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Smart[im]: Weekly Market Review

06 April 2018
Smart Investment Management

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

Markets and key events

Global markets faced a volatile week, as concerns over the escalating trade dispute between China and the United States (US), dominated headlines again. The second quarter opened with a poor start with the S&P 500 and the Dow Jones Industrial Average both closing on Monday more than 10% below January's high. The unsettled mood was also felt in Europe and Asian markets as China responded with further retaliatory trade tariffs in response to President Trump's plans for a 25% tariff on 1,333 Chinese products. On Wednesday, only hours after the announcement from the Trump administration, the Chinese government proposed their own counter tariffs of 25% on 14 categories of 106 products such as corn, soybeans and automobiles, originating in the US.

Despite initial concerns, markets staged a turnaround, for example, the S&P 500 swung from a 1.6% fall to 1.2% gain on the same day of the tariff declarations, as White House officials later attempted to calm investors, stating that announcements so far were only proposals and not yet set in stone. This positive investor sentiment continued for the second half of the week before being brought to an end on Friday, as reports overnight emerged that President Trump instructed his administration to consider an additional $100 billion in tariffs on Chinese imports.

Finally, apart from the lingering worries over trade, markets are trading on a more cautious note ahead of US employment and wage data released later today, as investors will be keen to determine the outlook on the pace of US rate rises. Consensus forecasts thus far indicate an addition of 193,000 jobs for non-farm payrolls, whilst average earnings are expected to rise 2.7% for March. Despite the turbulent week, as of 12pm London time, the S&P 500 is higher by 0.83% over the week. The EuroStoxx 600 index is up 0.99%, United Kingdom's FTSE All Share gained 1.57% and the Japanese Topix index marginally rose 0.17%. Emerging Markets however, lost 0.38%, with the Chinese Shanghai Composite index falling 1.19%.

Europe and the UK (United Kingdom)

This week saw the substantial release of economic data in Europe. The Eurozone March composite PMI (Purchasing Manager Index) expanded at its slowest pace since the beginning of 2017, as both manufacturing and service growth moderated. The index was recorded at 55.2, down from 57.1 in February (recall any PMI reading above 50 indicates economic expansion).
On a more positive note, Eurostat reported that unemployment in the Eurozone had fallen to a new nine-year low of 8.5% in February. Meanwhile, Eurozone inflation also picked up in March with consumer prices rising 1.4% in March, ahead of the prior month's figure of 1.1%. The core measure, which excludes energy and food, remained unchanged at 1%.
In the UK, service sector PMI slid to 51.7 in March from a higher reading of 54.5 in February. Though, this has been attributed to the poor weather and snow disruption earlier in the month.

Asia and Australia

Besides the turbulent stock market moves, Asian currencies were also impacted by ongoing trade tensions. In particular, the Chinese Yuan fell another 0.4% against the US dollar on Friday, bringing the week to date loss to 0.8%.

In other economic news, the Bank of Japan's quarterly Tankan sentiment survey indicated that business confidence deteriorated in the first quarter on the stronger yen and fears of trade war. Large manufacturers' business confidence slipped to 24 from 25 in the fourth quarter of 2017 while small manufacturers' confidence was unchanged at a reading of 15. Any reading above 0 indicates a growing economy.

The Australian S&P/ASX 200 index also managed to finish on a positive note, rising 0.5%, notably aided by the energy and consumer sectors which were both higher by 3.2% and 1.2% respectively. The Aussie dollar ended trading higher at USD $0.7667 after this week's stronger Australian retail data. Australian retail sales rose by 0.6% during the month, far ahead of the consensus 0.3% uptick in consumer spending.

Fixed Income

US 10-year Treasury yields, which move inversely to their price, pushed higher this week up 8 basis points. Equivalent 10-year German Bund yields rose marginally 2 basis points, whilst 10-year UK Gilt yields rose 6 basis points.

Commodities

Following tariff proposals from China, targeting US corn and soybean, futures prices for both agricultural commodities dipped substantially, before recovering again. On Wednesday, corn futures were down 2.1 % at $3.80 a bushel, while soybean futures also dropped 2.1% to $10.16. But, as White House officials sought to allay investors' fears, corn futures and soybean futures subsequently rallied 2.2% and 1.5% respectively.

Energy Information Administration (EIA) data showed US crude inventories falling by 4.6 million barrels last week, compared with expectations for an increase of 246,000 barrels. Oil prices recovered marginally from a two-week low, but despite this, still finished lower over the period, with Brent Crude falling 3.23% over the week to finish trading at $68 per barrel.

Changes to the Portfolios

None.