UK Week in Markets

Week ending 8 December 2019

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Key news and events

President Trump reinstated US tariffs on steel and aluminum imports from Brazil and Argentina, citing a "massive devaluation of currencies" by both countries as the rationale for the new tariffs. Elsewhere, the Trump administration also proposed a 100% tariff on up to $2.4bn of French goods, in retaliation for France's new digital services tax which Washington believes has unfairly targeted US tech companies.

Reports suggest that China has ordered all government offices and public institutions to remove foreign computer equipment and software within three years, fueling concerns of a prolonged US-China "tech war". Meanwhile, President Trump said he was prepared to wait until after the US election next year to finalise a trade deal with China.

Sterling jumped to a seven-month high against the dollar last week, as investors react to opinion polls which point to a comfortable majority for the ruling Conservative party ahead of the UK general elections scheduled on 12 December.

The Organisation of the Petroleum Exporting Countries (OPEC), along with Russia, agreed to cut oil production by a further 500,000 barrels per day, resulting in a combined production cut of 1.7 million barrels per day.

Market moves

Global equities

- Global equity markets rose in local currency terms over the week.
- The MSCI AC World Index rose by 0.1% in local currency terms and fell by 1.0% in sterling terms.
- The Energy sector was the best performer, returning -0.2% in sterling terms.
- The Consumer Discretionary sector was the worst performer, returning -1.6% in sterling terms.

Regional equities

- Japanese equities were the best performing market in local currency terms (+0.7%) in a week in which Prime Minister Shinzo Abe launced a larger than expected fiscal stimulus package.
- UK equities were the worst performing market in local currency terms (-1.5%).
- Japanese equities were the best performing market in sterling terms (+0.1%).
- Asia Pacific ex-Japan equities were the worst performing market in sterling terms (-1.9%).

Government bonds

- The 10-year gilt yield rose by 5bps to 0.75% and the 20-year gilt yield rose by 4bps to 1.17%.
- The 10-year US treasury yield rose by 6bps to 1.84%.
- At the 10-year maturity, the German bund yield rose by 5bps to -0.30% and the French government bond yield rose by 6bps to 0.02%.
- Greek government bond yields rose by 8bps to 1.50%.

Credit

- Local currency emerging market debt fell over the week, returning -0.3%.
- The US high yield bond spread over US treasury yields fell by 12bps to 389bps over the week.
- The spread of USD denominated EM debt over US treasury yields fell by 7bps to 324bps over the week.
- The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) fell by 2bps to 117bps over the week.

Commodities

- The S&P GSCI index rose by 3.4% in USD terms over the week.
- The S&P GSCI Energy index rose by 5.9% as the price of Brent Crude oil rose by 3.1% to US$64/BBL.
- Industrial metal prices rose by 0.2% as copper prices rose by 0.2% to US$5,868/MT.
- Agricultural prices fell by 0.4% and gold prices were unchanged at US$1,460/Oz.

Currencies

- Sterling strengthened by 1.3% against the US dollar and rose by 1.1% against the euro, ending the week at $1.31/£ and €1.19/£ respectively.
- The US dollar decreased by 0.8% against the Japanese yen, ending the week at ¥108.66/$.

Economic releases

Highlighted last week releases

Region: US

Change in Nonfarm Payrolls

266 thousand jobs were added to the US economy in November, the strongest employment growth in ten months. Analysts have been expecting a job growth of 180,000. Notable job gains occurred in the health care, professional services and manufacturing sectors.

Region: US

University of Michigan Consumer Sentiment

Consumer sentiment rose by 2.4 points to a seven-month high of 99.2 in November, beating consensus forecasts of a 0.2-point rise. The gains were largely attributed to upper income households, who reported gains in household wealth due to strong equity market performances.

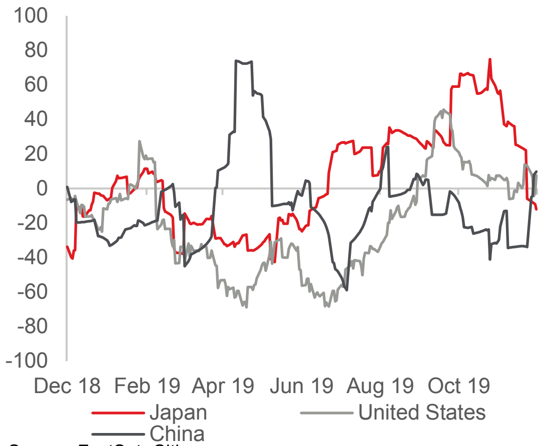
Region: Eurozone

Retail Sales

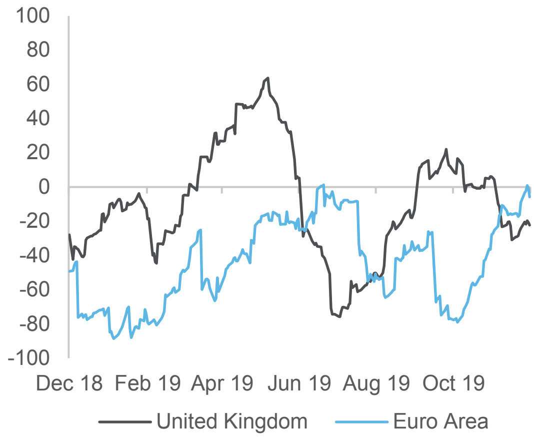
Eurozone's retail sales contracted by 0.6% in the month of October, recording the steepest contraction in ten months. Analysts have been expecting a smaller contraction of 0.3%. Declining sales for non-food products and falling internet and mail orders were a drag on the retail sector.

Economic surprise

The index measures economic data relative to expectations. A positive number indicates that economic data has outperformed expectations



Source: FactSet, Citi



Source: FactSet, Citi

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With over 160 years of combined experience, the team is one of the strongest in UK investment consultancy today.

Our experts analyse market movements and economic conditions around the world, setting risk and return expectations for global capital markets.

The team use those expectations to help our clients set and, when it's right to do so, revise their long-term investment policies.

We believe that the medium-term (1–3 years) has been under exploited as a source of investment performance. Maintaining medium-term views that complement our long-term expectations, we help our clients to determine when to make changes to their investment strategy

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