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INVESTMENT MANAGEMENT

# Weekly Investment Update

## The week in review

- Sterling rallies on positive Brexit news flow
- China's Purchasing Managers Index figure continues decline
- China's equities rally
- US GDP growth tops estimates

Sterling staged a rally this week, hitting £1.00/$1.33, the highest since last November. While it is still unclear whether PM Theresa May will reach an acceptable deal by March 12th, markets remain bullish towards Sterling as the risks of a no-deal Brexit fade, with a potential deal leaning towards the softer side. It is now looking more likely that a hard Brexit will be avoided, with the increasing likelihood of Parliament voting to extend negotiations past the 29th March. Although this news may be good for the pound, uncertainty will continue to linger which is bad news for equity markets and UK investment.

China's February manufacturing purchasing managers index (PMI) figure stayed below the 50 mark, which signifies contraction, dropping to 49.2. Contributing factors to the weak data included a series of domestic holidays, the global slowdown and continued uncertainty from the trade war. The good news, however, is that February's non-manufacturing PMI data, which reflects the construction and services sectors, although falling from Januarys figure, is still expanding at 54.3. European equity markets rallied on Friday on the back of this positive data.

Earlier in the week, China's equities hit the highest one day gain since 2015, as the Shanghai Composite Index added 5.6% and the CSI 300 Index closed 6% higher, with the CSI 300 now up 20% from the 3rd January low. The Chinese President helped fuel the rally sparked by the trade truce by promising at a Politburo (party) meeting to further open the finance industry.

Over in the US, GPD data for Q4 2018 was released, indicating that the economy is cooling less than expected. The US expanded 3.45% in Q3 and 4.2% in Q2 in 2018. Solid growth in Q4 of 2.6% resulted in the economy posting 3.1% growth for the full year. That's the best year of growth for more than a decade. With unemployment near a 50 year low, consumer spending was also strong, and business investment was even stronger, rising by 6.2%.

Trade talks between the US and China seem to be coming to the final stages, as US officials are now preparing a final trade agreement that President Trump and Chinese President Xi Jinping could sign in a matter of weeks. A summit between the two sides is being eyed as soon as mid-March. If, however, there is a scenario where no deal is agreed, the International Monetary Fund has estimated that it would cut 0.2% from US growth this year and cut 0.6% from China's 2019 expansion.

Looking at commodities, February was a mostly positive month with the CRB commodity index up 1.7%. Brent crude (+6.7%), WTI (+6.4%) were helped by the output drop caused by unplanned inventory losses from Venezuela and Iran due to trade restrictions imposed by President Trump. Regarding metals, Copper (+5.9%) led the way while precious metals struggled, with gold (-0.6%) and silver (-2.8%) down on the month.

The yield on US 10 year bond climbed this week as US GDP figures beat expectations and investors await further key economic data.

| **Global Markets** | **2019 YTD %*** |
|---|---|
| **FTSE 100** | **+4.31%** |
| **S&P 500** | **+10.35%** |
| **Dax** | **+6.95%** |
| **Nikkei 225** | **+9.41%** |
| **Hang Seng** | **+12.02%** |
| **Fixed Income** | **Yield %** |
| **UK 10 Yr** | **+1.32%** |
| **US 10 Yr** | **+2.74%** |
| **Commodities** | **2019 YTD %** |
| **Gold** | **+2.41%** |

***Source: FE Analytics/ Bloomberg.com*** ****Total Return/Local currency***



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