Close Brothers
Asset Management

07 ‘19

Weekly Update: Published 19th February 2019

Inflation winter chill

Markets

- Global equity market performance was positive across the board in GBP terms. Europe rose the most, up +3.49% followed by the US (+3.30%), then Japan (+2.46%), the UK (+2.43%) and Emerging Markets (+0.32%).
- Bonds were predominantly negative over the week. UK Gilts were down -0.19% as well as UK Corporates, which were down -0.05%. European bonds were up 0.21%, whilst US government bonds fell -0.13%.
- GBP depreciated vs USD -0.42%, EUR by -0.19% and GBP appreciated +0.26% vs JPY.
- In USD terms, the oil price rose +5.44% and gold rose by +0.13%.

Macro

- Consumer price inflation in the UK has slipped to 1.8% in December, due to lower energy prices. Falling inflation may benefit households, who have suffered from lower purchasing power since the 2016 decline in GBP. If nominal wage growth holds steady, real pay would accelerate to 1.4%. However, a lack of confidence and uncertainty as the Brexit deadline approaches may continue to weigh on consumption. Despite a tight supply-side economy, sub-target inflation looks likely to persist near term, and the Bank of England is likely to wait for a Brexit resolution before considering any rate hikes.
- The sixth round of trade negotiations between the US and China in Beijing ended with no concrete progress. With an impending 1st March deadline, the pressure for President Trump to push back the tariff deadline has increased and Chinese equities benefitted from expectations of a future resolution. While we expect progress on merchandise trade, issues around intellectual property transfer and state supported companies remain long-term sources of concern.
- Chinese exports shot up in January, bolstered by exports to the EU. January data showed that exports rose 9.1% YoY, beating forecasts of 3.3%. Global trade data has weakened of late but these data may not point to an acceleration. The timing of the Lunar New Year may have caused a distortion so investors will be watching the February numbers for a better indication of whether this growth is sustained.

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 15/02/2019	1 Week	YTD
Equity GBP Total Return %		
UK	2.43	8.08
Europe	3.49	6.51
US	3.30	9.47
Japan	2.46	3.84
Emerging Markets	0.32	5.58
Bonds Local Total Return %		
UK Gov	-0.19	1.71
UK Corp	-0.05	2.40
Eur Gov	0.21	0.83
US Gov	-0.13	0.44
Currency %		
GBP vs. USD	-0.42	1.06
GBP vs. EUR	-0.19	2.59
GBP vs. JPY	0.26	1.82
Commodities USD %		
Oil	5.44	22.42
Gold	0.13	2.94

Source: Bloomberg Finance L.P., Morningstar, data as at 18/02/2019.