Wealth Management Weekly Market Update

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Market Update

Global stocks saw strong gains last week, returning +2.7% in local currency terms and +5.0% in Sterling terms after the Pound depreciated versus most major currencies. The rally was driven by hopes that coronavirus fears had been overstated and US earnings coming in ahead of expectations. Amazon shares saw strong gains on greater than expected earnings figures and strong growth from its AWS business line, Tesla shares saw a sharp rally, magnified by short sellers closing positions, while Twitter stock jumped 15% on strong user data. As a result of this bullish sentiment both European and American equity indices are now at all-time highs. The US was the best performing region for a Sterling based investor, returning +5.6% for the week. The FTSE 100 was up +2.5% last week, lagging developed market peers given its high energy weighting which has detracted as oil prices remain suppressed. The risk on shift saw yields climb across the board. US 10Y yields jumped 7.7 bps, while German 10Y yields were up 4.8 bps. Oil fell for a third successive week, down -2.4% in US Dollar terms; coordinated supply cuts by Russia and OPEC members have not been able to buoy prices in this environment of slower economic growth. Gold fell -1.2% as demand for the safety haven asset moderated.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Probability of Fed rate cut in 2020
▲ +2.5%	▲ +5.6%	▲ +4.9%	▲ +5.0%	▲ +5.1%	▼ -0.6%	▼ -2.4%	83.4%

all returns in GBP

Macro News

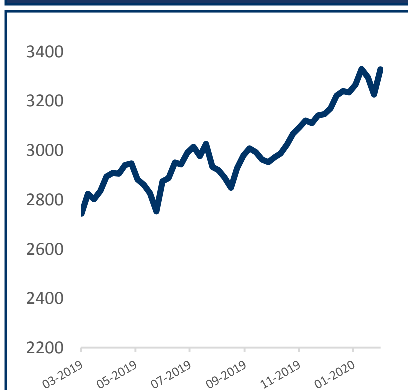
- The US Labour Market continues to look strong, with nonfarm payrolls rising by 225,000; a large increase compared to the consensus estimate of 158,000. Average hourly earnings also beat expectations, rising 3.1%. US unemployment rose slightly to 3.6%, but this was largely due to increased labour force participation which is at its highest since June 2013.
- UK manufacturing data also showed a positive surprise. Manufacturing PMI was steady at a nine-month high of 50.0. This was supported by new orders, employment and business confidence, whilst new export orders fell for the third consecutive month. Services PMI rebounded significantly, up to 53.9 in January. This is the highest level for 16 months, and survey respondents had commented on the removal of the headwind of delayed decisions caused by the general election.

The Week Ahead

- US inflation and retail sales data will come out at the latter-end of this week. US CPI is expected to be 0.2% MoM or 2.2% annualised. Retail sales are expected to continue their upward trend, after three months of growth, to rise around 0.4%. The consumer has been the cornerstone of the American economy, and a miss in the retail sales data would be a bearish indicator for the economy.

Week in Charts

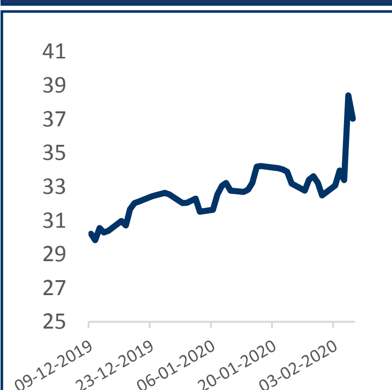
Fig 1: US stocks hit record highs



Source: Mazars Calculations

US stocks continue their leadership, closing at record highs last week. Though valuations remain elevated, ROEs and EPS growth have been strong from technology and communication services companies, offering attractive growth opportunities versus other regions.

Fig 2: Twitter shares jump on earnings



Source: Mazars Calculations

Twitter shares jumped 15% on greater than expected monetizable daily active users, with the number topping 152 million. Social media companies have been under a lot of scrutiny regarding political ads and data privacy; Twitter CEO Jack Dorsey has banned political advertisements as a result.

View From the Desk

Stock markets may be surfing in "fresh highs" territories, riding the giant liquidity wave, but underneath the surface, the dangerous currents of protracted economic malaise threaten to surprise investors if QE fizzles out. While tragic in terms of loss, and the imagery coming out of China, from an investment perspective the coronavirus, in and by itself, will probably be "one of those" episodes that have a short term effect on the economy and markets, but overall do not make a huge impact on trend growth. However, the outbreak came at a particularly inopportune moment for the global economy. After a year of delay in terms of recovery, in the past three months the global economy has shown signs of a pickup, mostly due to better data out of China. China is the world's marginal buyer of capital goods, the sector which has been suffering the most in terms of new orders. A Chinese cyclical rebound could have helped the global economy get out of its rut. However, because that rebound was cyclical - as opposed to structural - in nature, it was also susceptible to events and externalities, and the coronavirus certainly seems to fit the bill. What does this mean for investors? That QE and liquidity are even more important for their returns, assuming that the economic backdrop does not follow through with its rebound. Central banks, especially the Fed, might be called upon to become even more accommodative, so we wouldn't be too surprised if the markets have their way and see at least one more cut from Mr. Jay Powell before the end of 2020.

David Baker, CIO

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