

Smart^{im}: Weekly Market Review

17 August 2018

Smart Investment Management

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

Markets and key events

Turkey continues to leave its mark on markets

Stock markets continued to fall over the first half of this week as the fallout from Turkey's currency crisis continued, before markets stabilised on news that China would restart stalled trade talks with the US later this month. Emerging markets fell 3.8%, EuroStoxx 600 fell 1.4%, UK's FTSE All Share fell 1.5%, and the Japanese Topix fell 1.3%. However, following US company results, including Walmart's, whose earnings rose at their fastest pace in more than 10 years, the S&P 500 recouped all its losses towards the end of the week, rising 0.3% as of 12pm London time on Friday, not far off its all-time high.

Turkish lira stabilises, but stock market tumbles

Some stability returned to the Turkish lira this week, as Turkish authorities cracked down on short selling of the lira by limiting banks' ability to supply currency to foreign financial institutions. However, this provided little support to Turkish equities, with the Borsa Istanbul 100 Index falling 8% over the week as President Recep Erdogan refused to release the American pastor, Andrew Brunson, who has been accused of being involved with the 2016 coup attempt. The Turkish government responded to US sanctions by announcing tariffs on US goods, including 140% duties on alcohol, 120% on cars and 60% in leaf tobacco, as well as doubling tariffs on cosmetics, rice and coal.

China slowdown

Emerging markets were not helped by data out of China reporting a sharp slowdown in fixed asset investment, coming in at 5.5% for the first seven months of the year, the slowest rate recorded since 1992. Retail sales also softened marginally to 8.8%, as China attempts to slow down credit growth against a background of increasing indebtedness. The Shanghai Composite fell 4.5% over the week.

Copper and gold slump

The slowdown in China has impacted copper prices, which fell a further 6.5% before rallying towards the end of the week. The copper price has now fallen over 17% year to date. Despite the sell-off in markets, the pain was also felt in the gold price, which is poised for its worst week since mid-2017. Historically gold has been associated with safe haven status, however, rising interest rates in the US and a strengthening dollar have taken their toll, with the metal falling 2.8% over the week and 10% year to date.

Eurozone second quarter GDP revised up

Second quarter Eurozone GDP growth was revised up to 0.4% this week. However, this did not help Italian equities which have been hit by the tragic consequences of a bridge collapse in Genoa, and the Eurosceptic coalition government unexpectedly bringing forward budget negotiations, something that the market had not expected until autumn. The FTSE MIB index fell 3.9% over the week.

Australia bucks the trend

Australia was a bright spot in the Asia Pacific market, with the S&P/ASX 200 up 0.97% over the week. Over the course of the week, the most improved sectors were Telecoms and Information Technology higher by 7.5% and 5.7% respectively. Meanwhile, the Materials sector (miners) was the main detractor after base metal prices deteriorated mid-week. The sector is down 3.4% over the period. Meanwhile in economic news, the Australian Bureau of Statistics (ABS), confirmed wage growth rising just 0.6% for the second quarter of this year, though higher than the 0.5% rise in the first quarter.

Portfolio changes

Currency hedging

Following a sharp weakening in sterling versus the US dollar from \$1.43 in April to \$1.27 today, a fall of over 11%, we have once again begun to hedge out a proportion of the US dollar risk in the portfolios. Sterling weakness is due to a combination of US dollar strength and concerns that the UK is heading for a so called 'hard Brexit'. Although a hard Brexit may see further weakness, we believe that on balance, the risks are skewed towards sterling strengthening from here. However, should sterling continue to weaken, we have not hedged all of the overseas currency exposure, and the portfolios would still benefit from overseas holdings rising in value in sterling terms. We have also hedged out a proportion of our Japanese Yen and Euro currency exposure.

In other news

Tesla subpoenaed

The US Securities and Exchange Commission (SEC) has subpoenaed Tesla, following a tweet by Elon Musk, founder of Tesla, as to plans to take the electric carmaker private. This led to a sharp rise in the share price, negatively impacting short sellers, with at least two class-action law suits having been filed against the company, alleging Musk's funding claims were misleading. If the SEC concludes that Musk's tweet overstated his ability to finance taking the company private, this could form the basis for a market manipulation case. Tesla's share price has since given up those gains and more.

The information provided above is for Guardian Wealth Management Professional Advisers only. It is not intended for the use of consumers and therefore must not be relied upon.

Please note, that, all website links contained within this document are directed to a third party website and therefore we cannot be held responsible for the administration of their site. Providing links to other sites does not guarantee, approve, or endorse the content or the products contained within these sites.

Any investment must be made in conjunction with reading the relevant KIID or Investment Mandate. Clients should be aware that the value of investments and the income from these may fall as well as rise and they may not get back the amount originally invested. Investors should note that the views expressed and information given were current at the time of publication but may no longer be so and/or may have been acted upon by the Investment Manager already.

The Smartfund Range and the iGuard Model Portfolios are managed by Smart Investment Management. Smart Investment Management is authorised and regulated by the Financial Conduct Authority under reference 627829, registered in England and Wales, and is wholly owned by Praemium Portfolio Services Ltd (Company Number 05362168). The registered address of Smart Investment Management Ltd is 4th Floor, Suite 643-659, Salisbury House, London Wall, London, EC2M 5QQ. See www.fca.org.uk/register for more details.

This e-mail is confidential. It may also be legally privileged. If you are not the addressee you may not copy, forward, disclose or use any part of it. If you have received this message in error, please delete it and all copies from your system and notify the sender immediately by return e-mail. Internet communications cannot be guaranteed to be timely, secure, error or virus-free. The sender does not accept liability for any errors or omissions

SIM/17082018/FP169

