

Monthly Market Summary



December 2019

Summary: Reduced uncertainty supports investor sentiment

A global equity rally continued in December (+2.7% in local currency), whilst government bonds weakened and high yield bonds rallied (+2.3% hedged in USD). In December:

- A 'Phase one' US-China trade deal pushed equities to new highs;
- A Conservative majority in the UK election saw political fragility recede;
- Leading Central Banks ended the year on hold with policies unchanged.

In contrast to 2018, most asset classes performed ahead of inflation with leading US equity indices touching record highs in December, returning some +30% in 2019 (S&P 500) as the US and China negotiated a 'Phase one' trade deal. Meanwhile, PM Johnson's win in the UK election initially led to a short-lived rally in UK domestic assets as political uncertainty receded. In commodities, gold prices posted a solid month ending the year some +18% whilst oil touched a three-month high in December, reflecting a decline in inventories and easing trade tension.

US: 'Phase one' deal, impeachment, Fed pause

A proposed US-China 'Phase One' trade deal lifted equity benchmarks to new highs in the weeks preceding Christmas as the US did not proceed with planned tariffs on \$160bn of Chinese imports. The Fed, which had cut rates three times in 2019, left its policy unchanged (1.50-1.75%). Separately, markets remained muted following a vote in the House of Representatives to impeach President Trump for abuse of power and obstruction of Congress, with expectations that a Republican Senate will halt proceedings. Meanwhile, a strong US jobs report showed labour market resilience as the economy added 266k jobs in November, well ahead of expectations. Unemployment meanwhile fell to 3.5%, a 50-year low. Retail sales, however, grew by less than expected (0.2% MoM) as consumers cut back on discretionary spending in November.

Europe: PM Johnson's win, ECB, BoE on hold, Riksbank hike

PM Johnson secured the UK Conservative party's biggest majority in over 30 years in the first UK December election since 1974. A rally in both UK stocks and GBP was partially reversed as PM Johnson introduced a law prohibiting a Brexit extension beyond December 2020. The BoE meanwhile held rates steady in its December meeting. Separately, the Chancellor appointed Andrew Bailey to be the 121st and next Governor of the BoE. In the Eurozone, manufacturing contracted (45.9) for the 11th month, while services PMI held (52.4) ahead of expectations, easing fears of contagion from the manufacturing sector. The ECB left rates unchanged at a record low (-0.50) in its first meeting since Lagarde's tenure began, while the Swedish Riksbank became the first European CB to move interest rates out of negative territory, raising interest rates by 0.25% to zero.

RoW: Improved Chinese data, Japan stimulus

Amid receding US-China trade tension, Chinese retail sales accelerated by more than expected in November, growing 8% YoY, helped by China's Singles' Day. Showing signs of improvement in the domestic economy, China's latest Industrial Production data saw its fastest YoY growth (6.2%) in five months, whilst December manufacturing surveys (PMIs) remained buoyant (50.2 / 51.5). In Japan, the BoJ maintained interest rates after Prime Minister Abe launched a \$121bn stimulus package - one of the largest since the GFC, aimed at muting the impact of a weak global economy and a long-delayed consumption tax hike from 8% to 10%.

Market summary (total return in local currency)

Fixed Income	Yield	1M %	1 Yr %
US 10 Yr	1.92%	-0.7%	8.5%
UK 10 Yr	0.82%	-0.9%	4.8%
Swiss 10 Yr	-0.47%	-1.1%	1.5%
German 10 Yr	-0.19%	-1.3%	3.2%
Global IG (hdg \$)	2.21%	0.3%	12.5%
Global HY (hdg \$)	5.68%	2.3%	13.3%

Equity Index	Level	1M %	1 Yr %
S&P 500	3'231	3.0%	31.5%
MSCI UK	12'429	2.7%	16.4%
SMI	10'617	1.2%	30.2%
Eurostoxx 50	3'745	1.2%	29.4%
Nikkei	23'657	1.7%	20.7%
Hang Seng	28'190	7.0%	13.0%
MSCI World (Icl)	269	2.7%	26.2%
MSCI World (\$)	282	3.5%	26.6%

Currencies (trade-weighted, nominal)

US Dollar	-1.8%	-0.5%
Euro	0.3%	-1.7%
Yen	-0.5%	1.4%
Pound Sterling	0.5%	4.3%
Swiss Franc	1.9%	3.1%
Chinese Yuan	-0.5%	-1.3%

