

Weekly Update

Watford scrap

BAG IT UP

The US consumer is in rude health

ELECTION END-GAME

In the final week, the Conservatives are still ahead

MIND THE LIQUIDITY

GAP
Liquidity worries regulators

OPEC ACRIMONY

Production falls but tempers are high

A GOOD WEEK FOR

- Sterling, which rallied further as the UK general election approaches
- Oil, which more than reversed last week's losses, gaining +7% in USD terms

A BAD WEEK FOR

- Equities, with the exception of Japan. The global market fell -1.3% in GBP terms.
- Bonds, which broadly fell in local currency terms.

NATO SUMMIT

The 70th anniversary summit of the North Atlantic Treaty Organisation (NATO) took place this week in Watford, but was marred by controversy. A number of world leaders, including Prime Minister Johnson, were filmed joking about Trump's decision to hold an unscheduled press conference in the middle of the summit. The recording coincided with Trump leaving the summit early and attracted criticism from the global press. The fracas underlines concerns that the institution is increasingly divided, with France's President Macron suggesting the organisation has lost its purpose. While geopolitical risk may not be sparked by them, weak institutions increase the opportunity for such situations to escalate.

US CONSUMPTION

Strong US data painted a rosy picture for the US consumer last week, causing US bond yields to tick higher. Record sales volumes over Black Friday and Cyber Monday weekend pointed to a consumer ready to spend. This better positive picture for consumer spending was reinforced on Friday by a stronger than expected labour market report, with 266,000 jobs added to the economy in November and a further improvement in unemployment to 3.5%. Continued tightness in the labour market should be supportive of further wage growth, allowing consumers to increase spending.

UK ELECTION

As another week passes with the Conservatives in the lead in the polls, Sterling has continued to rally. While we have seen Labour gain some share at the expense of the Lib Dems, the surge in support for Labour appears to be losing steam, with the Conservatives between 8 and 15 points ahead. While current polls indicate a Conservative majority is likely, there are sources of uncertainty. These include the high proportion of voters who remain undecided, as well as indications of more tactical voting, meaning a late swing is still possible.

UK PROPERTY INVESTMENT

The Bank of England is reportedly considering restrictions on property funds, including a possible limit on daily withdrawals. Currently property funds may offer daily liquidity for investors but hold illiquid and indivisible assets which often take more time to sell. This liquidity mismatch may make it harder for managers to free up cash in a timely way if investor withdrawals are higher than usual. Last week M&G suspended trading in its UK Property Fund after "unusually high outflows", following a large sale by Prudential and a period of weaker performance. M&G also cited waning confidence around Brexit as one reason for investors' liquidity concerns.

OPEC

Members of the Organisation of Petroleum Exporting Countries (OPEC) have agreed to cut oil production in order to support prices. OPEC members and allied nations agreed to reduce production by 500,000 barrels per day at a reportedly acrimonious meeting on Thursday. Sources of tension include Iran's reported flouting of quotas and Saudi Arabia's uneasy relationship with Russia. OPEC's impact on oil prices through reducing supply may be limited – restricting supply more aggressively may tempt higher-cost US producers back into the market, increasing supply.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.
UK	-1.5%			-1.5%			11.7%			12.0%		
US	-1.4%	0.1%	-1.5%	-1.4%	0.1%	-1.5%	23.6%	27.4%	-3.8%	15.5%	18.5%	-3.0%
Europe	-1.1%	0.1%	-1.2%	-1.1%	0.1%	-1.2%	17.2%	25.1%	-7.9%	15.9%	22.5%	-6.6%
Japan	-0.1%	0.7%	-0.8%	-0.1%	0.7%	-0.8%	15.4%	17.7%	-2.4%	10.6%	9.8%	0.8%
Asia ex Japan	-1.2%	0.2%	-1.3%	-1.2%	0.2%	-1.3%	9.7%	14.3%	-4.6%	8.6%	13.0%	-4.4%
EM	-0.7%	0.7%	-1.3%	-0.7%	0.7%	-1.3%	7.9%	12.4%	-4.5%	7.1%	10.9%	-3.8%

FIXED INTEREST AND CURRENCIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		

Corporate and Government Bonds

UK Gov	-0.9%			-0.9%			7.9%			7.7%		
US Gov	-0.4%			-0.4%			7.2%			8.6%		
Europe Gov	-0.2%			-0.2%			4.9%			5.6%		
UK Index-Linked	-1.6%			-1.6%			6.7%			4.3%		
UK Corporate	-0.2%			-0.2%			11.1%			11.3%		
UK High Yield	0.3%			0.3%			12.3%			12.1%		

Currencies – Spot

USD – GBP	-1.6%			-1.6%			-2.9%			-2.7%		
EUR – GBP	-1.2%			-1.2%			-6.4%			-5.4%		
JPY – GBP	-0.8%			-0.8%			-2.0%			1.0%		

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.77%
10 Year Treasuries	1.82%
10 Year Bunds	-0.30%

COMMODITIES

	1 WEEK			MTD			YTD			1 YEAR		
	USD			USD			USD			USD		
Energy												
Brent		3.14%			3.14%			19.7%			7.2%	
Precious Metals												
Gold	-0.26%			-0.26%			13.9%			18.0%		

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