



# UK Week in Markets

Week ending 15 December 2019



# Key news and events



Prime Minister Boris Johnson's Conservative Party won a sizeable majority in the British general election last week, winning 365 of the 650 seats available. The results make it highly likely that Parliament will pass the Withdrawal Agreement and exit the EU by 31 January 2020. The UK will then have until the end of 2020 to negotiate a new trade agreement with the EU if an extension is not agreed.



The US and China reached a "phase one" trade deal last week. The deal suspended US tariffs on \$156bn worth of Chinese goods which was scheduled to take effect on Sunday. In addition, US tariffs on \$120bn worth of Chinese imports were halved to 7.5%. In return, China pledged to increase purchases of US agricultural products and enhance intellectual property protection.



The US, Canada, and Mexico finalised the US-Mexico-Canada agreement (USMCA) in Mexico City after US Congress and the White House reached a compromise on labour rights, environmental standards and other issues, removing obstacles to US ratification of the treaty.

# Market moves



## Global equities

- Global equity markets rose in local currency terms over the week.
- The MSCI AC World Index rose by 1.1% in local currency terms and fell by 0.5% in sterling terms.
- The Materials sector was the best performer, returning 0.2% in sterling terms.
- The Real Estate sector was the worst performer, returning -3.4% in sterling terms.



## Regional equities

- Emerging Market equities were the best performing market in local currency terms (+2.9%).
- European equities were the worst performing market in local currency terms (+0.6%).
- Emerging Market equities were the best performing market in sterling terms (+1.8%).
- US equities were the worst performing market in sterling terms (-1.1%).



## Government bonds

- The 10-year gilt yield rose by 7bps to 0.83% and the 20-year gilt yield rose by 6bps to 1.23%.
- The 10-year US treasury yield fell by 2bps to 1.82%.
- At the 10-year maturity, the German bund yield rose by 3bps to -0.27% and the French government bond yield rose by 1bp to 0.02%.
- Greek government bond yields fell by 15bps to 1.35%.



## Inflation-Linked Bonds

- The UK Over 5-year real yield rose by 1bp to -1.78% and the UK 20-year real yield fell by 1bp to -1.96%.
- 20-year breakeven inflation rose by 2bps to 3.15%.



## Credit

- Local currency emerging market debt fell over the week, returning -0.6%.
- The US high yield bond spread over US treasury yields fell by 18bps to 371bps over the week.
- The spread of USD denominated EM debt over US treasury yields fell by 12bps to 313bps over the week.
- The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) fell by 6bps to 111bps over the week.



## Commodities

- The S&P GSCI index rose by 1.5% in USD terms over the week.
- The S&P GSCI Energy index rose by 1.3% as the price of Brent Crude oil rose by 1.3% to US\$65/BBL.
- Industrial metal prices rose by 1.6% as copper prices rose by 4.9% to US\$6,154/MT.
- Agricultural prices rose by 1.8% and gold prices rose by 0.5% to US\$1,467/Oz.



## Currencies

- Sterling strengthened by 1.8% against the US dollar and rose by 1.0% against the euro, ending the week at \$1.33/£ and €1.20/£ respectively.
- The US dollar increased by 0.6% against the Japanese yen, ending the week at ¥109.27/\$.

# Economic releases

## Highlighted last week releases



Region: US

### FOMC Rate Decision

The Federal Reserve kept interest rates on hold at 1.50% to 1.75% at their meeting last week. In the latest "dot plot", the majority of the Federal Open Markets Committee (FOMC) believed that interest rates will stay at current levels for at least the next year, with the next 25bps hike not anticipated until 2021.



Region: UK

### Monthly GDP

The British economy stagnated in October, defying analyst expectations of 0.1% growth. This followed two consecutive months of contraction in September and October, as steep falls in the manufacturing and construction sectors cancelled outgrowth recorded in the services sector.



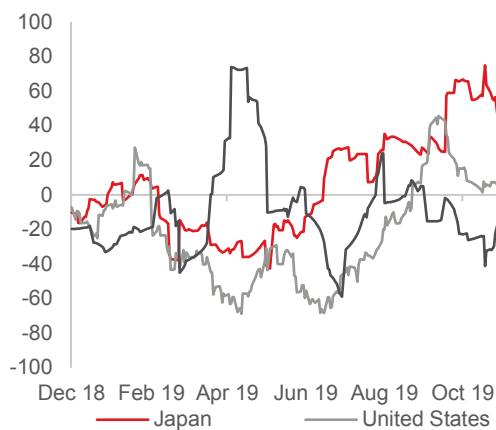
Region: Eurozone

### ECB Deposit Facility Rate

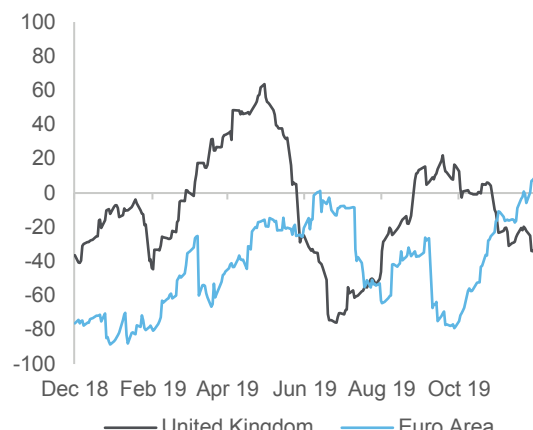
In Christine Lagarde's first meeting as the European Central Bank's (ECB) president, the ECB kept interest rates on hold at -0.5%. The ECB's statement reiterated that rates will stay at current levels or lower until inflation returns to target.

## 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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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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