

The Weekly Brief

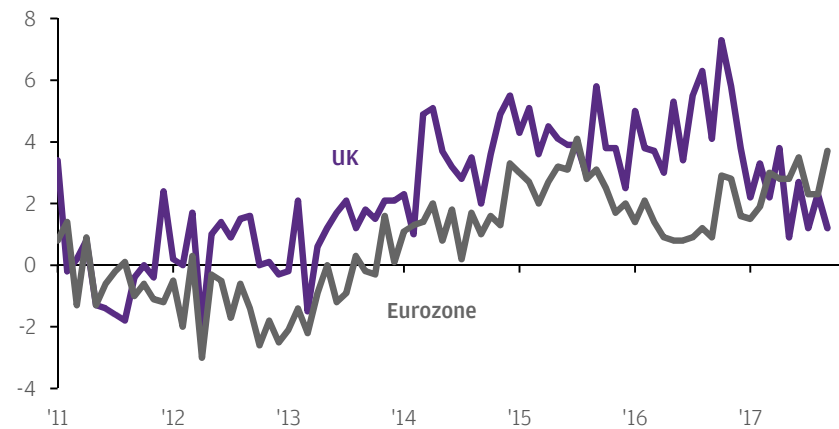
13 November 2017

Thought of the week

As growth in Europe marches on, signs that the UK economy is on a more uncertain footing continue to emerge. The European consumer is feeling upbeat, as shown by the strong pickup in retail sales to 3.7% year on year (y/y). Conversely, consumers in the UK have been experiencing a squeeze on real incomes, as inflation remains elevated above wage growth. This has weighed on spending in the UK, and has led to a softening in retail sales to 1.2% (y/y), falling significantly from the 7.3% peak observed in 2016. Since consumption is such a key driver of GDP in both economies, this leads us to have a more constructive view on European growth compared to the UK, where the outlook appears to be more uncertain.

Retail sales in the eurozone are outpacing the UK

% change year on year



Source: Eurostat, ONS, Thomson Reuters Datastream, J.P. Morgan Asset Management. Data as of 10 November 2017.

The week ahead

| Day | Country | Event | Period | Survey | Prior |
|-----|---------|-----------------------------------|--------|--------|-------|
| Tue | China | Retail sales (y/y) | Oct | 10.4% | 10.3% |
| | China | Industrial production (y/y) | Oct | 6.3% | 6.6% |
| | Euro | GDP (y/y) | 3Q | 2.4% | 2.5% |
| | Germany | ZEW Business survey expectations | Nov | 20.0 | 17.6 |
| | Japan | GDP (q/q) | 3Q | 0.4% | 0.6% |
| Wed | UK | CPI (y/y) | Oct | 3.2% | 3.0% |
| | UK | Average weekly earnings (y/y) | Sep | 2.2% | 2.2% |
| | UK | Unemployment rate | Sep | 4.3% | 4.3% |
| | US | CPI (y/y) | Oct | 2.0% | 2.2% |
| Thu | Euro | CPI (y/y) | Oct | 1.5% | 1.5% |
| | UK | Retail sales (y/y) | Oct | -0.5% | 1.2% |
| | US | Philadelphia Fed business outlook | Nov | 24.1 | 27.9 |

Market statistics

| Equities | Change (%) | | |
|---------------|------------|------|----------|
| | Week ago | YTD | Year ago |
| MSCI Europe | -2.0 | 13.0 | 19.9 |
| DAX | -2.6 | 14.3 | 23.5 |
| CAC 40 | -2.5 | 13.9 | 22.6 |
| IBEX | -2.6 | 11.2 | 19.7 |
| FTSE MIB | -2.0 | 20.8 | 38.7 |
| FTSE 100 | -1.6 | 7.8 | 13.0 |
| S&P 500 | -0.1 | 17.3 | 21.6 |
| TOPIX | 0.4 | 20.9 | 33.6 |
| MSCI EM | 0.2 | 29.9 | 29.5 |
| MSCI China | 2.4 | 55.1 | 48.9 |
| MSCI Brazil | -2.3 | 20.0 | 17.6 |
| MSCI AC World | -0.4 | 17.6 | 22.5 |
| Energy | 0.9 | 0.9 | 8.8 |
| Materials | -0.9 | 19.5 | 22.8 |
| Industrials | -1.3 | 17.3 | 21.3 |
| Cons discr. | -0.2 | 16.4 | 22.5 |
| Cons staples | 0.7 | 9.8 | 13.5 |
| Healthcare | -1.0 | 15.2 | 13.3 |
| Financials | -1.4 | 14.7 | 22.9 |
| Technology | 0.3 | 40.8 | 45.0 |
| Telecom svc | -1.1 | -0.7 | 7.2 |
| Utilities | 0.0 | 15.0 | 20.8 |
| Value | -0.7 | 11.9 | 18.3 |
| Growth | -0.1 | 23.5 | 26.7 |

