



Weekly Bulletin

Key takeaways

Stock markets displayed their worst weekly performance this year, as US-China trade tensions were rekindled and the US Federal Reserve (Fed) cast doubt over its monetary policy path for the remainder of 2019.

- The Fed acted in line with expectations by reducing interest rates by 0.25%, although two Fed members dissented against the decision. Markets had long hoped for a cut in July, yet Fed Chairman Jerome Powell managed to almost instantly dissatisfy investors by quashing expectations of further interest rate cuts in 2019, calling July's cut a mere 'mid-cycle adjustment'. His comment sent markets reeling, with stock prices falling sharply and bond prices rallying in response to the news. Following this, markets slashed the probability of a September rate cut to 60% (previously at 75%).
- Justifying this future course, Powell pointed to a strong labour market and moderately rising economic activity. The Fed's decision was overshadowed on Thursday, however, when President Trump announced a fresh new wave of sanctions on China. The US announced plans to impose 10% tariffs on all \$300bn remaining Chinese exports by September, stating that China had not bought enough US agricultural goods, contrary to former promises.
- In response, China has asked its state-owned companies to suspend imports of US agricultural products. The Chinese currency also weakened following this escalation in tensions, which the Chinese central bank cited as short-term protection against tariff expectations. The US, on the other hand, could see this as a retaliatory act of currency manipulation. Markets are interpreting the ratcheting up of tensions as effectively overriding the Fed's earlier hesitancy on future rate cuts, prompting fresh hopes for more in September.
- In British politics, Prime Minister Boris Johnson faced new obstacles on his Brexit mission. The first emerged when the Conservatives were beaten by the Liberal Democrats in a by-election for Brecon and Radnorshire, leaving the Conservatives with a wafer-thin parliamentary majority of one (including the Democratic Unionist Party). Meanwhile, the EU continues to refuse to reopen negotiations on the Withdrawal Agreement, and the Bank of England has cut growth forecasts, warning that the UK economy has a one in three chance of contracting at the beginning of 2020.

What to look out for this week

- On Monday, a series of European manufacturing data is tabled for release, and some large financial companies will report their Q2 earnings.
- China's trade balance and inflation data are due for release on Wednesday and Friday respectively.
- Friday will also see a swathe of economic data for the UK released, including growth, trade balance and industrial production data.

Weekly market moves

- The entire German government bond yield curve turned negative for the first time ever, as investors fled to safer assets.
- Safe haven assets like gold fared especially well in this risk-averse environment.
- In currency moves, sterling weakened as the Bank of England revised its growth forecast downwards, and the rhetoric around a 'no-deal' Brexit from the new Cabinet increased.



Weekly market moves (as at 02 August 2019)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,129.5	-1.9%	-2.4%	12.6%
MSCI United Kingdom Mid Cap	1,235.8	-2.3%	-2.0%	14.1%
MSCI United Kingdom Small Cap	401.0	-2.9%	-2.0%	13.1%
MSCI World (GBP)	1,652.0	-0.8%	-0.7%	21.9%
S&P 500 (GBP)	2,932.0	-0.9%	-0.6%	24.3%
MSCI Japan (GBP)	925.9	1.9%	1.1%	13.7%
MSCI Europe ex-UK (GBP)	1,315.0	-1.0%	-0.9%	18.9%
MSCI Pacific ex-Japan (GBP)	1,669.0	-1.2%	-1.3%	20.4%
MSCI Emerging Markets (GBP)	56,015.2	-2.1%	-2.2%	11.4%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,320.7	1.3%	0.9%	8.2%
BoA Merrill Lynch Index-Linked Gilts	600.6	2.6%	0.8%	13.0%
BoA Merrill Lynch £ Corporate	440.2	0.6%	0.4%	9.9%
Commodities				
Oil (West Texas Intermediate, GBP)	\$55.7	1.2%	-3.9%	29.6%
Gold (GBP)	\$1441.8	3.7%	2.0%	18.5%
S&P / GSCI (GBP)	2,405.2	0.0%	-2.5%	14.7%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.

Clear Thinking

Important information

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