

Weekly Update

Sayonara Sajid

COVID-19 CONTINUES

Public events face cancellation

TOKY-OH NO

Japan's economy is contracting

BLOWING HOT & COLD

Will stronger US inflation last?

GRECIAN EARNS

Greek bond yields fall below 1%

A GOOD WEEK FOR

- Sterling, which rallied across the board on expectations of higher government spending
- Oil prices, which rallied +5%, having sold off in prior weeks

A BAD WEEK FOR

- Japanese equities, which lost -2.6% (in GBP terms) on weak economic data
- Gilts and UK corporate bonds, which weakened slightly on UK budget headlines

UK POLITICS

Boris Johnson's cabinet reshuffle was dominated by the surprise-resignation of Chancellor Sajid Javid, reportedly over No.10's attempts to increase influence on the Exchequer. Investors will be asking what his replacement Rishi Sunak means for the budget. While Javid appeared to favour a more flexible approach to the fiscal rules than his predecessor Hammond, Sunak may be more sympathetic still to significantly increasing spending without increasing revenue. Higher spending would support economic growth, though surveys suggest growth should accelerate from 0% in Q4 2020 regardless. Significant changes to the Government's spending plans may require more time and delay the Budget, currently set for March 11th.

CORONAVIRUS

As the coronavirus crisis continues, a number of significant events in Asia face postponement or cancellation. In China, officials have asked people returning to cities at the end of the extended New Year holiday to "self-isolate" for a further 14 days before returning to work and the meeting of China's parliament may be delayed for the first time since 1995. In Japan, the Tokyo Marathon will only be open to elite runners in a bid to limit contagion risk, and the Emperor's birthday celebrations have been cancelled. With a growing number of cases, Japanese officials are wrestling to contain the virus and failure to do so may jeopardise the Olympic games, scheduled to take place in Tokyo in July. The impact of factory outages in China is causing concern for tech-manufacturing firms especially, with parts being express-shipped to factories in other regions to allow production to continue.

JAPAN ECONOMY

The Japanese economy shrank by -0.4% year-on-year in Q4 of 2019, a -6.3% fall on a quarter-on-quarter annualised basis, and a more pronounced slowdown than the market expected. The weakness was down to a number of typhoons, which disrupted industrial production, as well as a consumption tax increase, despite the government implementing measures to mitigate it. In addition, the impact of the US-China trade dispute appears to have weighed on consumer sentiment, limiting spending further, with Covid-19 making it likely that this weakness persists in Q1 of 2020.

US ECONOMY

US inflation strengthened to 2.5% year-on-year in January, with core inflation (excluding volatile food and energy prices) flat at 2.3%. While both readings are above the 2% inflation target, the Federal Reserve's (the Fed) preferred measure, the Personal Consumption Expenditure index, is likely still below target. If higher inflation is sustained, the Fed may decide to raise interest rates, consequently tightening liquidity globally. However, weak industrial production and slowing wage growth are likely to result in weaker economic growth in the next few quarters, though better sentiment on US-China trade may be supportive. Longer term, the November election outcome will be crucial in determining the path of growth and interest rates.

BOND YIELDS

The yield on Greece's 10-year bonds fell below 1% for the first time last week, despite the country's speculative-grade credit rating. Less than five years since Greece last defaulted, this illustrates the challenge investors face in seeking an income in an environment where an end to negative rates in Europe is not yet on the horizon. Sentiment towards Greek bonds was further boosted by European Central Bank President Lagarde's comments that Greek government bonds may be eligible for the asset purchase programme, subject to an investment grade credit rating from a major agency and other criteria. The fact that the European Stability Mechanism waived a mandatory repayment by Cyprus is a further sign of pragmatism.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.
UK	-0.6%			1.7%			-1.7%			6.6%		
US	0.7%	1.7%	-1.1%	6.2%	5.0%	1.3%	6.9%	5.1%	1.8%	22.8%	25.1%	-2.3%
Europe	-0.6%	1.4%	-2.0%	4.3%	5.4%	-1.0%	2.7%	4.5%	-1.9%	16.6%	23.7%	-7.1%
Japan	-2.6%	-1.6%	-1.0%	1.2%	1.3%	-0.1%	0.3%	-0.4%	0.7%	9.8%	10.8%	-1.1%
Asia ex Japan	0.6%	1.5%	-0.9%	5.8%	4.4%	1.4%	2.4%	1.8%	0.6%	8.8%	11.9%	-3.1%
EM	0.3%	1.2%	-0.9%	5.4%	4.0%	1.4%	1.0%	0.5%	0.5%	7.2%	10.6%	-3.3%

FIXED INTEREST AND CURRENCIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local

Corporate and Government Bonds

UK Gov	-0.3%	-0.9%	2.9%	8.2%
US Gov	0.0%	-0.3%	2.3%	8.9%
Europe Gov	-0.6%	-2.2%	-0.7%	5.3%
UK Index-Linked	-0.2%	0.1%	4.4%	8.5%
UK Corporate	-0.2%	-0.4%	2.6%	11.2%
UK High Yield	0.1%	0.3%	1.0%	12.0%

Currencies – Spot

USD – GBP	-1.2%	1.2%	1.6%	-1.9%
EUR – GBP	-2.2%	-1.2%	-1.9%	-5.9%
JPY – GBP	-1.2%	-0.1%	0.6%	-1.3%

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.64%
10 Year Treasuries	1.59%
10 Year Bunds	-0.39%

COMMODITIES

	1 WEEK	MTD	YTD	1 YEAR
	USD	USD	USD	USD
Energy				
Brent	5.2%	-1.4%	-13.2%	-11.2%
Precious Metals				
Gold	0.9%	-0.3%	4.4%	20.7%

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