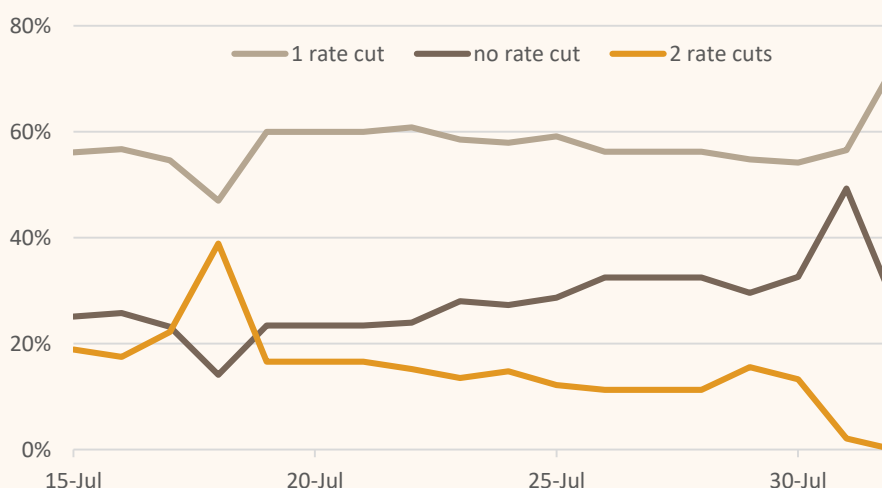


Key Economic Figures/Events of the Week

- All week abounded in events. But the big day was Wednesday, 31 August, the day Fed announced the decision of one-quarter-point rate cut, following its two-day meeting. True, the policy rate decision was in line with what most of the market participants anticipated. Nevertheless, markets were disappointed, as they hoped to receive a clear signal of further easing later this year, which the Central Bank authorities failed to deliver. At the press conference following the announcement, Chairman Jeremy Powell tended to make it clear that the decision is a “middle term adjustment”, rather than the beginning of an easing period, reiterating Fed’s data dependency in decision-making.
- Speaking about data: both consumer spending, which accounts for more than 60% of economic activity in the US, as well as consumer optimism are still strong. Recent data showed consumer spending rose 0.3% in June, while the Conference Board index of consumer confidence for July jumped to 135.7 from 124.3 in June). The overall picture is that of an economy that is cooling down, but with no sign of recession so far. We believe the rate cut decision came to avoid unsettling the markets, rather than due to slowdown concerns. And we think the markets are too fast at pricing in rate cuts. It only took one day for the expectations of one further rate cut this year to raise to 72.7% on Thursday (1 August) from 56.5% on Wednesday (31 July).

Trump’s tariff threat reignites rate-cut bets



Source: CME Group, Reuters

- Two months - this is how long the cease-fire in the US-China trade war lasted this time. President Trump said on Thursday, 1 August, that he would impose a 10% tariff on the remaining \$300 billion of Chinese imports starting September. Nevertheless, negotiations are set to continue, but the news sent oil prices dropping as much as 7%, while the 10-year Treasury yield tumbled to 1.89% as of Thursday closing. We believe the Chinese part is trying to prolong negotiations to put more pressure on President Trump, the closer it gets to the US elections. With no further negotiations announced in the near term, we expect the risk appetite to moderate in the following weeks.
- Trade uncertainty will continue being a drag on manufacturing. The US ISM Manufacturing PMI for July fell for the fourth consecutive month to 51.2 from 51.7 in June, worse than estimates.

Weekly Investment Insights

- The consolidation process in the pharmaceutical industry continues. This time, Pfizer (A1/AA-) announced the merger between its off-patent drug division Upjohn and Mylan (Baa3). Both companies are in the generic drugs business, which keeps being prone to downward price pressure due to fierce competition. We hold positions in both companies and we believe both will benefit from the merger.
- The 2Q19 report season continues. Among the corporates of interest to us, Novolipetsk Steel (BBB-/Baa2 /BBB) reported good financial results, with EBITDA growing by 6% QoQ, to USD 735 million. Debt/EBITDA rose slightly, but is still low at just below 1x. Another Russian steel company, Evraz (BB+/Ba2/BB) saw its total steel product sales rising 7.7% quarter-on-quarter. Steel-companies enjoyed higher demand for their products in 2Q19.

Strategy

This week we didn't make any purchases, but we keep fixing profits whenever advantageous opportunities arise.

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

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