Close Brothers Asset Management

20 '19

Weekly Update: Published 21st May 2019

My way or the Huawei

Markets

- Plummeting sterling flattered equity market returns globally, contributing to positive GBP returns in all regions aside from emerging markets (-1.12%). European equities fared best (+3.11), followed by Japan (+2.38%) and the UK (+2.14). The US gained +1.76%.
- Bonds rallied on the back of deteriorating sentiment, as UK gilts rose +0.95%, and UK corporate bonds +0.81%. European government bonds gained +0.43% in local terms, whilst US government bonds rose +0.47%.
- GBP depreciated -1.52% vs EUR, -1.99% vs JPY and -2.11% vs USD.
- In USD terms, the oil price rose +1.78% while gold fell -0.49%.

Macro

- Sino-American trade relations deteriorated further this week. On Monday China announced retaliatory tariffs on $60bn of US goods from 1st June, the same date US tariffs will be effective. In response, the US began proceedings to impose tariffs on a further $300bn of Chinese goods, with a public hearing on 17th June, giving the White House a window of time to decide whether to impose them ahead of the 28th June G20 Summit. The new tariffs have two negative implications. Firstly, the escalation means that the reversal of the initial tariffs looks unlikely. Secondly, given that the initial tariffs were designed to minimise the impact on US consumers, new tariffs, if they come into effect, will hit harder. Trump also signed an executive order barring telecom equipment made by companies deemed a threat to national security. This resulted in Google restricting Chinese firm Huawei's use of Android systems over the weekend. This will concern tech investors, as the supply chains of US and Chinese firms are interconnected.
- In the UK, PM May confirmed that cross-party Brexit talks had failed but announced a fourth attempt at passing the Withdrawal Agreement in June. Without support from Labour, the bill is expected to fall. Pressed by the 1922 committee, May also confirmed that she would set a timetable for her departure, with a leadership contest expected before the summer recess, and possibly followed a general election. This could open the door to a "no deal" Brexit or a Corbyn government, both of which are likely to be negative for UK assets. GBP fell steadily over the week, to a low of USD 1.27, while UK Gilts rallied, as investors priced in more a more dovish Bank of England in response to the risks.

Our view

- Global growth has weakened somewhat, but Chinese stimulus, better survey data and accommodative monetary policy lead us to expect it to remain positive.
- 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 17/05/2019	1 Week	YTD
Equity GBP Total Return %		
UK	2.14	12.09
Europe	3.11	12.18
US	1.76	14.75
Japan	2.38	4.94
Emerging Markets	-1.12	3.35
Bonds Local Total Return %		
UK Gov	0.95	3.23
UK Corp	0.81	6.19
Eur Gov	0.43	3.03
US Gov	0.47	2.63
Currency %		
GBP vs. USD	-2.11	-0.24
GBP vs. EUR	-1.52	2.50
GBP vs. JPY	-1.99	0.14
Commodities USD %		
Oil	1.78	38.21
Gold	-0.49	0.14

Source: Bloomberg Finance L.P., Morningstar, data as at 20/05/2019