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Smart[im]: Weekly Market Review

07 September 2018
Smart Investment Management

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

Markets and key events

Trade war overshadows markets

Concerns over the possibility of President Trump imposing additional tariffs on $200bn worth of Chinese imports overshadowed markets this week, as the US government's consultation period came to an end on Thursday. As of 12pm London time on Friday, most major markets had recorded falls in asset markets, with few places to hide as government bond yields drifted higher (yields move inversely to price), commodities sold off, and Gold remained broadly flat. The S&P 500 was down 0.8% and the technology focused Nasdaq was down 2.3%. This was despite Amazon becoming the second company after Apple to see its market capitalisation cross the $1 trillion-dollar threshold on Tuesday. The EuroStoxx 50 fell 3.2%, UK FTSE All Share fell 2.3%, Australian S&P/ASX 200 fell 2.8%, Japanese Topix index fell 2.9% and Emerging markets were down 3.6%.

Key US leading indicator strongest for 14 years

Developed market government bond yields backed up, as on Tuesday the US Institute for Supply Management Purchasing Manager's survey leapt up to 61.1, with any number above 50 indicating expansion. This was the strongest reading in 14 years, and aside from one month's reading in 2004, it is the highest reading since 1984, during the President Reagan era, reinforcing expectations of further US interest rate hikes. All eyes are now on today's US non-farm payrolls figures, in particular the annualised wage growth figure, which has crept up in importance as unemployment has fallen. The previous recording for annualised wage growth was 2.7%, which is forecast to have held steady.

EM currencies bear the brunt

Emerging market currencies continued to feel the brunt of concerns regarding a tightening in dollar liquidity, as the Turkish lira, Argentinian peso and Mexican peso all came under renewed pressure. The South African rand also fell as the country recorded its first recession since 2009.

Brexit uncertainty leads to Sterling on a rollercoaster ride

Sterling had a roller coaster week as weak manufacturing data released on Monday coincided with Michel Barnier, the EU's chief Brexit negotiator, saying he was strongly opposed to parts of the UK's proposal to quit the EU. However, this quickly reversed on Wednesday, when a report from Bloomberg suggested that Germany is prepared to "accept a less detailed agreement on the UK's future economic and trade ties with the EU in a bid to get a Brexit deal done". As of 12pm today, Sterling is trading at $1.30 to the dollar and €1.12 to the Euro.

Australia dragged down by trade war concerns

Following the rest of global markets, the Australian S&P/ASX 200 also closed the week lower on the back of escalating trade tensions between the US and China. The index closed the week lower by 2.78%, its worse weekly fall since early February and in the last five days telecoms was the only sector finishing positive, higher by 1%. Reports of further tariffs on Australia's biggest trading partner, China, also prompted the Australian dollar to sell off on Friday. The Australian Dollar fell against the US dollar to close below US 71.50¢.

Oil gives up its gains

Brent crude oil almost touched $80 a barrel on Tuesday, as a tropical storm caused offshore drilling rigs in the US Gulf Coast to be evacuated. However, this soon reversed following a report on Thursday that US gasoline inventories had unexpectedly risen. Brent crude is currently trading at $76.6 a barrel, whilst WTI (West Texas Intermediate) is trading at $67.9.

Issues under discussion

In the year to date, the US equity market has been the standout performer, as the economy has continued to deliver robust growth, leading valuations to reach stretched levels once more. It is a very different story outside of the US, with most other regions in negative territory due to softness in economic growth, concerns over tightening US dollar liquidity, and the escalating US/China trade war. However, there are signs that the weakness in growth is slowing, with the deterioration in leading economic indicators moderating, particularly in Europe. Emerging market currencies are trading at very low levels, with the JP Morgan Emerging Market Currency Index trading at its lowest level since it began in 2010. We also believe that the strength in the US economy and future interest rate rises are better understood today, giving us cause to believe that the dollar cannot strengthen indefinitely. Consequently, we are not relenting on our positions in the emerging markets and Europe, whilst holding significant cash positions to take advantage of any further falls in markets.

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