Close Brothers
Asset Management

38 '19

Weekly Update: Published 30th September 2019

Hale Storms

Markets

- A less constructive week for equities, boosted by sterling weakness in GBP terms. Japan continued to outperform, delivering +1.38%, followed by the UK (+0.77%). Europe and the US delivered +0.56% and +0.46% respectively. Emerging markets declined -0.30%.
- Bonds continued to strengthen, especially UK gilts, which gained a further +1.32%, while UK corporates gained +0.66%. European and US government bonds gained +0.65% and +0.29% respectively.
- GBP declined broadly, falling -1.49% versus USD, -1.21% versus JPY and -0.80% versus EUR. In USD terms, gold fell -0.80%. Oil reversed much of the prior week's gain, falling -3.75% on hopes that a partial ceasefire in Yemen may ease tensions.

Macro

- Sterling rallied on Tuesday, on the Supreme Court's surprise decision that the prorogation of Parliament was unlawful and void. While MPs now have more time in session, it remains unclear how they plan to use it. Despite a strong start, sterling slid on news of higher public borrowing and comments from MPC member Michael Saunders, indicating that a rate cut may be necessary even if a no deal Brexit is avoided.
- The emerging market index fell sharply on Friday on reports that the White House is considering restricting US investment into Chinese companies in a bid to limit US exposure to Chinese markets. Measures considered reportedly include delisting Chinese companies from U.S. stock exchanges and limiting allocations to the Chinese market through US government pension funds. The announcement seems at odds with Trump's announcement on Wednesday that a trade deal could be struck "sooner than you think".

The impact of global trade friction continued to be felt last week, with Purchasing Managers' Indices slipping lower in both Japan and the Eurozone, two economies with significant trade exposure. To the concern of investors, both Manufacturing and Services indicators slipped in both regions, raising the question of how long strong consumption data can continue against the backdrop of weak trade and weaker corporate confidence. Participants will be watching for evidence of monetary accommodation supporting the economy.

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 environment favours equities over bonds, with alternatives playing an important role in portfolios.
- Within our equity allocation, we favour companies benefitting from structural growth dynamics, and policy accommodation.

Performance to 27/09/2019	1 Week	YTD
Equity GBP Total Return %		
UK	0.77	14.68
Europe	0.56	18.60
US	0.46	23.72
Japan	1.38	15.33
Emerging Markets	-0.30	9.44
Bonds Local Total Return %		
UK Gov	1.32	11.85
UK Corp	0.66	11.89
Eur Gov	0.65	10.20
US Gov	0.29	7.69
Currency %		
GBP vs. USD	-1.49	-3.62
GBP vs. EUR	-0.80	1.00
GBP vs. JPY	-1.21	-5.17
Commodities USD %		
Oil	-3.75	23.12
Gold	-0.80	16.49

Source: Bloomberg Finance L.P., Morningstar, data as at 30/09/2019