Close Brothers Asset Management

Weekly Update
Volte face

CONFIDENCE COSTS
Will a rate cut give the UK economy some insurance?

ABSOLUTELY WAB-ULOUS
Brexit gathers pace

DEAL DELIGHT?
Will the US-China deal boost economic activity?

STEADY STATE
US economic data is slower, but still steady

A GOOD WEEK FOR

- US equities, which rallied +1.2% in GBP terms.
- Emerging market equities, which gained +1.1% on the same basis.

A BAD WEEK FOR

- Oil prices, which declined -5.3%, as relations between Iran and the US stabilised.
- Bonds, which also declined on renewed economic confidence.

US-IRAN RELATIONS

Having weighed on investor sentiment at the very start of January, the deterioration of relations between Iran and the US relented. While the US did continue to put pressure on Iran, President Trump has been careful to reiterate a desire to avoid a war. The Iranian administration has faced domestic criticism after its military admitted to unintentionally shooting down a passenger aeroplane, killing 176 civilians, many of them Iranian citizens. After three days of denials, the *volte face* resulted in widespread protests, for which Trump tweeted support. Overseas, foreign powers perceived the admission as an act of de-escalation, causing safe-haven assets such as gold to sell off. The oil price also fell sharply, having gained on fears that turmoil in the Middle East could lead to supply disruptions. Whether Iran has reached a tipping point in relations with the West remains to be seen.

UK ECONOMICS

Bank of England Governor Mark Carney confirmed on Thursday that “there is a debate at the MPC over the relative merits of near term stimulus to reinforce the expected recovery in UK growth and inflation” and that “Much hinges on the speed with which domestic confidence returns.” These comments were interpreted by the market as confirmation that the Bank is considering an “insurance cut” to interest rates. Gilt yields moved lower on the news and futures markets priced in higher probabilities of a cut at the end of January. With November GDP at 0.6% year-on-year, growth is indeed week. However, if UK-EU trade negotiations progress positively and decisively, consumer and business activity could improve.

BREXIT

The Government’s Withdrawal Agreement Bill (WAB) is making progress to Parliament. Having passed the House of Commons, the bill will now be reviewed, and perhaps amended, by the House of Lords. One area of scrutiny will be the role of Parliament in the future trade negotiations, which is currently to be very limited. While Prime Minister Johnson urged European Commission President Ursula van der Leyen to include services industries during last week’s visit, to do so would likely require the UK to adhere closely to EU regulations. As things stand, the Executive has significant freedom to agree any type of deal, but if Parliament’s role in approving the future relationship increases, the options may be narrower.

GLOBAL ECONOMY

December survey data painted a mixed picture for the world’s industrial economies. Purchasing Managers’ Indices (PMI) surveys suggested activity has weakened in China and Japan, with the Sino-American trade dispute still weighing on growth. In Europe, a stronger services sector led to an upward revision, especially in Germany. With the US-China Phase One trade deal due to be signed this week, businesses may benefit from renewed confidence. In time, this may translate into better economic data.

US ECONOMY

US economic data evolved much as expected this week with employment data still robust, but modestly weaker. While the unemployment rate remained unchanged, fewer new jobs were added than expected in December. Wage growth decelerated modestly to 2.9%, which should still be supportive for consumption growth. Looking at the services sector, surveys point to some improvement, which should be a stabilising force for the economy. A cooling-off of US-Iran tensions is favourable for US consumers. An escalation could still yet render consumers cautious, via increasing oil prices denting disposable incomes. Futures markets suggest investors still expect modestly lower interest rates in 2020 but an improvement in global activity may boost growth expectations in the US also.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.
UK	-0.5%			0.6%			0.6%			13.4%		
US	1.2%	1.0%	0.2%	2.8%	1.2%	1.6%	2.8%	1.2%	1.6%	24.6%	27.6%	-3.0%
Europe	0.0%	0.3%	-0.3%	1.7%	1.1%	0.6%	1.7%	1.1%	0.6%	17.2%	24.2%	-7.0%
Japan	-0.3%	1.0%	-1.2%	1.7%	1.0%	0.7%	1.7%	1.0%	0.7%	13.1%	17.3%	-4.2%
Asia ex Japan	1.6%	1.3%	0.4%	3.7%	2.3%	1.4%	3.7%	2.3%	1.4%	15.7%	19.0%	-3.3%
EM	1.1%	0.6%	0.5%	3.3%	1.7%	1.5%	3.3%	1.7%	1.5%	13.7%	17.2%	-3.5%

FIXED INTEREST AND CURRENCIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local
Corporate and Government Bonds				
UK Gov	-0.5%	0.7%	0.7%	7.6%
US Gov	-0.2%	0.5%	0.5%	7.8%
Europe Gov	-0.7%	-0.7%	-0.7%	4.6%
UK Index-Linked	-1.4%	1.0%	1.0%	4.8%
UK Corporate	-0.1%	0.9%	0.9%	12.1%
UK High Yield	0.2%	0.4%	0.4%	13.2%
Currencies – Spot				
USD – GBP	0.2%	1.5%	1.5%	-2.4%
EUR – GBP	-0.3%	0.6%	0.6%	-5.6%
JPY – GBP	-1.1%	0.7%	0.7%	-3.3%

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.77%
10 Year Treasuries	1.83%
10 Year Bunds	-0.19%

COMMODITIES

	1 WEEK	MTD	YTD	1 YEAR
	USD	USD	USD	USD
Energy				
Brent	-5.3%	-1.5%	-1.5%	5.4%
Precious Metals				
Gold	0.7%	3.0%	3.0%	21.4%