

Weekly Update: Published 08th May 2019

US labour market lows

Markets

- GBP strength weighed on global equity markets in GBP terms, along with hawkish central bank rhetoric. The UK fell the least, down -0.63%, followed by Emerging Markets (-0.93%), Japan (-1.12%), and the US (-1.18%). Europe was the laggard down -1.33%.
- UK gilts fell -0.77%, and UK corporate bonds -0.12%. European government bonds rose in local terms +0.05%, whilst US government bonds fell -0.08%.
- GBP appreciated +1.99% vs USD, +1.51% vs JPY and +1.49% vs EUR.
- In USD terms, the oil price fell -2.15% while gold fell -0.44%.

Macro

- US labour market strength caused the unemployment rate to fall to 3.6% in April, a 49-year low, with payrolls much stronger than forecast. However, wage growth did not accelerate - average hourly wages rose 3.2% YoY, unchanged from the previous month. While the labour market is strong, stable wage growth and below target inflation may allow the Federal Reserve to keep interest rates on hold for the time being. The market appears to have interpreted Fed Chair Jay Powell's assertion that there was no immediate need to move rates higher or lower as somewhat hawkish, with markets' pricing in a rate cut this year.
- The Bank of England's decision to leave interest rates on hold this week was received hawkishly by the market. The report forecasted faster than expected GDP growth of 1.6% in Q2 2019 and highlighted an improvement in global economic conditions and risk sentiment, causing UK bond yields to decline. While the forecast anticipates higher target inflation in the later years of the forecast, this is based on the assumption that the UK experiences a smooth and orderly Brexit. With no clear path to Brexit, the BoE appear keen to delay raising interest rates for the time being.
- The Chinese official manufacturing PMI eased in April to 50.1, but remained just in expansionary territory. A softening in the data does not rule out a recovery in Chinese economic activity – the 2015/16 recovery was also preceded by less buoyant numbers. The escalation of Sino-American trade disputes is likely to weigh on growth expectations, making additional Chinese stimulus more likely.

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 03/05/2019 **1 Week** **YTD**

Equity GBP Total Return %

UK	-0.63	12.13
Europe	-1.33	11.02
US	-1.18	14.46
Japan	-1.12	4.85
Emerging Markets	-0.93	8.56

Bonds Local Total Return %

UK Gov	-0.77	1.37
UK Corp	-0.12	5.40
Eur Gov	0.05	2.63
US Gov	-0.08	1.73

Currency %

GBP vs. USD	1.99	3.29
GBP vs. EUR	1.49	5.75
GBP vs. JPY	1.51	4.64

Commodities USD %

Oil	-2.15	36.40
Gold	-0.44	-0.04

Source: Bloomberg Finance L.P., Morningstar, data as at 07/05/2019

Important Information

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