Wealth Design Weekly Market Update: as of 8th February 2019

Separating Noise from Reality

This week a lack of any major developments allowed us the time to look closer at some of the economic data of the last few weeks. It has reminded us that we ought to do this more often and ignore the headlines all together. Italy is currently in its third recession in a decade while Germany's economy shrank in the third quarter of 2018 and stagnated in the fourth quarter. While it will likely avoid an all-out recession, a global slowdown and retrenchment in world trade is taking its toll. Britain is also slowing down, with growth forecasts cut by 0.5%, although still at a comparatively healthy 1.2%.

Elsewhere the US remains resilient. Despite the longest shutdown in government history, the US economy added a staggering 312,000 jobs in December, exceeding expectations, and is still forecast to grow more than 2% despite the Fed applying the brakes last year. Contrast these numbers to the amount of news coverage and market returns and you'd be forgiven for thinking they were from an alternative universe.

Eurozone: GE Fined for failing to deliver French Jobs

General Electric (GE) were hit with a hefty €50m fine by the French government this week for failing to create the 1000 new jobs it promised to deliver in 2015. GE took over Alstom's energy division and part of the deal being given the green light by the government was a job creation target which GE not only failed to do but completely abandoned – only 25 new jobs have been created over a three-year period. Alstom's energy branch specialises in gas turbines, however as clean energy became more commercially viable, job creation was always going to be an uphill struggle for GE to achieve.

Elsewhere, Wirecard, a company beloved by European fund managers are under investigation following allegations of compliance breaches. A senior executive at the German digital payments firm is alleged to have forged contracts for several transactions. Shares tanked by 25 per cent after news first broke out on the FT. As these events took place in Wirecard's Singaporean office, the case has been handed over to local authorities.

US: Google's Earnings Report Leaves Investors Unimpressed

The last of the FAANG stocks reported their quarterly earnings this week. Revenues for Google jumped up by 22 per cent last quarter driven by strong advertising results. However, what was harder for investors to stomach was capital expenditure doubling to $25.5bn. Shares of Alphabet (Google’s parent company) fell 2.5 per cent after the announcement. Its cost-per-click (CPC) advertising model has continued to do phenomenally well but is beginning to suffer from users migrating to mobile devices. Increased spending was due to the company’s push on cloud services with data centres and servers getting most of its capital expenditure.

A notable mention this week goes to former bond King Bill Gross who retired aged 74. Gross founded PIMCO in 1971 turning it into a well-known name within the bond industry with close to $2 trillion AUM. Gross was long regarded as a superstar investor managing Pimco’s Total Return fund until his acrimonious departure to Janus Henderson in 2014. He will instead focus on managing his own personal wealth.

UK: Brexit Uncertainty brings growth to a standstill

Brexit uncertainty continues to hamper UK growth as business sit and wait for the outcome. IHS Markit/CIPS Services PMI fell by 1.1 last month to 50.1 hovering just above neutral. The services sector accounts for around 80 per cent of GDP and is a good indicator of growth momentum. If we were to combine this PMI with manufacturing and construction indices, the all-sector PMI fell from 51.5 in December to 50.3 in January, signalling the slowest pace of expansion since 2012. Following the news, Sterling fell below the $1.30 mark.

Although wage growth has remained resilient, growth stalling has prompted the Bank of England (BoE) to follow the more dovish path set by the Federal Reserve and maintain interest rates at 0.75 per cent. The BoE also slashed growth forecasts this year from 1.7 to 1.2 per cent, worse than the European Commission’s 1.3 per cent estimate.