

Weekly Update: Published 5<sup>th</sup> February 2019

## Domestic economy conundrum

**Markets**

- Global equity market performance was positive across the board in GBP terms. The UK rose the most, up +2.80% followed by Emerging markets (+2.35%), then the US (+2.18%), Europe (+1.35%) and Japan (+0.86%).
- Bonds were mixed over the week. UK Gilts were up +0.57%, whilst UK Corporates were up +0.94%. European bonds were the laggard falling -0.03%, whilst US government bonds gained +0.34%.
- A poor week for Sterling, as GBP depreciated vs USD, JPY and EUR by -0.89%, -0.94% and -1.32% respectively.
- In USD terms, the oil price rose +2.92% and gold rose by +1.92%.

**Macro**

- The US labour market strengthened as non-farm payrolls beat expectations to increase by 304,000 in January. Unemployment did however rise 0.1% to 4%, partly due to the government shutdown. Despite an evident improvement in the domestic economy, the Fed chairman took a rate rise off the table due to increasing risks to global economic growth. This change was in stark contrast to the central bank's outlook just six weeks ago, and should be supportive of risk assets.
- The UK parliament narrowly voted down the amendment to May's deal tabled by Yvette Cooper and Nick Boles, which would have forced Mrs May to ask the EU for an extension to Article 50. Instead, the Commons passed an amendment to accept May's withdrawal deal, provided the backstop clause is changed. With the EU already ruling out any renegotiations, Mrs May will need to appeal to the Labour party in order to pass her deal at the next vote on the 13<sup>th</sup> February. Sterling fell as a result of the persistent uncertainty as to how the UK will leave the EU, with a "no deal" exit still very much an option.
- China's manufacturing PMI in January came in at 49.5 marginally up from December's 49.4. New orders, an indicator of future activity, fell, with companies reporting subdued demand. The data showed it was the smaller manufacturers who were in the contractionary range, with larger manufacturers above the 50 level that indicates stability. Strengthening activity in markets such as Vietnam indicates that trade concern has already caused some manufactures to shift activity outside of China.

**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 01/02/2019	1 Week	YTD
<b>Equity GBP Total Return %</b>		
UK	2.80	5.07
Europe	1.35	3.90
US	2.18	4.74
Japan	0.86	2.27
Emerging Markets	2.35	5.27
<b>Bonds Local Total Return %</b>		
UK Gov	0.57	0.88
UK Corp	0.94	1.75
Eur Gov	-0.03	0.83
US Gov	0.34	0.16
<b>Currency %</b>		
GBP vs. USD	-0.89	2.55
GBP vs. EUR	-1.32	2.65
GBP vs. JPY	-0.94	2.40
<b>Commodities USD %</b>		
Oil	2.92	21.69
Gold	1.92	3.10

Source: Bloomberg Finance L.P., Morningstar, data as at 04/02/2019.

**Important Information**

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