# Wealth Management
# Weekly Market Update

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## Market Update

Fears that COVID-19 could weigh on consumption and global growth increased last week as the number of cases spiked in both Iran and Italy. Concerns that the virus could impact critical global supply chains have increased, with tech titan Apple widening their earnings estimates given the uncertainty surrounding the outbreak. Global stocks fell -1.1% over the week in local currency terms, although fell -0.6% in Sterling terms as the Pound depreciated versus the US Dollar and the Euro. The defensive Utilities sector performed best across the globe, while Industrials and IT were the worst performing sectors. The UK was the only major region to post a gain in local currency terms, up +0.1%, while Emerging Markets and Japan, regions more sensitive to a slow down in global exports and potential supply chain distribution, were down -2.0% and -1.7% in local terms respectively. This shift of market sentiment has caused safety haven assets to rally. Gold was up +4.3% for the week, and is up 10.7% YTD in US Dollar terms. UK 10Y gilt yields fell -5.5bps, closing the week at 0.573%. In a similar fashion, US Treasuries saw their yields decline, with the 10Y yield down -11.4bps, closing at a yield of 1.47%. In US Dollar terms oil gained +2.4%.

| UK Stocks | US Stocks | EU Stocks | Global Stocks | EM Stocks | Gilts | GBP/USD | Probability of a rate cut at the next Fed meeting |
|---|---|---|---|---|---|---|---|
| ▲ +0.1% | ▼ -0.7% | ▼ -0.6% | ▼ -0.6% | ▼ -1.5% | ▲ +1.2% | ▼ -0.6% | 22% |

*all returns in GBP*

## Macro News

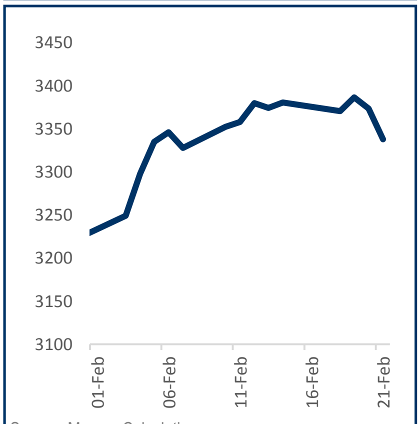
- UK employment came in at a rate of 76.5%, the highest figure since records began in 1971. Whilst earnings growth slowed, real wages have now finally surpassed their pre-2008 peak.
- UK manufacturing grew at the fastest rate for 10 months in spite of fears around the coronavirus in February, according to a flash PMI reading. Services fell slightly but remain in expansionary territory. The composite figure was unchanged at 53.3.
- European composite PMI showed growth at the fastest rate for 6 months. The overall rate of growth remains modest however and is held back by weak new business growth.
- US composite PMI was in contractionary territory for the first time since October 2013, and at a 76-month low. This was caused by a sharp fall in services activity which turned contractionary for the first time in 4 years at 49.4.

## The Week Ahead

- US GDP, inflation, and consumer confidence come out this week, with consumer confidence data coming out on Tuesday. This will provide an insight into how consumers are reacting to the increasing uncertainty surrounding the coronavirus. On Thursday a second estimate of Q4 GDP will be released, with the headline figure expected unchanged at 2.1% on an annualised basis.

## Week in Charts

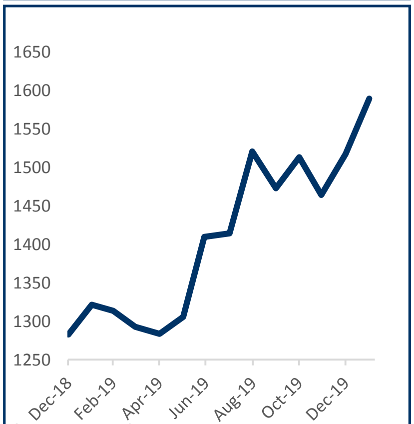
**Fig 1: US stocks touch record highs**




Source: Mazars Calculations

US equities hit record highs last week, however as COVID-19 fears increased the index fell, with Technology stocks suffering.

**Fig 2: Gold price rallies on virus risk**




Source: Mazars Calculations

Gold has offered investors an uncorrelated source of returns as virus fears have rattled equity markets.

## View From the Desk

One of the milestones we had previously identified was the moment the Coronavirus lands in the West. Awash with liquidity as the markets may be, when danger hits close to home traders might avoid commuting and big bets on equity markets. In the past few days the number of cases in Italy rose sharply, especially in the North, which is more tourist-friendly at this time of year. As a result equity markets lost 1% on Friday and early futures indicate a similar drop on Monday. The famous Venice Carnival has been cancelled and pictures of people lining up outside Supermarkets, as well as travel bans, are making the news globally. Is the virus dangerous enough to disrupt the green patch of economic data we have enjoyed since the beginning of the year? Probably. If one is going to a conference, a roadshow or a long-distance meeting with a client, one will think twice. As one will probably hesitate to go out for dinner, take children to a fair and so on. Just last week Apple forecasted a drop in iPhone sales in China. There will be a cost in consumer-related economic activity. However, the base case scenario at this point is that impact will be restricted to Q1 2020. Is the virus enough to take the markets off their liquidity high? Insofar as it doesn't directly threaten the structure of government and the capitalist system, probably not. So this is one of those times for investors to be patient and even contemplate what they can do if they have cash sitting on the side. Our suspicion is that over the medium term, markets will probably be more worried with the US presidential race, Angela Merkel's replacement or another possible drop in durable goods orders. Good news is they probably will not have to worry about demand side inflation. ***David Baker, CIO***