Close Brothers Asset Management

09 '19

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BBBella Italia

Markets

- Global equity market performance was subdued in GBP terms, overwhelmed by Sterling strength. Europe rose +0.07%. The UK declined -0.53% and the US -0.87%. Emerging Markets fell (-1.93%) and Japan (-2.03%).
- Bonds were negative over the week. UK Gilts were down -1.49% as well as UK Corporates, which were down -0.70%. European and US government bonds both fell -0.25% and -0.61% respectively.
- GBP appreciated vs JPY, USD and EUR by +2.25%, +1.14% and +0.88%.
- In USD terms, the oil price fell -2.55% and gold fell by -1.29%.

Macro

- Italian assets outperformed the broader Eurozone market last week, as government bond yields dropped by 12 basis points after Fitch reaffirmed the country's credit rating at BBB. Italian banks are major holders of the country's debt, so Fitch's decision to hold Italy's credit rating was welcome news for these stocks. However, Italy is still under immense scrutiny from the EU surrounding its current fiscal budget, investors will be watching to see if the coalition are able to raise tax revenue in order to adhere with the EU's rules whilst still delivering lower income taxes.
- The Labour party has endorsed a second referendum, with the party whip expected to be employed to compel MPs to back a second referendum. This runs the risk of isolating Leave constituencies, which make up 2/3 of Labour seats. Without the whip, the bill is unlikely to pass. A second referendum with "Remain" on the ballot paper makes the UK remaining in the EU a possibility, and would require an extension of article 50, prospects that caused GBP to rally, consequently weighing on UK equities and overseas earnings.
- The US economy cooled by less than expected last quarter, the 2.6% annualised QoQ GDP growth rate beat expectations of 2.2% after resilient levels of business investment kept growth above expectations. If the Fed remains dovish, a weaker dollar could benefit global liquidity and, in particular Emerging Markets, which hold dollar denominated debt.

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 01/03/2019	1 Week	YTD
Equity GBP Total Return %		
UK	-0.53	7.33
Europe	0.07	6.36
US	-0.87	7.39
Japan	-2.03	1.94
Emerging Markets	-1.93	4.57
Bonds Local Total Return %		
UK Gov	-1.49	0.25
UK Corp	-0.70	1.92
Eur Gov	-0.25	0.66
US Gov	-0.61	-0.13
Currency %		
GBP vs. USD	1.14	3.51
GBP vs. EUR	0.88	4.46
GBP vs. JPY	2.25	5.62
Commodities USD %		
Oil	-2.55	22.88
Gold	-1.29	2.58

Source: Bloomberg Finance L.P., Morningstar, data as at 04/03/2019.