AXIOMA
Wealth Management AG

Monthly overview
September 2017

September saw an increase in the yields of US Treasuries, which was somewhat set off by the narrowing of EM credit spreads on the back of a significant rise (+10% in September) in oil prices. Coupled with monthly coupon income, that enabled the Fund to close the month in a positive territory.

As expected earlier, the September 19–20 Fed meeting left the interest rate unchanged at 1.0–1.25% and announced that it would start rolling off its balance sheet. According to a detailed plan, the Fed's balance sheet is not expected to go below USD 2.5–3 tn over the next few years. The increase in supply of Treasuries, though, may result in market yields rise in the mid term.

The interest rate expectations for this year have not changed, with markets bracing themselves for another hike at the December meeting. Another three hikes are expected in 2018, while 2019 will only see two increases. The median of FOMC projections for Fed funds rate ceiling in 2020 stands at 2.87%.

In her latest speech Fed Chair Janet Yellen took a hawkish stance expressing confidence in an inflation comeback and making a case for not staying on hold with the rate hikes until inflation is back to 2%. With major battles over the US debt-ceiling hikes postponed until December and resurging hopes for at least partial implementation of President Trump's tax reforms by the end of the year, the US dollar is set to get some support.

Even though Chancellor Merkel's Christian Democrats (CDU) won parliamentary elections in Germany, the success of the right-wing Alternative for Germany (AfD) and the return of Free Democrats (FDP) to Bundestag came as a big surprise for many. As a result, the ruling grand coalition of CDU and CSU fell apart and Ms Merkel is now facing a tough task of seeking new coalition partners from five other parties and forming a new government. This came as a headwind for the euro, which started to lose in value.

The months of September and October generally see stronger market activity. After a prolonged period with no major correction, such correction is getting increasingly likely to happen with every new month to come. Among the potential correction triggers are the escalating crisis in North Korea, the lukewarm conflict with Qatar, a Chinese “black swan”, or new disappointing statistics from Europe. Investment managers tend to adopt a defensive approach in an attempt to minimise the risks and preserve accumulated profits by the end of fairly lucrative year which may postpone the correction, but we still prefer to stick to our conservative strategy.

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

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