Wealth Management
Weekly Market Update

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Market Update

U.S. stocks declined modestly last week, after a sharp rally at year-end and a new record high on the first trading day of the year, as tensions rose between the US and Iran following an airstrike in Iraq that killed a prominent Iranian general. US equities were down -0.1% for the week, while both European and UK stocks were down -0.3% on news of weak manufacturing data in December. The UK manufacturing sector worsened in 2019, with the sharpest deterioration in output in more than seven years, as political uncertainty weighed on orders. The best performing region over the period was Emerging Markets, which were up +0.5% for the week after optimism about a pending US-China trade deal supported sentiment. President Trump tweeted that he would sign a phase one trade deal at the White House on January 15. The People's Bank of China also cut its reserve requirement ratio by half-point, injecting nearly $115 billion into the Chinese economy. Both UK and US 10Y yields were down across the week, closing the period at 0.740% and 1.792% respectively. Post the airstrike on Iran, a jump in oil and gold prices appeared to be the most immediate result. In US Dollar terms gold was up +2.8% at $1,552 per ounce last week, and the oil price climbed +2.2%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Probability of Fed rate cut in 2020
▼ -0.3%	▼ -0.1%	▼ -0.3%	▶ 0.0%	▲ +0.5%	▲ +0.4%	▶ 0.0%	65.3%

all returns in GBP

Macro News

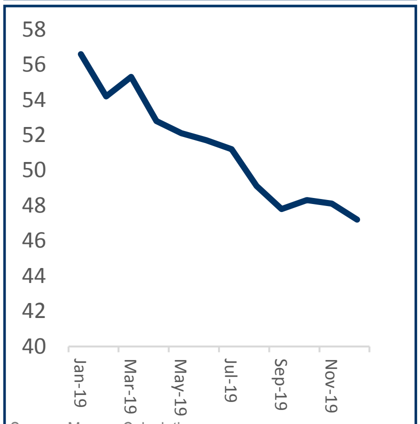
- An airstrike by the United States killed Qasem Soleimani, an Iranian Major General. The killing has heightened security concerns in the region, with Trump threatening 52 targets if Iran chooses to retaliate. Boris Johnson and Emmanuel Macron have lead European calls to de-escalate the tensions. Brent crude oil has surged past $70 on recent events, with yields falling as investors adapt a more risk-off approach.
- European manufacturing ended the year in a poor state of health. Manufacturing PMIs deteriorated in December, with accelerated falls in output and new orders. The Eurozone figure was revised slightly upwards from the flash reading, but is the eleventh successive month of contraction.

The Week Ahead

- German factory orders are expected to rise at a modest 0.1%, which would signal a return to expansion from the contraction of -0.4% in the previous reading. Due to ongoing trade tensions, and with German manufacturing being export-oriented, this indicator is likely to remain weak in the coming months.

Week in Charts

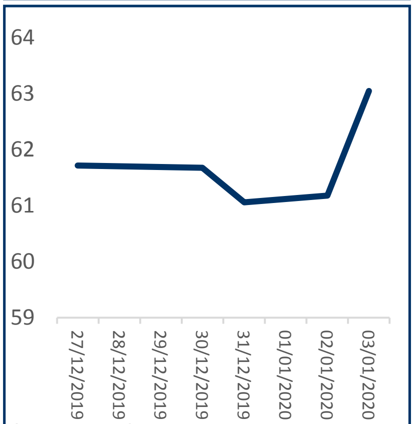
Fig 1: US ISM Manufacturing PMI



Source: Mazars Calculations

US ISM Manufacturing fell to 43.2, reaching an 11-year low. Driving the weak headline figure was poor new orders (46.8) and employment (45.1) sub-indices. Global trade tensions remain the key drag on the manufacturing sector, and could hamstring growth in 2020.

Fig 2: WTI Crude Oil



Source: Mazars Calculations

WTI Oil rose to $63.85 dollars a barrel after the death of Qasem Soleimani which has threatened to destabilise many oil producing nations in the Middle East. Iraq, OPEC's second largest producer, has voted to expel foreign troops.

View From the Desk

The year started with a match in the Middle East powder keg. The killing of a top Iranian general in Iraq by US forces sent chills across markets and oil prices spiked last week. Soleimani's death may prove an important moment, it fuelled Shia resentment of US forces in Iraq, with local parliament attempting to delegitimise their presence, further driving Iraq into the embrace of Iran. Iranian leaders have seized the opportunity to restart uranium enrichment. For Mr. Trump it might also be an internal win, showing military strength during an election year, and he has possibly dodged a "Jimmy Carter" or a "Benghazi" moment. The effect on risk assets should be minimal, unless matters escalate dramatically. Whilst oil prices spiked they are still beneath last April's levels. West Texas Crude at $65 may stoke some short term inflation (central banks tend to ignore oil prices when considering inflation), but at current CPI levels this is not a threat to central bank accommodation. Knee-jerk reactions to Middle Eastern tensions date back to the 1970s, when an oil embargo which exacerbated economic pressures was blamed for runaway inflation. Why is now different? Saudi Arabia, the world's largest oil producer, drove oil prices up in the 1970s. Today, Sunni Saudi Royals are best served with stable oil prices. Iranian production has already been discounted away by renewed US sanctions. Loss of Iraqi oil could put upward pressure on prices, but Saudis could always balance this by turning on the taps. Shale gas is another key difference, the US is now a net energy exporter. Unless we see meaningful escalation from today, we will treat this as a low risk event for asset allocation.

David Baker, CIO

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