16 - 22 SEPTEMBER

GLOBAL MARKET UPDATE

A new hope: The US-China trade negotiations may continue in October

The last two weeks were promising, as global political tensions have finally eased through a more constructive tone between the US and China, the withdrawal of the bill that sparked riots in Hong Kong, the decreasing probability of a no-deal hard Brexit, etc. However, **the developments on early Saturday re-introduced a degree of risk-aversion, when Saudi Arabia's crude oil processing plants were attacked**. The attack was disruptive with about 58% of the Saudi oil output being affected. As a result, the price of WTI crude spiked from USD 55/bbl and consolidated around USD 60/bbl in the early Monday morning trading. In our opinion, t**he magnitude of the abrupt price reaction implies that a political risk premium has been integrated into crude oil prices, since the disruption of supply will be likely fast overcome**: there have been reports that the Saudi production could recover and a large amount of production could come back in a matter of days, the US stated that it stands ready to act if needed (i.e. tap its strategic reserves) and the OPEC+ countries can opt for the relaxation of production cuts. Overall, **we see the disruption in the oil market as a transitory phenomenon**.

DUE TO TECHNICAL DIFFICULTIES

THIS WEEK'S GLOBAL EQUITY MARKET MOVERS AND MARKET DATA CANNOT BE DISPLAYED.

WE THANK YOU FOR YOUR UNDERSTANDING.

PLEASE CONTINUE FOR WEEKLY OVERVIEW

UNITED STATES

The Federal Reserve reduced the Fed funds rate by 25bp, in line with expectations. As a result, the range of the Fed funds rate is now at 1.75-2.00%. According to the FOMC's written statement, t**he Committee was split on the policy decision**, as two members voted for keeping the Fed funds rate unchanged, whilst there was one person who would have found a 50bp rate cut more appropriate. In our understanding, **Chair Powell did not give clear guidance on the magnitude of further interest rate reductions**, as the Committee decided to stick to a data dependent approach. Currently, the pricing by the futures market implies that the Fed funds rate range could arrive at 1.25-1.50% by 2Q20. By the end of the week, **the yield curve shifted downwards** (the 2-year Treasury yields eased to 1.68%, whilst the 10-year decreased to 1.72%), **whilst the S&P500 declined 0.5%**.

EUROPE

Stock markets the Euro Area and the UK had a challenging week, as the vast majority of the stock indices in the largest economies declined (in USD terms). Despite the spike in oil prices at the beginning of the week, inflation expectations in the Eurozone decreased, which in turn brought down sovereign yields (the 10-year German yield slipped to -0.52%).

ASIA PACIFIC

The performance of Asian stock markets was mixed during the week. **The Indian (+1.7% in USD) and Pakistani (+2% in USD) stock markets were among the best performers**. The Indian stock markets was boosted by the substantial reduction in the corporate income tax.

The usual set of monthly macroeconomic data were released for August by China during the week:

- **Growth of fixed asset investments slowed to 5.5% YoY YTD**, due to the deceleration of manufacturing investment activity (to 2.6% YoY YTD), whilst the pace of growth in terms of real estate investments remained steady at 10.5% YoY YTD and the growth of infrastructure investments accelerated to 4.2% YoY YTD.
- The value of **retail sales increased 7.5% YoY in August**, largely in line with the pace observed in the previous month. Excluding auto sales, total retail turnover growth markedly increased, to 9.3% YoY.
- **Industrial production volume expanded 4.4% YoY in August**, due to slowing activity in mining, utilities and manufacturing relative to July.

In our opinion, the latest Chinese macroeconomic data reflects that the domestic economy remains resilient (e.g. retail sales), whilst production in the more export-orientated sectors slowed.

The Indian Finance Minister announced a substantial reduction in the corporate income tax (CIT), which means that the rate will decrease from the current 30% to 22% (effective of 1st April 2019) - releasing a meaningful amount of USD 20bn for domestic companies (ca. 0.7% of GDP according to our estimate). As a result of the new CIT framework, the effective CIT rate (which encapsulates the CIT and all administrative levies for corporates) will be 25.2%, on par with many of India's emerging Asian peers, such as Indonesia, China, South Korea, Malaysia, etc. Following the Finance Minister's statement, **the RBI governor publicly commended the step and emphasised that the central bank will carry on with its rate cutting cycle**.

The combination of a lower CIT and lower interest rates will accelerate the cyclical recovery and the re-acceleration of GDP growth in the coming quarters, in our opinion. In addition, the reduction of the CIT is one of the first in a series of steps by the Modi 2.0 government in an attempt to further unlock the inherent structural growth potential of the country and others will follow that will further boost the performance of India's economy and ultimately its stock market.

