Wealth Management
Weekly Market Update

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Market Update

Equities closed the week lower as an outbreak of the coronavirus in China made global headlines. Global stocks fell -0.8% in local terms, which translated into -1.2% in Sterling terms. UK markets fell -1.2% with Financials and Energy the worst performers. Oil has been particularly affected by market fears, falling -7.9% in US Dollar terms. US stocks fell -1.4% in Sterling terms, down -1.0% in US Dollar terms. Housebuilders and Utilities were the strongest performing sectors, with Utilities supported by the fall in yields at the longer end of the curve. Japanese equities fell -0.3% in local terms, but ended the week flat in Sterling terms as Yen gained +0.4% against Sterling as part of the risk-off environment. Emerging Markets saw the largest equity falls, with Asia at the centre of the viral outbreak, with stocks down -2.8% in Sterling terms. Sterling rose against both the Dollar and the Euro, buoyed by a better than expected post election pick-up in UK economic data. Bond yields fell across the week with the UK 10Y down -6.9bps but larger falls of -13.8bps and -12.0bps in US and German 10Y yields respectively. The risk-off environment saw Gold rise +0.5% in US Dollar terms.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Probability of Fed rate cut in 2020
▼ -1.2%	▼ -1.4%	▼ -1.2%	▼ -1.2%	▼ -2.8%	▲ +1.1%	▲ +0.4%	77.4%

all returns in GBP

Macro News

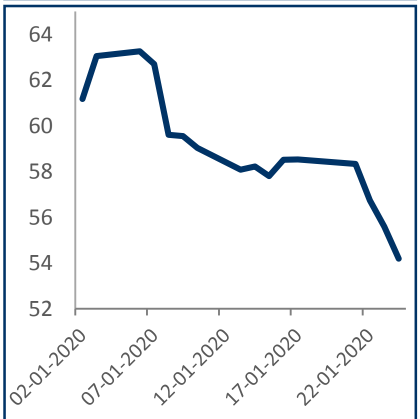
- The European Central Bank left interest rates unchanged and revealed that they will not be increased until inflation improves. The ECB's new chair, Christine Lagarde, did announce the start of the first wholesale review of the bank's policies – including its inflation target – since 2003. If the central bank's current target of 2% changes, so will investors' expectations of future Eurozone growth and the value of the bloc's currency.
- Japan's exports fell -6.3% YoY, extending the longest stretch of monthly contractions since 2016. The Japanese economy continued to suffer from the global slowdown caused by the US-China trade war. Although the "phase one" trade deal has been signed, most economy watchers believe the decline in exports will persist for a few more months.

The Week Ahead

- This Thursday the BoE Monetary Policy Committee meeting will take place. The futures market currently prices in a 59% chance of a rate cut, while analysts view that the latest UK activity data like the flash composite PMIs indicate a sufficiently strong post-election rebound to dissuade a majority of the Monetary Policy Committee from cutting the bank rate at the meeting.

Week in Charts

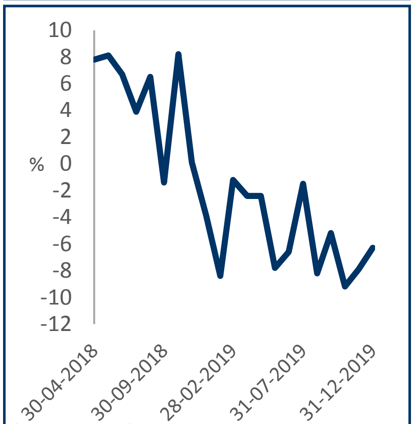
Fig 1: Oil Price



Source: Mazars Calculations

Oil prices fell on fears that the coronavirus may spread further and reduce global economic growth.

Fig 2: Japanese Exports



Source: Mazars Calculations

Japanese exports continued to decline and were below market expectations for the thirteenth consecutive month.

View From the Desk

Markets retrenched slightly last week, as news of the coronavirus outbreak in China continued to make headlines. The death toll is sadly increasing and it looks like this is something that will be at the epicentre of discussions in the next few weeks. As always, the threats of a pandemic invoke memories of the 1918 Spanish Influenza which killed about 3% to 5% of the world's population. Given that no one has particular insight as to the strength of the strain and contagion rates, how can investors treat an event like this?
First, unfortunately, they have to be ready for further bad news in the next couple of weeks. The virus is spreading and there's a strong probability that more people might lose their lives before the spread hopefully fizzles out.
Second, they have to see whether any real contagion will happen in seats of important western markets, such as New York, London, Paris etc. Traders are human beings and as such tend to become edgier when a global pandemic is at their own doorstep.
Third, at each twist and turn they need to ask themselves: Will this end the cycle? For reference, this has the potential of being the second major outbreak in this financial expansion, after the 2009-10 H1N1 flu caused the death of 18,000 people world wide. If the answer is "yes", that the virus is strong enough to end this economic and financial expansion, then it is also probably strong enough to cause major disruption in our daily lives and political systems, in which case all bets are off and investments become an afterthought. But, as is most likely the case, if modern medicine and containment tactics succeed as they have done many times in the past, then investors may be best served by remembering that volatility may be a tactical opportunity for those waiting to buy at lower prices. Consumption has taken a hit in the past in similar events, but it has turned out to be short-term.

David Baker, CIO