

Weekly Update: Published 14<sup>th</sup> May 2019

## Yuan a fight?

### Markets

- US-China trade tensions weighed on global equity markets in GBP terms. The US fell the least, at -1.48%, followed by Europe (-2.00%), the UK (-2.13%), and Japan (-2.23%). Emerging Markets were the laggards down -3.71%.
- UK gilts rose +0.87%, and UK corporate bonds fell 0.06%. European government bonds fell -0.04% in local terms, whilst US government bonds rose +0.41%.
- GBP depreciated -1.33% vs USD, -1.57% vs EUR and -2.37% vs JPY.
- In USD terms, the oil price fell -0.45% while gold rose +0.67%.

### Macro

- The US and China trade negotiation deadline passed without a deal agreed on Friday. With no deal in place, the US increased tariffs on \$200bn of Chinese goods from 10% to 25%, with 25% threatened on an additional \$325bn of goods. According to the US, the escalation was due to China allegedly reopening segments of the deal already agreed. China has retaliated with tariffs on \$60bn of US goods. A prolonged escalation of the trade dispute is likely to weigh on Chinese growth, a concern for investors holding assets exposed to global growth.
- UK Q1 GDP growth accelerated to 0.5% QoQ, equating to 1.8% YoY. GDP growth was bolstered by stronger than expected consumption growth, supported by a resilient labour market. Factory output rebounded significantly, as manufacturers built up inventories in case of a "No Deal" Brexit in March. Brexit related risk also resulted in very strong import growth weighing on net trade. Given the "one-off" nature of some of these effects, growth may decelerate from here. A resolution to Brexit negotiations before the October deadline seems unlikely at this stage.
- US CPI inflation increased by 0.3% month-on-month, driven mainly by a rise in energy prices, which has lifted the YoY figure to 2% from 1.9%. While core services prices have risen, core goods prices declined -0.3% from the previous month, the steepest decline since November 2006. With wage growth decelerating and contained inflation, we do not see a catalyst for the Federal Reserve to adopt a more hawkish policy stance in the near term.

### 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 remains 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 10/05/2019      **1 Week**      **YTD**

#### Equity GBP Total Return %

UK	-2.13	9.74
Europe	-2.00	8.80
US	-1.48	12.77
Japan	-2.23	2.50
Emerging Markets	-3.71	4.53

#### Bonds Local Total Return %

UK Gov	0.87	2.26
UK Corp	-0.06	5.33
Eur Gov	-0.04	2.59
US Gov	0.41	2.15

#### Currency %

GBP vs. USD	-1.33	1.91
GBP vs. EUR	-1.57	4.08
GBP vs. JPY	-2.37	2.17

#### Commodities USD %

Oil	-0.45	35.79
Gold	0.67	0.63

Source: Bloomberg Finance L.P., Morningstar, data as at 13/05/2019

#### Important Information

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