Weekly Market Commentary written on 29th March 2019 and issued on 1st April 2019

Parliamentary Votes make Brexit No Clearer

Last week we have had yet more votes on Brexit and are still no clearer about what will ultimately happen. As we write this the government is having yet another go at getting its universally despised deal over the line, but this time with the fun twist that her replacement gets to tear up whatever has been agreed and plunge us all back into darkness at a later date.

At this stage it looks unlikely to pass and a longer extension will be required while the Commons cobbles together a compromise that it can live with and possibly puts back to a confirmatory referendum. On the plus side utter disdain for the way Brexit has been handled by the government is one of the few things holding the country together.

Bonds: Sovereign Bonds Rally in Weak Global Environment

Last week saw a convergence of gloomy global growth outlooks from central banks drive sovereign prices up. In turn yields (interest rates) of German bunds were negative for the first time since 2016, and the US 10-year government bond yield dipped to its lowest level this year. By exiting riskier assets and locking into longer term yields, it indicates investors are expecting low growth and for interest rates to fall.

The bond market already believes the next move by the Fed will be a rate cut this year (70 per cent probability) with the committee already having ruled out further rate hikes in 2019. Another factor driving fear into the markets is the yield curve inversion. The spread between the ten-year and three-month government bonds inverted at the end of last week and continues to remain negative. An inverted yield curve is used as a signal of slowing growth and a precursor that a future recession is likely to happen in one to two years.

Turkey: Lira Rout Sparks Government Currency Crackdown

Last week Turkey created a currency crunch in order to halt the slide on the Lira, which it blames on JP Morgan for starting. The overnight cost of borrowing liras on offshore swap markets jumped over 1,200 per cent. This effectively puts local banks under huge pressure to not provide liquidity to foreign investors and more importantly, constrains them from betting against the currency. With local elections only a few days away, the move is only expected to be temporary.

Subsequently, the only other way to reduce Turkish exposure is to dump stocks and bonds, which investors have been doing by the bucketload. Turkey's benchmark, the ISE National 100 index fell close to five percent earlier last week. Turkey 5-year credit default swap which essentially is the cost of insuring exposure to Turkey's sovereign debt rose by 42 basis points to 451bps.

UK: Majestic Wine set to Close Stores

House of Fraser and Pound World have both collapsed in the last year and last week, Majestic Wine added itself to that list by announcing plans to close its UK stores although how many will be shut will not be announced until June. The company is instead going to undergo a name rebrand and focus on increasing its online subscription arm Naked Wines which it acquired in 2015 for £70m. Naked Wines are eyeing up expansion to the US which is a key driver of growth for the business. The US direct to consumer market is expected to grow by 15 per cent on an annual basis.

Meanwhile, retail sales are starting to become impacted by a disorderly Brexit. Sales volume fell sharply for the month of March by 18 per cent and marked a four-month run where sales haven't grown. Anna Leach, CBI head of economic intelligence, said: "Even accounting for Easter timing, the high street's poor run continues. While real wage growth is picking up, consumer confidence has been hit by escalating uncertainty over Brexit and concern over the economy's future."