The central bank of Indonesia cut the policy rate by 25bp to 5.25% and loosened certain macroprudential rules to spur lending activity, for example down payment regulations for selected property and vehicle loans. According to the statement released by the MPC, the stance of monetary policy will remain accommodative and the rate cutting cycle is highly likely to continue in the coming months.

LATIN AMERICA

The abrupt increase in oil prices impacted stock markets in Latin America. Whilst the Brazilian and (-1.7% in USD) and Peruvian (-1% in USD) ones declined, the Mexican (+1.3% in USD) and Chilean (+0.4% in USD) markets performed well during the week.

The Brazilian central bank cut the policy rate by 50bp to 5.50% in a unanimous decision. The statement indicates that an additional 50bp reduction is likely in October. The statement implies that the MPC's decision to further ease financial conditions would not be overridden by weakness in the exchange rate.

Argentina's real GDP growth reached 0.6% YoY (0.3% QoQ) in 2Q19, as the contribution by net trade turned positive. Domestic demand decreased in annual terms 8.9% YoY but grew relative to the previous quarter by 0.6%. Imports declined by 22.7% YoY, primarily due to significantly weaker peso. In contrast, exports increased by 15% YoY, mainly driven by impact of a good soy harvest. In a separate event, **the Argentine government submitted a bill to Congress to renegotiate**

public debt governed by local law. The bill would provide *'the necessary tools to promote a voluntary maturities extension of the debt under local law.'*

Peruvian economic activity visibly strengthened in July, as the monthly GDP proxy grew 3.3% YoY. The acceleration of economic growth was supported mainly by the improvement in agricultural and mining activities. Meanwhile, construction output grew 4.6% YoY and services activity increased 3.9% YoY.

Domestic demand in Mexico weakened 1.1% YoY in 2Q19, due to a deterioration in investment activity, whilst household consumption remained soft.

AFRICA

Risk aversion in African stock markets intensified during the week, as the majority of the stock indices declined: Morocco (-2% in USD), South Africa (-4.2% in USD) and Egypt (-7.4% in USD). The decrease in Egypt's benchmark index was partly due to idiosyncrasies, i.e. small anti-government protests in Cairo and other cities.

Inflation in South Africa remained below the central bank's inflation target, as headline CPI inflation was 4.3% YoY in August. Meanwhile, **retail sales volume growth surprised negatively**, as the annual rate of growth slowed to 2% YoY in July. Despite the below-target inflation and the protracted weakness in domestic demand (encapsulated by retail sales), **the central bank kept the policy rate stable at 6.50%**. According to the MPC's assessment, the balance of risks to growth and inflation is broadly symmetric, which implied no change in the course of monetary policy.

In our opinion, the central bank has shifted to a wait-and-see mode and will stay on it until 1st November, when Moody's released an updated assessment on South Africa's credit rating. If Moody's refrains from striking a bearish tone, the central bank might just find some room for policy manoeuvre to reduce the policy rate.

Inflation in Nigeria stagnated at 11% YoY in July. Details showed that food inflation has slightly slowed (to 13.2% YoY), however, not enough to bring the headline gauge below 11%. As inflation hovered well above the central bank's inflation target range of 6-9%, **the Monetary Policy Council decided to keep the policy rate stable at 13.50%**.

THE WEEK A HEAD

UNITED STATES	DATE	CONSENSUS
Markit manufacturing PMI (Sep)	Mon/23	50.4
Real GDP growth (2Q19) annualised	Thu/26	2.0%
PCE deflator (Aug) YoY	Fri/27	1.4%

EUROPE	DATE	CONSENSUS
Eurozone: Markit manufacturing PMI (Sep)	Mon/23	47.3

ASIA PACIFIC	DATE	CONSENSUS
Thailand: policy rate decision	Wed/25	1.50%
Philippines: policy rate decision	Thu/26	4.00%
China: Current account (2Q19)	Fri/27	

LATIN AMERICA	DATE	CONSENSUS
Colombia: policy rate decision	Mon/23	4.25%
Mexico: policy rate decision	Thu/26	7.75%

AFRICA	DATE	CONSENSUS
Kenya: policy rate decision	Mon/23	9.00%
Egypt: policy rate decision	Thu/26	12.88%

EUROPE & UK
Benoit Ribaud
+44 207 5577 862
benoit.ribaud@alquity.com

MIDDLE EAST, ASIA & UK
Suresh Mistry
+44 207 5577 854
suresh.mistry@alquity.com

LATIN AMERICA
Cyn Cano
+44 207 5577 871
cyn.cano@alquity.com

DISCLAIMER

All performance data is weekly and in USD unless otherwise specified.

