Close Brothers Asset Management

33 '19

Weekly Update: Published 26th August 2019

A not so sweet Mac(a)ron

Markets

- US equities fell -2.46% in GBP terms, followed by the emerging markets (-0.66%) and Europe (-0.59%), while Japanese and UK markets both delivered positive returns of 0.49% and 0.16% respectively.
- Government bond markets paused for breath as US government bonds were broadly flat at 0.02%; European government debt was down -0.24% along with UK Gilts at -0.77%. UK corporates had a positive week returning 1.88%.
- GBP rallied further after rising last week. Rather than the prospect of a UK government of national unity, sterling strengthened as hopes of a deal with the EU gained a glimmer of hope. GBP rose +0.96% versus USD, +0.67% versus EUR and 0.02% versus JPY. In USD terms, the oil price fell -1.28% and gold -0.76%.

Macro

- The minutes of the July US Federal Reserve Open Market Committee meeting revealed that the committee were not united in support for the 25 basis point rate cut and had limited appetite for further stimulus. Rumours also circulated that President Trump was considering a temporary pay-roll tax cut to boost the economy, although this was later refuted. Given that the market is pricing in significant further cuts, there is scope for significant disappointment.
- The People's Bank of China announced a reform of the Loan Prime Rate, a measure which could lead to a reduction in lending rates. The Chinese administration was also rumoured to be considering raising the annual quota for local government special bond issuance in order to boost infrastructure investment. While these measures may be incrementally stimulative, they are not of a magnitude to offset the negative impact of trade tensions.
- UK Prime Minister Boris Johnson met with EU leaders this week. Comments from German Chancellor Angela Merkel bolstered hopes of a deal, while dialogue with French President Macron was less encouraging. It is constructive that Johnson seems willing to make a deal, but language indicating the UK's laws and regulations on product and labour standards will diverge from the EU's are less helpful, as this would make frictionless trade difficult. Chances of a unity Corbyn-led government faded, as Remainer MPs signalled their unwillingness to cooperate with the Labour leader, even for a short period of time.

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 23/08/2019	1 Week	YTD
Equity GBP Total Return %		
UK	0.16	9.41
Europe	-0.59	14.87
US	-2.46	19.29
Japan	0.49	9.77
Emerging Markets	-0.66	6.31
Bonds Local Total Return %		
UK Gov	-0.77	10.10
UK Corp	1.88	10.20
Eur Gov	-0.24	9.71
US Gov	0.02	8.53
Currency %		
GBP vs. USD	0.96	-3.83
GBP vs. EUR	0.67	-0.86
GBP vs. JPY	0.02	-7.55
Commodities USD %		
Oil	-1.28	19.29
Gold	-0.76	17.58

Source: Bloomberg Finance L.P., Morningstar, data as at 26/08/2019