Wealth Design Weekly Market Update: as of 25th January 2019
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This week the partial US government shutdown enters a new phase. Already the longest shutdown on record, this week will see a second missed pay check for the federal workers caught up in the standoff. While the US economy and stock markets have so far largely been unaffected, from this point on the effects are likely to be more severe. While many public employees could survive a month, many more will struggle to survive two. Disruption and civil unrest are a real possibility. In an odd asymmetry, congressional staffers are getting paid, while White House staff are not, due to being included in different funding packages. This might hint to which side will eventually cave.

Elsewhere the World Economic Forum kicked off in Davos this week. The format is beginning to look rather tired, billionaires flying in on private jets to discuss inequality and climate change feels rather ridiculous; with the leaders of the USA, China, UK and France among those cancelling their trips, it appears the worlds politicians are feeling the same way. Notable speeches from George Osborne and Tony Blair just add to the sense of irrelevance.

Global: IMF Once again downgrades growth forecasts

As some of the world’s most influential leaders gathered in Davos, the IMF published their latest GDP forecasts on the first day. World economic growth for 2019 is now expected to be 3.5 per cent, down from 3.7 per cent in October. The significance of the slight dip is that the organisation has now changed its stance from one of expected growth stabilisation to admitting global expansion has weakened. Continued uncertainty surrounding the Brexit outcome, the negative impact of tariff hikes and softer momentum from key countries like Germany were all factors to blame for the downgrade.

Markets were twitchy this week following news of China’s sluggish growth rate, so hearing the IMF’s darkened outlook quickly sent Asian stocks into retreat. The Hang Seng, Topix and Nikkei closed down 1.23, 0.88 and 0.77 per cent respectively after the announcement. Investors instead piled into gold, government stocks and the dollar. A scenario of further escalation of the trade war and a no-deal Brexit could lead to further downward revisions for growth.

Emerging Markets: Venezuala Descends into Political Turmoil

Over in Venezuela, two presidents are vying for control of the country. On one hand we have Juan Guaidó, a member of the Popular Will Party, on the other, current incumbent Nicolás Maduro, who has ruled Venezuela since 2013 and is refusing to step down following the disputed 2018 election. Guaidó has the approval of foreign governments such as the US, France, and Brazil as well as a significant portion of Venezuelans judging by the scale of anti-government protests. However, Maduro is backed by the military and has received support from the Turkish, Russian and Chinese governments, so Guaidó's claims to power is only symbolic for the moment.

A key factor as to who ends up in power is whether the military continues to back Maduro. He has so far resisted strong pressure from the US to step down, throwing out their diplomats this week. The US is looking at sanctions to key sectors like oil in response. Venezuela at one point a decade ago was on par with Saudi Arabia in terms of oil production but has since fallen off the pace under the last two presidents.

Eurozone: Mastercard Punished with half a billion fine

It has been a busy week for various European regulators. First up was Mastercard, levied with a hefty fine by the EU commission to the tune of £504m after being found guilty of preventing retailers using cheaper alternative banking outside their country. This was done by charging an interchange fee on transactions between the customer's credit card and the retailers bank, thus artificially raising costs of card payments for both consumer and retailer. Up until December 2015 this practice was unregulated allowing both Visa and Mastercard to set differing rates to member states.

Next up Google was hit with its second fine in less than a year, this time £44m by CNIL for breaching GDPR rules. The rules state that any user should be able to download all their personal information into clear machine-readable format, so it can be used by any company if the consumer wishes to change services, which Google failed to achieve. Complainant NOYB has also accused Amazon, Netflix and Apple of a similar breach in compliance.