KW Institutional

30 September 2018

GBP Quarterly Newsletter

From 2nd July, European Wealth became KW Wealth. The Fixed Interest team will go by the name KW Institutional. Our people, business and excellent customer service remain unchanged but we hope you like the new name and style.

Market Review

- BOE raises interest rates in August to 0.75%
- FTSE 100 falls back, finishing Q3 at 7510 (30-Jun-18: 7637)
- GILT yields trended up through Q2
- UK growth rebounded in Q2
- Unemployment fell further to 4.0%
- Inflation remains above target, finishing Q3 at 2.4%

Market Commentary

Having stepped back from the brink in May the MPC took the plunge in August and raised interest rates 25 basis points to 0.75%. The vote was unanimous and very much expected by market participants by the time of the meeting. A rebound in growth through Q2 to 0.4% after the disappointing Q1 numbers was enough to reassure the committee that Q1 was a hiccup and not a downward trend. Economic data has been solid and steady through the quarter providing the platform needed for a rate rise and indicating the growth rate will be maintained going forward.

PMI indices were relatively steady through the third quarter: manufacturing hovered in the 53-54 range; construction rose to a strong 55.8 in July but fell back to end the quarter at 52.1 and services were steady finishing September at 53.9 marginally below market forecasts but strong enough to sustain growth in Q3 which we expect to be in-line with the Q2 figure of 0.4%. Any risk to the numbers should be to the upside given the strong retail figures we've seen through the summer.

That said, consumer confidence remains subdued largely due to the circus that is Brexit but also because we've seen no real easing of the pressure on household incomes, inflation (CPI) unexpectedly rose to 2.7% in August. Employment figures however remain incredibly strong, the unemployment rate fell to 4% in August a level not seen since 1975! However, this has not yet led to any significant rise in average earnings, 2.6% year on year at the last reading but it is reasonable to assume inflationary pressures are building in the labour market on both a lack of supply and poor productivity growth and this was a concern for the MPC.

This steady but dull economic performance should be underpinning consumer and business confidence but there is a whacking great big elephant in the room which six months out is becoming impossible to ignore. The elephant is about to trample all over the steady apple cart, how sturdy it proves to be will depend to some extent on the deal / no-deal reached but we are already seeing some worrying signs.

The current account deficit widened in Q2 to £20.3bn above what economists forecast and up sharply on the Q1 figure of £15.7bn. This is the balance between money leaving the UK and money coming in and the deficit has widened despite the boost provided to exports by the fall in Sterling. Britain already has the highest deficit among the G7 countries and this widening indicates an increased unwillingness of foreign investors to finance the deficit by buying British assets, this is supported by figures showing overseas investors reduced their holdings of UK Gilts by a record £17.2bn in July this year. We would expect this unwillingness to increase further after Brexit, pushing up the cost to both UK businesses and the UK government of attracting overseas investment. Any further fall in Sterling following Brexit (orderly or disorderly) could help offset this reduction in investment into the UK by boosting exports but that would also be dependent on frictionless trade continuing and lets not forget, our export record is poor.

Further concern is raised by the fall in business investment through 2018, down in both Q1 (-0.5%) and Q2 (-0.7%) we hope this is not the start of a negative trend but it is unlikely to pick up in the short term as Brexit uncertainty continues. A lack of business investment will hamper UK competitiveness further at an already challenging time.

