Weekly Digest
29 April 2019

Investec Wealth & Investment

The weekly insight into world stock markets

Steady As She Goes

The two weeks since the last Weekly Digest have been remarkably quiet, notably so in the UK – it's amazing how relaxing life becomes when politicians take a break! There has been no meaningful progress on Brexit, and further afield the US and China still haven't reached an agreement on trade. Probably the most noteworthy development is that the US economy continues to defy expectations of a slowdown, posting a surprisingly high 3.2% growth rate in the first quarter (although bear in mind that the figure is annualised growth over the previous quarter, which can magnify the change).

Perhaps of even more import is the lack of inflation. The Federal Reserve's preferred measure of US inflation is the Core Personal Consumption Expenditure Index, which fell to 1.3% on the same basis (although the year-on-year change was higher at 1.68%). There is no sign that demand growth or a tighter labour market is feeding through into everyday prices yet, which should keep monetary policy on hold, a positive for financial markets. Mind you, there are those who view this benign inflation experience as indicative of a weaker underlying economy, so there's always something to worry about.

Another release in the US was the Mueller Report, investigating Russia's alleged interference in the 2016 presidential election. Allied to this is Donald Trump's equally alleged attempt to obstruct justice. It would be a stretch to say that the report exonerates him completely, but there appears to be insufficient evidence to encourage impeachment proceedings. Impeachment would pose a risk to US financial markets (and almost inevitably global markets), and so it is important that we have a view on this.

We note first of all that much of the press is naturally anti-Trump, and therefore not exactly unbiased in its opinions, so we should take account of that when considering the clamour. At the most basic level, if there is a "smoking gun", it really should have been found by now. The maths of impeachment also still fail to add up, as the Republicans maintain a majority in the Senate – and it's the Senate that has the final say. We also note that an unsuccessful attempt to impeach brought by the Democrats could blow up in the party's face in terms of the next election (November 2020). Therefore our view remains that presidential impeachment remains a low probability event, especially in the absence of more compelling evidence.

The other big political noise in the US surrounds the Democratic Party's choice for its presidential candidate in the 2020 election and where they want to pitch him or her on the political spectrum. There are currently twenty declared runners, and more potential ones, and so this feels more like the Grand National than the Derby, and there are going to be some spectacular fallers. Like the Grand National, this could be a war of attrition, and it will go on… and on… and on. In any event, things should be a lot clearer by "Super Tuesday", but that's not until March 3rd 2020.

There is no doubt that early sentiment within the party leans further to the left than last time, with Bernie Sanders currently leading the field. However, if the party feels that supporting such a candidate could alienate the more neutral voter, there is every chance that it tacks back towards the centre. Never let principles get in the way of getting elected! The party's choice can have an influence on equity market sector performance. An early casualty has been the Healthcare sector, with "Medicare-For-All" threatening to undermine its profitability. In the past (such as in the run up to Clinton's presidency) such threats have produced great buying opportunities, but it's too early to make that call yet.

Threats of greater regulation and taxation, possibly even the break-up of dominant companies, have also been made towards "Big Tech". Certainly this is a risk that we cannot ignore, but we also feel that it is not one that is a big vote winner. Voters seem to like what Tech is doing for them (just look at the reported growth in the latest quarter). On the other side of the aisle, whether you like it or not, it looks as though Trump is the shoo-in candidate for the Republicans, and he remains the clear favourite to win a second term.

Finally, a word on oil, the standout performer, year-to-date, with Brent crude up 40%. Good or bad news? Taking a longer view, the oil price is almost exactly where it was twelve months ago. Consumers might have enjoyed a price windfall during the dip, but it wasn't long enough to become embedded in the psyche – just long enough to underwrite Christmas shopping!

The reasons for the oil price move appear to rest mainly on the supply side. OPEC+ has cut production, production constraints are evident in several countries (eg Venezuela, Libya, Nigeria), and Trump has ended the Iran sanctions waiver. It is possible that some risk premium is being bid into the oil price as the margin of spare production narrows, making the price vulnerable to a spike upwards.

Our analyst feels that $65-75 is a sensible range for Brent oil, with shale production notably able to be ramped up at fairly short notice. There are plenty of drilled, but capped, wells on standby. But in the short term, oil will remain well bid. Not only are there the aforementioned supply issues, but also evidence of firming demand, as seen in improving Chinese growth and the latest US GDP print; this as we head into the US driving season, for which there tends to be anticipatory inventory building. Overall, the view is that the oil price currently presents a limited threat to the macro situation, but it is acknowledged that a negative supply shock could create more stress.

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FTSE 100 Weekly Winners

NMC Health	9.1%
Reckitt Benckiser	6.4%
Severn Trent	4.6%
Hargreaves Lansdown	4.4%
Rentokil	3.9%
Smith & Nephew	3.9%
RELX	3.6%

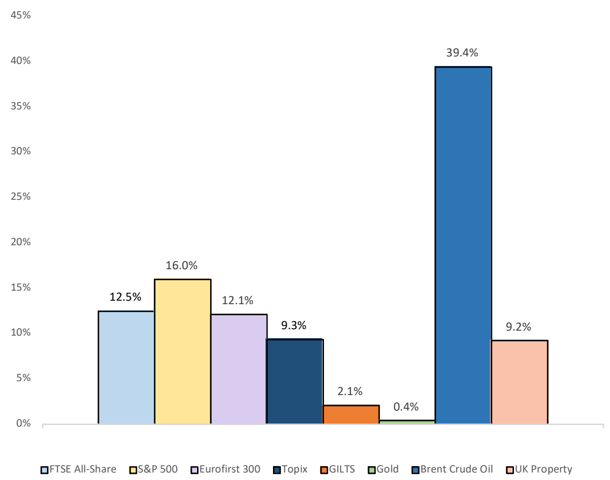
Source: FactSet

FTSE 100 Weekly Losers

Royal Bank of Scotland	-8.5%
Glencore	-8.1%
Antofagasta	-7.6%
Anglo American	-7.4%
easyJet	-5.3%
Barclays	-4.9%
Legal & General	-4.8%

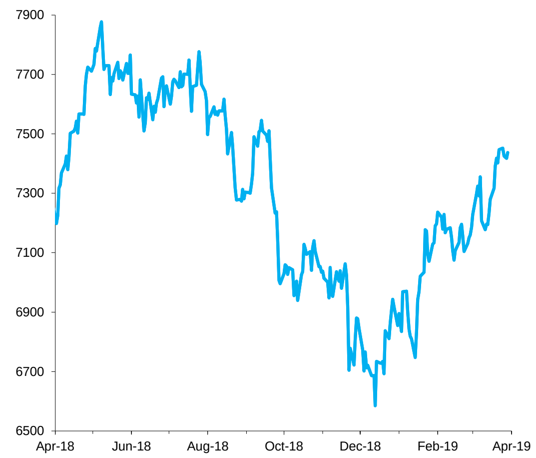
Source: FactSet

Year to Date Market Performance



Source: FactSet

FTSE 100 Index, Past 12 Months



Source: FactSet

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