Wealth Design Weekly Market Update: as of 4th January 2019
Market Uncertainty Continues as US Government Remains Shutdown

Last week the markets have started the new year as they ended the old one, with some wild price swings. After a December that blew apart the Santa Rally story by posting the worst returns of the year for the first time, and in doing so ending a reliable easy week before Christmas story topic for journalists (and analysts) everywhere, we're now watching for the demise of the January effect. The phenomenon, where small caps outperform large caps at the start of the year, could be on shaky ground as well despite a positive opening few days.

This is perhaps unsurprising; 2019 is starting off with some major challenges, the US government remains shut down, Brexit remains uncertain and trade wars are hurting global growth. While all these things have the potential to resolve themselves in the next few months, they equally have a chance to drag on for the whole year and do some serious damage. The potential for things settling down in the near term look limited. The market is right to be worried.

COMPANIES: APPLE ISSUES WARNING ON REVENUES

Apple further sent global equity markets into sell-off as the company issued a warning on weak revenues, blaming the Chinese economic slowdown and fewer people in the developed world upgrading their iPhones to new models. The company expects a shortfall in revenues of as much as ten per cent from its previous estimates. The news wiped more than nine per cent from the company's market capitalisation, relegating it to fourth largest company in the world, just behind Alphabet, having been number one a few months ago. The warning sparked share price falls amongst Apple suppliers across the world.

Equity investors are more accustomed to negative news from Tesla. The company's shares fell sharply, dropping more than seven per cent, reflecting further concerns about its capacity to deliver on its Model 3 program. The week before last, Tesla said it had delivered fewer new vehicles in the final three months of 2018 than the market had expected. Mr. Musk also started the new year under closer watch from regulators after his misleading tweets last summer about a possible buyout of the company.

CHINA: MORE EVIDENCE OF AN ECONOMIC SLOWDOWN

Chinese industrial companies reported a fall in profits for the first time in nearly three years, as China tries to rebalance its economy towards consumption and services. Data showed industrial profits declined 1.8 per cent in November compared to a year earlier. Analysts said the profit slowdown partly reflected Chinese businesses pulling back on investment in anticipation of the weaker domestic economy and trade tensions with US and other trading partners.

This further confirmed the need for fiscal stimulus to rejuvenate a slowing Chinese economy. Chinese top economic policymakers promised more tax cuts and increased infrastructure budgeting at the end of their annual planning meeting in December. They announced an increase in bond sales to fund infrastructure projects, including $50bn in subway and light rail projects in Shanghai and Hangzhou. Policy makers have also suggested relaxing barriers for foreign investors to invest in Chinese financial markets, although these announcements have been made before without materialising.

MARKETS: A RAGING BATTLE BETWEEN BULLS AND BEARS

Financial markets have recently given little clarity in the direction they will be heading in 2019. Major equity benchmarks and oil prices rose by the most in almost ten years on Wednesday 26th December, retracting some of the losses from a turbulent runup to Christmas. The Dow Jones gained five per cent in a single session, while the Nasdaq Composite jumped 5.9 per cent. It marked the best day for each index since March 2009. Technical factors mainly explain this rise, as pension funds bought $100bn of stocks over the year-end period, as they rebalance their portfolios.

Safe havens have quickly resumed their leadership in 2019 however, after finishing 2018 as the only assets in positive territory. Gold prices surged to a six-month high in response to political uncertainty and fear of recession. The flight to safety also coincided with a stronger Japanese yen against US Dollar. The Dollar was also hit by developments in Washington, as Congress and the White House enter another phase of negotiations to bring an end to the US government shutdown.