# April 2019

# MACRO BRIEF

In association with Cormorant Capital.

TOWN CLOSE
Financial Planning

# LAST MONTH IN MACRO



## EMPLOYMENT SITUATION (USA)

**Just right**

February's paltry 33,000 increase in non-farm payrolls was a bit of a shocker but no matter, that's all forgotten now. March's report recorded a much-invigorated increase of 196,000 and came with the added bonus of a small upward revision to the prior two months' numbers. Incidentally, March marks the 102nd consecutive monthly jobs market gain; by far the longest recorded winning streak.

Meanwhile unemployment held steady at 3.8 percent and wage growth came in at 3.2 percent; a healthy clip, but a little less alarming for the overly-sensitive inflation hawks than the 3.4 percent increase last month.

I don't see any bad news contained in this month's report. I've had a good look at and it appears not-too-hot and not too-cold. Moreover, it looks indicative of a US economy which is reverting to trend rates of growth following a temporary boost last year.

I remain unconvinced of the case for a near-term recession

## TRADE TALKS (USA/CHINA)

**The mac daddy, or something**

The US and China remain locked in negotiations which will govern trade between the world's two largest economies. The timeline for those talks is a little ambiguous but I'm guessing we'll have to wait another 4 to 6 weeks, assuming that all goes well.

I'm further guessing that some kind of accord will be reached. At least the right noises are being sounded. President Tump is reported as saying that this '…is an epic deal, historic if it happens… it's the granddaddy of them all… it has a very good chance of happening'. Meanwhile President Xihas spoken of 'new and substantial progress'.

The US-China trade talks are a little like our Brexit talks. It seems to me that a lot of businesses are waiting on a resolution before they can resume a fuller schedule of investment and/or production. The Chinese economy has undoubtedly suffered. At the same time, over in the US, I imagine that the 2020 Presidential election campaign will focus some minds too.

## EMPLOYMENT SITUATION (EUROZONE)

**The wrong way**

If the initial estimate from Eurostat is accurate, eurozone inflation fell from 1.5 percent in the 12 months to February to 1.4 percent in the 12 months to March. That is some way off the European Central Bank's target of close to, but less than, 2.0 percent. Worse still, core inflation – which excludes changes in the more volatile energy and food sectors – fell from 1.2 percent to just 1.0 percent and if we further exclude booze and fags, prices are rising at just 0.8 percent on the latest figures.

I have to admit to being slightly nervous of the prospects for the eurozone economy in the medium-term. Germany is, more often than not, the exception but it is apparent more broadly that inflation is too low, unemployment (and underemployment) is too high and sovereign finances are far from secure. Add to that a central bank – with zero/negative policy rates and a huge balance sheet – that has all the wiggle room associated with those stuck between a rock and a hard place. Keep your fingers crossed for some sunshine, because the neighbour's roof needs fixing.

Data source: Bureau of Labor Statistics, Eurostat, Financial Times, Wall St Journal.

# LAST MONTH IN MACRO



## ECONOMIC OUTPUT (UK)

**How you like me now**

The British economy continues to defy the gloomier of forecasts. Not in so much of a style, you understand; output growth isn't romping ahead, but it certainly hasn't been mired in any meaningful malaise.

According to the Office for National Statistics, gross domestic product increased 0.2 percent during February. That's lower than January's whopping 0.5 percent increase but it leaves the most recent rolling three-month period (from December to February) up 0.3 percent even accounting for the fall of 0.3 percent in December. Expectations for growth in Q1 stand at something close to 0.2 percent. Happily, I think the actual figure, when it is released, will come in comfortably ahead of that.

It's true, results which are stronger-than-expected might be explained by Brexit-induced stockpiling or rushed production ahead of the 31 March deadline. And we might, as a result, reap a much poorer harvest over the next few months.

But, equally so, we might not.

## MONETARY POLICY NOTES (USA)

**Not up, not down**

Last week, the Federal Reserve published the minutes from the meeting of the Federal Open Market Committee on the 20th of last month when officials voted to maintain the upper limit on the target for the Fed Funds rate at 2.5 percent.

On reading the minutes, I conclude that that is where the Fed will leave rates the remainder of this year.

I've abandoned altogether my earlier expectation for another two25 basis-point hikes in the second half of the year.

Now, in a further evolution of that mode of thought, I've reluctantly dropped any anticipation I might have harboured for one rate rise before Christmas.

Mind you, I am not ready to call a rate reduction.

That, oddly enough, still leaves me on the hawkish side; I think the chances of cut in the main policy rate lie at something like 20 percent compared with a market-implied probability of closer to 40 percent.

## OECD CLI (GLOBAL)

**A sort of French Mystic Meg**

The boffins over at the Paris-based Organisation for Economic Cooperation and Development have just published their economic outlook. It is based on what they describe as a Composite Leading Indicator (CLI) – a mixed analysis 'designed to anticipate turning points in economic activity relative to trend six to nine months ahead'.

Apparently, 'the CLIs continue to anticipate easing growth momentum in the United States, Japan, Canada, the United Kingdom and the euro area as a whole, including Germany and Italy'. Meanwhile, 'in France, the CLI now points to stabilising growth momentum' and 'among major emerging economies, the CLI for India continues to anticipate stable growth momentum, with similar signs emerging for the industrial sector in China. In Brazil, growth gaining momentum remains the assessment while in Russia the CLI continues to point to easing growth momentum'.

I'm a sceptic; I wonder how accurate their vision may be.

But I'm not a cynic, and, on this occasion, I think I concur.

Data source: ONS, Federal Reserve, OECD.

