Wealth Management
Weekly Market Update

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Market Update

Stock markets carried over into the New Year the volatile behaviour seen towards the end of 2018, as economic news continued to point to a slowing global economy. Figures showed that China's manufacturing sector contracted for the first time in 19 months in December, while Apple issued a revenue warning blaming a slowdown in sales in China. This announcement sent tech stocks lower on Thursday and saw heavy buying of safe haven assets such as the Japanese Yen. Perhaps in response to market concerns, the Fed Chairman Jerome Powell said that the Fed will be "patient" with interest rates, implying the possibility that it will be more dovish. This saw US stocks rally and close up +1.2% YTD in Sterling terms. Elsewhere Emerging Market, EU and UK equites returned +0.1%, +1.5% and +1.6% respectively. The rallying Yen dampened returns for Japanese stocks, which were down -1.5% in local terms, although flat in GBP. Sterling fell -0.2% vs the dollar to $1.27. UK 10Y yields were unchanged while US 10Y yields fell -1.7bps to 2.668%. Oil prices rose amid supply cuts, with Brent Crude prices surging +6.1% to $57.06 a barrel. Gold also rose by +0.3% to $1,286 an ounce.

UK Stocks	US Stocks	EU Stocks	Japan Stocks	World Stocks	EM Stocks	Gilts	GBP/USD
▲ +1.6%	▲ +1.2%	▲ +1.5%	▲ +0.0%	▲ +1.2%	▲ +0.1%	▲ +0.2%	▼ -0.2%

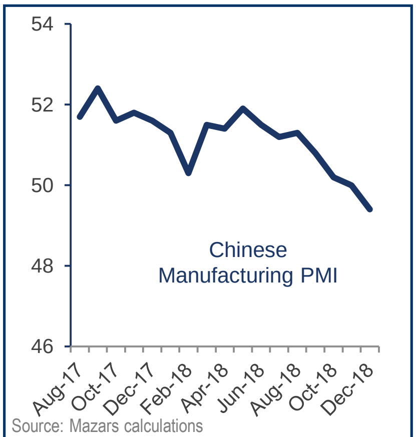
all returns in GBP

Macro News

- China manufacturing PMI dipped into contraction territory at 49.7. New orders component fell to below 50, reflecting falling demand in the manufacturing sector.
- Fed Chair Jerome Powell announced that the Fed is monitoring financial markets and will be "patient" with interest rates. Markets have taken this to mean that rate hikes are likely to slow in 2019.
- Eurozone Manufacturing PMI was down from 51.8 to 51.4 in December.
- US Manufacturing PMI was at a 15-month low in December at 53.5. However, US nonfarm payrolls increased by 312k in December, ahead of expectations for 176k. Also the disappointing November figure was revised up from 155k to 176k.

Week in Charts

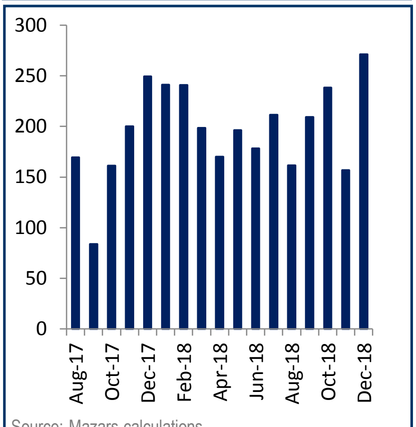
Fig.1: Chinese Manufacturing Data



Source: Mazars calculations

Concerns about Chinese growth have been rising in recent months. A slowdown in Chinese production is a further sign of a slowing economy.

Fig.2: Nonfarm payrolls



Source: Mazars calculations

US nonfarm payrolls increased by 312k in December. Job gains were broad based, occurring in health care, food services and drinking places, construction and manufacturing.

View From the Desk

Markets staged a rebound in the first days of the year, following a dismal quarter which saw US equities dip into bear market territory. While encouraging, the rebound doesn't change much of the underlying picture. US political gridlock is here to stay, trade wars are far from over and the global economic slowdown persists. The piece of news that made a difference was Fed Chair Powell's comment that the central bank will be "patient" with interest rate hikes. If, however, guidance remains for a March hike then volatility could continue. The high jobs number on Friday, while good for the economy, could perplex things for the Fed, which may have to grapple with wage inflation and a rebound in oil prices, against a backdrop of slowing manufacturing. What happens within the next few weeks will probably be very informative for the year. A sustained rebound solely on Fed dovishness could mean that markets retain their Pavlovian dependence on monetary policy signals. A rebound on no news could be an indicator that the December retrenchment was technical and algo driven. A drop in January would break the 10-year upward trend and signal the end of the cycle. And then there's Brexit, where January is likely be a crunch month for UK assets. At this point, we feel it's best that investors maintain a steady course, rather than make knee-jerk changes in a low-visibility and technically challenged environment.

David Baker, CIO