Weekly Update: Published 9th April 2019

Stockpile skew

Markets

- Global equity markets had a strong week in GBP terms, with Europe leading the way (+2.69%), followed by Emerging Markets (+2.62%), then the UK (+2.35%), the US (+2.14%), and Japan (+1.33%).
- UK gilts fell (-1.17%), along with corporate bonds (-0.60%). European and US government bonds fell in local terms (-0.20% and -0.52% respectively).
- GBP appreciated +0.02% vs USD, +0.04% vs EUR and +0.85% vs JPY.
- In USD terms, the oil price rose +4.89% while gold fell -0.54%.

Macro

- The UK PMIs diverged amidst Brexit uncertainty, with services in contractionary territory whilst manufacturing rose to a 13-month high of 55.1 from 52.1. However, strength appears to be down to stockpiling ahead of the expected March Brexit deadline. The UK must present the EU with a way forward on Wednesday night, and agree on what extension the UK wishes to proceed with, bearing in mind that a longer deadline raises the prospect of a general election.
- China's manufacturing PMI returned to expansionary territory for the first time in four months. The Caixin PMI expanded to 50.8 from 49.9 in February. The survey results offer an indication of activity in the largest component of the Chinese economy, signalling that government stimulus delivered in early 2019 is starting to feed through to the economy. Stronger Chinese economic sentiment has helped buoy equity markets, in particular boosting Emerging Markets and Europe.
- After a soft February report, the March US labour market report showed a rebound in the data. The US added a further 196k jobs in March whilst wage growth remained strong at 3.2%. The improved data helped ease concerns over an economic slowdown. However, this data is at odds with the market, which is pricing in rate cuts in 2019. The expectation that the Fed will keep monetary policy accommodative has been a key support to markets so far this year. While comments from the Fed indicate rates are likely to be on hold this year, strength in the labour market makes rate cuts less likely.

Our view

- Global growth has weakened somewhat from elevated levels. We expect earnings growth to remain positive with weaker inflationary pressure and 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 05/04/2019	1 Week	YTD
Equity GBP Total Return %		
UK	2.35	12.40
Europe	2.69	10.91
US	2.14	12.99
Japan	1.33	5.59
Emerging Markets	2.62	9.71
Bonds Local Total Return %		
UK Gov	-1.17	2.33
UK Corp	-0.60	4.05
Eur Gov	-0.20	2.37
US Gov	-0.52	1.64
Currency %		
GBP vs. USD	0.02	2.23
GBP vs. EUR	0.04	4.52
GBP vs. JPY	0.85	4.15
Commodities USD %		
Oil	4.89	38.91
Gold	-0.54	0.74

Source: Bloomberg Finance L.P., Morningstar, data as at 08/04/2019

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