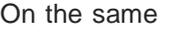


In this week, risk-off sentiment continued. The MSCI All countries **world** index entered “bear market” on December 24 (437.7), having lost more than 20% (-20.5%) versus the historic high close price of January 26 (550.3). **Eurozone** Stoxx 50 index and the Nikkei index in **Japan** have entered “bear market” conditions (denoted as a “rule of thumb”: worse than -20% from latest bull market peak close level) in the current week and the MSCI Emerging markets index remains in “bear market” since September. In the **US**, at the beginning of the week, the S&P 500 index was at -19.8% (closing price of 24/12: 2,351) from historic high close (20/9: 2,931), but for the time being has narrowly avoided entering “bear market”. The drawdown for the S&P 500 index has exceeded that of the severe correction in 2011 (29/4/11-3/10/11: -19.4%), but the borderline that keeps the index in “bull market” (2,344: -20% from 2,931) has not been crossed on closing price. The S&P 500 reacted upwards by 4.96% on December 26 (2,467.7), posting the highest daily return since 2009. Despite the resilience exhibited in the US market on December 26, the risk of entering “bear market” in the following couple of months is substantial. Stoxx 600 **Europe** index is at risk of entering “bear market” in the short term, as the closing price of December 27 (329.6), was at -18.2% versus the most recent bull market peak on January 23 (402.8).

The risk-off sentiment in equity markets has been triggered by a combination of worries. A negative “feedback loop” between worsening financial conditions and slowing global economic growth may be evident soon. A synopsis of the worries is shown below:

- 1) US-China “trade war”.
- 2) US administration criticism of the Federal Reserve.
- 3) Brexit uncertainty.
- 4) Partial shutdown of the US government/budget dispute due to requested funds for a border Mexico wall.
- 5) US Finance minister calling an emergency meeting on market conditions (24/12).
- 6) Eurozone economic growth slowdown.
- 7) China economic growth slowdown.
- 8) Not much room for fiscal support in the US, if needed.
- 9) Not much room for monetary support in the Eurozone, if needed.
- 10) Oil price volatility.

Index	Current price (27/12)	Latest peak (closing price)	Change: current price vs latest peak	Price change since current bull market start	At current level: Reaction vs latest bear bottom	Perception about current market status
US (S&P 500)	2.489	2.931	-15,1%	9/3/09-current: 268%	not applicable: in bull market	
UK (FTSE 100)	6.585	7.877	-16,4%	11/2/16-current: 19%	not applicable: in bull market	
France (CAC)	4.599	5.640	-18,5%	11/2/16-current: 18%	not applicable: in bull market	
Swiss (SMI)	8.196	9.612	-14,7%	11/2/16-current: 9%	not applicable: in bull market	
STOXX 600 EUROPE	330	403	-18,2%	11/2/16-current: 9%	not applicable: in bull market	
Japan (NIKKEI)	20.078	24.271	-17,3%	not applicable: in bear market (entered 25/12/18)	5%	
MSCI All Countries World Index	450	550	-18,2%	not applicable: in bear market (entered 24/12/18)	3%	
STOXX 50 EUROZONE	2.937	3.697	-20,6%	not applicable: in bear market (entered 27/12/18)	0%	
Germany (DAX)	10.382	13.560	-23,4%	not applicable: in bear market (entered 6/12/18)	0%	
SPAIN (IBEX)	8.364	11.135	-24,9%	not applicable: in bear market (entered 12/10/18)	0%	
MSCI EMERGING MARKETS	952	1.273	-25,2%	not applicable: in bear market (entered 10/9/18)	2%	
ITALY (FTSE MIB)	18.065	24.544	-26,4%	not applicable: in bear market (entered 11/10/18)	0%	

Source: Bloomberg

The week ahead:

US employment figures for December (4/1) will be the key announcement of the next week. On the same day (4/1), the Chairman of the Federal Reserve J. Powell together with his predecessors J. Yellen, B. Bernanke will speak at the annual meeting of the American Economic Association. ISM manufacturing index is expected on January 3. Employment figures and ISM manufacturing index will provide significant insight on whether market turbulence in the previous period has negatively affected economic fundamentals. PMI manufacturing index in the **Eurozone** and Caixin manufacturing PMI for December in **China** will be released on January 2.

Government bonds have benefited from uncertainty and risk-off environment in equity markets. US equity market, which remains the most resilient, is facing serious difficulty against the mix of negative events described previously. What is now regarded as more important is to get an expected “soft-landing” rather than a surprise “hard landing” of the global economy, so that the damage can be reversible quite soon. In the short-term, investment environment seems probably the most difficult in the last decade. However, strong employment, private sector profitability and low yields in major economies, can set the ground for stabilisation and gradual improvement of conditions in global markets in the mid to long term horizon.

Quote of the Week

ECB’s member P. Lane said (24/12): “The balance of risks is shifting to the downside. The mixed signals about the momentum in the global business cycle and the extraordinary high levels of policy uncertainty, with business and households expressing concerns about the future of the global trading system and more locally, Brexit”.

Global Markets in Charts

- The Stoxx 600 **Europe** index dropped at a two-year intraday low (327.3) on December 27. On closing prices, the change of the index since January 23 peak (403) is -18.2%. Support is at 322 (-20% borderline for a “bear market”) and at 303 (11/2/16 low). Resistance is at 355 (55 days average and 5/12/18 high) and at 375 (8/10/18 high and 200 days average).



