Wealth Management
Weekly Market Update

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Market Update

Markets continued the rally stoked by the early November news of successful Covid-19 vaccines. US markets are now at all-time highs having rallied +1.7% last week, although US Dollar weakness meant the return for UK investors was +0.6%. UK equities were in fact the strongest performing major region, rallying +2.9%. Overall global stocks gained +0.4%, with Japanese equities the only region negative in Sterling terms, down -0.9%, having rallied strongly in recent weeks. Cyclical sectors continued to lead the rally, although gains were more broad based than in previous weeks. Yields were up across developed markets, the UK 10Y increasing +7bps to 0.35%, while the US 10Y increased +13bps to 0.97%. Gold rallied +2.8% to $1,837 per Troy ounce while WTC Oil continued its upwards trend to $46 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +2.9%	▲ +0.6%	▲ +0.8%	▲ +0.4%	▲ +0.5%	▼ -0.9%	▲ +0.1%	▲ +0.9%

all returns in GBP to Friday close

Macro News

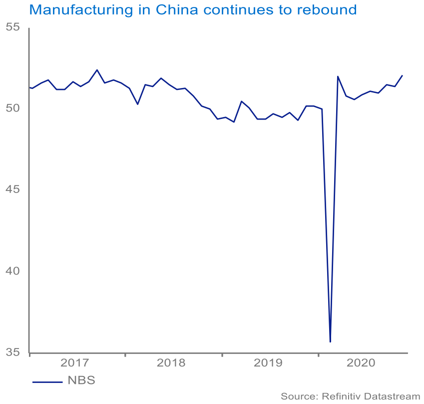
- Both the manufacturing and services sector in China remained resilient in November. The official NBS Manufacturing PMI rose to 52.1 in November from 51.4 a month earlier. The latest reading signalled the ninth straight month of growth. The Services PMI increased to 56.4 from 56.2 a month earlier, pointing to the fastest growth since June 2012, as the economy recovered further from the Covid-19 crisis.
- US non-farm payrolls, the key measure of US employment, suggested the labour market recovery was slowing. The US economy added 245k jobs in November, lower than 610k in the previous month, and well below market expectations of 469k. It is the smallest employment gain since the job market started to recover in May. Employment declined in government and retail trade while gains occurred in transportation, warehousing and health care. The outlook for the labour market remains challenging as coronavirus infections continue to rise and more states across the US introduce restrictions.

The Week Ahead

- Europe will be very much the focus of attention this week as EU leaders will meet in Brussels on Thursday and Friday to discuss core issues for the bloc, including the approval of the next budget, along with the €1.8tn recovery package, the ratification of the 2030 climate goals and the Brexit deal as trade talks enter the end game.

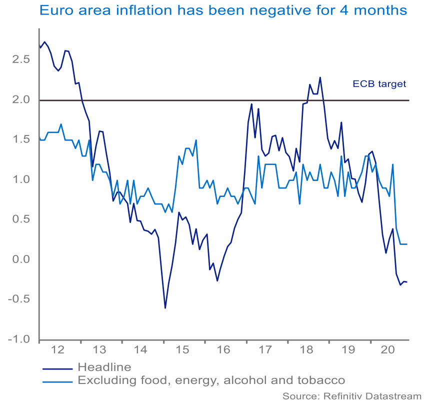
Week in Charts

China NBS manufacturing PMI
Manufacturing in China continues to rebound



Manufacturing in China continues to rebound from the hit to output from the Covid-19 pandemic, experiencing its largest monthly growth in factory output this year. Increased orders alongside the global recovery and a stabilisation in employment conditions have contributed to the November rise in manufacturing sentiment.

Euro area inflation
Euro area inflation has been negative for 4 months



Consumer prices in the Euro area continued to fall in November, adding to the case for more European Central Bank stimulus. The inflation rate came in at -0.3%, below the median estimate of -0.2%. ECB policy makers have said that inflation will likely remain negative for the remainder of the year.

View From the Desk

Another key week for Brexit has been lost as negotiating parties remain deadlocked, causing Sterling to retreat. Despite the recriminatory rhetoric on both sides, we feel that the possibility of a last-minute limited deal, our base case scenario, is very much alive, a net positive for Sterling risk assets. However, if Friday passes with yet another impasse, then the base case scenario will lean towards a cliff-edge Brexit and more negotiations after January. On the table is the nature of £294 billion of UK exports to the EU (43% of all UK exports) and £374 billion worth of imports (52% of all UK imports).

The reason that the outcome is so unpredictable is the contradicting nature of goals: while a successful deal may ensure a future trade relationship of close neighbours and allies, the prevalent question for all parties seems not to be whether that outcome is good for the economy, but whether they can “sell it” to an increasingly polarised internal audience. This is why negotiations were really always set to drag on and a deal, if any, would be reached under the pressure of the ticking clock. The world when the referendum was announced in 2015 was different than today, not least because of Brexit itself. Mainstream, business-as-usual politics have been rejected by a large enough part of the electorate on both sides of the channel, rendering international co-ordination a more difficult enterprise. In this world, central bank monetary interventions, the lack of market-driven urgencies and the underwriting of an unprecedented amount of debt, may have caused moral hazard to spill into the world of politics. The retrenchment of multilateralism has also diminished the institutions and the forums which fostered that co-operation. Where in 2015 US President Barack Obama intervened directly to avert Grexit (Greece’s departure from the EMU and the EU), the US President in 2020 is taking a much more hands-off approach in relieving tensions between NATO allies.

These are the details that make history, and at this point we have very little insight as to how it will play out. What we have greater insight on is:
a) Deadlines are important, but not absolute. Even if they completely break down now, negotiations might resume in January again, although the UK could very well be under increasing pressure from that point on.
b) Last week, BoE Governor Andrew Bailey suggested that a no-deal Brexit would be worse for the economy than Covid-19. Given the size of the stimulus already in the economy, a definitive no-deal Brexit would probably mean much higher levels of debt, maybe followed by credit rating downgrades and a structurally weaker Pound.
c) The world will probably be taking another turn towards multilateralism after 20 January (President-elect Joe Biden isn’t legally allowed to intervene anywhere until that time). Negotiations under that light might look different.

Even if the probability of a December cliff-edge Brexit grows by the day and the worst possible scenario materialises, there’s always a deal to be made at some point, before the economic damage becomes too pronounced. Long term investors should focus less on “when” and more on “whether” the deal will materialise, possibly considering the merits of tactical allocations on relatively distressed assets.
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David Baker, CIO

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