Wealth Management
Weekly Market Update

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Published 14 December 2020

Market Update

Like clockwork positive vaccine news, this time FDA confirmation of Pfizer/BioNTech results, buoyed markets in the early part of last week. However some of these gains were reversed due to the worsening condition of both Brexit and Covid-19 cases. UK equities were flat for the week, however more domestically exposed mid-caps fell as a Brexit deal looked less likely. Overall, global stocks gained +1.2%, with Japanese equities and Emerging Markets the best performing regions, up +2.4% in Sterling terms. There was no clear leading style in sectors, where globally Telecoms performed best and Financials worst. Yields fell sharply across developed markets, the UK 10Y falling by -18bps to 0.17%, while the US 10Y fell -7bps to 0.90%. Gold rose +1.9% to $1,822 per Troy ounce and Oil rose +2.6% to $47 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
► +0.0%	▲ +0.9%	▲ +0.9%	▲ +1.2%	▲ +2.4%	▲ +2.4%	▲ +2.7%	▼ -1.6%

all returns in GBP to Friday close

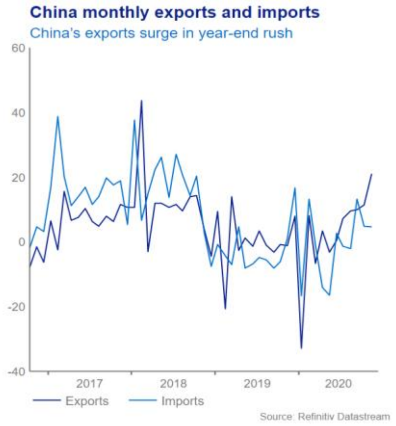
Macro News

- Exports from China jumped 21.1% year-on-year (YoY) to an all-time high of $268.07 billion in November, the fastest growth since February 2018 and well above market consensus of a 12% increase, as global demand recovered further from the Covid-19 crisis. This comes despite a sharp appreciation in the Yuan in recent months, supported by strong overseas demand for personal protective equipment (PPE) and electronics products for working from home, as well as seasonal Christmas demand.
- The consumer price index in China unexpectedly declined by 0.5% YoY in November, after a 0.5% rise a month earlier and compared with market consensus of a flat reading. This was the first deflation rate since October 2009 as food prices dropped for the first time in nearly three years (-2%). Cost of transport (-3.9%); rent, fuel, and utilities (-0.6%); and clothing (-0.3%) also fell.

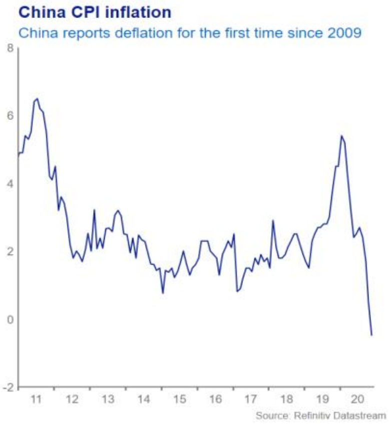
The Week Ahead

- The annual inflation rate for the UK will be released this Wednesday. The inflation rate in October increased to 0.7% from 0.5% in September, above forecasts of 0.6%. It was the highest reading in three months, amid a rebound in prices of clothing, food, and furniture.

Week in Charts



China's exports were supported by strong overseas demand for personal protective equipment (PPE) and electronics products for working from home, as well as seasonal Christmas demand. That comes despite a sharp appreciation in the Yuan in recent months, which some fear could hit exporters.



China's headline consumer inflation dropped into negative territory in November for the first time in 11 years as pork prices eased significantly, raising the risk of further deflation in the world's second biggest economy and casting doubt on the nation's real consumer spending power.

View From the Desk

Another week, another deadline gone by. A fortnight away from a no-deal Brexit, which the Bank of England has described as having a worse impact on the economy than Covid-19, and negotiations are still ongoing. From a political perspective and with the benefit of hindsight, it's hard to see how else things could have played out under any scenario.

A deal, which would require both sides to step down from their rhetoric, would have to be justified as a last-minute reconciliation before a cliff-edge Brexit which could result in chaos.

A "no-deal" would also need to be justified by narrative where both sides tried until the very last moment.

In other words, it would be politically unpalatable for either a fragile EU or a weakened UK to be the party that walked away from the table. Markets are less patient than citizens or politicians and are tilting the scale towards a base "no-deal" scenario, putting pressure on the Pound and reducing exposure in already relatively undervalued UK risk assets. Having said that, plenty of analysts are still hopeful that a "thin" Free Trade Agreement is possible.

The fact that both sides absolutely need to be seen to negotiate until the very last moment means that analysts can't know for sure which path we are on. Many global portfolio managers would rather err on the side of caution and shun UK stocks and bonds, which makes sense as they can always invest in other risk assets whose returns are mainly underpinned by extraordinary monetary stimulus. However, we believe that a deal is there to be made, even after December 31, although arguably circumstances might be different after that date. It might in fact be that the status quo, one where neither side has actually experienced the implications of Brexit, has to change before things meaningfully move forward.

To be sure, we think that from a portfolio perspective what's mostly at stake is Sterling. A last-minute deal (any deal at this point) may be a notably Pound-positive event, even if long-term pressures persist. A no-deal scenario could see Pound volatility and a fall to modestly, or significantly, below current levels, either on the day or in the near future.

As investors we would rather make our returns from positive-growth driven stories rather than from uncertain politically-driven events. As Sterling-based portfolio managers, we think that any positioning we take on such a momentous event which fundamentally affects our home currency should be accompanied with much greater visibility than currently available to us. We have thus opted to keep a foot in both camps and broadly balanced our Sterling exposure, by and large mitigating the damage either scenario might cause to our holdings.

David Baker, CIO

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