Weekly Update: Published 11th June 2019

Tepid summer CPI

Markets

- Global equity market returns were positive in GBP terms across all regions, aside from Emerging Markets which fell -0.18%. US equities fared best (+3.13%), followed by Europe (+2.87%), the UK (+2.23) and Japan (+0.61%).
- Bonds rallied as UK gilts rose +1.12%, and UK corporate bonds rose +0.97%. European government bonds gained +1.26% in local terms, whilst US government bonds rose +0.28%.
- GBP appreciated +0.86% vs USD and +0.74% vs JPY, but depreciated -0.62% vs EUR.
- In USD terms, the oil price rose +0.92%, while gold rose +3.48%.

Macro

- Headline Consumer Price Index ("CPI") inflation in the Eurozone cooled to 1.2% in May, from 1.7% in April. Despite respectable Q1 GDP of 0.4%, supported by domestic demand and the fading drag of emissions regulations, the ECB cut growth forecasts. The ECB extended forward guidance on rates, indicating key interest rates would be on hold into 2020. Furthermore, the ECB mentioned the possibility of further rate cuts and restarting its quantitative easing programme if necessary. Markets will be encouraged that the ECB is willing to provide support, though global trade frictions and political challenges mean that risks remain.
- The latest US jobs report revealed non-farm payrolls rose by 75k, well below the consensus of 175k. Average hourly earnings growth softened too, slowing to 3.1%, and unemployment held steady at 3.6%. US equities responded positively, as the weak data points further reduce the pressure on the Fed to tighten rates. However, with the market now pricing in a 90% chance of a rate cut in July, and a further two rate cuts in 2019, there remains a risk that the market does not see as much easing as it anticipates.
- The most recent Caixin PMIs revealed a mixed bag of results for China. The services measure declined to 52.7 from 54.5, reflecting service providers' weak confidence. Manufacturing was a small bright spot, with the PMI rising to 50.2 from 50 amidst rising trade tensions between the US and China. In addition, Chinese policy makers announced further infrastructure investment on Monday in an effort to counter on-going trade tariffs, which are likely to weigh on Chinese growth.

Our view

- Global growth has weakened somewhat, but Chinese stimulus, and accommodative monetary policy lead us to expect it to remain positive.
- While geopolitical risk remains elevated, 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 07/06/2019	1 Week	YTD
Equity GBP Total Return %		
UK	2.23	11.82
Europe	2.87	13.12
US	3.13	15.08
Japan	0.61	5.17
Emerging Markets	-0.18	5.08
Bonds Local Total Return %		
UK Gov	1.12	5.92
UK Corp	0.97	6.66
Eur Gov	1.26	5.03
US Gov	0.28	4.61
Currency %		
GBP vs. USD	0.86	-0.13
GBP vs. EUR	-0.62	1.04
GBP vs. JPY	0.74	-1.47
Commodities USD %		
Oil	0.92	18.89
Gold	3.48	4.82

Source: Bloomberg Finance L.P., Morningstar, data as at 10/06/2019