Weekly Update: Published 19th August 2019

Curves in all the wrong places

Markets

- Another negative weak for equities, with stronger GBP weighing on performance. US equities were the most defensive, falling -1.41% in GBP terms, followed by emerging markets (-1.53%) and the UK -1.55%. Europe fell -2.02% and Japan -2.31%.
- UK Gilts rallied, gaining +1.56%, while UK corporates fell -1.47%. In the US, government bonds gained +1.31% in local terms, and European government bonds +1.52%.
- GBP rallied hard at the prospect of a UK government of national unity, rising +0.96% versus USD, +1.96% versus EUR and +1.62%versus JPY. In USD terms, the oil price rose +0.68% and gold +1.17%.

Macro

- The US Yield curve inverted last week for the first time since the global financial crisis. This suggests markets expect interest rates to be lower in the future than in the near term, which could signal expectations of weak economic activity or even recession. However, while it is clear that Sino-American trade tensions are weighing on economic growth expectations, the US economy continues to show signs of strength. Global bond yields, already low or negative in some regions, shifted lower on weak European and Chinese data, pulling US Treasury yields down in sympathy.
- German GDP declined by 0.3% in the second quarter on an annualised basis. While the full breakdown is not yet available, weak industrial production data suggests that manufacturing and exports were to blame, while the rest of the economy is showing greater resilience. Weaker data has triggered debate about how the government can boost growth. Possibilities include a boost to Germany's automatic fiscal stabilisers, new business investment incentives, green investment measures and plans to abolish the solidarity tax. Meanwhile, weak activity data has pulled European bond yields lower.
- The US postponed tariffs on roughly half of USD300bn of Chinese goods to December, causing the Chinese currency to stabilise. The delay concentrates on consumer goods, with a view to mitigating the impact on US consumers. While trade talks did resume, the US added four Chinese nuclear firms to the "Entity List", subjecting them to individual licencing requirements. China's July economic data showed further weakness and, without additional stimulus, we would expect the data to remain depressed.

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 16/08/2019	1 Week	YTD
Equity GBP Total Return %		
UK	-1.55	9.24
Europe	-2.02	15.54
US	-1.41	22.30
Japan	-2.31	9.23
Emerging Markets	-1.53	7.02
Bonds Local Total Return %		
UK Gov	1.56	10.95
UK Corp	-1.47	8.17
Eur Gov	1.52	9.97
US Gov	1.31	8.51
Currency %		
GBP vs. USD	0.96	-4.74
GBP vs. EUR	1.96	-1.52
GBP vs. JPY	1.62	-7.56
Commodities USD %		
Oil	0.68	20.83
Gold	1.17	18.47

Source: Bloomberg Finance L.P., Morningstar, data as at 19/08/2019