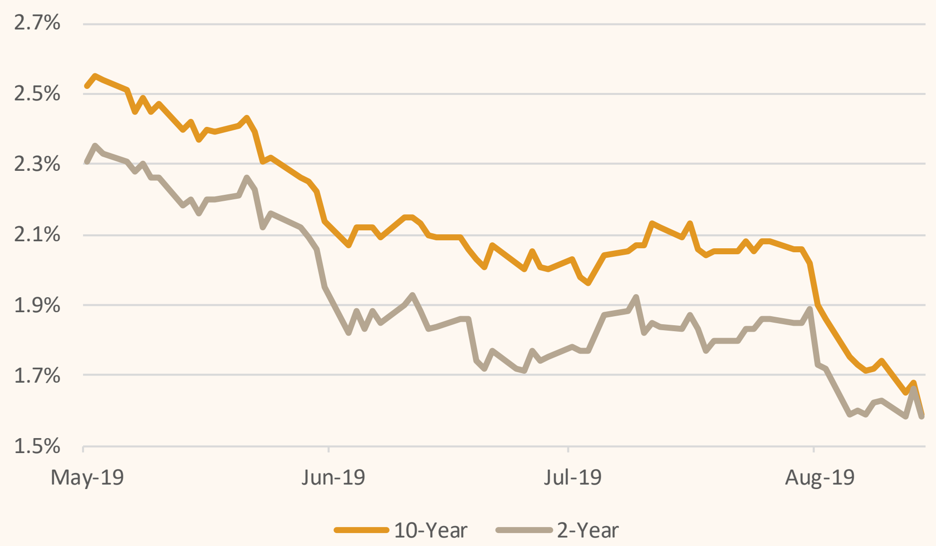
## Key Economic Figures/Events of the Week

- President Trump changed his mind again. On Tuesday, 13 August, the US Government announced the postponement until 15 December of 10% tariffs on additional $300 bln worth of Chinese goods, which were set to take effect on 1 September. This was a dash of hope in an otherwise gloomy week for the markets. We think the likelihood of a trade truce to be reached until the end of 2019 is now much lower as previously expected, and the bargaining process may move over into 2020.
- Meanwhile, due to ongoing US-China trade dispute, export-oriented countries like Germany are getting hit the hardest. With the German GDP contracting 0.1% quarter-on-quarter in 2Q19, according to a report published on Wednesday, 14 August, many analysts think that Germany is on the verge of recession (defined as two consecutive quarters of contraction). While the ECB has not much room for cutting interest rates, fiscal stimulus is the only option left for the German government to revive the economy.
- China has also recently reported weak data. Both industry production and retail sales figures came lower than expected, which proves that the fiscal stimulus provided by the Chinese government is not enough to protect the economy from the trade war damage. On the other hand, cutting interest rates may put pressure on the Chinese yuan. With both the US and China's leaders acknowledging that the tit-for-tit game is hurting both economies, both are trying hard to get a stronger arm in the trade negotiations. In the meantime, uncertainty continues hurting.

**10-Year US Treasury yield falls below the 2-Year yield**




- While the US economy is more consumer-driven and less export-dependent, some statistics show worrying signs. Meanwhile, the key 2-year and 10-year US Treasury yield curve inverted for the first time in 12 years on Wednesday, 14 August. While historically a yield curve inversion has preceded recession in the US, it reflects investors'' fears, who are currently pricing in the risk of recession. We believe that the rally in the US Treasuries has some technical reasons behind it and may reverse soon.

- In the preliminary elections held on 11 August in Argentina, the opposition duo of Fernandez and former President Kirchner obtained over 47% of the vote, while the incumbent President Macri received slightly above 32%. The gap was far larger than expected, which made markets price in a victory of the populist Fernandez for the October's final elections, thus triggering a huge sell-off. The chance of a reversal in vote preferences in favour of Macri is low, but Fernandez' economic program is yet to be published. We do not hold any Argentinian sovereign or local-currency denominated debt. Our exposure is limited to hard-currency denominated bonds of energy company YPF(B/B2/B) and Agro(BB), with the total weight in the range 0.7%- 5%, depending on the size of the portfolio. We continue to hold them, as we consider that both companies are able to meet their foreign debt obligations, with the leverage being at low levels, covered by foreign-currency denominated revenue inflows.

**Weekly Investment Insights**

- Credit-rating agency Fitch upgraded Russia's sovereign debt rating to BBB from BBB-, its 2014 level, citing low external debt and robust fiscal health. The agency also underlined that Russia is in a better position to cope with any new sanctions. This is also good news for Russian corporates' debt ratings. Our exposure to Russian companies is about 10%-15% on average.
- Brazilian food giant BRF(BB-/Ba2/BB) reported robust second quarter results. The company profited from an increase in prices and exports' volume across global markets, partly due to African swine fever in China. Net revenues increased 18% YoY, while adjusted EBITDA was up 242% YoY, which allowed them to significantly improve leverage (3.5x net debt / EBITDA as of 2019). We keep holding BRF bonds as we like their risk-return profile.

**Strategy**

With the markets in a gloomy mood, we are comfortable holding some cash and moderate duration for our portfolios. We nevertheless look for any opportunities arising from market corrections.

**We hope you find this information useful and will be glad to answer your questions**

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