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Smart[im]: Weekly Market Review

12 January 2018
Smart Investment Management

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

Markets and key events

The United States S&P 500 index (Standard & Poor's) hit a record 7th time closing high for 2018, rising 0.89% over the week, as the impact of corporate tax cuts continued to be digested by investors. However, emerging markets fell slightly, with the MSCI Emerging Markets index down 0.33% as investors contemplated a slowdown in China and the potential for President Trump to withdraw from NAFTA (North American Free Trade Agreement) ahead of the US mid-term elections in November. The Japanese Topix index also fell 0.22% as it was noted that the Bank of Japan had reduced the amount of long-dated Japanese government bonds it would buy, leading to appreciation in Japan's currency, the Yen. The Eurostoxx 600 is marginally higher, having risen by 0.14% over the week, whilst the UK's FTSE All Share is up 0.54%, benefitting from strength in commodity related stocks.

The US headline producer price index, a measure of companies' ability to pass on price rises, unexpectedly fell 0.1% on a month on month basis in December. However, markets will also watch closely CPI (consumer price index) data released later today, as the latest inflation data will be key in determining the speed of potential further monetary tightening by the Federal Reserve. The US dollar index (the measure of the dollar against a weighted basket of major currencies) has fallen 0.63% over the week, now trading at 91.36.

Fixed Income

Whilst Wall Street extended its rally, it was global bond markets that dominated news this week as bond yields (which move inversely to bond price) rose. In particular, the 10-year US Treasury yield hit a 10-month high at 2.59%, its highest level since March. The sell-off midweek was prompted by speculative reports that China, the largest foreign holder of Treasuries, would slow or stop its accumulation of US debt. However, Chinese officials later denied this was the case. As of 12pm London time (BST), the 10 Year US Treasury has recouped some of its losses, trading at 2.55%.

Data on Tuesday also caught investors' attention, as the Bank of Japan revealed it had scaled back its monthly bond purchases, prompting speculation that the central bank is moving towards tighter monetary policy. The central bank had trimmed its purchases of 10 to 25-year debt by ¥10bn, its first reduction since December 2016. Finally, the ECB (European Central Bank) took the spotlight later on in the week, as its latest minutes were deemed 'hawkish' by markets as the central bank indicated it could reduce its stimulus programme faster than expected. This sent the Euro higher and put pressure on German Bunds, where 10-year bund yields rose 5 basis points to 0.53%, the highest level since August 2017.

Europe and UK (United Kingdom)

In other news for Europe, the Euro extended its rally against the dollar after a German coalition government was finally formed this morning between Angel Merkel's Christian Democrats and their former coalition partners, the Social Democrats. The Euro had already risen 0.7% against the dollar after yesterday's ECB minutes, and due to the German political news, further rose by 0.8% to a three-year high of $1.2120.

In economic news, the European recovery continues as the unemployment rate for the region fell to its lowest level for 9 years at 8.7%. Meanwhile, a growing global economy has helped manufacturing activity in the UK, as the sector grew 0.4% in November ahead of analyst expectations of 0.3% for the month.

Asia and Australia

Most notably, China's trade surplus grew substantially by $14bn from last month to $57.4bn in December. This was driven by divergent trade figures, as exports grew ahead of forecasts, though imports slowed dramatically. The dollar value of exports rose higher than expected at 10.9% year on year, whilst imports only grew 4.5% year on year, substantially lower than last month's annual figure of 17.7%.

In Australia, the ASX / S&P 200 index ended lower by 0.85%. Materials and energy were the most improved sectors with a gain of 0.8% and 0.2% respectively. However, the market was dragged down by consumer staples and industrials which both fell 2.2% over the week. In economic news, the Australian Dollar climbed back up towards the US80¢ mark to finish trading at US78.40¢, after figures on Thursday showed higher than expected retail sales.

Commodities

The price of oil continued its advance since the start of the year as Brent crude oil briefly rose above the $70 a barrel mark for the first time since December 2014. On Wednesday, according to the US Energy Information Administration, crude inventories fell approximately 5 million barrels to 419.5 million barrels last week. In addition, production slowed by nearly 300,000 barrels per day, which analysts attributed to colder-than-usual weather across the US last week.

Changes to the Portfolios

There have been no changes to the portfolios.