Close Brothers Asset Management

30 '19

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Markets

- Sterling weakness helped global equity markets to deliver positive returns in GBP terms. US equities performed best, gaining +2.67%, followed by Europe (+1.19%). The UK and Japan delivered +0.66% and +0.61% respectively. Emerging markets were the laggards (+0.04%).
- Bond prices advanced in the UK (+0.30% and +0.56% from Gilts and corporate bonds respectively) and Europe (+0.31% in local currency terms). US government bonds fell -0.12% on the same basis.
- GBP declined -0.94% versus a strengthening USD, -0.13% versus EUR and -0.04% versus JPY.
- In USD terms, the oil price rose +1.02%, while gold fell -1.34%.

Macro

- Boris Johnson became Prime Minister of the UK on Wednesday, to the approbation of US President Donald Trump and the dismay of some EU leaders. In a letter on Thursday, chief negotiator Michel Barnier encouraged EU premiers to "remain calm" in response to Johnson's "rather combative" maiden speech. Meanwhile, the UK Government has diverted resources to "no deal" planning during the summer recess. Parliament does not return until September, the earliest date we would expect meaningful developments.
- The ECB sent a dovish message on Thursday, despite making no policy change. President Mario Draghi confirmed that members of the Governing Council consider economic data to be "getting worse and worse" and do "not like what we are seeing" in inflation data. The ECB is currently exploring "mitigating measures", such as tiering of the liquidity programme and new net asset purchases. The market expects a package to be announced at the September meeting, which could include QE and a deposit rate cut.
- Last week Japanese Prime Minister Shinzo Abe's party won a majority in the upper house elections, but fell short of the supermajority required to easily reform the constitution. The result does mean that the planned increase to Japan's sales tax will go ahead, a move expected to weigh on consumption. Given that export growth has already experienced weakness, we expect fiscal measures to support the economy.

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 26/07/2019	1 Week	YTD
Equity GBP Total Return %		
UK	0.66	15.14
Europe	1.19	19.20
US	2.67	25.32
Japan	0.61	10.69
Emerging Markets	0.04	12.88
Bonds Local Total Return %		
UK Gov	0.30	6.84
UK Corp	0.56	8.33
Eur Gov	0.31	7.40
US Gov	-0.12	4.84
Currency %		
GBP vs. USD	-0.94	-2.90
GBP vs. EUR	-0.13	0.05
GBP vs. JPY	-0.04	-3.77
Commodities USD %		
Oil	1.02	23.76
Gold	-1.34	11.06

Source: Bloomberg Finance L.P., Morningstar, data as at 29/07/2019