

Weekly Update: Published 18th June 2019

The UK's glum GDP

Markets

- Global equity market returns were positive across all regions in GBP terms. Emerging Markets led the way, up +1.86%, followed by Japan (+1.76%), the US (+1.71%), Europe (+0.69%), and the UK (+0.15).
- UK gilts and corporates fell -0.53% and -0.94% respectively. European government bonds gained +0.07% in local terms, whilst US government bonds rose +0.02%.
- GBP depreciated -1.16% vs USD, -0.83% vs JPY and -0.05% vs EUR.
- In USD terms, the oil price fell -2.74%, while gold rose +0.79%.

Macro

- UK GDP growth shrank by 0.4% in April, the weakest monthly figure in three years. The decline was due to weak manufacturing, as producers brought forward planned maintenance shutdowns to coincide with the March Brexit deadline. The economy accelerated in the run-up to 31 March, as manufacturers' stockpiled components and finished goods. A weaker global economy and continued Brexit uncertainty mean UK GDP is now expected to grow by less than 1.5% in 2019. Weak data weighed on sentiment, as Sterling fell against the major currencies through the week.
- Oil prices were volatile after the US accused Iran of being behind attacks on oil tankers outside the strategic Strait of Hormuz in the Persian Gulf, which left two tankers seriously damaged. The explosions came one month after Iranian forces allegedly used naval mines to damage oil tankers off the port of Fujairah. While disruption could cause prices to spike near term, we expect overcapacity and constrained demand to weigh on prices.
- The UK Parliament rejected a bill that would allow time on 25th June to discuss avoiding a No Deal Brexit. The time was planned to consider a further bill seeking to allocate time in September for the Commons to consider a motion on Brexit, and to rule out proroguing parliament. With around 50 sitting days until the 31st October, MPs seeking to avoid No Deal may need to act fast, given that Boris Johnson, who has promised to leave the EU on the 31st October with or without a deal, is ahead in the race to replace Theresa May. While a No Deal Brexit has become more likely, we believe further delay in October is probable.

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 14/06/2019 1 Week YTD

Equity GBP Total Return %

	1 Week	YTD
UK	0.15	12.00
Europe	0.69	13.91
US	1.71	17.05
Japan	1.76	7.02
Emerging Markets	1.86	7.03

Bonds Local Total Return %

	1 Week	YTD
UK Gov	-0.53	5.36
UK Corp	-0.94	5.66
Eur Gov	0.07	5.10
US Gov	0.02	4.63

Currency %

	1 Week	YTD
GBP vs. USD	-1.16	-1.29
GBP vs. EUR	-0.05	0.99
GBP vs. JPY	-0.83	-2.29

Commodities USD %

	1 Week	YTD
Oil	-2.74	15.64
Gold	0.79	5.65

Source: Bloomberg Finance L.P., Morningstar, data as at 17/06/2019

Important Information

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