Close Brothers Asset Management

27 '19

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Changing of Lagarde

Markets

- Thawing trade tensions boosted global equity market returns across all regions, in GBP terms, bolstered by GBP weakness. Japanese and US equities rallied most, gaining +3.71% and +3.55% respectively. UK equities lagged, gaining +1.49%.
- Bonds also strengthened in local terms, with the exception of US Treasuries, where prices declined -0.21%. UK Gilts rallied +1.25%, and UK corporate bonds +0.47%. European bonds gained +0.85%.
- GBP depreciated -1.38% vs USD, -0.06% vs EUR and -0.78% vs JPY.
- In USD terms, the oil price fell -1.64%, and gold -1.44%.

Macro

- The European Central Bank has proposed current IMF president and former French finance minister Christine Lagarde to succeed Mario Draghi as ECB president. This choice has been interpreted by the market as offering continuity – at the IMF Lagarde was supportive of Draghi's stimulus policies. Commentators may also be relieved to see Bundesbank head Jens Weidmann ruled out, a candidate less likely to endorse less orthodox policy measures. We anticipate that Draghi will likely set a policy course in motion before his term ends in the Autumn.
- In the US, bond yields trickled lower on news of Trump's two nominations to the Federal Reserve Board. Both are expected to be supportive of the pro-market policies Trump extols, but Judy Shelton, a controversial pick, may be opposed by congress. However, demonstrating that good news may be interpreted as being bad news, bond yields spiked up on Friday on stronger than expected employment data. Such strong numbers could lead to disappointment given a July rate cut is 100% priced in by the market.
- The yield on 10 year UK government bonds fell below the Bank of England policy rate for the first time since the financial crisis. The inversion coincided with weaker UK Composite PMI data, indicating that economic activity is contracting. With a "no confidence" vote possible in September, a looming October Brexit deadline, and a possible election, we see scope for volatility in UK assets.

Our view

- Global growth has weakened somewhat but monetary policy looks set to become more accommodative, supporting the economy and markets.
- While geopolitical risk remains elevated, we believe this remains an environment favouring equities over bonds, with alternatives playing an important role in portfolios.
- Within our regional equity allocation, we favour companies benefitting from structural growth dynamics, and policy accommodation.

Performance to 05/07/2019	1 Week	YTD
Equity GBP Total Return %		
UK	1.49	15.02
Europe	1.67	18.80
US	3.55	22.36
Japan	3.71	11.09
Emerging Markets	2.40	12.90
Bonds Local Total Return %		
UK Gov	1.25	6.26
UK Corp	0.47	7.35
Eur Gov	0.85	7.02
US Gov	-0.21	4.93
Currency %		
GBP vs. USD	-1.38	-1.83
GBP vs. EUR	-0.06	0.33
GBP vs. JPY	-0.78	-2.86
Commodities USD %		
Oil	-1.64	26.65
Gold	-1.44	8.57

Source: Bloomberg Finance L.P., Morningstar, data as at 08/07/2019