Close Brothers
Asset Management

16 '19

# Weekly Update: Published 24th April 2019

# China's spring rebound

## Markets

- Global equity markets had a positive week in GBP terms, with Japan leading the way (+1.53%), followed by Europe (+1.14%), then Emerging Markets (+0.95%), the US (+0.79%) and the UK (+0.40%).
- UK corporate bonds rose (+0.36%), as did gilts (+0.23%). European and US government bonds rose in local terms (+0.04% and +0.11% respectively).
- GBP depreciated -0.68% vs JPY, -0.62% vs USD and -0.12% vs EUR.
- In USD terms, the oil price rose +0.17% while gold fell -1.44%.

## Macro

- Chinese GDP grew 6.4% in Q1 according to the latest data from China's National Bureau of Statistics, ahead of expectations of 6.3%. Surging industrial production in March, together with improved market sentiment surrounding the US trade dispute helped GDP beat expectations. Following a lacklustre start to 2019, China's growth outlook appears to have been stabilised by a series of positive economic data, however doubts remain over whether this recent rebound is sustainable.
- The German government last week halved its growth forecast for 2019 to just 0.5%, highlighting the extent to which wider conditions in the global economy have damaged the health of the Eurozone's economic powerhouses. Economists had hoped the Q1 weakness in export sales reflected one-off factors, but official data showed this to be more than just a blip. Despite a weak Eurozone composite PMI, there is some optimism that Germany, being one of China's main trading partners, will help the EU to rebound if China's stronger economic growth continues.

  UK CPI Inflation remained stable at 1.9%, the same as February's reading but below expectations of 2%. The ONS explained that weak food and video game prices had offset rising fuel and clothing costs. The latest figures continue to support UK consumers as wage growth again outstripped inflation. Relatively weaker inflation coupled with Brexit uncertainty suggests it is unlikely that the Bank of England will consider a rate hike until after the economy shows signs of overheating.

## 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 19/04/2019 | 1 Week | YTD |
|---|---|---|
| **Equity GBP Total Return %** | | |
| UK | 0.40 | 13.03 |
| Europe | 1.14 | 12.30 |
| US | 0.79 | 13.67 |
| Japan | 1.53 | 5.00 |
| Emerging Markets | 0.95 | 10.39 |
| **Bonds Local Total Return %** | | |
| UK Gov | 0.23 | 1.62 |
| UK Corp | 0.36 | 4.98 |
| Eur Gov | 0.04 | 2.38 |
| US Gov | 0.11 | 1.41 |
| **Currency %** | | |
| GBP vs. USD | -0.62 | 1.87 |
| GBP vs. EUR | -0.12 | 3.88 |
| GBP vs. JPY | -0.68 | 4.02 |
| **Commodities USD %** | | |
| Oil | 0.17 | 40.94 |
| Gold | -1.44 | -0.26 |

Source: Bloomberg Finance L.P., Morningstar, data as at 23/04/2019