Close Brothers Asset Management

Weekly Update: Published 30th April 2019

The import-ance of being Ernest

Markets

- Global equity markets had a positive week in GBP terms, with the US leading the way (+1.99%), followed by Japan (+0.99%), then Europe (+0.18%). Emerging markets and the US fell -0.73% and -0.16% respectively (also in GBP terms).
- UK gilts rose +0.53%, with UK corporate bonds just behind at +0.52%. US and European government bonds also rose in local terms (+0.40% and +0.20% respectively).
- GBP depreciated -0.90% vs JPY and -0.59% vs USD, but appreciated +0.29% vs EUR.
- In USD terms, the oil price fell -1.09% while gold rose +0.67%.

Macro

- US GDP growth surged in the first quarter of the year to 3.2% on an annualised basis, significantly beating expectations of 2.3%. However, more than half the growth in GDP was due to lower than usual imports and high inventories as a result of the ongoing trade dispute with China, two transitory factors. The data showed that consumer spending growth, which accounts for two-thirds of the US economy, halved to 1.2% in Q1. Given that the boost to growth may be short-lived, we expect the Fed to wait for evidence of a sustained improvement before altering its forward guidance.
- UK annual public borrowing dropped to its lowest level since 2002. Public borrowing fell to £24bn down from £42bn in 2017/18, as tax receipts from income tax and VAT rose 5.8% and 5.6% respectively. Despite sluggish growth in the UK, stable employment and increasing wages have helped support tax receipts. This provides the UK government with greater fiscal headroom should the growth outlook deteriorate in response to a negative Brexit outcome or a prolonged period of uncertainty.
- The Bank of Japan voted last week to keep rates constant and has promised to hold rates until spring 2020. This marks the first time the central bank has given markets explicit calendar guidance on monetary policy. The BoJ has struggled to reach its 2% inflation target, exacerbated by weaker oil prices and a soft patch in Asian activity. While an improvement in Asian PMIs may point to better industrial activity ahead, industrial output data continues to disappoint. Domestic demand is also expected to be held back by the October VAT rise.

Our view

- Global growth has weakened somewhat but Chinese stimulus, better survey data and accommodative monetary policy lead us to expect growth to improve.
- While geopolitical risk remains elevated, relations have thawed a little and we believe this is an environment favouring equities over bonds.
- Within our regional equity allocation, we favour those regions most attractively positioned to benefit from the improvement in the global growth dynamic.

Performance to 26/04/2019	1 Week	YTD
Equity GBP Total Return %		
UK	-0.16	12.85
Europe	0.18	12.51
US	1.90	15.83
Japan	0.99	6.04
Emerging Markets	-0.73	9.58
Bonds Local Total Return %		
UK Gov	0.53	2.16
UK Corp	0.52	5.52
Eur Gov	0.20	2.58
US Gov	0.40	1.81
Currency %		
GBP vs. USD	-0.59	1.27
GBP vs. EUR	0.29	4.19
GBP vs. JPY	-0.90	3.09
Commodities USD %		
Oil	-1.09	39.40
Gold	0.67	0.41

Source: Bloomberg Finance L.P., Morningstar, data as at 29/04/2019