



UK Week in Markets

Two weeks to 5 January 2020



Key news and events



President Trump announced his plan to sign the “phase one” US-China trade deal in Washington DC on 15th January, and said he would travel to China to begin negotiation of the “phase two” agreement later this year.



Oil prices spiked amidst escalating tensions in the Middle East after General Soleimani, Iran’s top military commander, was killed by a US airstrike in Baghdad. Iran threatened “tough revenge” following the incident and announced that it will no longer abide by limits placed on uranium enrichment under the 2015 nuclear deal.



Trilateral talks took place between China, Japan and South Korea to discuss increased co-operation and negotiate a possible free trade pact.

Market moves



Global equities

- Global equity markets rose over the fortnight.
- The MSCI AC World Index rose by 0.5% in local currency terms and rose by 0.6% in sterling terms.
- The Energy sector was the best performer, returning 1.6% in sterling terms.
- The Utilities sector was the worst performer, returning -0.9% in sterling terms.



Regional equities

- Emerging Market equities were the best performing market in local currency terms (+1.6%).
- Japanese equities were the worst performing market in local currency terms (-0.5%).
- Emerging Market equities were the best performing market in sterling terms (+1.5%).
- US equities were the worst performing market in sterling terms (+0.4%).



Government bonds

- The 10-year gilt yield fell by 4bps to 0.75% and the 20-year gilt yield fell by 5bps to 1.14%.
- The 10-year US treasury yield fell by 12bps to 1.79%.
- At the 10-year maturity, the German bund yield fell by 3bps to -0.28% and the French government bond yield fell by 2bps to 0.03%.
- Greek government bond yields fell by 3bps to 1.39%.



Inflation-linked bonds

- The UK Over 5-year real yield index fell by 11bps to -1.90% and the UK 20-year real yield fell by 11bps to -2.07%.
- 20-year breakeven inflation rose by 5bps to 3.21%.



Credit

- Local currency emerging market debt rose over the fortnight, returning 1.0%.
- The US high yield bond spread over US treasury yields rose by 8bps to 361bps over the fortnight.
- The spread of USD denominated EM debt over US treasury yields rose by 8bps to 308bps over the fortnight.
- The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) rose by 1bps to 112bps over the fortnight.



Commodities

- The S&P GSCI index rose by 2.4% in USD terms over the fortnight.
- The S&P GSCI Energy index rose by 3.6% as the price of Brent Crude oil rose by 3.7% to US\$69/BBL.
- Industrial metal prices fell by 0.6% as copper prices fell by 1.3% to US\$6,077/MT.
- Agricultural prices rose by 0.6% and gold prices rose by 4.7% to US\$1,549/Oz.



Currencies

- Sterling strengthened by 0.2% against the US dollar and fell by 0.5% against the euro, ending the fortnight at \$1.31/£ and €1.17/£ respectively.
- The US dollar decreased by 1.3% against the Japanese yen, ending the fortnight at ¥108.03/\$.

Economic releases

Highlighted releases



Region: US

Conference Board Consumer Confidence index

The Conference Board Consumer Confidence index fell by 0.3 point to 126.5. While consumers' assessment of current conditions improved, a softening in their short-term outlook regarding jobs and financial prospects drove the index downwards.



Region: US

ISM Manufacturing

The ISM Manufacturing index fell by 0.9 point to a 10-year low of 47.2, well below market expectations of 49.0. The reading pointed to a fifth consecutive month of declining manufacturing activities.



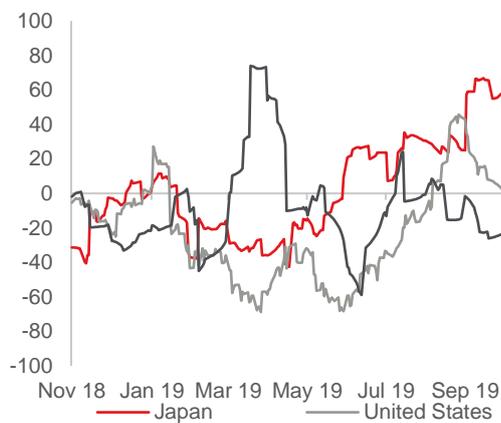
Region: China

Manufacturing PMI

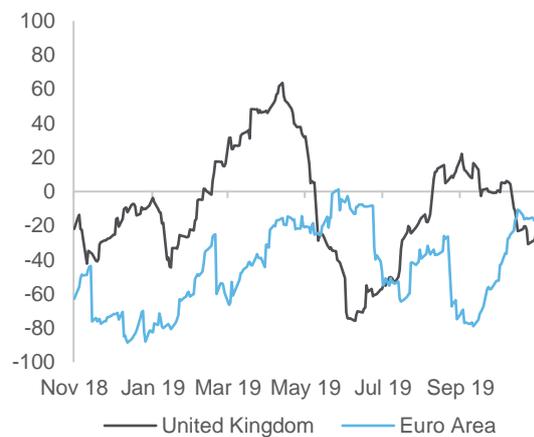
China's official manufacturing PMI was unchanged at 50.2 in December, pointing to a second consecutive month of weak manufacturing expansion. Meanwhile, the Non-Manufacturing PMI fell from an eight-month high of 54.4 recorded in November, falling by 0.9 points to 53.5.

Economic surprise

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



Source: FactSet, Citi



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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.

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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