Close Brothers Asset Management

15 '19

Weekly Update: Published 16th April 2019

Trick or treaty?

Markets

- Global equity markets have rallied YTD, but had a poor week in GBP terms, with the UK leading the way (+0.16%), followed by Europe (+0.12%), then the US (-0.18%), Emerging Markets (-0.33%) and Japan (-2.05%).
- UK corporate bonds rose (+0.53%), whilst gilts fell (-0.92%). European and US government bonds fell in local terms (-0.03% and -0.34% respectively).
- GBP appreciated +0.28% vs USD, +0.56% vs JPY. GBP depreciated -0.49% vs EUR.
- In USD terms, the oil price rose +1.28% while gold rose +0.45%.

Macro

- The EU granted Theresa May an extension of the Article 50 deadline to 31st October, much longer than May's request of June, which would have kept the pressure on Parliament to reach consensus on the Withdrawal Agreement. In order to avoid submitting MEPs, the UK needs to agree a deal before the new European parliament sits on the 2nd July. A longer deadline opens the door to a general election or even a second referendum, making both "no deal" and "no Brexit" possible.
- Following weak February export data, Chinese exports rebounded strongly in March, suggesting that February's weakness was the result of seasonality. China's total social financing also accelerated further, evidence that China's stimulus is being sustained. Greater accommodation from Chinese policy makers appears to be stimulating the economy, which could help boost global growth.
- The ECB kept its accommodative stance unchanged as expected, with Draghi stating that economic data is weak and that continued uncertainties in conjunction with tepid external demand had dealt a blow to growth. Draghi also did not give any clues as to the terms of the new round of Targeted Long-Term Refinancing Operations (TLTRO), which aim to ease credit conditions by providing long-term financing at favourable rates, much to the disappointment of market participants. The 10-year German bond yield fell into negative territory after the news broke, suggesting investors share the ECB's view that rates will not rise as long as political risk and weak global growth remains.

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 12/04/2019	1 Week	YTD
Equity GBP Total Return %		
UK	0.16	12.58
Europe	0.12	11.04
US	-0.18	12.78
Japan	-2.05	3.42
Emerging Markets	-0.33	9.35
Bonds Local Total Return %		
UK Gov	-0.92	1.39
UK Corp	0.53	4.60
Eur Gov	-0.03	2.34
US Gov	-0.34	1.30
Currency %		
GBP vs. USD	0.28	2.51
GBP vs. EUR	-0.49	4.01
GBP vs. JPY	0.56	4.73
Commodities USD %		
Oil	1.28	40.70
Gold	0.45	1.20

Source: Bloomberg Finance L.P., Morningstar, data as at 15/04/2019