Weekly Update: Published 26th March 2019

Bund breaches 0

Markets

- Global equity markets was mixed in GBP terms, with Japan leading the way (+3.02%), followed by EM (+0.50%), then the US (-0.28%), the UK (-0.53%) and Europe (-1.46%).
- UK corporate bonds advanced (+2.87%), along with gilts (+1.57%). US and European government bonds rose in local terms (+0.94% and +0.84% respectively).
- GBP depreciated -2.05% vs JPY, -0.61% vs USD and -0.41% vs EUR.
- In USD terms, the oil price rose +0.89% and gold +0.60%.

Macro

- The Eurozone Composite PMI came in lower than expected at 51.3, led by a weak German manufacturing PMI of 44.7. This was due to a slowdown in the automotive sector, as weaker global demand affected new orders. Following this lacklustre data, investors bought German bunds, perceived to be a safe haven asset, amidst fears of a recession. This drove the yield on 10 year debt negative, the lowest since 2016. If weak Eurozone data persists, the region may struggle to meet its 1.1% growth target without intervention.
- Theresa May will seek to gain support for her deal before holding a vote, however, with the deadline of the 29th March, the odds are against the Prime Minister. Critically the UK was granted an extension to Article 50, allowing for a 12th April deadline if no deal is achieved and 22nd May deadline if her deal is agreed. With a "no-deal" exit from the EU still very much on the table Sterling has depreciated, but if May's deal passes later this week, this could lift GBP.
- Following the FOMC's latest meeting, the Federal Reserve reported rates would remain at 2.25%-2.5%. The Fed also announced that from September it would stop automatically reducing the Fed's balance sheet. The dovish tone that policymakers took towards the US economy was the main surprise to markets, with the accompanying statement noting the greater risk from downside scenarios and slower growth of household spending and investment. Longer term, the median forecast is now for no change in 2019 and just one increase in 2020, as the Fed looks to remain accommodative to the US economy.

Our view

- Global growth has weakened somewhat from elevated levels. We expect earnings growth to remain positive and weaker inflationary pressure, but with interest rates remaining on hold.
- 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 22/03/2019	1 Week	YTD
Equity GBP Total Return %		
UK	-0.53	8.71
Europe	-1.46	5.70
US	-0.28	7.83
Japan	3.02	4.31
Emerging Markets	0.50	5.51
Bonds Local Total Return %		
UK Gov	2.87	4.26
UK Corp	1.57	4.85
Eur Gov	0.84	2.51
US Gov	0.94	1.83
Currency %		
GBP vs. USD	-0.61	3.57
GBP vs. EUR	-0.41	5.09
GBP vs. JPY	-2.05	3.81
Commodities USD %		
Oil	0.89	30.02
Gold	0.60	2.53

Source: Bloomberg Finance L.P., Morningstar, data as at 25/03/2019