Weekly Update: Published 16th July 2019

No googly from the Fed

Markets

- Global equity market returns were negative across all regions in GBP terms, with the exception of US equities (+0.51%). Following this was the UK (-0.63%), then Japan (-0.98%), Europe (-1.11%) and Emerging Markets as the laggard (-1.15%).
- UK gilts fell -0.80% while corporate bonds rose +0.97%. European government bonds fell -0.96% in local currency terms, and US government bonds fell -0.37%.
- GBP appreciated +0.41% vs USD, and depreciated vs EUR (-0.03%) and vs JPY (-0.14%).
- In USD terms, the oil price rose +4.69%, while gold rose +1.36%.

Macro

- Federal Reserve chair Jay Powell cemented expectations of a July interest rate cut during his testimony to congress last week. Powell downplayed brighter news, such as last month's strong labour market performance, and instead emphasised the risks to the economy posed by a weak external environment. The suggestion of preventive action to support the real economy caused treasury yields to fall, spurring equity indices onto new record highs, before a strong inflation print caused jitters and a reversal. Beyond July, we think there is scope for the market's expectations of significant further cuts to be disappointed.
- A bad week for UK foreign policy saw relations strained with both the US and China. Classified memos, written by the diplomatic corps and critical of the Trump Administration, were leaked to newspapers, resulting in the resignation of the UK ambassador to the US. China also criticised the UK for being on "the wrong side" of the dispute over new laws that would allow China extradition rights over Hong Kong. The timing of these events is unfortunate; after leaving the EU, the UK will be looking to build closer trade relationships with the world's largest economies.
- France became the first European country to pass a sales tax on large tech firms' local revenues. The bill will affect US firms, such as Google, Facebook and Amazon. The bill may appease the French "gilets jaunes" protest movement, which calls for higher corporate taxes, but it has provoked the US to investigate the proposed taxes further with retaliatory tariffs possible.

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 12/07/2019	1 Week	YTD
Equity GBP Total Return %		
UK	-0.63	14.30
Europe	-1.11	17.47
US	0.51	22.99
Japan	-0.98	10.00
Emerging Markets	-1.15	11.60
Bonds Local Total Return %		
UK Gov	-0.80	5.41
UK Corp	0.97	8.39
Eur Gov	-0.96	5.99
US Gov	-0.37	4.54
Currency %		
GBP vs. USD	0.41	-1.43
GBP vs. EUR	-0.03	0.31
GBP vs. JPY	-0.14	-3.00
Commodities USD %		
Oil	4.69	32.59
Gold	1.36	10.05

Source: Bloomberg Finance L.P., Morningstar, data as at 15/07/2019