Close Brothers
Asset Management

25 '19

Weekly Update: Published 25th June 2019

The final two

Markets

- Global equity market returns were positive across all regions in GBP terms, with the exception of Japanese equities (-0.09%). Emerging Markets led the way up (+2.83%), followed by Europe (+2.10%), the US (+1.62%), and the UK (+0.83%).
- UK gilts fell -0.14% and corporate bonds rose +0.62%. European government bonds gained +0.52% in local currency terms, whilst US government bonds rose +0.17%.
- GBP appreciated +1.18% vs USD, and depreciated marginally vs EUR (-0.20%) and vs JPY (-0.02%).
- In USD terms, the oil price rose +9.37%, while gold rose +3.40%.

Macro

- Last week MPs selected Boris Johnson and Jeremy Hunt as the final two candidates in the Conservative leadership race. The final victor will be determined by the party's members in late July after a series of hustings around the country, concluding with a head-to-head debate. Johnson appears keen to keep "no deal on the table", making a "no deal" October departure a possibility. While Conservative leadership contests tend to be unpredictable, Johnson remains favourite to win despite reluctant media appearances.
- UK CPI inflation fell to 2% in May from 2.1%, reversing three months of increases. The fall was due to seasonal effects of a late Easter combined with falling air fares. Weak oil and domestic energy prices are expected to weigh on inflation further in coming months. In the light of this, the MPC's decision to hold rates is unsurprising. We think it unlikely the BoE will alter rates before greater clarity is provided on Brexit.
- Central banks shifted to a more "cautious" tone last week, with both the Federal Reserve and European Central Bank issuing dovish guidance. On Tuesday ECB President Mario Draghi emphasised that if economic conditions failed to improve, the ECB would act decisively, including more quantitative easing. On Wednesday Fed comments were also interpreted dovishly, emphasising downward CPI trends. Both announcements provided a fillip to equity and bond prices. Further stimulus measures and a weaker growth backdrop may support equities less exposed to the market cycle, despite demanding valuations.

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 21/06/2019	1 Week	YTD
Equity GBP Total Return %		
UK	0.83	12.93
Europe	2.10	16.30
US	1.62	18.94
Japan	-0.09	6.92
Emerging Markets	2.83	10.06
Bonds Local Total Return %		
UK Gov	-0.14	5.21
UK Corp	0.62	6.31
Eur Gov	0.52	5.65
US Gov	0.17	4.80
Currency %		
GBP vs. USD	1.18	-0.13
GBP vs. EUR	-0.20	0.79
GBP vs. JPY	-0.02	-2.31
Commodities USD %		
Oil	9.37	26.47
Gold	3.40	9.24

Source: Bloomberg Finance L.P., Morningstar, data as at 24/06/2019