Close Brothers Asset Management

22 '19

Weekly Update: Published 4th June 2019

Mexican stand-off

Markets

- Global equity market returns were poor in all regions aside from emerging markets (+2.08%), all in GBP terms. US equities fared the worst (-1.94%), followed by Europe (-1.55%), the UK (-1.39) and Japan (-0.48%).
- Bonds rallied on the back of deteriorating sentiment, as UK gilts rose +0.48%, and UK corporate bonds +0.05%. European government bonds gained +0.46% in local terms, whilst US government bonds rose +1.23%.
- GBP depreciated -0.34% vs EUR, -0.67% vs USD and -1.56% vs JPY.
- In USD terms, the oil price fell on fears of an escalating trade dispute, ending the week down -8.75%, while gold rose +1.02%.

Macro

- The Trump administration has announced plans to impose a 5% tariff on Mexican goods, eventually rising to 25% by October, unless Mexico implements stricter border controls. The maximum tariff of 25% on all US imports from Mexico will impact industrial and consumer discretionary sectors, whilst the auto industry is the most exposed. A retaliation from Mexico could put the USMCA trade agreement between the US, Mexico and Canada (replacing the NAFTA agreement) at risk.
- China's official manufacturing PMI fell to 49.4 in May, down from 50.1 from April. The cause was sluggish new export orders, a likely casualty of trade tensions, along with weaker business confidence. The breakdown in trade talks with the US has further clouded the outlook for Chinese manufacturers and exporters, increasing the downside risk to Chinese growth. Weaker Chinese data suggests growth elsewhere may not recover as much as hoped, though we expect Chinese policymakers to step up fiscal easing in response.
- US GDP growth was revised down by less than expected due to stronger consumption. Revised US Q1 GDP came in at an annualised rate of 3.1%, as a modest downward revision in inventories was offset by an upward revision to consumer spending. Nevertheless, the market is now pricing in a 98% probability that the Fed will cut interest rates in 2019, due to subdued inflation and rising downside risks from trade tensions. Markets would likely view a rate cut as supportive for liquidity conditions.

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 31/05/2019	1 Week	YTD
Equity GBP Total Return %		
UK	-1.39	9.38
Europe	-1.55	9.96
US	-1.94	11.59
Japan	-0.48	4.54
Emerging Markets	2.08	5.26
Bonds Local Total Return %		
UK Gov	0.48	4.75
UK Corp	0.05	5.64
Eur Gov	0.46	3.72
US Gov	1.23	4.32
Currency %		
GBP vs. USD	-0.67	-0.98
GBP vs. EUR	-0.34	1.67
GBP vs. JPY	-1.56	-2.20
Commodities USD %		
Oil	-8.75	17.82
Gold	1.02	1.29

Source: Bloomberg Finance L.P., Morningstar, data as at 03/06/2019