Wealth Management
Weekly Market Update

[Blog](#) - [Web](#) - [LinkedIn](#) - [Twitter](#)
[Publications/Factsheets](#)
[Contact Us](#)

Published 28 January 2019

Market Update

Equities were mostly up in local terms, however down in Sterling which again rallied on expectations for a delayed or soft Brexit. The Pound was up +2.6% vs the US Dollar, +2.2% vs the Euro and +2.4% vs the Yen. In Sterling terms global equities were down -2.1%. US equities saw the biggest negative return, down -2.4% (although down only -0.2% in local terms). UK equities were also down -2.3%. European, Emerging Market and Japanese equities lost -1.4%, -0.8% and -1.6% respectively. News was mixed as corporate earnings reports were generally solid, however there were reports from the World Economic Forum in Davos that business leaders are losing confidence due to Donald Trump's policies. That said a deal to temporarily reopen the US government was announced on Friday, although with the President insistent on a border wall another shutdown is likely. Globally yields were down, with Gilts returning +0.7% and global bonds +0.6% in local terms. In US Dollar terms Gold gained 1.7%, while Oil fell -0.6%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Probability of a Fed Rate Hike in 2019
▼ -2.3%	▼ -2.4%	▼ -1.4%	▼ -2.1%	▼ -0.8%	▲ +0.7%	▲ +2.6%	27.8% (fm 26.1%)

all returns in GBP

Macro News

- The ECB sees greater downside risks for the European economy and kept rates on hold last week, as markets expected. The ECB sees this weakness as temporary and still has economic expansion as its base case for 2019.
- Sterling rallied on the hope that the Brexit deadline would be extended, with the most likely outcome predicted by economists a later, softer Brexit; Goldman Sachs gives this a 50% probability.

The Week Ahead

- All eyes will be on the Fed this week as the committee discusses policy for the first time since the December volatility. Further use of the word "patient" will be a dovish sign to the markets that the Fed is fearful of a policy error. However with a $4trn balance sheet and rates still low, the Fed wants more policy ammunition for easing before this cycle ends.

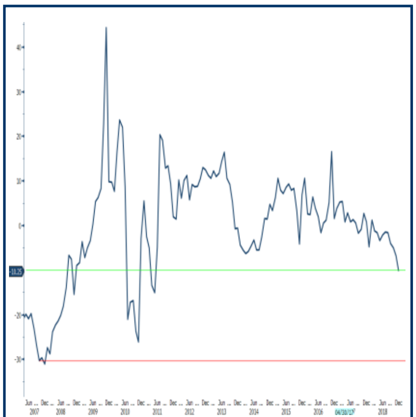
Week in Charts

Fig.1: US stock rebound continues

Source: Mazars calculations

US stocks continued to rebound in the first few days of the year on optimism that the Federal Reserve will follow a dovish policy.

Fig.2: US home sales down



Source: Mazars calculations

US Existing Home Sales fell 10.25% for the year to December, as higher interest rates, inventory shortages and cost pressures have dented the US housing market.

View From the Desk

Investors will be focusing on an important week for Brexit, as Theresa May is due to present an updated Brexit Bill in Parliament. With so much focus on the British side of things we may be missing the bigger picture: what the EU wants. Ostensibly, European leaders hold the principle of free movement sacred and will side with Ireland's demand not to compromise the island's integrity. However it's not necessarily principles that are at stake. By redefining the relationship with Britain, impediments to further Euro integration were removed. What EU leaders probably don't want to lose is the British contribution to the EU budget, which would mean a blanket curtailing of expenses of about 10%. Which is why things have come to a point where the UK either capitulates or risks economic disaster. Given that the current Parliamentary majority is predisposed towards a softer Brexit and Brussels holds most of the negotiating cards, the unilateral withdrawal of Article 50 becomes more enticing by the minute. Investors need to look at what the negotiations have become: a non-cooperative zero-sum game with the EU betting that it has less to lose than the UK. This leaves Britain with three choices. No deal and enormous economic and political risk, a fudge with an uncertain outcome, or capitulation. In an era of identity politics the outcome remains uncertain, so we avoid making investment assumptions on the outcome.

David Baker, CIO