Wealth Management
Weekly Market Update

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Market Update

Global equity markets were generally down last week, with weaker than expected earnings reports seeing a sell-off on Friday. The only positive regions in Sterling terms were Emerging Markets and Japan, both +0.1%. European equities fared the worst, down -2.1%, with the Euro falling -1.4% vs Sterling significantly contributing to the weak performance. UK equities fell -2.0%, while US equities fell -1.6%. Energy was the best performing sector, with several companies performing well early in the week as Oil rose, although the commodity finished the week largely flat. Telecoms and Materials were the worst performing sectors. Despite the fall in equities, yields were largely unchanged, with US 10Y Treasury yields down 3bps, while UK and German yields fell even less. Gold also failed to add any support, down -1.1% in US Dollar terms.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -2.0%	▼ -1.6%	▼ -2.1%	▼ -1.6%	▲ +0.1%	▲ +0.1%	▲ +0.1%	▲ +0.2%

all returns in GBP to Friday close

Macro News

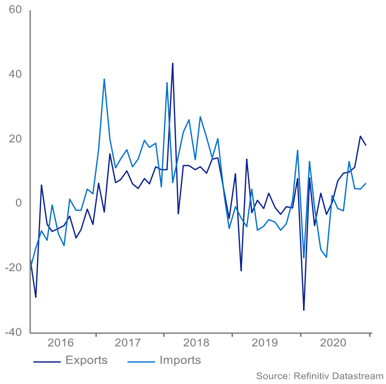
- Exports from China surged 18.1% year-on-year (YoY) to record highs in December 2020, easing from a 21.1% jump the previous month, although well above market consensus of a 15% rise. Imports to China increased by 6.5% YoY, also to record highs, after a 4.5% rise a month earlier, and above market consensus of a 5% increase. This was the fourth straight month of growth in inbound shipments, supported by improving domestic demand and higher commodity prices.
- US retail sales fell 0.7% from a month earlier in December 2020, following a revised 1.4% decline in November, and compared with market expectations of a flat reading. This was also the third consecutive month of a decline in consumption, amid record Covid-19 infections, high unemployment levels and a lack of government support.

The Week Ahead

- UK inflation for December 2020 will be released this Thursday. Consumer prices in the UK edged up 0.3% YoY in November 2020, below 0.7% in October and market forecasts of 0.6%. Consensus expects rates to edge up slightly to 0.5%, as the price of clothing, food and recreation fell while the country battled a second Covid wave.

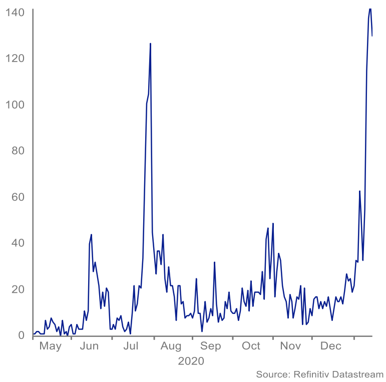
Week in Charts

China monthly exports and imports
China's trade surplus jumped to record highs



China's trade surplus hit its highest ever monthly level in December, as the country's exports continued to boom. Surge in trade has helped boost China's economy, which has recovered rapidly from the early impact of the pandemic.

China new daily Covid-19 cases
Number



Official statistics reveal that China is once again battling Covid-19 outbreaks. Despite the small numbers, Chinese authorities are taking the infections extremely seriously, enforcing mass testing and localised lockdowns in the affected areas. With the Lunar New Year approaching, these new cases could pose a risk for economic activity.

View From the Desk

America loves a show and while the spectacle in Washington continues unabated ahead of Joe Biden's inauguration on Wednesday, investors have been keeping an eye on Europe. For one, both the Italian and the Dutch government coalitions collapsed last week, setting their countries down the path of a general election in the next few months. Nevertheless, investors were more worried over the CDU's (Germany's ruling Christian Democratic Party) internal election over the weekend. In the conference, Mr. Armin Laschet was narrowly elected to lead the party in September's general election. Mr. Laschet, the Minister-President of the most populous state in Germany, is considered a moderate and was Angela Merkel's second chosen successor, after the first, Annegret Kramp-Karrenbauer, failed to stave off pressures from the party's right and was forced to resign. With only nine months to go before Ms. Merkel officially relinquishes leadership not only of Germany, but effectively of Europe, Mr. Laschet faces an uphill battle against pressures from the right-wing AfD and the CDU's sister party, the Bavarian CSU, whose very conservative leader, Mr. Markus Söder, vies for the chancellorship candidacy in September.
Why is this all important for portfolios? Because Europe's 2011 nightmare currency crisis could come back to life in an instant if the ECB reverses quantitative easing without having ensured a working banking union, a long-term solution to the south's indebtedness, consistent and even growth conditions, and internal market stability. The Covid-19-related expanded debt load only exacerbates pressures.
The ECB has been so far holding the currency union together by printing money and guaranteeing a portion of the periphery's debt, especially Italy's. The key to the ECB's strength is the tacit acknowledgement from Germany, which is responsible for a third of the bank's capitalisation, that it agrees on the current charted course. "Tacit" is the operative word, as a lot of agents within Germany believe that quantitative easing goes against the ingrained popular German aversion for debt (which literally translated in German also means "Guilt") and count rulings suggesting it may violate European treaties. As growth is slowing across the board, the question of whether Germany's leaders should put "Germany First", ahead of any implied responsibility towards Europe, sounds only too familiar. Yet, a disruption is this very delicate balancing act could resurrect concerns over the Euro's future and plunge European Risk assets into a crisis.
In market terms, Mr. Laschet's election buys the Euro roughly six to seven months of stability, before the questions raised above begin dominating the German political scene. It also increases the possibility of stability at the other end of the table as negotiations over the all-important British financial services "equivalence" regime are set to continue over the next few months.

David Baker, CIO

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