

Weekly Update: Published 3rd September 2019

Going pro-rogue

Markets

- A better week for equities, with US stocks rallying +3.68% on news of thawing trade relations. Europe gained +2.20%, emerging markets +1.96% and the UK and Japan +1.52% and +1.22% respectively.
- Bonds continued to benefit across the board. Gilts gained +1.06%, and UK corporates +0.13%. In the US, government bonds gained +0.23% in local terms, and European government bonds +0.84%.
- GBP fell -0.90% versus the USD and -0.03% versus JPY, but gained +0.39% versus EUR. In USD terms, the oil price rose +1.72% and gold +1.64%.

Macro

- The Queen agreed to Prime Minister Johnson's request to prorogue parliament next week, until 14th October. This reduces the chance of MPs successfully legislating to prevent a no deal Brexit, by reducing the parliamentary time available. Sterling fell around 1% on the news. MPs now have less than ten days to make progress before parliament is suspended, which precedent suggests may be possible. We expect the drama to intensify into October.
- The US has begun the process of raising tariffs on around \$250bn of Chinese imports from 25% to 30% from 1st October, while also stating that fresh tariffs on an additional \$300bn of Chinese goods would now be at a rate of 15% rather than 10%. In a tweet, President Trump also announced plans to force US firms working in China to move operations back to the US, after China announced plans for tariffs on \$75bn worth of US goods and hikes to existing duties. However, stock markets then rallied sharply towards the end of the week after President Trump said that the US and China will "very shortly" resume trade talks following an apparently positive call from Beijing.
- After resigning the week before, Italy's PM Conte returned with a fresh mandate from President Mattarella to attempt to form a new government. Politics are fractious with the anti-establishment Five Star Movement (M5S) and Democratic Parties differing on tax and spending plans. Italy has long flouted EU rules stating that no member should have a budget deficit larger than 3% of GDP, while public debt is around 132% of GDP and worsening. A new cabinet needs to set a budget for 2020. With Brexit, the EU hardly needs a battle on a second front with its third largest 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. 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 30/08/2019	1 Week	YTD
Equity GBP Total Return %		
UK	1.52	11.07
Europe	2.20	17.39
US	3.68	23.68
Japan	1.22	11.12
Emerging Markets	1.96	8.39
Bonds Local Total Return %		
UK Gov	1.06	11.27
UK Corp	0.13	10.35
Eur Gov	0.84	10.62
US Gov	0.23	8.77
Currency %		
GBP vs. USD	-0.90	-4.69
GBP vs. EUR	0.39	-0.48
GBP vs. JPY	-0.03	-7.58
Commodities USD %		
Oil	1.72	21.34
Gold	1.64	19.50

Source: Bloomberg Finance L.P., Morningstar, data as at 02/09/2019

Important Information

The information contained in this document is believed to be correct but cannot be guaranteed. Past performance is not a reliable indicator of future results. The value of investments and the income from them may fall as well as rise and is not guaranteed. An investor may not get back the original amount invested. Opinions constitute our judgment as at the date shown and are subject to change without notice. This document is not intended as an offer or solicitation to buy or sell securities, nor does it constitute a personal recommendation. Where links to third party websites are provided, Close Brothers Asset Management accepts no responsibility for the content of such websites nor the services, products or items offered through such websites. CBAM5771. 03.09.2019.

Close Brothers Asset Management is a trading name of Close Asset Management Limited (Registered number: 01644127) and Close Asset Management (UK) Limited (Registered number: 02998803). Both companies are part of the Close Brothers Group plc group of companies, are registered in England and Wales and are authorised and regulated by the Financial Conduct Authority. Registered office: 10 Crown Place, London EC2A 4FT. VAT registration number: 245 5013 86.