Other	Level		
VIX	13.8	9.2%	-45.8%
Brent (\$/b)	66.0	5.7%	22.7%
Gold (\$/oz)	1'517	3.6%	18.3%

Sources: Bloomberg, Rothschild & Co

Manufacturing PMI "heatmap"

	2019											
	J	F	M	A	M	J	J	A	S	O	N	D
US	55	53	52	53	51	51	50	50	51	51	53	53
UK	53	52	55	53	49	48	48	47	48	50	49	47
EZ	51	49	48	48	48	48	47	47	46	46	47	46
FR	51	52	50	50	51	52	50	51	50	51	52	50
DE	50	48	44	44	44	45	43	44	42	42	44	43
CN	50	49	51	50	49	49	50	50	50	49	50	50

Sources: Bloomberg, Rothschild & Co
Manufacturing PMIs are economic indicators derived from monthly surveys of companies (>50= expansionary).



Important information

This document is strictly confidential and produced by Rothschild & Co for information purposes only and for the sole use of the recipient. Save as specifically agreed in writing by Rothschild & Co, this document must not be copied, reproduced, distributed or passed, in whole or part, to any other person. This document does not constitute a personal recommendation or an offer or invitation to buy or sell securities or any other banking or investment product. Nothing in this document constitutes legal, accounting or tax advice.

The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your original investment. Past performance should not be taken as a guide to future performance. Investing for return involves the acceptance of risk: performance aspirations are not and cannot be guaranteed. Should you change your outlook concerning your investment objectives and / or your risk and return tolerance(s), please contact your client adviser. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down. Income may be produced at the expense of capital returns. Portfolio returns will be considered on a "total return" basis meaning returns are derived from both capital appreciation or depreciation as reflected in the prices of your portfolio's investments and from income received from them by way of dividends and coupons. Holdings in example or real discretionary portfolios shown herein are detailed for illustrative purposes only and are subject to change without notice. As with the rest of this document, they must not be considered as a solicitation or recommendation for separate investment. Although the information and data herein are obtained from sources believed to be reliable, no representation or warranty, expressed or implied, is or will be made and, save in the case of fraud, no responsibility or liability is or will be accepted by Rothschild & Co as to or in relation to the fairness, accuracy or completeness of this document or the information forming the basis of this document or for any reliance placed on this document by any person whatsoever. In particular, no representation or warranty is given as to the achievement or reasonableness of any future projections, targets, estimates or forecasts contained in this document. Furthermore, all opinions and data used in this document are subject to change without prior notice.

This document is distributed in the UK by Rothschild & Co Wealth Management UK Limited. Law or other regulation may restrict the distribution of this document in certain jurisdictions. Accordingly, recipients of this document should inform themselves about and observe all applicable legal and regulatory requirements. For the avoidance of doubt, neither this document nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person. References in this document to Rothschild or Rothschild & Co are to any of the various companies in the Rothschilds Continuation Holdings AG Group operating / trading under the name "Rothschild & Co" and not necessarily to any specific Rothschild & Co company. None of the Rothschild & Co companies outside the UK, nor companies within the Rothschild Trust Group are authorised under the UK Financial Services and Markets Act 2000 and accordingly, in the event that services are provided by any of these companies, the protections provided by the UK regulatory system for private customers will not apply, nor will compensation be available under the UK Financial Services Compensation Scheme. If you have any questions on this document, your portfolio or any elements of our services, please contact your client adviser.

The Rothschild & Co Group includes the following wealth management and trust businesses (amongst others): Rothschild & Co Wealth Management UK Limited. Registered in England No 4416252. Registered office: New Court, St Swithin's Lane, London, EC4N 8AL. Authorised and regulated by the Financial Conduct Authority. Rothschild & Co Bank International Limited. Registered Office: St Julian's Court, St Julian's Avenue, St Peter Port, Guernsey, GY1 3BP. Licensed and regulated by the Guernsey Financial Services Commission for the provision of Banking and Investment Services. Rothschild & Co Bank AG. Registered Office: Zollikerstrasse 181, 8034 Zurich, Switzerland. Authorised and regulated by Eidgenössischen Finanzmarktaufsicht FINMA.