Market Commentary for the Period 1st January 2019 – 31st March 2019

Global equities experienced strong returns over the period following a rapid recovery from losses last quarter. In the US, while congress reached an agreement over 'the wall' avoiding another government shutdown, President Trump failed to reach a trade agreement with China. MPs failed to reach a majority over the Brexit deal, but were granted a short extension by the EU. Financial conditions were eased across emerging markets with interest rate cuts in India and a raft of tax cuts in China. Bond markets benefited from a continued fall in yields driven by comments by a number of the worlds largest developed central banks.

US equity markets rose significantly over the quarter, rebounding from previous market weakness. The Federal Reserve held interest rates steady over the period and communicated at their most recent meeting that rates would likely remain unchanged until at least the end of the year. This differed from their meeting in December where two interest rate rises were expected over 2019. Their economic growth forecast for the year was also slightly reduced noting a slowdown in household spending and business investment.

The Democrats and Republicans reached an agreement over government funding for the border wall to avoid another partial shutdown. This would be for only $1.4bn of the original $4.4bn proposed by President Trump and would cover only 55 miles. The last government shutdown, which lasted 35 days, cost the country an estimated $11bn. President Trump later announced that he would be declaring a state of national emergency as a means to gain access to the funds he originally requested. President Trump and Chinese President Xi Jinping concluded that a trade deal would not be agreed in March, but would be delayed until April at the earliest.

US fourth quarter GDP fell to 2.2% q/q annualised. While economic growth over the year was relatively strong, the latest quarterly reading declined, led partly by a fall in public spending. Inflation fell to 1.5% y/y in February, the lowest rate since September 2016, driven predominately by lower clothing and fuel prices. Unemployment fell to 3.8%, partly reflecting the return of federal workers who were dismissed earlier in the year due to the partial government shutdown.

UK equity markets gained despite continuing uncertainty around the Brexit outcome. The Prime Minister faced a vote of no confidence from her own party which she survived. Following tension on the details of the Irish backstop, the EU outlined that the withdrawal agreement was not open for renegotiation. Her initial Brexit deal was rejected by the largest margin in the history of the House of Commons. MPs subsequently rejected it again but voted in principle against the UK leaving the EU without a deal under any circumstance. A short extension was granted by the EU and alternative options were debated, but none secured a majority vote. Theresa May outlined that she would stand down as Prime Minister if her deal was passed. At quarter end, Britain is set to leave the EU on 12th April with no deal in place unless the withdrawal agreement is ratified or Article 50 is revoked.

The Bank of England voted unanimously to leave interest rates unchanged at each of their meetings and pledged that future rises would be limited and gradual. They reiterated that much of the economic outlook will continue to depend on the nature and timing of the EU withdrawal. UK fourth quarter GDP fell to

0.2% q/q led partly by a fall in net trade. Inflation rose to 1.9% y/y in February, driven predominately by the cost of food, alcohol, tobacco and recreational goods. Unemployment fell to 3.9% to reach the lowest level since early 1975. UK wages rose 3.4% (incl. bonuses), well above levels seen in recent years.

European equity markets rallied through the period, in line with broader market strength. The European Central Bank pushed out their expectations for interest rate rises from summer 2019 to 2020, at the earliest. They also announced a new bank lending program to commence later in the year which would maintain favourable credit conditions. European fourth quarter GDP rose to 0.2% q/q. Within the bloc, Italy's economy contracted for the second quarter in a row placing the country in technical recession. Germany narrowly avoided this with flat line growth following contraction in the previous quarter. Inflation rose to 1.5% y/y in February led by rising energy costs, food, alcohol and tobacco. Unemployment remained at 7.8%, the lowest rate since October 2008.

Japanese equity markets produced steady gains in a relatively quiet period for newsflow. The Bank of Japan maintained their stance on interest rates and stimulus in their most recent meeting. They remained optimistic on their outlook for domestic demand from spending by both corporates and households. However, exports turned notably weaker in recent months. Japanese fourth quarter GDP rose to 0.5% q/q supported by a rebound in household consumption and business spending. Inflation fell to 0.2% y/y in February, remaining at a 15-month low, held lower by food, transportation and communication costs. Unemployment fell to 2.3%, lower than the previous month and expectations.

Emerging market equities were strong despite a batch of unfavourable data announcements. Following an array of poor economic data, the Chinese central bank eased financial conditions by reducing the amount of capital banks would have to hold. The Chinese government later announced a raft of tax cuts expected to release around $300bn to help boost growth. The Indian central bank surprised by cutting interest rates to 6.25% which was also an attempt to support economic growth. In Turkey, the central bank used their reserves to prop up the currency through uncertainty during municipal elections. This called into question the independence of their policy and led to a negative rating from ratings agency Moody's. Thailand held their first general election since 2011 marking a return to democracy and the potential for more political stability in the country.

In fixed income markets, bond yields continued to fall across multiple sectors including those issued by governments, corporations and emerging market bonds. This follows a change in the language from the US central bank reducing upward pressure on interest rates due to weakness in economic data. This rhetoric was emulated by the European central bank who further extended expectations of any potential rate hikes. Yields on UK, US and German 10 year bonds ended the quarter at 1.00%, 2.42% and -0.07% respectively.