

## Weekly Update

### Vic-tory-ous

#### ALL I WANT FOR CHRISTMAS...

Is higher agricultural imports

#### FINE (TUNING) CHINA

No fireworks from China's economic work conference

#### IT TAKES 2%, BABY

Inflation is higher, but not high

#### CENTRAL BANKS, PRESIDENTIAL PRANKS & POLITICAL BLANKS

The week ahead

#### A GOOD WEEK FOR

- Sterling and UK equities, which rallied on the general election outcome
- Emerging market equities, boosted by progress on a US-China trade deal

#### A BAD WEEK FOR

- The US, Europe and Japan, where currency weakness translated into price weakness in GBP terms
- UK government bonds, which declined on better sentiment

#### UK ELECTION

Boris Johnson secured a significant majority in Thursday's general election, winning 365 seats. The Labour party lost 42 seats, leading to Jeremy Corbyn announcing that he will step down as leader. We expect Johnson to bring the Withdrawal Agreement Bill back before Parliament in order to enter the transition period on 31 January 2020. The Executive is seeking a bespoke trade deal, which we consider unlikely to be achievable within 2020. This is likely to necessitate either a compromise on the terms of the deal, or an extension, if a deal is to be passed. The Government is expected to increase current spending and investment, which should boost GDP growth in 2020. However, with uncertainty likely to continue until the future trading relationship with the EU is confirmed, it is possible that the Bank of England remain cautious on the outlook for UK growth.

#### US TRADE

The US and China tentatively agreed the details of a "Phase-one" deal on Thursday. The agreement suspends new tariffs expected on 15 December, and lifts some existing tariffs, conditional on China increasing agricultural imports, tightening intellectual property regulations and opening up the financial services sector. Removing tariffs should boost growth somewhat, though this agreement does not entirely remove the uncertainty posed by the trade war. Markets greeted the news as positive for growth, with bond yields and equity prices rising on the news.

#### CHINESE ECONOMY

At China's Central Economic Work Conference the administration made provision for further easing, making economic stability a top priority in 2020. However, the measures announced do not signal plans to unleash significant easing, as we saw in 2015-16. The policy mix is expected to include supportive fiscal policy, with a focus on greater efficiency rather than greater size. No new government bond issuance was announced, nor are tax cuts expected. While growth has been weak, there are signs of improvement – industrial production grew by 6% in November, an acceleration from October.

#### US INFLATION

US inflation rose to 2.1% in November, a 1 year high, as the downward drag from energy prices begins to wane. While inflation has increased, it remains close to the 2% target and, for now, the impact of tariffs does not appear to have been very inflationary. While prices have been increased, the impact on demand has been negative. Indeed, while the Fed left rates unchanged at the December meeting, the median projection did fall modestly. In our view, it will take progress on trade, an improvement in confidence, and a boost to economic activity to see rates rise.

#### LOOKING AHEAD

This week's key events will include UK inflation data and the Bank of England Monetary Policy Committee meeting, where rates are expected to remain unchanged. The Bank of Japan will also meet, with further details of its easing policy expected. In the US, the Democrats' efforts to impeach the President will continue, while in the UK the Labour party is beginning the process of appointing a new leader.

The next Weekly Update will be during the week commencing 6 January 2020. Merry Christmas and a happy New Year!

# Performance

## EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.
UK	1.6%			0.1%			13.4%			10.9%		
US	-0.7%	0.7%	-1.4%	-2.1%	0.8%	-3.0%	22.7%	28.3%	-5.6%	15.1%	21.4%	-6.3%
Europe	-0.3%	0.6%	-0.9%	-1.4%	0.7%	-2.1%	16.9%	25.9%	-9.0%	12.3%	21.0%	-8.7%
Japan	-0.3%	1.7%	-2.0%	-0.4%	2.4%	-2.8%	15.0%	19.7%	-4.7%	9.4%	11.0%	-1.6%
Asia ex Japan	1.8%	2.7%	-0.9%	0.6%	2.9%	-2.2%	11.7%	17.4%	-5.7%	8.3%	15.0%	-6.7%
EM	2.2%	2.9%	-0.7%	1.5%	3.6%	-2.1%	10.2%	15.7%	-5.4%	7.3%	13.3%	-6.0%

## FIXED INTEREST AND CURRENCIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local

### Corporate and Government Bonds

UK Gov	-0.2%	-1.1%	7.6%	7.5%
US Gov	0.2%	-0.2%	7.5%	8.9%
Europe Gov	1.3%	1.1%	6.3%	7.4%
UK Index-Linked	-0.3%	-1.9%	6.3%	3.4%
UK Corporate	0.5%	0.2%	11.6%	11.6%
UK High Yield	0.6%	0.8%	13.0%	12.7%

### Currencies – Spot

USD – GBP	-1.4%	-3.0%	-4.3%	-5.1%
EUR – GBP	-0.9%	-2.1%	-7.2%	-7.0%
JPY – GBP	-2.2%	-2.9%	-4.1%	-1.4%

	YIELD
	Local
<b>Sovereign and Supranational Bonds</b>	
10 Year Gilts	0.79%
10 Year Treasuries	1.84%
10 Year Bunds	-0.29%

## COMMODITIES

	1 WEEK	MTD	YTD	1 YEAR
	USD	USD	USD	USD
<b>Energy</b>				
Brent	1.3%	4.5%	21.2%	6.1%
<b>Precious Metals</b>				
Gold	1.1%	0.8%	15.1%	18.9%

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