UK Week in Markets

Week ending 3 November 2019

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Key news and events

As widely expected, the US Federal Reserve (Fed) cut the federal funds rate for the third time this year, cutting it by 25bps to a range of 1.50%-1.75%. The Fed signaled that it has no further plans to cut rates, preferring to wait for clearer economic data instead, but stated that a significant move up in inflation is required before the Fed would consider raising rates.

The European Union agreed to grant a three-month extension to the Article 50 deadline, bringing the proposed Brexit date to 31 January 2020. Meanwhile, the UK Parliament voted to hold a general election on 12 December 2019 in a bid to resolve the current political deadlock.

The Asia-Pacific Economic Cooperation (APEC) summit on November 16-17, where Presidents Trump and Xi were intending to meet and finalise "phase 1" of the US-China trade agreement, was cancelled amidst ongoing civil unrest in Chile. However, negotiators from the US and China stated that both sides are on track to conclude an agreement this month.

Market moves

Global equities

- Global equity markets rose over the week.
- The MSCI AC World Index rose by 1.1% in local currency terms and rose by 0.5% in sterling terms.
- The Health Care sector was the best performer, returning 1.9% in sterling terms.
- The Energy sector was the worst performer, returning -1.3% in sterling terms.

Regional equities

- US equities were the best performing region in local currency terms (+1.5%).
- UK equities were the worst performing region in local currency terms (-0.4%).
- Japanese equities were the best performing region in sterling terms (+0.6%).
- UK equities were the worst performing region in sterling terms (-0.4%).

Government bonds

- The 10-year gilt yield fell by 2bps to 0.64% and the 20-year gilt yield fell by 1bps to 1.05%.
- The 10-year US treasury yield fell by 7bps to 1.73%.
- At the 10-year maturity, the German bund yield fell by 2bps to -0.40% and the French government bond yield fell by 1bps to -0.08%.
- 10-year Spanish government bond yields fell by 1bps to 0.25%.

Inflation-linked bonds

- The UK Over 5-year real yield rose by 2bps to -1.88% and the UK 20-year real yield was unchanged at -2.06%.
- 20-year breakeven inflation fell by 1bps to 3.13%.

Credit

- US Investment Grade bonds rose over the week, returning 0.6%.
- The US high yield bond spread over US treasury yields rose by 20bps to 409bps over the week.
- The spread of USD denominated EM debt over US treasury yields fell by 4bps to 331bps over the week.
- The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) fell by 2bps to 121bps over the week.

Commodities

- The S&P GSCI index rose by 0.2% in USD terms over the week.
- The S&P GSCI Energy index fell by 0.2% as the price of Brent Crude oil fell by 0.5% to US$62/BBL.
- Industrial metal prices rose by 0.5% although copper prices fell by 1.2% to US$5,797/MT.
- Agricultural prices rose by 0.5% and gold prices fell by 0.3% to US$1,509/Oz.

Currencies

- Sterling strengthened by 0.9% against the US dollar and rose by 0.2% against the euro, ending the week at $1.29/£ and €1.16/£.
- The US dollar decreased by 0.4% against the Japanese yen, ending the week at ¥108.15/$.

Economic releases

Highlighted last week releases

Region: US

GDP Growth (Annualized)

The US economy grew at an annualized rate of 1.9% in the third quarter, beating analysts' forecasts of 1.6% but slowing from the 2.0% growth recorded previously. Increases in consumer expenditure and government spending were the main drivers of growth over the quarter, whilst a fall in net exports and a sharp contraction in business investment detracted from growth.

Region: US

Change in Nonfarm Payrolls

The US economy added substantially more jobs than expected in October, easily beating market expectations of 85,000 new jobs with an advance of 128,000. Notable job gains were recorded in the financial and food & beverage industries, whilst manufacturing employment fell significantly.

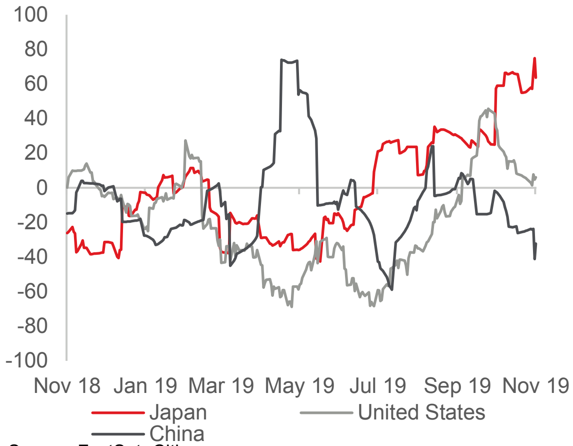
Region: Eurozone

GDP Growth

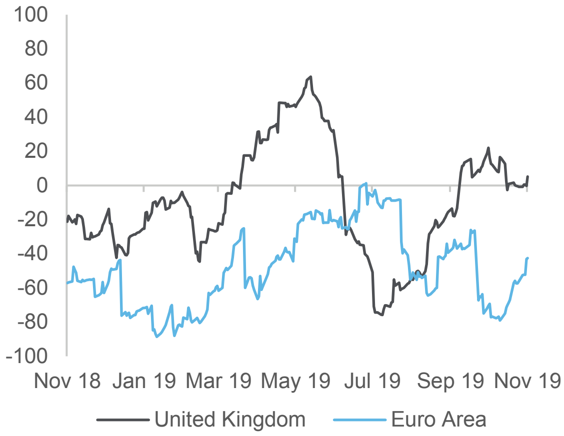
The Eurozone economy grew by 0.2% in Q3, in line with the previous quarter and slightly above market expectations of 0.1%. GDP growth in large Eurozone economies such as France, Italy and Spain remained steady, whilst Germany's GDP growth figures will be available later in the month.

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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About Aon Global Asset Allocation

Where are we in the economic cycle? What is the relative value of different asset classes? How are technical factors, such as regulation, impacting prices? Aon's Global Asset Allocation team continually asks and answers questions like these. We use our findings to help clients make timely decisions about asset allocation in their schemes' portfolios.

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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