Close Brothers
Asset Management

Weekly Update: Published 12th August 2019

31 '19

You can't always get what Yuan

Markets

- Risk assets continued to decline this week, with negative GBP returns across equity regions, despite sterling weakness. Emerging market equities fared worst, falling -1.78%, followed by UK equities (-1.57%). Japanese equities declined -0.71%, while the US and Europe delivered -0.7% and -0.9% respectively.
- UK bonds rallied, with Gilts gaining +0.93% and corporates +1.00%. In the US, government bonds gained +0.81% in local terms, while European government bonds declined -0.06%.
- GBP declined a further -1.06% versus USD, -1.90% versus EUR and -1.87% versus JPY. In USD terms, the oil price fell -2.08%, while gold rose +3.88%.

Macro

- Trade tensions intensified this week as the US accused China of currency manipulation in response to a sharp decline in the Renminbi. The devaluation partly offsets the impact of the US tariffs due from the first of September. The US has long been sensitive to the issue of currency strength – in the past President Trump has accused China and Europe of keeping their currencies artificially weak in order to boost competitiveness. China's decision to allow the Renminbi to weaken is thus politically charged and makes a timely resolution less likely.
- German government bond yields rose this week in response to news reports that Germany's government is considering raising debt to fund climate-protection measures. New federal borrowing could bring an end to Germany's commitment to a fiscal surplus and open the door to more fiscal stimulus in Europe. While the policy change is unlikely before 2021, European equities rallied on the news, as higher spending could boost Eurozone growth.
- The UK economy shrank in the second quarter, with GDP falling by -0.2%, the worst quarterly print since 2012. The decline was due to a modest slowing in consumption growth, the unwinding of inventories in the first quarter, and a 1% decline in fixed investment. April shut-downs contributed to a 1.4% fall in industrial production and services sector growth decelerated. We would expect firms to rebuild inventories in the third quarter, ahead of the October Brexit deadline, and, assuming consumption remains stable, we expect the Bank of England to keep rates on hold until there is greater clarity on Brexit.

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 09/08/2019	1 Week	YTD
Equity GBP Total Return %		
UK	-1.57	10.96
Europe	-0.09	17.92
US	-0.07	24.05
Japan	-0.71	11.82
Emerging Markets	-1.78	8.68
Bonds Local Total Return %		
UK Gov	0.93	9.25
UK Corp	1.00	9.78
Eur Gov	-0.06	8.33
US Gov	0.81	7.11
Currency %		
GBP vs. USD	-1.06	-5.65
GBP vs. EUR	-1.90	-3.42
GBP vs. JPY	-1.87	-9.04
Commodities USD %		
Oil	-2.08	20.02
Gold	3.88	17.10

Source: Bloomberg Finance L.P., Morningstar, data as at 12/08/2019