

Weekly Update: Published 5<sup>th</sup> August 2019

## Brecon Bleakens

### Markets

- Risk assets took a less constructive turn on Friday, resulting in negative weekly GBP returns for all equity regions but Japan. UK equities declined -2.09%, followed by emerging markets (-1.98%). Europe and the US fell -0.98% and -0.95%. Japan gained 1.74%, helped by pronounced Yen strength versus GBP.
- Bonds rallied across the board in local terms. UK gilts gained 1.31% and UK corporates +0.34%. European government bonds gained +0.92%, and US government bonds +0.28%.
- GBP declined -1.79% versus USD, -1.60% versus EUR and -3.68% versus JPY.
- In USD terms, the oil price fell -0.96%, while gold rose +1.50%.

### Macro

- Sterling suffered pronounced declines last week, reaching new 2019 lows as markets digested Prime Minister Johnson's No Deal rhetoric. GBP swooned further in the wake of the Bank of England's more dovish tone. The Lib Dem victory in the Brecon and Radnorshire by-election reduces the government's working majority to one, making a confidence vote and subsequent general election more likely. We expect political risk to intensify in the autumn, weighing further on UK bond yields and the pound.
- On Thursday evening, US President Donald Trump announced 10% tariffs would be imposed on USD300bn of Chinese goods by the first of September, in response to a lack of progress in trade talks. This final tranche of goods includes the greatest share of consumer goods and auto products and, as such, has more potential for immediate impact on the US economy. These tariffs would also likely weigh on China's growth and mean further stimulus would be required to hit its politically sensitive growth targets.
- The US Federal Reserve cut interest rates by 25 basis points on Wednesday, and decided to end reducing the balance sheet two months earlier. The market, having priced in more than 25bps, was disappointed, given Powell's insistence that this was a mid-cycle adjustment rather than the beginning of a cutting cycle. We expect further cuts if the data demands it, a more likely prospect if Chinese tariffs begin to bite.

### 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. Given strong year to date performance, we are monitoring valuations closely.
- Within our regional equity allocation, we favour companies benefitting from structural growth dynamics, and policy accommodation.

Performance to 02/08/2019      **1 Week**      **YTD**

#### Equity GBP Total Return %

UK	-2.09	12.73
Europe	-0.98	18.03
US	-0.95	24.13
Japan	1.74	12.62
Emerging Markets	-1.98	10.65

#### Bonds Local Total Return %

UK Gov	1.31	8.24
UK Corp	0.34	8.70
Eur Gov	0.92	8.39
US Gov	0.28	5.13

#### Currency %

GBP vs. USD	-1.79	-4.64
GBP vs. EUR	-1.60	-1.55
GBP vs. JPY	-3.68	-7.31

#### Commodities USD %

Oil	-0.96	22.57
Gold	1.50	12.72

Source: Bloomberg Finance L.P., Morningstar, data as at 05/08/2019

#### Important Information

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