

Thesis Market Commentary

NEWS & VIEWS

Summary

- Risk assets continue their rally
- First quarter surprise
- Short-term relief to consumer confidence
- Stimulus from China
- Japan's first abdication

The financial markets continue to wrestle with the direction of growth, inflation, and monetary policy. For now, it appears that markets may be happy with a "just right" Goldilocks economy: cool enough not to spark rising prices or prompt the Federal Reserve to take action, but warm enough to avoid choking company profits. Risk assets continued their rally in April, driven by accommodative central banks, but also supported by a solid start to the first quarter US earnings season, albeit against sharply lower expectations since the beginning of the year.

| Indices | Value as at 30/04/2019 | % Change on month | % Change year to date | % Change on 12 months |
|------------------------|------------------------|-------------------|-----------------------|-----------------------|
| FTSE 100 Share | 7418.22 | 1.91% | 10.26% | -1.21% |
| FTSE All Share | 4067.98 | 2.25% | 10.69% | -1.45% |
| S&P 500 | 2945.83 | 3.93% | 17.51% | 11.25% |
| Dow Jones | 26592.21 | 2.56% | 14.00% | 10.05% |
| Euro Stoxx 50 EUR | 3514.62 | 4.86% | 17.10% | -0.62% |
| Nikkei 225 | 22258.73 | 4.97% | 11.21% | -0.93% |
| MSCI Emerging Markets | 1079.24 | 2.00% | 11.75% | -7.32% |
| UK Treasury 4.25% 2027 | 126.15 | -1.54% | -0.11% | 0.64% |
| Sterling/US\$ | 1.30 | 0.38% | 2.32% | -5.25% |
| Sterling/Euro | 1.16 | 0.41% | 4.47% | 2.22% |

SOURCE: BLOOMBERG

US

Economic growth in the first quarter surprised investors and economists, alike. The Bureau of Economic Analysis announced that the economy grew at a 3.2% annualised pace in the first quarter, despite the headwinds of a government shutdown. We would, however, caution investors to take a closer look under the bonnet, as the underlying components were less favourable. More than half of the top

line growth figure was attributable to inventories and trade, which can be volatile. In addition, consumer spending, which usually accounts for about two-thirds of GDP growth, rose far more slowly than it did in the previous quarter. The US job market, however, continues to surprise with its strength despite very low unemployment levels. In April, the economy added a better than expected 263,000 jobs, continuing the remarkable growth in employment without stoking much higher wages and inflation.

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UK

UK economic momentum remains positive, albeit a gentler pace versus 2018. The employment and wage growth data continues to be strong, with wages rising at their fastest rate for ten years in nominal terms. UK retail sales stayed below expectations however in April, even as warm weather and a long holiday weekend boosted spending on food and drink. While the Brexit delay seems to have brought some short-term relief to consumer confidence, it's clear that many shoppers still remain cautious about making any big-ticket purchases such as holidays, cars or furniture.

Eurozone

German manufacturing remained in a slump at the start of the second quarter, casting a cloud over the Euro-area economy, as well as the European Central Bank's hopes for a quick recovery. In France, there were however signs that activity is stabilising, but the Euro area's second-largest economy is still not out of the woods. Here, new orders fell for a fifth month and an underlying slowdown in demand remains evident. Most investors still expect the Eurozone economy to pick up again in the second half of 2019, as the headwinds from foreign trade gradually ease, and stimulus from China starts to work its way through the system.

“The Japanese Emperor Akihito ended his three-decade reign to close out the month”



Japan

Domestic economic data released during the month was mixed, with industrial production falling more sharply than expected, down 0.9% in March, while retail sales were up 0.2%. The Bank of Japan proclaimed it would not raise interest rates until 2020, in a bid to increase stability and push investor expectations towards an extended period of monetary accommodation. Equity markets followed global markets higher but news flow was very limited during the month, with many participants signalling the extended Golden Week public holidays as a reason for the subdued markets. The Japanese Emperor Akihito ended his three-decade reign to close out the month, voluntarily stepping down due to health concerns to make way for his son in the country's first abdication of the Chrysanthemum Throne since 1817.

Emerging Markets

After a strong first quarter, Emerging Markets continued their rally in April. EMEA was the standout performer, supported by strength in the oil price and a modest reduction in geopolitical risk. Asia was boosted by better news on the Chinese economy, with first-quarter GDP of 6.4%, slightly above consensus forecasts, and industrial production growth for March delivering a robust 8.5% year on year. It was Singapore (banking stocks) and Taiwan (technology sector) however that came out on top within the region. Latin America posted a small absolute gain over the month, and remains firmly in positive territory, with strength in Mexico making up for weakness in Brazil and Colombia.

Fixed Income

Corporate bond markets extended recent gains, delivering another month of positive performance. The high yield debt market (higher risk of default) outperformed investment grade, however, returns were limited by rising government bond yields. Emerging markets bonds were broadly little changed, but similarly, EM corporates outperformed government bonds.

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