



UK Week in Markets

Week ending 1 September 2019



Key news and events



The US implemented a 15% tariff on \$112bn worth of Chinese imports on 1 September, expanding the tariffs to previously untaxed consumer goods such as headphones and footwear. In response, the Chinese government levied additional tariffs of between 5 to 10% on a range of US goods, including US crude oil which were previously omitted.



Trade tensions have shown signs of de-escalating earlier in the week, as the Chinese Commerce Ministry confirmed that trade talks with the US remained scheduled in September and reiterated that China has no plans to further escalate the dispute. Elsewhere, the US reached an agreement with France to remove a digital tax imposed on US tech companies if an international agreement can be reached. The US also announced an upcoming trade agreement with Japan which covers agriculture, industrial tariffs and digital trade, with the agreement scheduled to be finalized at the upcoming United Nations General Assembly meeting.



UK Prime Minister Boris Johnson suspended parliament from next week until October 14, leaving lawmakers with little time to approve legislation against a "no-deal" Brexit or to pass a no-confidence motion against Boris Johnson. The Prime Minister reiterated his belief that a compromise on the Irish backstop issue can be reached with the EU if a no deal outcome remains on the table.



Italian Prime Minister Giuseppe Conte is set to return as Prime Minister as the anti-establishment Five Star Movement agreed a draft accord with the center-left Democratic Party to form a coalition government. The move was welcomed by investors, with the widely watched spread between German and Italian bond yields falling to its lowest levels since the election last year.

Market moves



Global equities

- Global equity markets rose over the week.
- The MSCI AC World Index rose by 2.3% in local currency terms and rose by 2.8% in sterling terms.
- The Telecommunications sector was the best performer, returning 3.7% in sterling terms.
- The Real Estate sector was the worst performer, returning 1.8% in sterling terms.



Regional equities

- US equities were the best performing region in local currency terms (+2.8%) with Industrials (3.6%) and Communication Services (3.4%) the best performers.
- Asia Pacific ex-Japan equities were the worst performing region in local currency terms (+0.1%) With Real Estate (-1.7%) and Utilities (-1.4%) the worst performers.
- US equities were the best performing region in sterling terms (+3.6%).
- Asia Pacific ex-Japan equities were the worst performing region in sterling terms (+0.6%).



Government bonds

- The 10-year gilt yield fell by 6bps to 0.46% and the 20-year gilt yield fell by 12bps to 0.86%.
- The 10-year US treasury yield fell by 2bps to 1.50%.
- At the 10-year maturity, the German bund yield fell by 5bps to -0.71% and the French government bond yield fell by 5bps to -0.42%.
- Italian government bond yields fell by 28bps to a record low of 1.02% as Giuseppe Conte is set to return as Prime Minister after a coalition government was preliminarily agreed.



Inflation-linked bonds

- The UK Over 5-year real yield was unchanged at -2.17% and the UK 20-year real yield was unchanged at -2.40%.
- 20-year breakeven inflation fell by 7bps to 3.31%.



Credit

- US Investment Grade bonds rose over the week, returning 0.2%.
- The US high yield bond spread over US treasury yields fell by 16bps to 409bps over the week.
- The spread of USD denominated EM debt over US treasury yields fell by 15bps to 363bps over the week.
- The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) was unchanged at 126bps over the week.



Commodities

- The S&P GSCI index rose by 1.0% in USD terms over the week.
- The S&P GSCI Energy index rose by 1.4% as the price of Brent Crude oil rose by 1.8% to US\$60/BBL.
- Industrial metal prices rose by 1.0% as copper prices rose by 0.1% to US\$5,678/MT.
- Agricultural prices fell by 0.4% and gold prices rose by 1.6% to US\$1,528/Oz.



Currencies

- Sterling weakened by 0.8% against the US dollar and rose 0.1% against the euro, ending the week at \$1.22/£ and €1.11/£.
- The US dollar increased by 0.2% against the Japanese yen, ending the week at ¥106.15.

Economic releases

Highlighted last week releases



Region: US

U. of Mich. Consumer Sentiment Index

Consumer sentiment fell by 2.3 points to 89.8 in August, reaching the lowest level in three years. Analysts have expected a small increase. Consumers have adjusted their expectations about the future economic environment downwards, with one in three consumers spontaneously pointing to the US-China trade dispute as a key concern in the survey.



Region: UK

Consumer Confidence

Consumer sentiment fell by 3 points to -14 in August, reaching a seven-month low with all five measures of consumer sentiment declining over the month. Growth concerns and Brexit uncertainty continued to weigh on sentiments, as expectations about the general economic situation over the next 12 months fell by 6 points to -38.



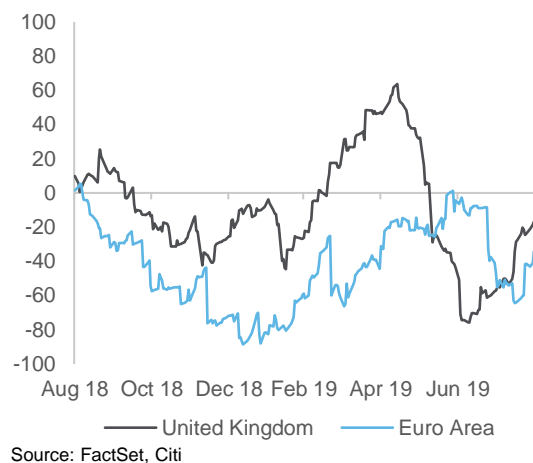
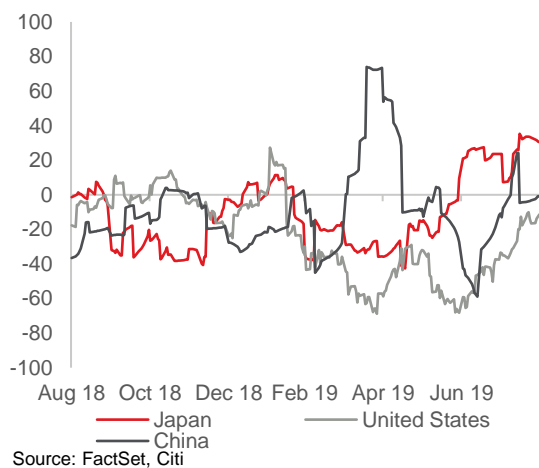
Region: China

Manufacturing PMI

The official Chinese Manufacturing PMI fell by 0.2 points to 49.5 in August, recording the fourth consecutive month of contraction in the manufacturing sector amidst growing trade tensions. The Caixin Manufacturing PMI, which focuses on smaller private sector businesses, unexpectedly rebounded into the expansion territory, increasing by 0.5 points to 50.4.

Economic surprise

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



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

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