Wealth Management Weekly Market Update

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Market Update

Equities were on the whole positive in local terms last week, however strong Sterling performance meant that performance for non-UK stocks was mixed for UK investors. The Pound rallied 1.3% vs the US Dollar and 0.9% vs the Euro on a steady flow of news suggesting that recent negotiations could deliver a Brexit deal for which Theresa May can secure a parliamentary majority. Emerging Markets saw the biggest gains in part due to optimism of a trade deal between the US and China, gaining +2.8% in local terms and +1.2% in GBP. Markets seem to have come to the conclusion that both Xi Jinping and Donald Trump are keen to be able to present a trade deal as a form of victory, with Chinese shares up around 6% this morning, although the positive sentiment could quickly change given Donald Trump's tendency to react to conservative criticism. Japanese equities were the next best performer, up +0.5% in Sterling terms. European stocks were down -0.1%, UK stock fell -0.5%, not helped by Sterling strength, while US equities fell -0.9%. UK 10Y Gilt yields were almost flat, although US 10Y Treasury yields fell -1.1bps. In USD terms Gold gained +0.5% and Oil gained +2.7%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Probability of a Fed Rate Hike in 2019
▼ -0.5%	▼ -0.9%	▼ -0.1%	▼ -0.5%	▲ +1.2 %	▲ +0.1%	▲ +1.3%	3.6% (prev. 6.5%)

all returns in GBP

Macro News

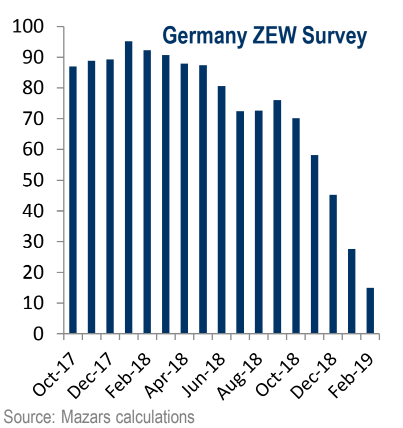
- The German ZEW survey recorded a value of 15, down from 27.6, indicating a rapid slowdown and deterioration of the German economy since January 2018 when the index hit a high of nearly 100. The reading was the lowest since January 2015 and the main underlying causes are fears concerning Brexit and weaker global trade.
- UK Weekly Earnings ex Bonus 3m/YoY came in at 3.4%, showing strong wage growth for UK workers, potentially putting upwards pressure on inflation.
- San Francisco Fed President Mary Daly commented on US inflation last week, highlighting that inflation has been below target for a long time and how it is important to be vigilant to both the upside and the downside.

The Week Ahead

- The UK Nationwide Housing Prices Index will be released on Thursday. UK annual house prices growth slowed to +0.1% in January, down from +0.5% in December. Analyst consensus for February is +0.4% YoY and 0% MoM.

Week in Charts

Fig.1: Germany ZEW Survey



Source: Mazars calculations

The German ZEW survey posted another weak figure as economic conditions across Europe continue to deteriorate.

Fig.2: UK Earnings ex Bonus YoY

Source: Mazars calculations

UK wages continued to grow in February, which could add to inflationary pressures.

View From the Desk

The Chinese-US showdown is drawing to a close, as both sides agreed to tackle some of the easier subjects, while avoiding issues like technology transfers and intellectual property rights. If the deal is finalised over the next few days, investors should be prepared for a new focus on Europe as the US President will want to declare a 'victory' over China and move on.

European economies are already facing a litany of problems. Germany has already stalled as a general global trade slowdown is on the way. The continent's asset-heavy companies are likely to be significantly more impacted than service sector firms. In France, momentum for reform is drowning in a sea of 'yellow vests'. Meanwhile, corporate profitability is slowing across the board, Italian populists are putting further strains on the Euro and the Brexit deadline looms.

Enter a triumphant Mr. Trump who is likely to want to repeat his 'victory' over China, against a much more malleable opponent. In Trump's world view, all trade partners are opponents and an opponent needs to be pressed on weakness. Yes, opposition back home for a trade war with Europe will be higher, but 51% of Republicans still think European companies are taking advantage of the US. Attacking cars and the steel industry will put additional pressure on Germany. Europe is certainly weak right now. The question for investors is not what this could do to European company valuations, but whether it will drive Europe into outright recession and further endanger the already dithering common currency?

David Baker, CIO

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