

Published 8 July 2019

Market Update



US equities hit record highs last week as data on Wednesday showed the US trade deficit rose to a five-month high while services sector data showed a slowdown in activity, increasing hopes that the Fed would turn more dovish. These hopes were curtailed on Friday as nonfarm payrolls showed that the economy added 224,000 jobs in June, comfortably beating expectations of just 160,000. US equities were the best performers in Sterling terms over the week, up +3.2%. UK, European and Emerging Market equities were up +1.7%, +1.6% and +2.1% respectively. Sterling remained muted, with the GBP/USD exchange rate falling to a six-month low, down -1.4%. Oil was down -1.0% in US Dollar terms, while Gold was down -1.6% at \$1,392.79 an ounce.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Probability of a Fed Rate Cut in 2019
▲ +1.7%	▲ +3.2%	▲ +1.6%	▲ +2.8%	▲ +2.1%	▲ +1.2%	▼ -1.4%	100% (prev. 100%) <i>all returns in GBP</i>

Macro News



- The US economy added 224,000 jobs in June, comfortably beating expectations of 160,000 and May's figure of 72,000. Notable job gains occurred in professional and business services, in health care, and in transportation and warehousing.
- US manufacturing PMI for June was 50.6, broadly in line with 50.5 in May, signalling only marginal improvement in the manufacturing sector. June's reading was the second-lowest figure since September 2009.
- Japan manufacturing PMI fell to 49.3 in June, down from 49.8 in May. June's reading was below the crucial 50.0 no-change threshold for the second consecutive month. The latest reading signalled a marginal deterioration in manufacturing sector business conditions and was the lowest since March.

The Week Ahead

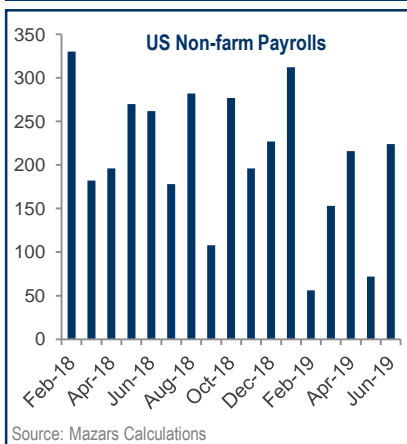


- This Thursday US CPI inflation for June will be released. Economists are estimating a figure of 1.6% for June, down from May's figure of 1.8%.

Week in Charts



Fig.1: USA posts strong job numbers



US non-farm payrolls released on Friday were 224k in June, beating market expectations of 160k.

Fig.2: Gold price



The Gold price continues to fluctuate amid strong economic data but increasing expectations of Fed dovishness.

View From the Desk



When is good news bad news? Surprisingly often if you are an equity investor in recent years. On Friday US nonfarm payrolls were 224k, ahead of consensus for 160k. Strong labour markets are generally a sign of a strong economy and overall confidence – companies generally look to hire when they believe that they will be able to generate revenue from workers' labour. However US equity markets were down -0.2% on Friday. We shouldn't read too much into this number as there was no trading on Thursday due to Independence Day celebrations, however it clearly wasn't a catalyst for markets to move higher. Why is this? The Federal Reserve has hinted strongly that it will cut rates in June and markets are expecting more at subsequent meetings, with as many as three rate cuts expected this year. However a stronger economy, which could push inflation higher, may give the Fed pause for thought. Due to discounting mechanisms in valuation calculations and lower costs of interest on borrowing, many equity sectors tend to see stronger performance when interest rates/yields are lower – the main exception are banks which can earn more interest when rates are higher. It is always important to keep in mind when purchasing equities that it is companies we are investing in, and not the economy as a whole.

Investment Team

Important information

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