

Wealth Design Weekly Market Update: as of 22nd February 2019

Is the US' Standoff with Huawei Set to End?



This week President Trump appeared to make a major concession in his trade negotiations with China by significantly softening his stance on Huawei. Trump said the US shouldn't ban "Technology" and urged US tech companies to compete or get left behind. This comes after weeks of the government labelling the firm as a risk to western countries and attempted to influence other nations to drop the company from future 5G networks. Trump's words strike a different tone to his administration however, who this week threatened to stop intelligence sharing with any country willing to work with the firm.

Elsewhere, Labour is in complete disarray after nine MP's quit this week with the latest member Ian Austin blaming Corbyn for "creating a culture of extremism and intolerance". Almost all have joined a newly created Independent Group which now stands as the fourth biggest bloc in parliament. Unrest has also spilled over to the Tories. In addition to Theresa May attempting to run down the clock to push through her deal, she now has to contend with further rebellion if it fails to get through the commons. Expect further turbulence over the coming weeks.

US: Fed Plans on ending quantitative tightening this year

Minutes from last month's Federal Reserve meeting were published this week. The two key takeaways were a confirmation on the reversal of quantitative easing along with a split in consensus on the next move for interest rates. Since 2008, the central bank had been pumping money into the economy by purchasing mortgage backed securities and Treasuries up until 2017. It has since allowed its assets to shrink with investors growing increasingly alarmed at how quickly it was withdrawing its support, especially as political risk heightened towards the end of the year. A pause in "Quantitative Tightening" has been welcome news to markets.

What was harder for investors to discern was the future direction of interest rates. After a period of successive rate rises it was hoped discussions would turn to cuts, instead, some committee members solely focused on holding rates steady while some argued for hikes this year if inflation accelerated past its two percent target.

UK: Honda Shuts Plant Ahead of Brexit Deadline

News of Honda's plant shutdown along with a potential credit downgrade provided yet more bad news for Brexit Britain. While Honda has been careful not to blame Brexit directly, the uncertainty won't have helped at what is a very tough time for car manufacturers globally. With a loss of around 3,500 jobs the regional impact will be huge. Like Nissan, the company has decided to move production back to Japan following the completion of a trade deal with the EU. Expect Toyota to be considering the future of its Derbyshire plant for the same reasons.

Meanwhile, the UK has been put on Fitch's negative watch list; a precursor for a potential downgrade to its AA credit rating. With six weeks to go the risk of a no-deal Brexit forced the ratings agency to make a deviation from its normal updates calendar. While the impact of a hard Brexit is uncertain, Fitch estimates no-deal will lead to a two per cent loss in GDP over six quarters – a recession on a scale of the one in the early 1990's.

South Africa: Government Set to Bailout Energy Giant Eskom

Floundering state-owned utility Eskom is set to receive a hefty bailout package by the South African Government. Its balance sheet has ballooned over the last few years and total debt now stands at around £23bn; Eskom's electricity sales are barely enough to service the interest on its debt. The government won't fully cover its debt burden but will set aside £3.8bn from its budget over a three-year period. Eskom has been plagued by corruption, incompetent management and cost overruns on new plant developments, and as a result will also be restructured into three separate entities to shrink costs and attract new investment.

As a result of bailing out Eskom, South Africa's budget deficit has widened to its worst level in over a decade. The nation is estimated to end up borrowing around £66m a day this year. Gross national debt is expected to stabilise at 60 per cent of GDP in 2023/24.