Weekly Market Summary

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Another September to Remember ?! Depends on Whether You're an Optimist or a Pessimist !!
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September is the ninth month of the year in the Gregorian calendar and marks the start of the academic year in many countries. The name September comes from the old Roman word "*septem*", which means seven, because in the Roman calendar it was the seventh month. The Anglo-Saxons called it Gerst monath (barley month), because it was their time when they harvested barley to be made into their favourite drink. More interestingly, the Romans believed that the month of September was looked after by the god, Vulcan. As the god of the fire and forge, they therefore expected September to be associated with fires, volcanic eruptions and earthquakes…And Fire & Disasters surely were in store!!

September 11th, 2001 – seventeen years ago - was perhaps the most defining moment of recent history, a day that carried coordinated terrorist attacks against the World Trade Centre (Lower Manhattan) and the US Pentagon (the collapse of a third tower WTC7 that same day, some 100 meters away from the twin towers, was not caused by a terrorist act, fuelling numerous conspiracy theories on this whole attack!), killing almost 3,000 people – the deadliest act of terrorism in US history and the type of event that most people will possibly witness only once in a lifetime. The attacks – and just as importantly, the US administration response to them – would go on to transform US foreign policy, and the millions of people affected by that. It would also call into question freedom and diversity values the superpower had claimed to represent, whilst "legitimizing" pre-emptive strikes against enemy positions and paving the way for what would become later known as the "*global war on terror*" (the wars in Afghanistan and Iraq that followed, killing and injuring scores of civilians, those innocent lives sadly referred to as "collateral damage") with no clear frontiers in time or space, nor clear boundaries between combatants and civilians. In the post-9/11 era, Americans would no longer define the battlefield or the enemy with any clarity (whereas before 9/11, targeted killings, indefinite detention and government surveillance of communications would have been considered shocking and illegal!). Today, America is safer – but also more fearful – than at any time since 9/11.

September 15th, 2008 - ten years ago - the investment bank Lehman Brothers collapsed, utterly shocking financial markets and the global economy. And whether the US government could have saved the firm and just chose not to (Oh God! Please tell me it's not another conspiracy theory!), the failure and bankruptcy filing for this financial giant (4th largest US investment bank) with $ 639 billion in assets and $619 billion in debt was by far the largest in history (its size surpassed those of previous bankrupt giants such as WorldCom and Enron), with the ensuing fallout proving to be fast and frightening. For weeks, banks were unwilling to lend money to each other for fear of not getting paid back, a dramatic shift that froze credit markets and led to a global financial meltdown that is still being felt 10 years later (in the US alone, 6 million jobs were lost, with the unemployment rate doubling to north of 10%!) Massive bailouts of financial institutions – coupled with easy monetary and fiscal policies – were employed to prevent a possible collapse of world markets. Nonetheless, trust in the stability of the financial system is now at best "shaky", raising the odds that investors' confidence in central bankers/ governments' ability to address future crisis will never be the same (and potentially causing people to believe the whole financial system could one day blow up!). There is also an increasingly waning belief and trust in the large pool of fiat currencies that were being produced out of thin air by central bankers through financial engineering (quantitative easing measures), paper money with no intrinsic value and little ties to any physical value (such as precious metals).

Fast forward to September 2018 …

Investors will be dealing with a deluge of growing uncertainties over the coming weeks: From Italian bond yields' ongoing explosion to the upside (Italy's 10-year yield last at 3.16%) - after months of political drama - to fierce selloffs in Argentina & Turkey assets engulfing other emerging markets, Brexit negotiations regularly hitting multiple obstacles, and now US and China's engagement in a tit-for-tat tariffs standoff that could run into the hundreds of billions of dollars - the list of market negatives keeps growing, undermining recent strength in economic data and positive equity performance so far! Below is a summary of key impending risks affecting financial markets:

- **The Syrian Situation**: The US and Russia have exchanged warnings about a possible chemical attack in Syria and a Western military intervention in response, on the eve of what may be one of the most decisive campaigns in the Middle Eastern country's civil war. Tensions between the nuclear powers surged after National Security Adviser John Bolton told his Russian counterpart, Nikolai Patrushev, that the US has reliable information (the White Helmets maybe??) Syrian President Bashar Al-Assad may be preparing to use chemical weapons to recapture the north-western province of Idlib, the last stronghold of Syrian opposition groups now dominated by "Jihadists" rebels (or terrorists, take your pick!). In turn, Russia has announced it will hold a week-long military drill in the Mediterranean off the coast of Syria, deploying 25 large ships and 30 jets for the exercises (feels more like preparations for World War III).

- **Emerging Markets Bleeding:** A selloff in emerging markets has deepened lately, as Argentina and Turkey struggle to shore up global investor confidence. The peso tumbled to a record low, prompting Argentine policy makers to boost rates to 60%. In Turkey, a report that the central bank's deputy governor was set to resign sank the lira. South Africa's rand volatility soared amid a controversial land reform debate. Brazil took a small breather as an expanded foreign-exchange intervention brought some relief to both the real and its peers, though the overall outlook remains quite bearish.

- **Trump to Soon Back $ 200 Billion China Tariffs & More:** President Donald Trump wants to move ahead with a plan to impose tariffs on US$ 200 billion in Chinese imports as soon as next week, according to people familiar with the matter. Asked yesterday to confirm the plan in an interview with Bloomberg News in the Oval Office, Trump smiled and said it was "*not totally wrong*". He also criticized management of the yuan, saying China has devalued its currency in response to a recent slowdown in economic growth. In that same interview, Trump also spoke of the European Union as if it will be his next target. "*Almost as bad as China, just smaller*," he declared, adding that he would also look to pull out of the World Tarde Organization if it does not treat the US better. "*If they don't shape up, I would withdraw from the WTO!*".

- **US / Iran Standoff:** Iran said it would halt Middle East oil exports if it is not allowed to ship its crude through the Strait of Hormuz, according to a top military official. If the Islamic Republic cannot use the Strait for its oil exports, "*there will be no security for others either and no other crude will be exported from this region,*" Armed Forces Chief of Staff Mohammad Bagheri said. The U.S. Army and other military forces present in the Middle East "*know full well that the smallest mistake in the region will bear a heavy cost for them*." Iran has been threatening to halt exports from Hormuz, the world's most important oil chokepoint, since early July. However, the US re-imposed economic sanctions on Iran – that had been previously eased as part of a 2015 international nuclear agreement – will soon intensify with a full targeting of Iran's oil sales taking effect in early November. Brent crude prices climbed as much as 0.5% yesterday, to $ 77.50 a barrel.

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