

## Weekly Update

### So long, farewell, auf wiedersehen, adieu

#### WUHAN BAN

Coronavirus goes global and some shares tumble

#### NO CHANGING OF LAGARDE

The ECB holds tight

#### DOWN BUT NOT OUT

IMF trims 2020 growth forecasts

#### DONALD DOES DAVOS

But climate trumps all other agendas

#### A GOOD WEEK FOR

- Bonds, as investors moved into safe haven assets. Gilts gained c. 1%.
- Gold, which also rallied ~1%.

#### A BAD WEEK FOR

- Equities in general. EM equities fell c. 2.5% on Coronavirus news.
- Oil prices, which dropped weakening demand picture

#### UK ECONOMICS

All eyes were on UK survey data this week, ahead of the Bank of England Monetary Policy Committee meeting on the 30 January – Brexit eve. The rebound in both Confederation of British Industry and Purchasing Managers' Index (PMI) survey data may suggest improving business confidence, in the near term at least, reducing the likelihood of a rate cut. Hitherto very weak data had reportedly led to bank officials being open to an "insurance cut" to support the economy. Currently, markets put the chances of a rate cut at a little more than 50%. Outgoing Governor Carney has emphasised the importance of recent data as an indicator of how the UK may manage leaving the EU.

#### CHINA

Chinese New Year celebrations have coincided with an outbreak of a respiratory virus, with around 100 Chinese killed and 4000 ill. Occurring in a season of higher-than-usual international travel, coronavirus has now been detected in Australia, Europe and the US. However, drawing on their experience of SARS in 2003, the quick response of governments across Asia may have slowed its spread and reduced fatalities. Prior outbreaks suggest that the impact on growth will be transitory, with the services side of the economy most affected. The share prices of companies exposed to Chinese consumers and tourism have already fallen on fears that reduced demand will hit profitability.

#### EUROPEAN ECONOMICS

Eurozone economic survey data improved this week. PMI surveys suggested that conditions in the manufacturing sector were ameliorating, in Germany especially. The services side of the economy softened somewhat. New European Central Bank President Lagarde commented on the forthcoming comprehensive review taking place this year. Both the modest improvement in economic data and the fact the review will keep policy makers busy in 2020 leads us to expect policy to stay on hold in the absence of major changes to the outlook.

#### IMF

The IMF has trimmed its global economic growth forecasts for 2020 from 3.4% to 3.3%. Despite the likelihood of an improvement in growth consequent to the thawing of Sino-American relations, expectations of recovery in emerging markets such as Brazil, India, Mexico, Turkey and Russia remain more muted than in prior recoveries. The IMF did praise central bankers for responding quickly to weaker growth by stimulating monetary policy, with the result that growth was around 0.5% higher than it would have been without stimulus.

#### WORLD ECONOMIC FORUM

The environment was a key issue at last week's World Economic Forum in Davos. While Greta Thunberg urged leaders to do more, Christine Lagarde and US Treasury Secretary Steve Mnuchin publically disagreed on the merits of modelling the economic impact of climate change. Meanwhile President Trump set out his presidential stall, highlighting the "blue-collar boom" in the US economy, while remaining tight-lipped around the impeachment proceedings going on back home. Trump also took aim at Europe, having threatened to apply tariffs to European car imports if a trade deal can't be agreed. While Trump has proven that he is willing to impose tariffs, we see a trade war with Europe as less of a risk due to the nature of the trade. For example, while European car parts are imported into the US, the assembly within the US provides jobs.

# Performance

## EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.
UK	-1.2%			0.7%			0.7%			15.5%		
US	-1.4%	-0.9%	-0.4%	3.7%	2.2%	1.4%	3.7%	2.2%	1.4%	26.1%	26.7%	-0.6%
Europe	-1.2%	-0.2%	-1.0%	1.8%	2.2%	-0.4%	1.8%	2.2%	-0.4%	19.8%	23.4%	-3.5%
Japan	0.0%	-0.3%	0.3%	1.6%	0.9%	0.7%	1.6%	0.9%	0.7%	14.4%	14.8%	-0.4%
Asia ex Japan	-2.8%	-2.0%	-0.7%	2.6%	1.7%	0.9%	2.6%	1.7%	0.9%	15.0%	15.8%	-0.8%
EM	-2.8%	-2.1%	-0.7%	1.9%	1.0%	0.9%	1.9%	1.0%	0.9%	12.1%	13.5%	-1.4%

## FIXED INTEREST AND CURRENCIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local

### Corporate and Government Bonds

UK Gov	1.2%	3.3%	3.3%	10.1%
US Gov	1.1%	1.6%	1.6%	8.6%
Europe Gov	0.5%	-0.1%	-0.1%	5.2%
UK Index-Linked	1.7%	5.2%	5.2%	11.9%
UK Corporate	0.9%	3.0%	3.0%	13.4%
UK High Yield	0.1%	0.9%	0.9%	13.0%

### Currencies – Spot

USD – GBP	-0.5%	1.4%	1.4%	-0.1%
EUR – GBP	-1.1%	-0.4%	-0.4%	-2.6%
JPY – GBP	0.3%	0.8%	0.8%	0.3%

	YIELD
	Local
<b>Sovereign and Supranational Bonds</b>	
10 Year Gilts	0.54%
10 Year Treasuries	1.65%
10 Year Bunds	-0.35%

## COMMODITIES

	1 WEEK	MTD	YTD	1 YEAR
	USD	USD	USD	USD
<b>Energy</b>				
Brent	-6.4%	-8.0%	-8.0%	-0.7%
<b>Precious Metals</b>				
Gold	0.9%	3.6%	3.6%	22.7%

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