Wealth Management Weekly Market Update

Blog - Web - LinkedIn - Twitter

Publications/Factsheets

Contact Us

Published 18 February 2019

Market Update

It was an excellent week for equity investors, with most major indices posting gains. US stocks closed the week up +3.0% in Sterling terms, despite poor retail sales figures. The impressive returns were evenly spread, with UK, European and Japanese equities returning +2.6%, +3.3% and +2.2% respectively. Emerging Markets were the outlier, down -0.5% in local terms and flat in Sterling terms. However in Monday's trading Chinese equities were up +2.7% on news that trade talks between the US and China are set to continue in Washington this week, following high-level meetings in Beijing previously. The Pound was down -0.4% vs the US Dollar and -0.2% vs the Euro. Bonds were mostly flat over the week, apart from Emerging Market bonds which fell -0.5%. Gold closed the week up +0.5% in USD terms and Oil rallied significantly, up 5.4%, and is now trading at a 3-month high. Global oil supply has remained low and high prices could feed into greater inflationary pressures.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Probability of a Fed Rate Hike in 2019
▲ +2.6%	▲ +3.0%	▲ +3.3%	▲ +2.8%	▶ 0.0 %	▼ -0.2%	▼ -0.4%	6.5% (prev. <0.1%)

all returns in GBP

Macro News

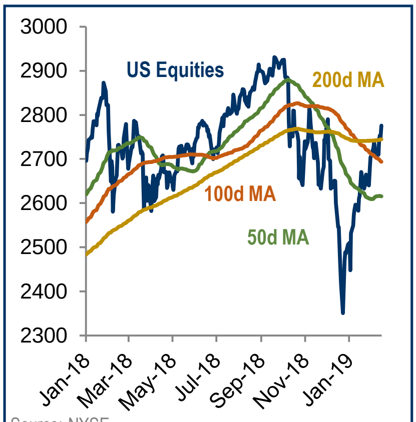
- The Reserve Bank of India cut its key interest rate by 25bps to 6.25%, citing slowing economic growth and sharply lower inflation. The MPC also changed its monetary policy stance to "neutral" from the previous outlook of "calibrated tightening," suggesting there is room for future interest rate cuts.
- UK retail sales were up +3.6% year-on-year in January up from 2.6% in December, with a high amount of spending recorded on clothing in particular.
- US manufacturing output fell steeply in January, down -0.9%, the biggest drop in eight months. Production of motor vehicles dropped -8.8%, the largest decline since the global financial crisis.

The Week Ahead

- The UK unemployment rate will be released on Tuesday. The November figure was 4.0% in November 2018, its lowest level since the early 1970s. Persistently low unemployment should in theory put upward pressure on wage growth, adding to inflation pressures which have remained muted so far in this economic cycle.

Week in Charts

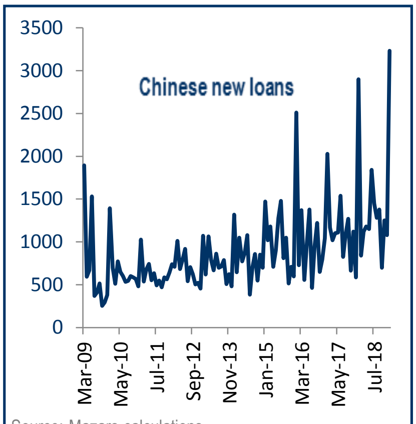
Fig.1: US stock rebound continues



Source: NYSE

US stocks rose above all major moving averages for the first time since the market sell-off, which started in October of last year.

Fig.2: Chinese credit soars



Source: Mazars calculations

Chinese new loans have grown substantially, despite a significant fall in shadow bank lending, suggesting China is attempting to stimulate its economy.

View From the Desk

Last week's highlight was the especially weak US retail sales report. This is for two reasons. One, it is the first major index to indicate some government shutdown-related pain. Two, the market shrugged it off very quickly, which brings us to the crux of the matter. The Fed's newfound dovishness makes market dips a buying opportunity for traders. Despite the news, as well as a host of data indicating a global economic slowdown, US large caps pushed above the 200 day moving average for the first time in more than two months. This cycle has been marked by Fed conditioning of financial assets. Will we reach a point where financial assets will no longer respond to economic fundamentals? History suggests that this can happen over the shorter term. However over the longer term it is still prudent for investors to ignore trading action and watch earnings and economic trends as a bellwether for investment decisions. Overvaluation is not simply a matter of the P/E ratio for the next 12 months.

David Baker, CIO