Wealth Management
Weekly Market Update

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Market Update

A generally positive week for equities in local currency terms was slightly negative in Sterling terms as markets became increasingly optimistic about a UK trade deal with the EU, sending the Pound higher. UK equities were the notable exception for the week, though down only -0.1%. Overall, global stocks gained +1.7% in local currency terms but fell -0.4% in Sterling terms. Europe was the best performing region in both local and Sterling terms, with the more modest appreciation of Sterling against the Euro seeing European equities up +0.5% in Sterling terms. Globally IT and Consumer Discretionary were the best performers, whilst Energy lagged significantly. Yields rose across major sovereigns, with the UK 10Y rising by +7.7bps to 0.25%, while the US 10Y rose +5.0bps to 0.95%. Gold rose +0.1% to $1,898 per Troy ounce and Oil rose +3.2% to $47 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -0.1%	▼ -0.8%	▲ +0.5%	▼ -0.4%	▼ -1.2%	▼ -0.9%	▼ -1.1%	▲ +2.3%

all returns in GBP to Friday close

Macro News

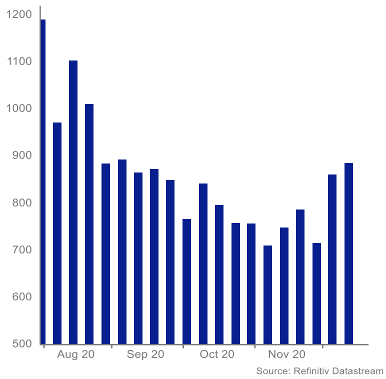
- The number of people claiming unemployment benefits in the UK increased by 64.3k to 2.7 million in November, after falling for two consecutive months, with the country under a second national lockdown. This represents a monthly increase of 2.5% and an increase of 114.8%, or 1.4 million, since March 2020.
- Consumer prices in the UK edged up 0.3% year-on-year (YoY) in November, below 0.7% in October and market forecasts of 0.6%. The largest downward contribution came from cost of food and non-alcoholic beverages and clothing and footwear. This was the biggest drop since January 2010, due to increased discounting for Black Friday.
- Retail sales in the US sank 1.1% month-on-month (MoM) in November, following a revised 0.1% fall in October, worse than forecasts for a 0.3% drop. It is the second consecutive decline in retail sales as US consumers pulled back holiday shopping amid a surge in coronavirus cases and a drop in income as unemployment benefits are set to expire.

The Week Ahead

- The GfK Consumer Climate Indicator for Germany will be released this Tuesday. The indicator, which is gauge for economic outlook in the region, dropped to a five-month low of -6.7 heading into December, from a revised -3.2 the prior month and below market consensus of -5, as sentiment was hit by a partial lockdown to curb a second coronavirus wave.

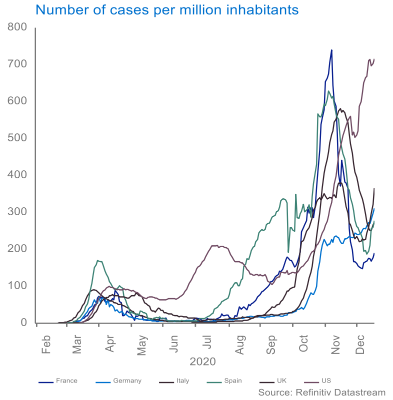
Week in Charts

US initial jobless claims
Thousands per week



After the pace of gains in US nonfarm payrolls slowed sharply in November, the rise in jobless claims in early December pointed to a further softening in in the labour market.

COVID-19 new daily cases
Number of cases per million inhabitants



Despite the good news on vaccines, the surge in Covid-19 cases and lockdowns are weighing on economies. The euro area and UK will likely contract in Q4. The more belated rise in US Covid-19 cases means the economy should expand in Q4, although escalating case numbers have begun to dampen activity.

View From the Desk

The newsflow for investors, especially British, has been negative over the weekend. A new more aggressive string of Covid-19 ("B.1.1.7 lineage") has been detected, forcing London and other areas into an abrupt and strict lockdown just before Christmas and isolating the UK from some European countries, further hampering economic recovery. Exacerbating the situation, Brexit talks seem to be stuck again on the final issue of fishing. Meanwhile, 200 organisations, including government agencies, companies and the US Treasury, have been hacked around the world, in what has been called the largest cyber attack in history. At the same time, Europeans are scrambling to approve vaccines before the new year, the last major economies to do so, even as the virus is forcing strict lockdowns across the continent.

Yet it is important to remember and understand why markets pay little attention to these events. Rather than fretting about Covid-19 (which is expected to meaningfully subside before the summer) or the cyber attack (which hasn't crippled any infrastructure that we know of) markets focused on the $900bn emergency stimulus package passed by Congress over the weekend, keeping US futures near all-time highs this morning.

Having said that, investors are getting more nervous over the lack of a Brexit deal this late in the game, sending the Pound near its lowest level since September on Monday morning. However, it seems flabbergasting that when the all-important Ireland issue has been overcome (the UK retracted legislation the EU didn't agree with) and the rules of the level playing field have been agreed which is great for the UK's financial sector (7% of GDP), that fishing rights (0.12% of GDP) could be the straw that breaks the camel's back and puts an end to the negotiation. It seems to us that Brussels wants to check everything on its list and that the British government is looking for an issue it can claim victory on. We are thus faced with the question of whether politics and appearances will be enough to scuttle a nearly-finished trade deal. Our base case continues to be for a limited trade deal, close to what's being currently negotiated, although our portfolios have been positioned to withstand pressures from a no-deal Brexit.

David Baker, CIO

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