

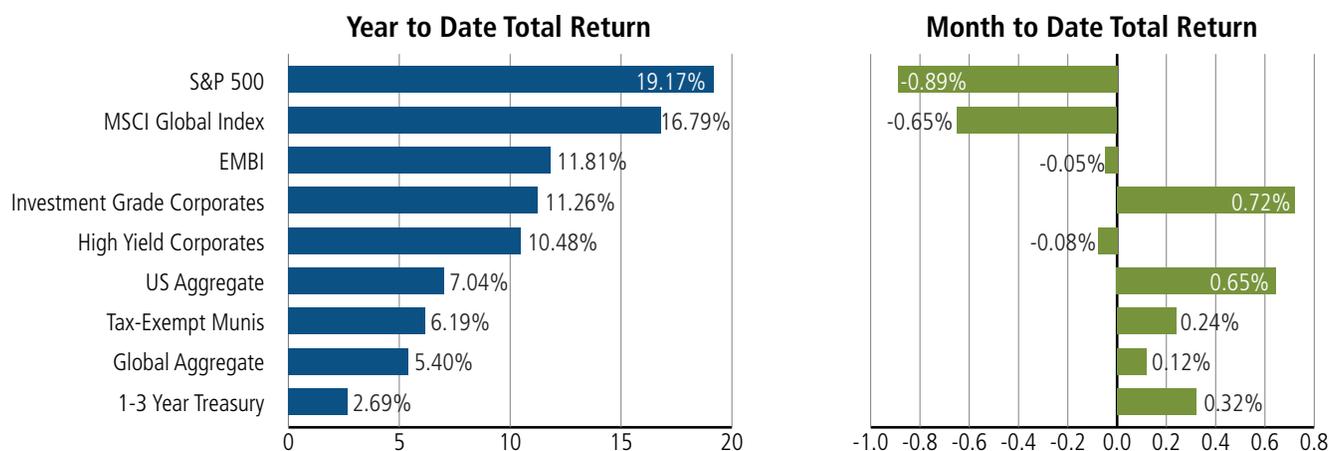
Week Ending August 2, 2019

## The First Cut Is The Deepest

### Economic Overview:

The Federal Open Market Committee (FOMC) cut rates for the first time since 2008 at their July meeting. Chair Powell stated the decision was a “mid-cycle adjustment to policy,” not the start of a “long series of rate cuts” as one might expect if the economy was on the rocks. Although, based on Powell’s presser performance, we can say he likely has no idea what the Fed will do next—or why. Nonetheless, history rhymes if not repeats. [The last five “mid-cycle adjustments,” defined as periods in which a rate cut is not followed by a recession in the ensuing 12 months, produced interesting financial market results.](#) Over the six month period following the rate cut, equities posted average total returns of 14%, while high yield bonds returned 5%, and Treasuries returned 5%. Of the five occurrences, we find 1995 and 1998 most similar to the present. Trade at your own risk!

### Total Returns by Asset Class



### Highlights of the Week:

- Currencies:** Many investors had expected that the Federal Reserve’s interest rate cut on Wednesday would increase the appeal of emerging market currencies. However, these hopes failed to materialise as the U.S. dollar rose on the back of less dovish than expected rhetoric from the Fed. As a result, emerging market currencies sold off on the week with the South African rand falling by 3%, followed closely by the Brazilian real (-2.8%) and the Mexican peso (-1.5%).
- Corporates:** This week saw rates rally, spreads widen, and oil prices fall. The Fed cut the benchmark rate a quarter point to a range of 2% - 2.25% while President Trump extended a 10% tariff on another \$300B in Chinese imports. Pfizer (PFE, A1/AA-/A+) is combining its off-patent branded and generic established medicines business with Mylan (MYL, Baa3/BBB-/BBB-) in an all-stock deal. Both Pfizer’s and Mylan’s bonds are marginally wider.
- Securitized Products:** Whole business securitization (WBS) continues to expand in breadth. This week was the SESAC music composition copyright deal, and next week will be the Primrose early childhood education deal as well as the Pet Supplies deal. WBS had been dominated by the likes of fast food and quick service restaurants, but that has changed with new issuers like Massage Envy, Planet Fitness and Driven Brands to name a few.
- Equities:** The U.S. equity market posted its worst weekly performance of the year on fears of escalating global trade tension and a less dovish Fed. The market was led lower by the higher beta and more cyclically-driven areas of the market such as technology and consumer discretionary sectors. Real estate and utilities benefited from their safe haven status after posting gains for the week.