Close Brothers Asset Management

35 '19

# Weekly Update: Published 9th September 2019

## Rudd-erless

### Markets

- Equities continued to rally this week, with all main regions delivering positive GBP returns despite Sterling strength. The UK was this week's top performer, (+1.30%), with Europe (+1.23%) and emerging markets (+1.19%) just behind. US equities gained +0.66% and Japan +0.02%.
- UK bonds remained firm, with UK corporate bonds (+0.66%) outpacing Gilts (+0.08%). However, in local currency terms, European and US government bonds swooned (-0.33% and -0.26% respectively).
- GBP rallied, gaining +1.04% versus the USD, +0.65% versus EUR and +1.59% versus JPY. In USD terms, the oil price rose +2.58% and gold fell -0.31%.

### Macro

- UK MPs successfully gained control of the order paper last week, using an emergency debate protocol. This gave MPs the opportunity to pass a bill compelling Prime Minister Johnson to ask the EU for an extension of Article 50 on 19 October if a deal has not been agreed. The bill, expected to be passed next week, will make the new Brexit deadline January 2020, or another date of the EU's choosing. Extending the deadline boosted Sterling but given that Prime Minister Johnson remains against requesting an extension, there may be surprises in store before conference recess.
- Long-dated inflation linked bonds record their biggest one day sell-off in ten years on Wednesday. Coinciding with lower expectations of a no-deal Brexit, UK Chancellor Javid announced plans for higher government spending and changes to the inflation measure used for inflation-linked bonds. Beginning in 2025, the Retail Price Index (RPI) is to be aligned with CPIH, Consumer Price Inflation including housing costs. The new measure tends to record lower inflation readings, contributing to the sell-off.
- After a soft patch, Chinese assets bounced this week. The formal withdrawal of the Hong Kong extradition bill and agreement with the US on an October trade meeting boosted hopes of a resolution to the trade dispute. In addition, the PBoC announced another cut to banks' Required Reserve Ratio (RRR), lowering the funding cost of the economy. The move has been interpreted as an explicit easing signal from the government, though the magnitude of the stimulus is still expected to be smaller than prior packages.

### Our view

- Global growth has weakened somewhat but monetary policy is becoming 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.
- Within our regional equity allocation, we favour companies benefitting from structural growth dynamics, and policy accommodation.

| Performance to 06/09/2019 | 1 Week | YTD |
|---|---|---|
| **Equity GBP Total Return %** | | |
| UK | 1.30 | 12.51 |
| Europe | 1.23 | 18.83 |
| US | 0.66 | 24.50 |
| Japan | 0.02 | 11.14 |
| Emerging Markets | 1.19 | 9.69 |
| **Bonds Local Total Return %** | | |
| UK Gov | 0.08 | 11.36 |
| UK Corp | 0.66 | 11.07 |
| Eur Gov | -0.33 | 10.26 |
| US Gov | -0.26 | 8.49 |
| **Currency %** | | |
| GBP vs. USD | 1.04 | -3.69 |
| GBP vs. EUR | 0.65 | 0.17 |
| GBP vs. JPY | 1.59 | -6.11 |
| **Commodities USD %** | | |
| Oil | 2.58 | 24.47 |
| Gold | -0.31 | 19.13 |

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