

Weekly Update: Published 12<sup>th</sup> January 2019

Chinese New Year, same old trade woes

## Markets

- Global equity market performance was mixed across the board in GBP terms. The US rose the most, up +1.17% followed by the UK (+0.42%), then Emerging Markets (-0.02%), Japan (-0.90%) and Europe (-0.95%).
- Bonds were mixed over the week. UK Gilts were up +1.01%, whilst UK Corporates were up +0.69%. European bonds were the laggard falling -0.21%, whilst US government bonds gained +0.41%.
- GBP depreciated vs USD -1.03%, JPY by -0.82% and GBP appreciated +0.13% vs EUR.
- In USD terms, the oil price fell -4.60% and gold fell by -0.29%.

## Macro

- US President Trump has ruled out meeting with Chinese President Xi, dashing any hopes of an agreement to prevent further escalations in tariffs between the countries next month. Mr Trump had previously raised expectations after declaring that he and Mr Xi would need to meet in the 'near future' to agree on trade. With no resolution in-sight, the US's new 25% tariff on Chinese imports looks set to come into effect from the 1<sup>st</sup> March. Neighbouring countries to China have already seen strong manufacturing data as companies switch supply chains.
- The European Commission cut its annual GDP growth forecast for Italy in 2019 to 0.2%, down from a previous projection of 1.2%. Growth in Italy had been dwindling after weaker domestic demand and a decline in investment, caused by rising financing costs. With weak growth in the region, the possibility of monetary tightening remains unlikely.
- The Bank of England (BoE) has cut growth forecasts for 2019 in the UK down to 1.2% from 1.7%, the slowest forecast since the financial crisis in 2009. The change in forecast was due to fears of slowing global growth and Brexit uncertainty. Whilst the BoE voted to hold rates unchanged, the central bank will be waiting to see the outcome of Brexit and stronger data before raising rates.

## 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 08/02/2019	1 Week	YTD
<b>Equity GBP Total Return %</b>		
UK	0.42	5.51
Europe	-0.95	2.91
US	1.17	5.97
Japan	-0.90	1.34
Emerging Markets	-0.02	5.25
<b>Bonds Local Total Return %</b>		
UK Gov	1.01	1.90
UK Corp	0.69	2.45
Eur Gov	-0.21	0.61
US Gov	0.41	0.57
<b>Currency %</b>		
GBP vs. USD	-1.03	1.49
GBP vs. EUR	0.13	2.79
GBP vs. JPY	-0.82	1.55
<b>Commodities USD %</b>		
Oil	-4.60	16.10
Gold	-0.29	2.80

Source: Bloomberg Finance L.P., Morningstar, data as at 11/02/2019.

### Important Information

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