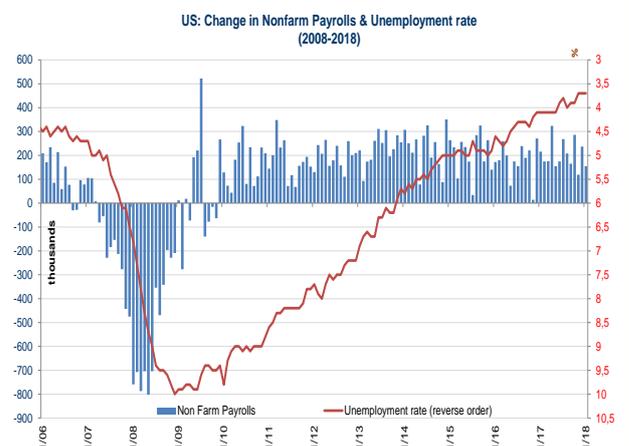
- The MSCI **Emerging** markets index dropped at intraday low (26/12: 945.3) since the end of October. The index had already entered “bear market” since September 10, (on closing prices 26/1-10/9: -20.6%) and it is currently (27/12) at -25.2% versus January 26 close (1,273). Support is at 915 and 830 area (Fibonacci retracement levels 61.8%, 76.4%: 687-1279). Resistance is at 975 (17/12/18 high, 21, 55 days average) and at 1,060 (31/8/18 high and 200 days average).



- US** 2-year government bond yield posted intraday low (24/12: 2.53%, 200 days average: 2.62%) since July. The deterioration of financial markets conditions reinforces the expectation that the Federal Reserve will most probably end its rate hike cycle by June 2019. Support for the 2-year yield is at 2.40% (Fibonacci retracement 23.6%: 0.495%-2.973%), resistance is at 2.70%-2.80% (21 days, 55 days averages, 6/12/18 high).



- US** employment figures for December will be announced at the end of the next week (4/1). Non-farm payrolls may have risen by 180,000 (Bloomberg median of estimates) vs 125,000 (historic average) and the unemployment rate may have remained well below (3.7%) the historic average (5.8%). In case these expectations for employment figures become realized, it is possible that market sentiment can be supported. In contrast, a miss versus expectations, could negatively affect the currently fragile market sentiment.



Source: Bloomberg

Global Markets Minesweeper
Event Risk Calendar, December 31, 2018 - January 4, 2019

Monday 31/12						
Date Time	Country	Event	Period	Survey	Prior	
31/12 03:00	CH	Non-manufacturing PMI	Dec	53.2	53.4	
31/12 03:00	CH	Manufacturing PMI	Dec	50.0	50.0	
31/12 17:30	US	Dallas Fed manufacturing Index	Dec	16.0	17.6	
Eco Event	CH	Chinese President speech				
Tuesday 1/1						
Date Time	Country	Event	Period	Survey	Prior	
		US, Europe, Japan: Holiday				
Wednesday 2/1						
Date Time	Country	Event	Period	Survey	Prior	
2/1 03:45	CH	Caixin PMI manufacturing	Dec	50.2	50.2	
2/1 11:00	EC	Markit Eurozone PMI manufacturing	Dec F	51.4	51.4	
2/1 11:30	UK	PMI manufacturing	Dec	52.5	53.1	
2/1 16:45	US	Markit US PMI manufacturing	Dec	53.9	53.9	
		Japan: Holiday				
Thursday 3/1						
Date Time	Country	Event	Period	Survey	Prior	
3/1 10:30	SZ	PMI manufacturing	Dec	56.9	57.7	
3/1 11:00	EC	M3 YoY	Nov	3.8%	3.9%	
3/1 15:15	US	ADP employment change	Dec	180k	179k	
3/1 15:30	US	Initial jobless claims	Dec-29		216k	
3/1 17:00	US	ISM manufacturing index	Dec	58.0	59.3	
3/1 17:00	US	ISM employment	Dec		58.4	
3/1 17:00	US	ISM new orders	Dec		62.1	
		Japan: Holiday				
Friday 4/1						
Date Time	Country	Event	Period	Survey	Prior	
4/1 03:45	CH	Caixin Services PMI	Dec	53.0	53.8	
4/1 11:00	EC	Markit Services PMI	Dec F	51.4	51.4	
4/1 11:00	EC	Markit Composite PMI	Dec F	51.3	51.3	
4/1 11:03	UK	Markit Services PMI	Dec F	50.7	50.4	
4/1 11:30	UK	Markit Composite PMI	Dec F	50.8	50.7	

December 28, 2018

4/1 12:00	EC	CPI estimate YoY	Dec P	1.8%	2.0%	
4/1 12:00	EC	CPI core YoY	Dec P	1.0%	1.0%	
4/1 15:30	US	Non-farm payrolls monthly change	Dec	180k	155k	
4/1 15:30	US	Unemployment rate	Dec	3.7%	3.7%	
4/1 15:30	US	Average hourly earnings YoY	Dec	3.0%	3.1%	
4/1 15:30	US	Labor force participation rate	Dec		62.9	
Eco Event	US	Fed Chairman J. Powell and J. Yellen, B. Bernanke speeches at American Economic Association annual meeting				

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