

Weekly Update: Published 17th September 2019

Back-to-backstop meetings

Markets

- A mixed week for equities, as Sterling strength weighed on GBP returns. In Sterling terms, Japanese equities delivered +2.15%, followed by the UK (+1.36%). Emerging market equities returned +0.75% and Europe +0.10%. US equities declined -0.26%.
- Bonds broadly declined in local terms. UK gilts declined a significant -2.91%, while UK corporate bonds continued to fare better (+0.08%). US and European government bonds fell -1.47% and -0.5%.
- GBP continued to surge higher, gaining +1.77% versus USD, +1.34% versus EUR and +2.92% versus JPY. In USD terms, the oil price rose -2.95% and gold fell -1.35%.

Macro

- Sterling surged this week, on renewed hopes of avoiding a no-deal Brexit. On Monday a bill, compelling Prime Minister Johnson to request a delay on 19th October, received royal assent while the Government's bill, seeking a general election before that date, failed to pass. Sterling rallied again on Friday on rumours the DUP position on the placement of trade borders had softened, though this was subsequently refuted. A deal remains possible, but placing the border in the Irish Sea remains controversial. Moreover, the Government's minority in Parliament makes an election likely.
- ECB president Mario Draghi announced a 10 point cut to rates, down to -0.5% until inflation "robustly converges" with 2%. The ECB also announced a new round of open-ended QE of EUR 20bn per month. To offset the impact of negative rates on banks, the ECB improved terms of the liquidity facility and implemented tiering for banks excess reserves. Draghi again reiterated the need for governments to employ fiscal policy to support growth. Despite dovish language, higher EUR and European bond yields indicated disappointment with the package.
- Chinese exemptions on some American goods and the US delaying some tariffs boosted sentiment this week, as Trump indicated openness to an interim trade deal with China. Trump also tweeted that China is expected to buy large amounts of US agricultural products. Narrowing the scope of negotiations to national security could yield a "mini-deal" for Trump, but we remain sceptical of the chances of tensions being resolved all together.

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 13/09/2019 1 Week YTD

Equity GBP Total Return %

	1 Week	YTD
UK	1.36	14.05
Europe	0.10	18.95
US	-0.26	24.17
Japan	2.15	13.53
Emerging Markets	0.75	10.51

Bonds Local Total Return %

	1 Week	YTD
UK Gov	-2.91	8.12
UK Corp	0.08	11.16
Eur Gov	-0.50	9.71
US Gov	-1.47	6.90

Currency %

	1 Week	YTD
GBP vs. USD	1.77	-1.98
GBP vs. EUR	1.34	1.51
GBP vs. JPY	2.92	-3.37

Commodities USD %

	1 Week	YTD
Oil	-2.95	20.79
Gold	-1.35	17.52

Source: Bloomberg Finance L.P., Morningstar, data as at 16/09/2019

Important Information

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