The information in this document (this "Document") is for discussion purposes only. This Document does not constitute an offer to sell, or a solicitation of an offer to acquire, an investment (an "Interest") in any of the funds discussed herein. This Document is not intended to be, nor should it be construed or used as, investment, tax or legal advice. This Document does not constitute any recommendation or opinion regarding the appropriateness or suitability of an Interest for any prospective investor.

This material is for distribution to Professional Clients only, as defined under the Financial Conduct Authority's ("FCA") conduct of business rules, and should not be relied upon by any other persons. Issued by Alquity Investment Management Limited, which is authorised and regulated in the United Kingdom by the FCA and operates in the United States as an "exempt reporting adviser" in reliance on the exemption in Section 203(m) of the United States Investment Advisers Act of 1940.

The Alquity Africa Fund, the Alquity Asia Fund, the Alquity Future World Fund, the Alquity Indian Subcontinent Fund and the Alquity Latin American Fund are all sub-funds of the Alquity SICAV ("the Fund") which is a UCITS Fund and is a recognised collective investment scheme for the purposes of the Financial Services and Markets Act 2000 of the United Kingdom (the "FSMA"). This does not mean the product is suitable for all investors and as the Fund is invested in emerging market equities, investors may not get back the full amount invested.

This Document is qualified in its entirety by the information contained in the Fund's prospectus and other operative documents (collectively, the "Offering Documents"). Any offer or solicitation may be made only by the delivery of the Offering Documents. Before making an investment decision with respect to the Fund, prospective investors are advised to read the Offering Documents carefully, which contains important information, including a description of the Fund's risks, conflicts of interest, investment programme, fees, expenses, redemption/withdrawal limitations, standard of care and exculpation, etc. Prospective investors should also consult with their tax and financial advisors as well as legal counsel. This Document does not take into account the particular investment objectives, restrictions, or financial, legal or tax situation of any specific prospective investor, and an investment in the Fund may not be suitable for many prospective investors.

An investment in the Fund is speculative and involves a high degree of risk. Performance may vary substantially from year to year and even from month to month. Withdrawals/redemptions and transfers of Interests are restricted. Investors must be prepared to lose their entire investment, and without any ability to redeem or withdraw so as to limit losses.

References to indices herein are for informational and general comparative purposes only. There will be significant differences between such indices and the investment programme of the Funds. The Fund will not invest in all (or any material portion) of the securities, industries or strategies represented by such indices. Comparisons to indices have inherent limitations and nothing herein is intended to suggest or otherwise imply that the Fund will, or are likely to, achieve returns, volatility or other results similar to such indices. Indices are unmanaged and do not reflect the result of management fees, performance-based allocations and other fees and expenses.

All Fund performance results presented herein are unaudited and should not be regarded as final until audited financial statements are issued. Past performance is not necessarily indicative of future results. All performance results are based on the NAV of fee paying investors only and are presented net of management fees, brokerage commissions, administrative expenses, and accrued performance allocation, if any, and include the reinvestment of all dividends, interest, and capital gains. Net returns shown herein reflect those of an investor admitted at inception of the Fund, and are representative of a regular [shareholder], net of applicable expenses and reflect reinvestment of dividends and interest. In the future, the Fund may offer share in the Fund with different fee and expense structures.

The Fund's investment approach is long-term, investors must expect to be committed to the Fund for an extended period of time (3-5 years) in order for it to have an optimal chance of achieving its investment objectives.

This Document may not be reproduced in whole or in part, and may not be delivered to any person (other than an authorised recipient's professional advisors under customary undertakings of confidentiality) without the prior written consent of the Investment Manager.

SWISS INVESTORS:

The prospectus, the Articles of Association, the Key Investor Information Document "KIIDs" as well as the annual and semi-annual report of the Fund is available only to Qualified Investors free of charge from the Representative. In respect of the units distributed in Switzerland to Qualified Investors, place of performance and jurisdiction is at the registered office of the Representative. Funds other than the Luxembourg domiciled Alquity SICAV mentioned in this document may not be admitted for distribution in Switzerland.

Swiss Representative: FIRST INDEPENDENT FUND SERVICES LTD., Klausstrasse 33, 8008 Zurich.

Swiss Paying Agent: Neue Helvetische Bank AG, Seefeldstrasse 215, CH-8008 Zurich.