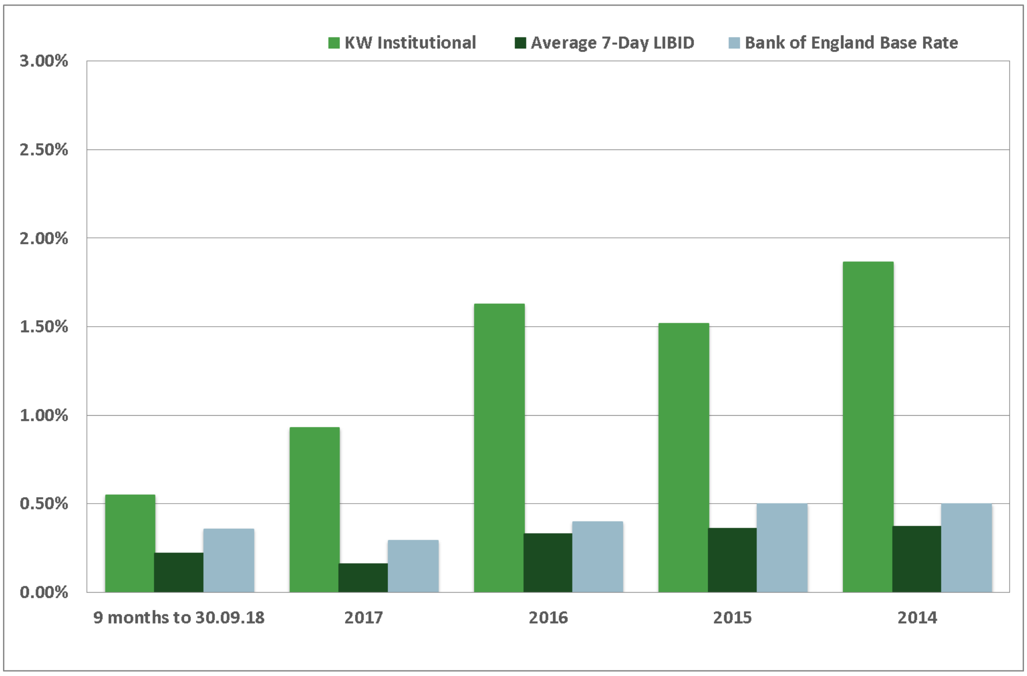
Economic Calendar

11 Oct	BOE Gov Carney Speaks
11 Oct	BOE Credit Conditions Survey
11 Oct	BOE Gov Carney Speaks
11 Oct	MPC Member Vlieghe Speaks
16 Oct	Average Earnings Index 3m/y
16 Oct	Claimant Count Change
16 Oct	Unemployment Rate
17 Oct	CPI y/y
17 Oct	PPI Input m/m
17 Oct	RPI y/y
17 Oct	Core CPI y/y
17 Oct	FPC Meeting Minutes
17 Oct	HPI y/y
17 Oct	PPI Output m/m
18 Oct	Retail Sales m/m
27 Oct	Daylight Saving Time Shift
1 Nov	BOE Inflation Report
1 Nov	MPC Official Bank Rate notes
1 Nov	Monetary Policy Summary
1 Nov	Official Bank Rate
9 Nov	GDP m/m
9 Nov	Manufacturing Production m/m
9 Nov	Construction Output m/m
9 Nov	Index of Services 3m/3m
9 Nov	Industrial Production m/m
13 Nov	CPI y/y
13 Nov	PPI Input m/m
13 Nov	RPI y/y
13 Nov	Core CPI y/y
13 Nov	FPC Meeting Minutes
13 Nov	HPI y/y
13 Nov	PPI Output m/m
14 Nov	Average Earnings Index 3m/y
14 Nov	Claimant Count Change
14 Nov	Unemployment Rate
3 Dec	Manufacturing PMI
4 Dec	Construction PMI
5 Dec	FPC Statement
5 Dec	Services PMI
7 Dec	Halifax HPI m/m
10 Dec	GDP m/m
10 Dec	Manufacturing Production m/m
10 Dec	Index of Services m/m
10 Dec	Industrial Production m/m
11 Dec	CPI y/y
11 Dec	PPI Input m/m
11 Dec	RPI y/y
11 Dec	Core CPI y/y
11 Dec	FPC Meeting Minutes
11 Dec	HPI y/y
12 Dec	Average Earnings Index 3m/y
12 Dec	Claimant Count Change
12 Dec	Unemployment Rate
14 Dec	BOE Quarterly Bulletin
20 Dec	Retails Sales m/m
20 Dec	Public Sector Net Borrowing
20 Dec	CBI Realized Sales
20 Dec	MPC Official Bank Rate Votes
20 Dec	Monetary Policy summary
20 Dec	Official Bank Rate
20 Dec	Asset Purchase Facility
20 Dec	MPC Asset Purchase Facility Votes
20 Dec	GfK Consumer Confidence
21 Dec	Current Account
21 Dec	Final GDP q/q
21 Dec	High Street Lending
25 Dec	Bank Holiday
26 Dec	Bank Holiday
28 Dec	Nationwide HPI m/m

Whatever the Brexit deal / outcome the process is already holding back UK growth and with both political and economic instability set to continue even past our exit date the outlook for the UK economy remains muted at best. We will be monitoring developments carefully to ensure our clients are well positioned.

We have seen yields rise over the quarter as the markets priced in the August rate rise, cash rates have improved with one year rates back to circa 1% from well rated issuers. Gilts and corporate bond rates have also risen on the rate rise but have risen further still since August, the UKT 1.5% Jan-21 started the quarter yielding 0.73% rose to 0.83% in early August on the rate rise and is now yielding 0.91% reflecting the UK's political uncertainties. This has led to better investment options in both cash and bond markets through Q3 and we have been looking to add higher yielding stocks to increase portfolio redemption yields. As market rates increase performance is always difficult to achieve but the portfolios have held up well over the quarter as better yields feed through and the low rates seen in 2017 fall out.

Performance as at 30 September 2018



Source: KW Institutional Client Records and Bloomberg.

Please note that these performance figures are gross of fees.

We have taken an unweighted average of our discretionary clients' performance to produce the figures shown. The data comprises European Wealth ("EW") records from Sept 2012 when the Treasury Management & Fixed Interest Team ("Team") joined EW, together with records the Team hold from December 2007 when the service commenced and when the Team were at former companies. The data has been prepared using all reasonable care although we cannot guarantee the accuracy of data prior to Sept 2012. The information provided shows the previous 5 complete years. Performance data for previous years is available upon request. Past performance is not a reliable indicator of future performance.

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