Wealth Management
Weekly Market Update

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Market Update

Most major equity market indices ended the year on a positive note. Global stocks gained +0.2% in Sterling terms over the last two weeks of trading to close the year up +12.4% in Sterling terms. Over the year, due in large part to a Tech rally following the early pandemic crisis, US stocks provided the best returns for Sterling investors, up +15.5% for the year. UK equities were the worst performing of major markets, falling -1.1% in the last two weeks to close -11.5% for the year. UK equity markets are overweight to Oil & Gas and Banks, which hurt performance alongside Brexit headwinds. Globally, in the last fortnight Financials and Utilities were the best performers, whilst Energy lagged. Yields fell across major sovereigns, with the UK 10Y falling 5.2 bps to 0.20%, while the US 10Y fell 3.3bps to 0.91%. Gold was unchanged at $1,899 per Troy ounce and Oil fell -1.8% to $49 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -1.1%	▲ +0.6%	▲ +0.5%	▲ +0.2%	▲ +1.2%	▲ +0.2%	▲ +0.7%	▲ +0.8%

all returns in GBP to Friday close

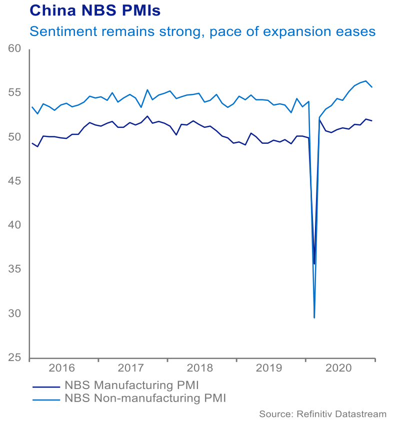
Macro News

- The Nationwide House Price Index in the UK increased 7.3% year-on-year (YoY) in December 2020, the most in six years, beating market forecasts of a 6.7% rise, as tax incentives continued to boost demand. Compared to the previous month, house prices increased +0.8%, after a +0.9% gain in November 2020.
- The official NBS Manufacturing PMI for China edged down to 51.9 in December from a 38-month high of 52.1 in the previous month and slightly below market consensus of 52.0. The official NBS Non-Manufacturing PMI for China fell to 55.7 in December 2020 from an eight and a half year high of 56.4 a month earlier. Still, both readings marked the tenth straight month of growth in factory activity and the services sector as the economy continued to recover from the Covid-19 crisis.

The Week Ahead

- US balance of trade for November will be released this Thursday. The US trade deficit widened to USD 63.1 Billion in October of 2020, lower than market expectations of USD 64.8 billion. In the same period, exports increased 2.2%, while imports rose 2.1%, reflecting both the ongoing impact of the pandemic and the continued recovery from the sharp declines earlier this year.

Week in Charts



China's manufacturing and services sector PMIs were slightly lower than previous readings. However, both readings indicated continued growth in the economy, but at a somewhat slower pace than in the previous month.

Energy was the worst performing commodity group over the year as the reduction in demand sent fuel prices plummeting. Meanwhile precious metals outperformed, led by the surge in gold prices.

View From the Desk

In dramatic fashion and featuring a high-stakes political gambit, a Brexit deal was concluded over Christmas, averting some of the worst consequences of a no-deal scenario. According to the Bank of England's early projections, the difference between a rudimentary Canada-style deal, which was ultimately achieved, and a no-deal disruptive Brexit was about 4% in 2016 GDP, or £83bn. To put the number in context, at the beginning of 2020 the UK Government was expected to borrow £55bn and ended up borrowing £394bn to combat the economic effects of Covid-19. Adding another £83b to that bill could be enough to break the economy for years to come.

However, from a purely economic standpoint we would revert to Winston Churchill's famous Dunkirk quote: "we must be very careful not to assign this deliverance the attributes of a victory". This is still a "Hard Brexit", with many unknown variables as to how the complex divorce will work out.

For one, the blueprint of the EU – Canada deal is not necessarily pertinent. The EU accounts for 10% of Canada's exports, mostly raw materials, and Canada accounts for 2% of the EU's exports. Conversely, the numbers between the EU and the UK are 50% and 10% respectively, a lot of which involve services, signalling a much more complex and interdependent relationship. Secondly, "level playing field" clauses have the potential to disrupt the relationship for many years to come. To successfully compete, the UK may need to break from the current EU status quo, possibly inviting retaliation from the EU, depending on the prevailing internal winds. This would be a good time to remember that the 15-year Merkelian stability which has defined the EU may conceivably be coming to an end this year as the iconic Chancellor is set to step down. Ultimately, a lot will be decided on whether London will be able to keep its primacy as a global financial centre in the coming years, or whether European venues will be able, or willing, to compete successfully. Third, deals already signed, like the one with Japan, promise third parties a framework similar to the current one. And fourth, the UK's own internal political backdrop seems to be in flux, rather than calming after the deal.

Meanwhile the Pound has been relatively steady versus the Euro, suggesting that this is the scenario that had been priced in, although this could change after the beginning of the year as traders return to their desks (the Pound's two-year high vs the US Dollar mostly reflects the Greenback's weakness which is trading near a 6-year low vs a basket of trade-weighted currencies). With UK stocks remaining at relatively undervalued levels versus their global peers, the deal still has the potential to trigger an upward revision of risk assets, although we wouldn't be too surprised if investors remained sceptical until dividends are in vogue again and until they have had a good look at what the post-Brexit environment looks like.

David Baker, CIO

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