Wealth Management
Weekly Market Update

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Market Update

Coronavirus fears saw markets sell-off across the board last week, with global equites returning -3.1% in Sterling terms. More cyclical sectors such as energy and materials were worst hit, while stocks such as utilities and consumer staples which can behave like bond proxies were largely flat. Chinese markets were closed over the week due to the new year celebrations, however opened down this morning around -8%, with many stocks falling through their 10% daily limit down, and have thus been suspended. Even with Chinese markets closed, Emerging Market equities were down -5.9% in Sterling terms for the week. UK equities also performed poorly, down -4.0%, affected by both a rally in Sterling (up +1.0% vs the US Dollar) and their heavy weighting to energy and materials. In Sterling terms Europe was down -3.4%, the US -4.0%, while Japanese equity losses were relatively mild, down -2.7%. The risk off environment saw yields fall across the board although not consistently in terms of magnitude. US 10Y yields fell -17.7 bps while German 10Y yields, already in negative territory, fell -9.9bps. Further with the Bank of England keeping rates on hold, which markets had assigned about an even chance versus a rate cut, UK 10Y yields fell only -3.9bps. Oil fell significantly for a second successive week, down -4.7% in US Dollar terms, while Gold gained +0.2%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Probability of Fed rate cut in 2020
▼ -4.0%	▼ -3.0%	▼ -3.4%	▼ -3.1%	▼ -5.9%	▲ +0.4%	▲ +1.0%	89%

all returns in GBP

Macro News

- The Federal Reserve left its main policy rate unchanged at 1.75%. The FOMC made one change to their policy statement, describing growth in US household spending as "moderate", rather than "strong", as they had in December. This continuity suggested that the committee still sees the economy "in a good place".
- The Bank of England voted to keep interest rates on hold at 0.75%. The Monetary Policy Committee decided that recent improvements in economic activity and business sentiment reduced the need for an immediate cut. The MPC also estimated that the UK economy would be able to grow at a rate of 1.25% over the next three years, below its average long term rate and less than half of chancellor Sajid Javid's ambitious target of 2.8%.

The Week Ahead

- This Friday, US non-farm payrolls for January will be released. Non-farm payrolls increased by 145,000 in December, which was the lowest reading since May. The decline was primarily due to the later-than-normal Thanksgiving in 2019. Consensus estimates an increase of 190,000 in January in response to the recent weaker numbers.

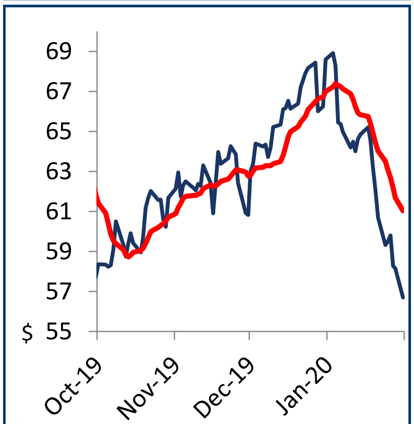
Week in Charts

Fig 1: US 10 year yields

Source: Mazars Calculations

As the coronavirus fears escalate, the US 10-year Treasury yield hit 1.50%, the lowest level since September. Treasury yields have fallen from c.1.9% at the start of the year.

Fig 2: Oil price



Source: Mazars Calculations

Brent crude fell to $56.2 a barrel as prices hit their lowest since January 2019. Travel restrictions and the extended shutdown of the Chinese industrial sector have weighed on oil demand over the past week.

View From the Desk

While global markets remain fixed on the Coronavirus threat, brushing off Donald Trump's impeachment trial as the non-event it was always going to be, British investors now wonder what will happen to the uncertainty discount for UK risk assets now that Brexit has actually happened. Following last Friday, Britain's status officially changed from "Married" to "It's Complicated". Whatever the length of negotiations between the two parties, be it a month or five years, it will be difficult for the status to change into "Honestly Single" any time soon as the complications of the breakup will now begin to take shape. A lot of companies, banks especially, have contingency plans to move operations overseas, if a Canada-style agreement does not cover the services sector, which constitutes the bulk of UK exports.

Conversely, Nissan has stated that it would consider closing some EU plants and focusing more on the UK market if tariffs are imposed. The distribution of assets during the divorce proceedings will be difficult and its repercussions almost impossible to predict, let alone price, on a macro level, especially as players will respond and conditions will shift rapidly. Which is why voices saying "it might actually turn out to be a good thing" have gained credibility. Where we stand is where we have always stood: On the economy side, Brexit will be a lengthy process and success will depend on the quality of the plan and ability to implement it. At best, the transformation of the economy and the country will take a few years, so it will depend on the electorate to continue to pursue a course which will, in all probability, disrupt their daily routines in some way or another. As far as risk assets are concerned, stocks still trade on a "Brexit discount", so their performance will depend on the Government's ability to smooth the process by fiscal easing, and the BoE's willingness to provide accommodation.

David Baker, CIO