Wealth Management
Weekly Market Update

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Market Update

Risk assets gained last week on the signing of the 'phase 1' trade deal between the US and China. Global stocks were up +1.9% in Sterling terms and +1.6% in local terms, reaching greater all-time highs. Returns for Sterling investors were pushed higher as the Pound fell on raised expectations of a BoE "Brexit eve" rate cut; this was driven by muted inflation and weak retail sales figures for the last quarter. US stocks saw the largest gain, up +2.3% with Housebuilders and Utility stocks leading the index higher, Energy stocks lagged the index and fell over the week. Japan posted the weakest equity performance of the major markets, where economic data out from the manufacturing sector continues to disappoint investors, with Japanese growth prospects still unfavourable. The change in monetary policy expectations saw gilt yields fall, with the UK 10Y yield closing the week at 0.632%. US 10Y yields were flat for the week, while German 10Y yields fell -1.6bps. Oil and gold were down -0.8% and -0.3% in US dollars terms respectively.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Probability of Fed rate cut in 2020
▲ +1.2%	▲ +2.3%	▲ +1.4%	▲ +1.9%	▲ +1.5%	▲ +1.3%	▼ -0.4%	57.3%

all returns in GBP

Macro News

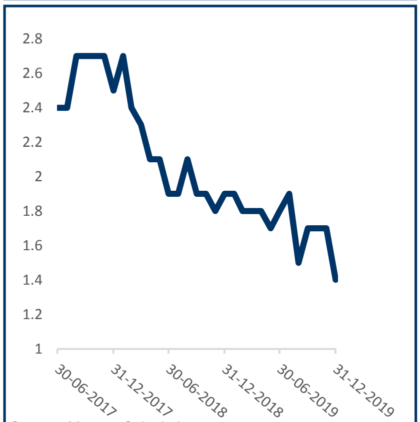
- US & China signed the 'phase 1' trade deal last Wednesday, with the main focus being on steps to reduce the bilateral U.S. deficit with China. U.S. tariffs of 25% on $250 billion worth of Chinese goods put in place earlier will remain unchanged. These could be rolled back as part of a Phase 2 trade negotiation U.S. Treasury Secretary Steven Mnuchin said on Wednesday. The United States will cut in half the tariff rate it imposed on September 1 on a $120 billion list of Chinese goods, to 7.5%.
- Manufacturers in Japan remain glum in their forecast of business prospects. A monthly survey done by Reuters, the Tankan survey, recorded manufactures' sentiment at -6.
- UK retail sales fell in -0.6% MoM in December and UK inflation fell to a three-year low with the CPI figure coming in at 1.5%; below the target of 2% set by the BoE.

The Week Ahead

- We should have a greater understanding of the short term growth prospects for Europe this week with a range of data and speeches set to be released. The ZEW survey, German inflation figures and Lagarde's speech should all help to triangulate the current economic prospects of the region, in particular, with regards to the manufacturing sector.

Week in Charts

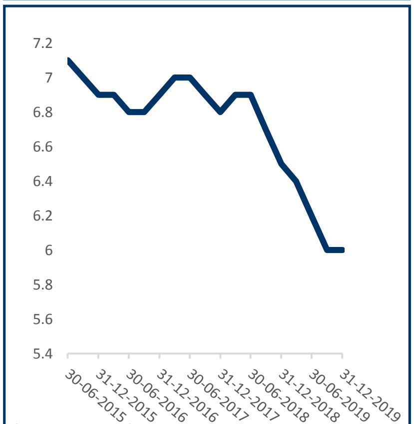
Fig 1: UK inflation



Source: Mazars Calculations

UK CPI continues to fall, with the headline figure still below the main BoE target of 2%. This has prompted investors to buy gilts on greater expectations of an interest rate cut.

Fig 2: China GDP growth



Source: Mazars Calculations

Chinese GDP continues to fall amid a general economic slowdown and trade tensions, however, with the "phase one" deal providing markets some short term certainty global trade volumes may pick up in the near future.

View From the Desk

Last week saw the signing of a "phase 1" economic deal between the US and China, good economic data out of the US housing market and Chinese GDP, as well a positive start to the earnings period, with 72% of S&P 500 companies reporting beating expectations.

Additionally, the Bank of England has fuelled speculation over a rate cut in its January 30 meeting. These news items are certainly positive catalysts, but it is important for investors to remember that that the ongoing rally for risk assets is really underpinned by the very strong tailwind of consistent volatility repression by central banks. This is good in the sense that bad news, like another -not wholly improbable- twist in the US-China trade saga or possible worse numbers from US housing or consumption may be shaken off by investors. What may not be readily ignored by investors, however, is a further 1% decline in earnings (despite beating lowered expectations), which, coupled with strong equity momentum, could further push valuations higher, maybe even capping the equity rally.

As for UK investors, a probable rate reduction is good news, especially for floating mortgages, but it is also a stark reminder that the economic growth remains fragile.

David Baker, CIO