Wealth Management Weekly Market Update

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Market Update

Global financial markets are starting to hint at an impending recession, with Japanese equities down over 3% in Monday's trading, with other Asian stock markets also down markedly. Further, the US yield curve has inverted and last week 10Y Bund yields fell back into negative territory, although over the week UK and US 10Y yields fell further, down -19.7 and -14.8 bps respectively. Equity returns to the end of last week in Sterling terms are a bit of a mixed picture, with European, UK and US equities down -1.1%, -0.2% and -0.1% respectively. Japanese and Emerging Market equities finished the week up +2.9% and +0.9% respectively, however closed before markets in the US started pricing in the poor economic outlook. Sterling fell -0.6% vs the US Dollar and -0.4% vs the Euro last week. Events are moving quickly on Brexit but whether the UK leaves the UK with or without a deal is far from clear, weighing on the currency. In the commodities space Gold gained +0.9% and Oil gained +0.7%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Probability of a Fed Rate Cut in 2019
▼ -0.2%	▼ -0.1%	▼ -1.1%	▼ -0.2%	▲ +0.9 %	▲ +2.6%	▼ -0.6%	58.4% (prev. 32.3%)

all returns in GBP

Macro News

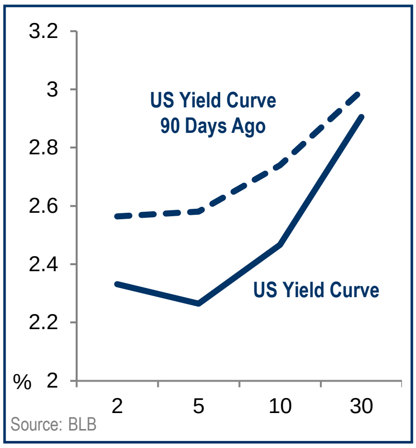
- The Federal Reserve maintained its interest rate target of 2.25% -2.5% at the latest FOMC meeting. The Fed also cut its outlook for US interest rate rises to only 1 further rise in 2020 and laid out plans to stop trimming its balance sheet.
- UK unemployment fell from 4% to a new low of 3.9% in the three months to January. According to the latest figures from the Office for National Statistics, the unemployment rate has fallen to its lowest level in over 44 years.
- The EU agreed to extend next week's Brexit deadline until at least April 12, postponing worries that the UK will split from the EU without a formal agreement.

The Week Ahead

- The United States PCE Inflation will be released on Thursday. With the Fed indicating a 'patient' stance last week with regards to further interest rate hikes, inflation expectations have lowered. The PCE index previously increased +0.1% MoM in December.

Week in Charts

Fig.1: US Yield Curve Inversion



The US Yield Curve inverted last Friday, sending stocks down across global markets.

Fig.2: UK House Prices Down

The UK Rightmove House Price index was negative for the second time since 2011, a further sign of weakness in the UK housing market.

View From the Desk

Brexit is the perfect storm, the confluence of chronic EU design flaws, British exceptionalism, identity politics, economic inequalities and asset misallocation following the 2008 global financial crisis, the opaque commercialisation of social media and growing geopolitical imbalances. It means so many different things to so many people, it is impossible to deliver on its inflated promises. A reversal of the 2016 referendum, conversely, threatens to confirm the suspicion of many that in a modern globalised environment their opinions, and they themselves, remain invisible, forever ostracising them from the body politic. The choice in the referendum was the same as today: Regulatory and trade consensus handcuffs on competitiveness, or the uncertainties of sailing into the unknown? What is the answer markets and investors are looking for? It is not a Brexit deal or to Remain, but rather clarification on "who is at the helm and what is their plan"? The latter has been in question over the past three years. Reading the weekend press, we get a feeling that the former could also become a source of uncertainty. And this is the essence of investing in British risk assets for the past thousand days: are investors compensated for uncertainty? At current values the are likely compensated for some uncertainty, but not necessarily for the uncertainty of crashing out from the most comprehensive treaty the world has ever seen. And while trying to square the Brexit circle, portfolio managers must not take their eye off the precipitous slowdown of Europe, the risk-off implications as well as the downside risks of uber-dovish central banks, China's tumultuous economic transition and Washington's political gridlock anew. Brexit is a mess and it is not even a top three risk for diversified portfolios. Forecasting the future is impossible. Investors just need to make sure they know their risks and that they are rewarded enough for taking them.

David Baker, CIO