Wealth Management
Weekly Market Update

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Published 11 February 2019

Market Update

It was a mixed week for equities, with US stocks ending the week up +1.3%, despite President Trump ruling out a meeting with President Xi before March 1 to strike a trade deal and put trade concerns to rest. It was also a positive week for UK and global stocks, both up +0.7% and +0.8% respectively. European, Emerging Market and Japanese equities were down -0.8%, -0.2% and -0.6% respectively in Sterling terms. The Pound was down -1.0% vs the US Dollar as uncertainty about Brexit continues to weigh on the currency. The Bank of England this week signalled UK interest rates would remain on hold given concerns the UK economy was weakening in the process of leaving the EU. Bond yields were down, with Gilts returning +0.9% and Global Bonds returning +0.8% in local terms. Gold closed last week at $1312 per ounce, down -0.2% in USD terms, while Oil was down -4.6% amid concerns of Libya boosting production and the outlook for global growth given ongoing US-China trade issues.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Probability of a Fed Rate Hike in 2019
▲ +0.7%	▲ +1.3%	▼ -0.8%	▲ +0.8%	▼ -0.2%	▲ +0.9%	▼ -1.0%	< 0.1% (prev. 2.7%)

all returns in GBP

Macro News

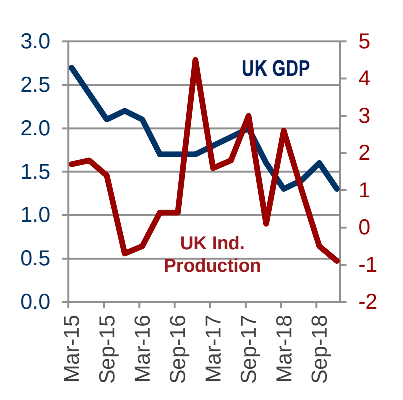
- The Band of England kept interest rates at 0.75% last Thursday, but downgraded economic growth projections to the lowest level in a decade. GDP growth expectations were cut to 1.2% for 2019. The main reason for the cut is the Brexit uncertainty.
- The FCA put property funds on watch as outflows hit recent highs. The main concern is that mass withdrawals from retail investors could lead to a "liquidity" crunch. The UK regulator has been monitoring flows closely since the 2016 Brexit referendum.

The Week Ahead

- The US inflation rate for January will be released this Wednesday. Last month the figure came in at 1.9%, giving the Fed the flexibility to hold off on future rate hikes; this Dovish rhetoric led to equities posting significant gains. However, with unemployment near historic lows and crude oil prices higher over the month, an inflation beat is a possibility and could put the Fed in a tough position.

Week in Charts

Fig.1: UK GDP slowing



Source: ONS

UK GDP slowed to 1.3% YoY, and is estimated to have dropped -0.4% in December.

Fig.2: European pressures mount

Source: Mazars calculations

German manufacturing orders declined to -7% in December from -3.4%, as a slowing China continues to affect exporters.

View From the Desk

The confluence of risks continues into 2019, as another storm of a manifest Chinese slowdown, populist policies and a mature cycle festers on the horizon. This is where it remains however, as long as the Fed maintains it current - relatively dovish - stance. Thursday's action where the stock market fell after news of another breakdown in Chinese-American relations, only for investors to buy the dip again, leads us to an all-too-familiar pattern for this cycle: an abundance of fears and yet a bullish stock market. And for all the talk about politics, policies or even the economy, it is wise for investors to remember that their exposure lies in stocks and bonds. Will this pattern break for risk assets? It may only under either of two conditions. Firstly, a situation emerges of such seriousness that it cannot be solved by uber-accommodative policies. What may it look like? A dissolution of the Euro, a disorderly Brexit or a complete breakdown of the Chinese economy are prime candidates. Secondly, that an economic recession becomes so pronounced that central banks creating wealth out of thin air fails to solve it. We remain vigilant of these risks, but as long as the Fed is dovish, we wouldn't raise any flags for investors. ***David Baker, CIO***