

Weekly Update: Published 29th January 2019

Downside risk

Markets

- Global equity market performance was negative across the board in GBP terms. Emerging markets fell the least, down -0.69%, followed by Europe (-1.28%), Japan (-1.46%), the UK (-2.00%) and the US (-2.30%).
- Bonds were positive over the week. UK Gilts were up +0.87%, whilst UK Corporates were up +0.71%. European bonds rose +0.59% and US government bonds gained +0.28%.
- A strong week for Sterling, as GBP appreciated vs USD, JPY and EUR by +2.52%, +2.30% and +2.12% respectively.
- In USD terms, the oil price fell -0.20% and gold rose by +0.76%.

Macro

- The Eurozone composite PMI slumped to a low of 50.7, with services dipping to 50.8 and manufacturing down to 50.4, all representing multi-year lows. The release of disappointing PMI data coincided with the ECB's interest rate decision, in which the Governing Council left rates unchanged but changed its guidance for the region, recognising the 'downside risk' for growth. With the ECB likely to lower its economic growth forecast, ten-year bunds responded by trading tighter on the week, as monetary policy is likely to be looser for longer.
- China's fourth quarter GDP growth rate slowed to its lowest level since 1990, at 6.4% YoY, marking the third consecutive quarter of slower growth. The administration has announced targeted policy measures to support growth, this week including tax cuts and the issuance of perpetual bonds. While the measures may offset some of the weakness, the nature of the stimulus measures may mean they offer less support to economic growth beyond China than previous packages.
- The UK labour market has proved resilient against Brexit uncertainty, with average regular weekly pay rising 3.3% YoY in the three months to November. Strong wage growth, combined with lower inflation, should provide a boost to UK consumption, especially if consumer confidence improves. If higher wage costs feed through to core inflation, it may lead to a more hawkish stance on interest rates by the Bank of England. In the short term, we view this as unlikely, given high Brexit uncertainty and the potential for a negative demand shock from a "no deal" Brexit.

Our view

- Global growth has weakened somewhat from elevated levels. We expect earnings growth to remain positive but weaker inflationary pressure should cause more gradual interest rate rises.
- Despite elevated geopolitical risk, we believe this is an environment favouring equities over bonds.
- Within our regional equity allocation, we are cautious on UK equities and favour those regions most attractively positioned to benefit from the improvement in the global growth dynamic.

Performance to 25/01/2019 1 Week YTD

Equity GBP Total Return %

UK	-2.00	2.21
Europe	-1.28	2.52
US	-2.30	2.51
Japan	-1.46	1.39
Emerging Markets	-0.69	2.85

Bonds Local Total Return %

UK Gov	0.87	0.30
UK Corp	0.71	0.80
Eur Gov	0.59	0.86
US Gov	0.28	-0.18

Currency %

GBP vs. USD	2.52	3.47
GBP vs. EUR	2.12	4.03
GBP vs. JPY	2.30	3.36

Commodities USD %

Oil	-0.20	18.23
Gold	0.76	1.16

Source: Bloomberg Finance L.P., Morningstar, data as at 28/01/2019.

Important Information

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