the European Elections, **work is now under way to appoint the heads of the main institutions, with particular focus on Draghi's successor as ECB president.** As regards Italy, despite the proposed launching of an excessive debt procedure against the country, spreads have narrowed significantly in the past month. Italian assets have certainly been supported by expectations for a reopening of QE by the ECB, but also by evidence that, beyond the conflictual tones often used, the Italian government is working towards reaching a compromise solution with the EU Commission. The markets will seek confirmative evidence on both fronts in the coming months.




## Scenario focus points

Macroeconomic data, trade tensions between the US and China and monetary policy decisions will continue to be the main themes to monitor in the next few months. For what concerns Europe, focus is now on the appointment of the heads of the EU institutions and, most importantly, Draghi's successor at the helm of the ECB.



# Investment views



Eurizon Capital SGR's investment views on the main asset classes are outlined below.

ASSET CLASS	VIEW	
EQUITY	 <b>NEUTRAL</b> (previous month: NEUTRAL)	<p><b>Neutral view on equity.</b>                      Neutral view confirmed on stocks, the sharp recovery of which over the past few weeks is already pricing in macro improvements and Central Bank actions that have yet to materialise.                      In geographical terms, the following order of relative preference is confirmed: (1) USA, (2) Europe, Japan, Emerging countries, (3) Pacific excl. Japan.</p>
GOVERNMENT BONDS	 <b>NEUTRAL GER, "QUASI CORE" AND USA</b> (previous month: NEUTRAL GER and "QUASI CORE"; POSITIVE USA)	<p><b>Neutral view on the US, Germany and "quasi-core" countries.</b>                      Neutral view taken on US duration to take profit in a context in which the decline of interest rates is already very pronounced.                      Neutral view confirmed on German and quasi-core Eurozone country bonds.</p>
	 <b>NEUTRAL ON PERIPHERALS</b> (previous month: NEUTRAL)	<p><b>Neutral view on peripheral Euro area government bonds.</b>                      Neutral view confirmed on peripheral Euro area bonds. Relative preference for Italy over the other peripheral countries.</p>

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ASSET CLASS	VIEW
SPREAD BONDS	 <b>POSITIVE</b> (previous month: POSITIVE)
CURRENCIES	 <b>POSITIVE YEN AND            EMERGING            CURRENCIES</b> (previous month: POSITIVE YEN)

Further information on financial market trends available in video format at [www.eurizoncapital.it](http://www.eurizoncapital.it):



**Eurizon View**, the monthly update on Eurizon Capital's views on the economic scenario, and expectations for the main asset classes.



**Analysis of the month**, the monthly publication that offers an overview of the main economic themes that have guided market trends in the past calendar month.

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