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Smart[im]: Weekly Market Review

04 May 2018
Smart Investment Management

The week to date as at 12 p.m. Friday (GMT).

Markets and Key Events

The S&P 500 is down 1.50% for the week, particularly unsettled by the uncertain outcome of trade talks later this week between the US and China. Following last month's tit for tat tariff announcements between the two countries, US Treasury Secretary Steven Mnuchin has led a US delegation this week to Beijing to negotiate trade terms and defuse the potential for a trade war, though analysts seem sceptical of any resolution soon.

This week also saw the US Federal Reserve leave interest rates unchanged at 1.5 to 1.75%. Though leaving rates unchanged, the central bank signalled its growing confidence in the inflation outlook, citing moderate growth expectations for the economy and labour market conditions to remain "strong". In particular, on Monday, the core US PCE (Personal Consumption Expenditure) price index, the Fed's preferred inflation gauge, rose by 1.9% in the year to March, a 17-month high. Also notable this week is the continued momentum of the US dollar. The dollar index, a measure of the US dollar against a basket of peers, had a weak start to the year but has been rising of late on expectations the Fed will continue to raise rates in future, despite their interest rate decision on Wednesday. The dollar index is up 1.10% over the week to 92.55.

Finally, adding to further investor caution is the release of US employment data on Friday as investors continue to gauge the outlook for inflation and the pace of rate rises from the Federal Reserve. The April non-farm payrolls report is expected to show an increase of 192,000 jobs with annual average earnings growth steady at 2.7%.
Equity markets faced a mixed week. As of 12pm London time, MSCI Emerging Markets were down 1.60%, whilst the Japanese Topix index fell marginally by 0.32%. In contrast, the EuroStoxx 50 index rose 0.44%, whilst the FTSE All Share rose 0.54%.

Europe and UK (United Kingdom)

The rollover of European data continued with the Eurozone economy expanding at a slower pace for the first quarter. Initial reports showed GDP grew at 0.4% down from the 0.7% reading in the fourth quarter. Furthermore, April's manufacturing PMI (Purchasing Managers Index), slowed more than expected, declining to 56.2 from 56.6 a month before. Though slowing, the leading economic indicator is still not in contraction as readings above 50 indicate an expansion in activity.

The Eurozone was not alone in its disappointing data, as UK manufacturing PMI's also grew at a slower rate. The PMI fell to 53.9 in April, down from 54.9 in March, below analysts' forecasts of 54.8. Following last week's disappointing GDP data, this has put further doubt of an interest rate rise by the Bank of England later in May.

Asia and Australia

Asian equities advanced at the beginning of the week after tensions in the Korean Peninsula faded following last weekend's summit between the leaders of North and South Korea. Both leaders signed a joint declaration last Friday agreeing to "complete denuclearization of the Korean Peninsula. However, similar to US equities, most Asian indices retreated by Thursday ahead of trade talks between the US and China. On Thursday alone, the Hong Kong, Hang Seng Index fell 1.3%.
The Australian S&P/ASX 200 had a strong week, rising 1.83%. This was driven by Technology (+4%), Property Trusts (+3.5%), and Telecoms (+3.2%). Elsewhere the RBA (Reserve Bank of Australia) left interest rates unchanged, for the 21st consecutive month at 1.5%. From their quarterly statement, the RBA stated there was not a strong case for a near-term adjustment in the cash rate although noted that "if the economy continues to perform as expected" higher rates would be needed "at some point".

Fixed Income

Bond yields on the 10-year US Treasury (which move inversely to their price), remained below the 3% milestone falling 2 basis points this week to finish trading at 2.94% as of 12pm London time. Eurozone sovereigns outperformed this week, after weaker than expected Eurozone inflation data. The 10-year German Bund yield fell by 5 basis points on Thursday on the announcement that year-on-year inflation was 1.3% in March 2018, lower than the expected 1.4%. The 10-year Bund finished the week trading at 0.534%.

Commodities

Oil prices finished the week lower with Brent crude trading at $73.55 per barrel. Brent rose as high as $75 a barrel on Tuesday, over heightened speculation that President Trump would reimpose sanctions on Tehran after Israel claimed it had "conclusive proof" that Iran had been hiding nuclear weapons activity. The commodity however declined in price after data from the US Energy Information Administration showed an unexpected rise in crude inventories last week.