



UK Week in Markets

Week ending 18 August 2019



Key news and events



Global growth concerns escalated over the week. The widely watched spread between 10 and 2-year US Treasury yields briefly fell into negative territory for the first time since 2007. Inversion in this part of the yield curve is widely used as a sign of a potential upcoming recession as a recession has followed every yield curve inversion since the 1960s. Meanwhile, the German economy contracted by 0.1% in the second quarter, whilst Eurozone GDP growth slowed to 0.2%.



Government bond yields of major developed markets breached new lows amidst global growth concerns and increasing expectation for further monetary easing. The US 30-year bond yield fell below 2% for the first time in history, whilst the German 10-year bund yield fell to a new record low, ending the week at -0.72%.



In a respite to the escalating US-China trade dispute, the Trump administration announced a partial delay from September to December to the proposed 10% tariff on \$300bn of previously untaxed Chinese consumer goods imports. Meanwhile, the Chinese government vowed to retaliate if the US imposes further tariffs on Chinese products and stated that the new tariffs represent “a serious violation of the consensus” reached in talks at the G20 summit in June.

Market moves



Global equities

- Global equity markets fell over the week amidst increasing fears of a global recession.
- The MSCI AC World Index fell by 1.0% in local currency terms and fell by 1.7% in sterling terms.
- The Consumer Staples sector was the best performer, returning 0.3% in sterling terms.
- The Energy sector was the worst performer, returning -3.3% in sterling terms.



Regional equities

- European equities were the best performing region in local currency terms (-0.5%).
- UK equities were the worst performing region in local currency terms (-1.5%).
- UK equities were the best performing region in sterling terms (-1.5%).
- Japanese equities were the worst performing region in sterling terms (-2.4%).



Government bonds

- The 10-year gilt yield fell by 13bps to 0.47% and the 20-year gilt yield fell by 14bps to 0.86%.
- The 10-year US treasury yield fell by 19bps to 1.54%.
- At the 10-year maturity, the German bund yield fell by 12bps to -0.72% and the French government bond yield fell by 13bps to -0.41%.
- Italian government bond yields fell by 40bps to 1.38%.



Inflation-linked bonds

- The UK Over 5-year real yield fell by 15bps to -2.16% and the 20-year real yield fell by 18bps to -2.41%.
- 20-year breakeven inflation rose by 5bps to 3.32%.



Credit

- US Investment Grade bonds rose over the week, returning 1.1%.
- The US high yield bond spread over US treasury yields rose by 16bps to 447bps over the week.
- The spread of USD denominated EM debt over US treasury yields rose by 30bps to 377bps over the week.
- The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) rose by 2bps to 127bps over the week.



Commodities

- The S&P GSCI index fell by 0.9% in USD terms over the week.
- The S&P GSCI Energy index rose by 0.6% as the price of Brent Crude oil rose by 0.2% to US\$59/BBL.
- Industrial metal prices rose by 0.8% although copper prices fell by 0.6% to US\$5,710/MT.
- Agricultural prices fell by 4.8% and gold prices rose by 1.2% to US\$1,515/Oz.



Currencies

- Sterling strengthened by 0.5% against the US dollar and by 1.4% against the euro, ending the week at \$1.21/£ and €1.09/£.
- The US dollar increased by 0.7% against the Japanese yen, ending the week at ¥106.39.

Economic releases

Highlighted last week releases



Region: US

University of Michigan Consumer Sentiment

Consumer sentiment in the US fell by 6.3 points to 92.1 in August, reaching the lowest level in seven months. Escalating US-China trade tensions and an increasingly volatile equity market heightened consumer uncertainty. The survey also suggested that many consumers believed the first Federal Reserve rate cut in a decade to be indicative of a potential economic slowdown.



Region: Eurozone

Industrial Production YoY

Industrial production in the Eurozone fell by 2.6% year-on-year in June, recording the steepest decline in industrial activities this year. Analysts were expecting a less severe decline of 1.5%.



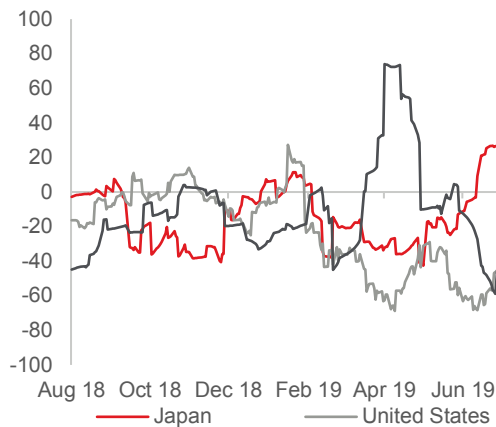
Region: Germany

GDP QoQ

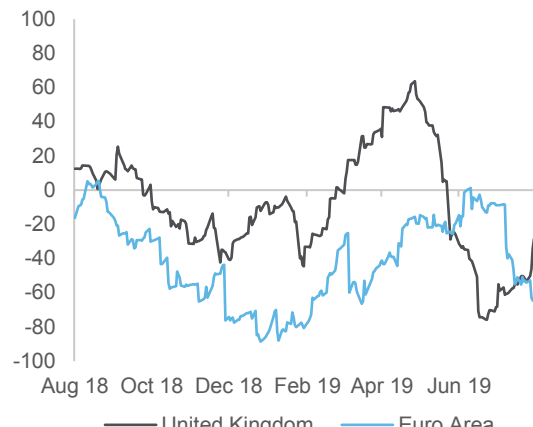
Germany's GDP contracted by 0.1% in the second quarter, recording the second quarterly economic contraction in a year, as global growth concerns and troubles in the German automotive manufacturing sector dragged on growth.

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.

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