Close Brothers Asset Management

29 '19

Weekly Update: Published 23rd July 2019

In the Leyen of fire?

Markets

- In GBP terms equity markets returns were positive in all major regions except the US which fell (-0.76%).
- Fixed income returns were mixed with UK gilts returning +1.06% whilst corporates fell by -0.61% in GBP terms.
- In USD terms, oil fell sharply (-7.61%) and gold rose (+2.28%).

Macro

- After three sleep-deprived days, the European Commission elected Ursula von der Leyen to its top job, succeeding President Jean-Claude Juncker in November. The German's narrow majority of nine votes may make it tricky to forge consensus and force change in increasingly fragmented European politics. She promotes closer integration of capital markets and, perhaps to appease European Greens, accelerating progress to lower carbon emissions. Her instalment as the EC's first woman President is unlikely to change the course of Brexit negotiations - she would love the UK to change its mind.
- Against a sluggish economic backdrop, the latest UK jobs data revealed a resilient labour market. The number in work rose 28,000 compared to the previous three months, while a 51,000 drop in unemployment kept the jobless rate at 3.8%, a near 45 year low. Moreover, headline annual regular earnings growth reached an 11-year high of 3.6%. However, the timing of an NHS pay settlement did flatter this figure, while in quantity terms the rise in employment from March-May was the smallest since last August, and job vacancies slipped to a 13-month low. It is unclear whether such developments reflect weaker demand, or the difficulties employers face recruiting staff in a tight jobs market.
- China's GDP growth slowed to 6.2% in the second quarter, marking the lowest reading since quarterly record-keeping began 30 years ago. Whilst a softer reading was expected many will be concerned by the ongoing trade war between China and the US. In spite of the ongoing tensions, Beijing continues to believe that domestic growth is strong enough to withstand a prolonged trade war with its largest export partner. With both Chinese retail sales and industrial output strengthening in June, Beijing may well be right for now but pressure from shrinking exports is likely to weigh more heavily going forwards. A resolution in the ongoing saga cannot come soon enough.

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 19/07/2019	1 Week	YTD
Equity GBP Total Return %		
UK	0.08	14.39
Europe	0.27	17.80
US	-0.76	22.06
Japan	0.02	10.02
Emerging Markets	1.11	12.84
Bonds Local Total Return %		
UK Gov	1.06	6.52
UK Corp	-0.61	7.73
Eur Gov	1.02	7.07
US Gov	0.41	4.97
Currency %		
GBP vs. USD	-0.56	-1.98
GBP vs. EUR	-0.12	0.19
GBP vs. JPY	-0.75	-3.73
Commodities USD %		
Oil	-7.61	22.51
Gold	2.28	12.56

Source: Bloomberg Finance L.P., Morningstar, data as at 22/07/2019