Wealth Management
Weekly Market Update

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Market Update

Last week was a great week for markets with both real and financial assets posting positive returns. Equities were up in Sterling terms with UK stocks, the best performers of the week up +3.1%. Global stocks returned +2.1% and US stocks returned +2.3%; the S&P 500 is now testing key technical levels. The Pound was down -0.9% vs the US Dollar, -1.3% vs the Euro and -0.9% vs the Yen. European, Emerging Market and Japanese equities gained +1.5%, +2.4% and +0.8% respectively in Sterling terms. The Fed confirmed its Dovish stance opting to continue its 'patient' approach to rate hikes given low inflation numbers. This may be called into question as the strong employment figures could push wage growth higher, but low oil prices could just be enough to hold off an inflation pick up for now. Bond yields were down across the board, with Gilts returning +0.5% and global bonds +1.1% in Sterling terms. In US Dollar terms, Gold continued to perform gaining +1.1%, while Oil gained +3.3% after the US imposed sanctions on Venezuela which pushed supply lower, outweighing the effects of weaker global growth projections.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Probability of a Fed Rate Hike in 2019
▲ +3.1%	▲ +2.3%	▲ +1.5%	▲ +2.1%	▲ +2.4%	▲ +0.7%	▼ -0.9%	2.7% (prev. 27.8%)

all returns in GBP

Macro News

- Italy entered a technical recession last week having reported two quarters of negative economic growth. Countries across Europe are reporting weaker data.
- Non-farm payrolls rose by 304,000 in the US over the January period, exceeding expectations given the government shutdown.
- Unemployment hit 4% in the US reaching a level not seen since June 2018.
- The UK construction PMI recorded the lowest level in 10 months down from 52.8 in December to 50.6 in January as Brexit uncertainty hurts growth expectations.

The Week Ahead

- The BoE monetary policy committee will meet on Thursday this week to make any interest rate changes in light of recent economic developments. The Bank rate is widely expected to be left unchanged at 0.75%. Of greater interest to the markets will be the BoE's comments on inflation and the current Brexit situation and what it means for economic growth.

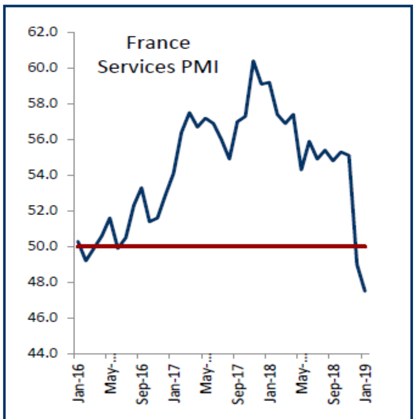
Week in Charts

Fig.1: Weaker UK House Prices

Source: Mazars calculations

UK house price growth falls to multi-year lows as Brexit uncertainty weighs heavily on the economy.

Fig.2: French PMIs continue to fall



Source: Mazars calculations

French Services PMI continues to fall and is now deep into contractionary territory.

View From the Desk

Fiscal policy has had its day, following the significant tax cut in the US last year, and now it is time to return to the central theme of this cycle, monetary policy. Stock markets continued to outperform last week, on the back of a dovish Fed meeting and was further buoyed by another good earnings season in the US.

One thing that is clear after recent monetary policy decisions is…

Raising interest rates is, and will remain, a very difficult decision. The current levels of debt held by corporates and governments make high long term interest rates simply not sustainable. The Federal Reserve planned and executed nine rate hikes, about half of which during 2018, a year of significant fiscal stimulus. Despite the positive effect on earnings, the US market focused on the central bank's newfound hawkishness and delivered the first negative year since 2008. A high yield on US Treasuries may be helping pension funds and other long term investors, but it augments a debt burden in an economy with 105% Debt to GDP and close to a 5% projected deficit. In a world laden with debt, high interest rates are not a viable long term option as more and more of government and corporate revenues are spent servicing debt, rather than investing in projects with future economic benefits.

David Baker, CIO

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