

Weekly Update: Published 23rd September 2019

Come on Arlene

Markets

- A less constructive week for equities. In GBP terms, Japan was the only positive region, delivering +0.21%. The UK declined -0.22%, emerging market equities -0.66%, US stocks -0.82% and Europe -0.85%.
- Bonds broadly rallied in local terms. UK gilts reversed course, gaining +2.10%, while UK corporate bonds continued to fare better (+3.96%). European and US government bonds gained +0.52% and +1.19% respectively.
- GBP gained modestly against EUR (+0.30%) but declined -0.18% versus USD and -0.67% versus JPY. In USD terms, gold fell -0.08%. Oil surged 5.91% higher on news of the Saudi oil attack.

Macro

- Another volatile week for Sterling saw the currency reach 1.25 USD, the highest level since July, before retreating once more on Friday. Hopes of a deal were buoyed by news that DUP leader Arlene Foster was open to "bespoke arrangements" for Northern Ireland, but was still opposed to customs checks between Great Britain and Northern Ireland. The endorsement of the DUP could bolster support for a deal but, given that the Government no longer have a working majority, cross-party support will be needed. We continue to think an early election is likely.
- The US Federal Reserve cut interest rates by 25 basis points this week in order to support the economy. However, the members of the Federal Open Markets Committee appear to be divided in their assessment of economic conditions, with some members in favour of rate hikes in the future. The market interpreted the meeting outcome as less accommodative than expected. We would look for evidence of the weak external environment having greater impact on the domestic economy to be confident of a stronger response from the Fed.
- A drone attack in Saudi Arabia has caused significant damage to two oil facilities in the region. In response, oil prices surged 15% on Monday, the biggest jump in 30 years, as market participants factored in tighter oil supply. The production decline comes at a time where the oil market had been roughly balanced. Saudi ministers say oil production will resume as normal by the end of September, meaning the price spike, which could weigh on consumption if it persists, may be short lived.

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 20/09/2019 1 Week YTD

Equity GBP Total Return %

UK	-0.22	13.80
Europe	-0.85	17.94
US	-0.82	23.15
Japan	0.21	13.77
Emerging Markets	-0.66	9.78

Bonds Local Total Return %

UK Gov	2.10	10.39
UK Corp	3.96	12.42
Eur Gov	0.52	9.49
US Gov	1.19	7.38

Currency %

GBP vs. USD	-0.18	-2.16
GBP vs. EUR	0.30	1.82
GBP vs. JPY	-0.67	-4.02

Commodities USD %

Oil	5.91	27.92
Gold	-0.08	17.43

Source: Bloomberg Finance L.P., Morningstar, data as at 23/09/2019

Important Information

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