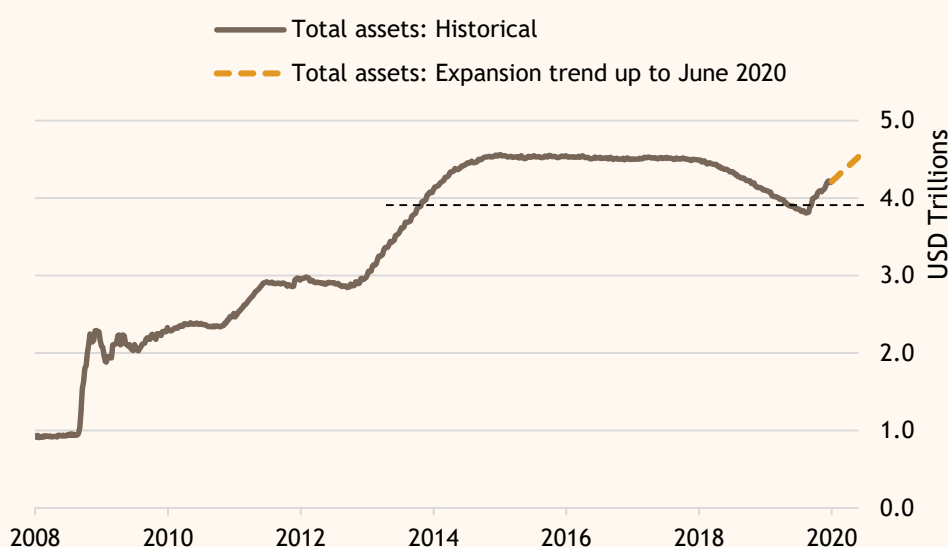


## Key Economic Figures / Events of the Week

- The China-US trade negotiations receded in the background of investors' attention, as the escalation in the confrontation between the US and Iran took center stage. This was triggered by the killing of a top Iranian general by the US military in Iraq last week. The middle of the week saw an easing of tensions, as the US government refrained from military retaliation after Iran's missile attack on US facilities in Iraq on Tuesday, 7 January. President's Trump statement on Wednesday, 8 January, that "the United States is ready to embrace peace with all who seek it", was interpreted by the markets as a sign that a military confrontation will most likely be avoided.
- After a sizable increase since the events in Iraq, gold and oil futures reversed their gains and returned to their pre-escalation levels by Wednesday, 8 January. As supply disruptions are unlikely unless a full-blown war develops in the region, we do not expect a considerable surge in oil prices to ensue.
- The US and China are expected to sign a phase-one trade deal on 15 January and both parties affirmed their readiness to start the negotiations on a phase-two deal. We think the discussions on a final deal will be more difficult and will linger most probably well after the US elections in November this year. Nevertheless, the news on the preliminary deal calmed down the markets and contributed to the recent "Santa-rally" of the bond markets.
- The minutes of the FOMC 10-11 December meeting, published on Friday, 3 January, reaffirmed the US central bank's intention to keep the interest rates on hold for the time being. Also positive for the markets is the recent relaunch by the Fed of its balance sheet expansion, which is close to reach its all-time high of USD 4.5 trillion, set in the aftermath of the 2008 financial crisis. In our base case scenario, we assume a further rate cut by the end of the year, as a final resolution to the trade conflict will take long to be reached.

## Fed resumes balance sheet expansion



Source: Bloomberg

- The ISM PMI index in the US improved to 55.0 point in December compared to 53.9 points in November. While the manufacturing PMI is still in the contraction zone (47.2 for December), manufacture has a far less role in the overall health of the US economy as it once did.

- Elsewhere, Eurozone inflation increased slightly to 1.3% in December, up from 1.0% one month ago, which is however still well below the 2% ECB target.

### Weekly Investment Insights

- Brazilian mining company Vale (BBB-/Ba1/BBB-) saw its bonds increase in price after news that the company secured a USD 3 billion syndicated revolving credit facility involving 16 banks, the first since the Brumadinho dam disaster in January 2019, which will allow the company to better manage its cash. We are positive about Brazilian issuers, which will likely continue to enjoy increased demand over the course of 2020 and beyond, as the impact of government reforms in Brazil starts to unfold.
- Mexican building material company Cemex (BB/BB/BB) announced the divestment of several of its UK assets worth about USD 235 million, including about USD 31 million debt. The company is currently on a deleveraging path and the proceeds are to be used in part for debt reduction. The bonds we hold in our portfolios increased in price lately and we see more upside potential, as the move will likely improve the financial position of the company, which may very well trigger a credit rating upgrade in the near future.

### Strategy

As usually, the primary market saw a revival with the beginning of year. With cash available from the recent subscriptions into the fund, we acquired a 10-year subordinated notes new issue of the French bank Credit Agricole (BBB+/A/Baa1), as well as 5- and 10-year new issue of the Norwegian Aker BP ASA (BBB-/Ba1), one of the largest exploration and production oil companies in Europe. Also on the primary market, we purchased a 5-year new issue of Banco Santander Chile (A/A1/A) and a 10-year issue of the State of Israel (AA-/A1/A+).

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

AXIOMA Wealth Management AG  
Bleicherweg 50, CH-8002 Zurich  
Tel.: + 41 43 305 07 10  
info@axiomag.ch  
www.axiomag.ch



Verband Schweizerischer Vermögensverwalter | VSV  
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