| Fund flows (\$bn) | 4-week moving avg. | | |
|-------------------|--------------------|-----------|------|
| | w/e 03/11 | w/e 27/10 | |
| Equity | -4.6 | -2.7 | -3.1 |
| Fixed income | 7.4 | 6.7 | 6.8 |
| Money market | -17.9 | 3.6 | -2.8 |

| Bond spreads | Change (bps) | | | | |
|-----------------|--------------|-------|----------|-----|----------|
| | Level | 10/11 | Week ago | YTD | Year ago |
| Global IG | 99 | | 3 | -26 | -28 |
| EMBI+ (USD) | 348 | | 7 | -15 | -21 |
| Global High Yld | 362 | | 21 | -63 | -115 |

Bond yields (10 yr)

| | Level | Week ago | YTD | Year ago |
|-----------------|-------|----------|-----|----------|
| UK | 1.26 | 0 | 17 | 3 |
| Germany | 0.37 | 1 | 17 | 10 |
| USA | 2.38 | 4 | -7 | 23 |
| Japan | 0.03 | -1 | 0 | 8 |
| EMD* (local fx) | 6.24 | 2 | -55 | -40 |

Commodities

| | Change (%) | | | |
|--------------|------------|------|------|------|
| Brent \$/bbl | 64 | 2.3 | 11.8 | 38.6 |
| Gold \$/oz | 1,284 | 1.3 | 12.1 | 1.3 |
| Copper \$/lb | 3.07 | -1.3 | 22.9 | 20.4 |

Currency

| | Level | | | |
|-----------|-------|------|------|------|
| \$ per € | 1.17 | 1.16 | 1.05 | 1.09 |
| £ per € | 0.88 | 0.89 | 0.85 | 0.87 |
| \$ per £ | 1.32 | 1.31 | 1.24 | 1.25 |
| ¥ per € | 132 | 133 | 123 | 116 |
| ¥ per \$ | 113 | 114 | 117 | 106 |
| CHF per € | 1.16 | 1.16 | 1.07 | 1.07 |

Volatility (%)

| | Level | Week ago | YTD | Year ago |
|-----|-------|----------|-----|----------|
| VIX | 11 | 9 | 14 | 15 |

| Macro | GDP (%)† | CPI (%) | Valuation | Fwd P/E |
|----------|----------|---------|-------------|---------|
| Eurozone | 2.4 | 1.4 | MSCI Europe | 15.0 |
| UK | 1.6 | 3.0 | FTSE 100 | 14.4 |
| US | 3.0 | 2.2 | S&P 500 | 18.0 |
| Japan | 2.5 | 0.7 | MSCI EM | 12.9 |
| China | 7.0 | 1.9 | MSCI World | 16.8 |

Note: All index returns are total returns in local currency. Fund flows are for US-domiciled funds only, excluding ETFs. *Term = index duration. †GDP q/q seasonally adjusted annual rate.

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Unless otherwise stated, all data is as of 10/11/2017. Economic releases: Bloomberg.

Equities: All data represents total returns for the stated period.

Fund flows: ICI.

Bond Yields: JPMorgan EMBI+ OAS over Treasuries ; Barclays Global Aggregate Corporate OAS; Barclays Global High Yield OAS; Government bond yields: Source: Tullett Prebon Information, UK Government Bonds 10 Year Note Generic Bid Yield; German Government Bonds 10 Year Debencher; Japan 10 Year Bond Benchmark; US Generic Government 10 Year Yield.

Commodities: WTI and Brent are the crude oil price in \$ per barrel, gold is \$ per troy ounce, copper is \$ per pound.

Rates: Bank of England Official Bank Rate; ECB Minimum Bid Refinancing Rate 1 Week; Federal Funds Target Rate; Bank of Japan Target Rate of Unsecured Overnight Call Rate; Bank of China 1 Year Best Lending Rate.

Macro: Headline CPI year on year percentage change; GDP growth quarter on quarter seasonally adjusted annualised rate.