# LAST MONTH IN MACRO



## OUTPUT GROWTH (USA)

**Still running, if slowly**

A few days ago, the Wall Street Journal's (WSJ) regular poll of economists revealed a consensus expectation for growth to come in at 2.5 percent during the first quarter of this year.

At the beginning of April the same WSJ survey pointed to growth in the region of just 1.5 percent. Expectations stood at just 1.3 percent during February.

The narrative described an aging, decade-long expansion hampered by the longest government shutdown on record and spooked by an inverted yield curve.

None of that was idle speculation. In fact, you can see the extent to which real-world data releases were suggesting the US economy had slowed – particularly during February. I wasn't immune to the gloom. You might recall me muttering something about 'residual seasonality'. I was resigned to sub-par growth in Q1, though I was at pains to dismiss talk of a recession and similarly dismissive of suggestions the Fed might be ready to reduce the target for the Fed Funds rate.

Anyway, fast forward to Friday last week and the Bureau of Economic Analysis published its estimate for an increase in gross domestic product during Q1 in line with a shockingly robust3.2 percent.

Of course, it's worth cautioning that this is a preliminary estimate – we'll get a fuller picture when the second estimate is published at the end of May – and the details of the report do reveal one or two weak spots. But anything approaching 3.2 percent represents a fantastic start to 2019 for the US economy.

If growth can be sustained beyond Q2, the current expansion, now in it's 118th month, will mark the longest on record. As it stands, the longest sustained increase in output persisted for 120 months, between March 1991 and March 2001.

Actually, for those that fall in the 'what goes up, must come down' camp, the current expansion does have one or two peculiarities which describe a trend far from the exuberant.

The longest expansion saw output increase at an average annual rate of 3.6 percent. The current expansion has, hitherto, averaged just 2.3 percent – the slowest average rate of increase of all such expansions in the last 70 years or so.

Data source: Wall Street Journal, Bureau of Economic Analysis.

# LAST MONTH IN WORDS



‘A former governor of the Bank of England has said that Britain should leave the European Union without a deal.

Mervyn King, now Lord King of Lothbury, dismissed the “wild, exaggerated” warnings of politicians who argue that a no-deal Brexit would damage the economy and rejected the idea that it would trigger nationwide job losses.

“My own personal preference would be to go back to Europe and say we have a clear strategy, which is we want to leave without a deal but we’d like to take six months to complete the preparations to avoid the dislocation,” he told the Today programme on BBC Radio 4.

Source: thetimes.co.uk, 30/03/2019.

# LAST MONTH IN WORDS



"The signal I get is worries about the economy that maybe we had, I had, several months ago—that the economy may be slowing much more than I expected—those worries have receded somewhat," Mr. Williams said. He said the job market remains strong with the expected level of wage growth, and he said that while he sees the first quarter falling short of 2% growth, he expects that pace will be achieved for the year as a whole.

What happens with inflation is "part of the calculus of thinking where monetary policy should be… …I do worry that if inflation systematically undershoots our target, inflation expectations can come down and drift to a lower level and make it harder for us to achieve our goals. It's really important we get to 2%."

Source: John Williams, vice chairman of the Federal Open Market Committee, quoted in the Wall St Journal,11.04.19.

# LAST MONTH IN WORDS



"U.S. stocks are hitting records again after a month-long drought, powered by fresh signs that the domestic economy is perking up without spurring a jump in inflation.

The stock market's latest leg higher has been fuelled by better-than-expected earnings, as well as data suggesting the economy grew faster than initially expected in the first three months of the year. Those reports have offered investors reassurance that the economy is on solid footing after a soft patch had cast some doubt on the expansion's durability in the final months of 2018".

Source: Wall Street Journal, 28.04.19.

# NOTES



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(1) MSCI United Kingdom Value, Bats 100, Bats 250, Bats UK Small Companies, S&P 500, Euro Stoxx 50, Nikkei 225, MSCI Brazil, MSCI Russia, MSCI India, MSCI China, Financial Analytics (2) MSCI United Kingdom, MSCI World ex Value, MSCI Emerging Markets, MSCI United Kingdom Value, Bats 100, Bats 250, Bats UK Small Companies, Barclays Gilt 1 – 5 Years, Barclays Sterling Gilts, Barclays Sterling Gilts 15+, Barclays UK Government Inflation Linked Bond, Financial Analytics (3) MSCI World, Barclays Global Convertibles, Barclays Global Treasury, MSCI World ex UK Large Cap, MSCI World ex UK Small Cap, MSCI World ex UK Value, MSCI World ex UK Growth, MSCI World, MSCI World Equal Weighted, MSCI World High Dividend, MSCI World Minimum Volatility, MSCI World Momentum, Financial Analytics (4) MSCI World Consumer Discretionary, MSCI World Consumer Staples, MSCI World Financials, MSCI World Health Care, MSCI Industrials, MSCI World Materials, MSCI World REITs, MSCI World Technology Hardware & Equipment, MSCI Telecommunications Services, MSCI World Utilities, Financial Analytics (5) SPDR FTSE UK All Share ETF, SPDR S&P 500 ETF, SPDR MSCI EMU ETF, SPDR MSCI Japan ETF, SPDR MSCI Emerging Markets ETF, SPDR Barclays Gilt, iShares Index-Linked Gilts, iShares Global Corporate Bond ETF, iShares Global High Yield Corporate Bond ETF, Mixed Assets assume separate equal weighted parcels of equity and bond exposure (6) Financial Analytics, overseas exposure assumes equal weight in US, Europe, Japan and Asia (7) Reference National Life Tables, Office for National Statistics, sustainable income assumes life expectancy, a gross 5 percent growth rate, annual income paid out at the start of the period.


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