Wealth Management
Weekly Market Update

Blog - Web - LinkedIn - Twitter
Publications/Factsheets
Contact Us

Published 11 March 2019

Market Update

Sterling reversed the previous week's gains, falling -1.4% vs the US Dollar and -0.3% vs the Euro, with few signs that negotiations between the EU and the UK are likely to yield an agreement on the future of the Irish border. There was also weak performance in equities, with US stocks falling each day as news of poor construction data, the ECB cutting growth forecasts and a surprisingly low nonfarm payrolls figure (20k jobs) put persistent pressure on share prices. Global equity returns for UK investors were improved by the falling Pound, however still down -0.7% for US equities, -0.6% for European equites and -0.5% for Emerging Market equities. UK large-caps gained +0.2%, benefitting from the fall in Sterling. In a clear sign of a risk-off environment, bond yields fell globally, with UK 10Y Gilt yields down 10.7bps, with Gilts returning +1.1%, and US 10Y Treasury yields down 12.5bps. Gold performed well given the risk-off environment, up 0.4% in USD terms. Despite a relatively volatile week, which saw energy companies sell-off, Oil gained +0.5% for the week. Given weakening global economic data markets are now pricing in a 0% likelihood of a Fed hike this year and 16% chance of a rate cut.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Probability of a Fed Rate Hike in 2019
▲ +0.2%	▼ -0.7%	▼ -0.6%	▼ -0.4%	▼ -0.5 %	▲ +1.1%	▼ -1.4%	0% (prev. 7.8%)

all returns in GBP

Macro News

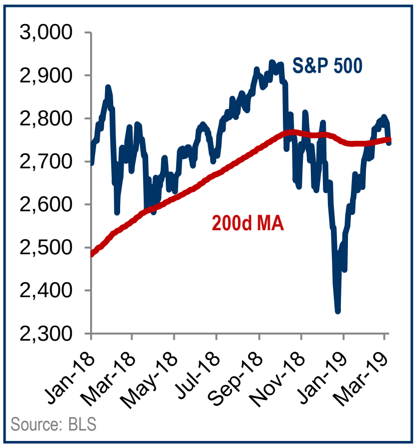
- Global Manufacturing PMI was down from 50.8 to 50.6 in February, indicating a continued slowdown in global trade as exporters showed further weakness. Japanese Manufacturing PMI fell below 50 for the first time since August 2016, however this was partially offset by a recovery in Chinese manufacturing data.
- US nonfarm payrolls came in at just 20k in February, a steep decline from the previous figure in January.
- The ECB maintained interest rates and extended the TLTRO programme for struggling European companies. However they also cut Eurozone growth forecasts sharply for 2019, from 1.7% down to 1.1%.

The Week Ahead

- The US University of Michigan Sentiment Index will be released on Friday and will provide information on the current optimism level, and thus likely future spending behaviour, of the US consumer; a core driver of the US economy.

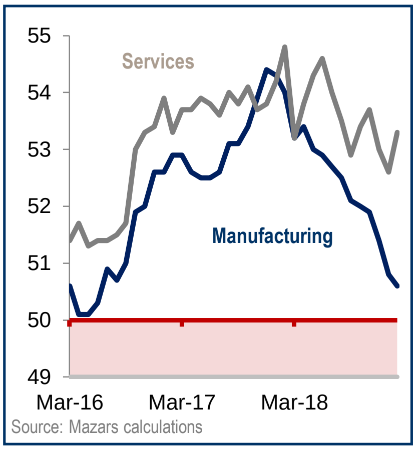
Week in Charts

Fig.1: US rebound done?



The S&P 500 levels have hit critical levels, with markets now in search of new catalysts.

Fig.2: Global Manufacturing down



Japanese and German manufacturing PMIs suggest contraction, with a global trade slowdown particularly hurting exporters.

View From the Desk

Last week both the OECD and the ECB cut growth forecasts. The week was about the inability of markets to hold key technical levels (the S&P was down all five days), despite central bank dovishness. While it is true that markets are worried about the economy, with central bank dovishness only exacerbating those worries, we would be hard pressed to observe a consistent period in the last cycle where the economic climate was more important to traders than monetary policy. The slowing global economy might fit the current market narrative, but that would mean that the markets have ignored a lot of data, such as improving global service PMIs, and US and EU industrial production, which buck the trend of growth deceleration. We feel that it is more likely that after a strong January and a decent earnings season, the market may be consolidating levels until the next catalyst comes along.

This week, conversely, will probably be mostly about Brexit. Although at this point an extension (towards what end?) might look very probable, we are at the stroke before midnight with no resolution at hand. Predictions are off the table and investors should not rule out a Hard Brexit, even though we still believe the scenario garners less than 10% probability.

David Baker, CIO