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Smart[im]: Weekly Market Review

18th January 2019
Smart Investment Management

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

Markets and key events

Global equity markets ended the week higher, bolstered by Chinese monetary stimulus, as well as optimism of a resolution in the ongoing China-United States (US) trade negotiations. Media reports on Thursday claimed that US Treasury Secretary Steven Mnuchin was considering scaling back tariffs on Chinese imports, although the US Treasury department later denied this. Nonetheless this lifted stocks late in the week.

Investors have also been anticipating the latest company results as quarterly earnings season gets underway. Market participants are paying particular attention to company fundamentals given last year's fears of peak earnings following Apple's revenue warning. The results so far have been mixed, with major financials the first to release results. Goldman Sachs and Bank of America's strong earnings boosted the financials sector, though some gains were given up as Morgan Stanley missed its profit forecast.

As of 12pm London time, all major equity markets finished the week higher, with the US S&P 500 up 1.53% followed by gains in Asia and Emerging Markets too. Emerging markets increased 0.79%, and the Hong Kong Hang Seng index rose 1.59% whilst Japanese equities climbed 1.82%. In Europe, the EuroStoxx 600 rose 1.68% whilst the UK was the relative underperformer with the FTSE All Share only finishing marginally higher by 0.18%

Europe and the United Kingdom (UK)

Brexit discussions in the UK dominated headlines. Theresa May's withdrawal deal on Tuesday night was overwhelmingly rejected by the House of Commons by 432 votes to 202. The following day, the Prime Minister survived a vote of no confidence that had been called by the leader of the Labour Party, Jeremy Corbyn. Immediately after Tuesday's vote, Pound Sterling briefly fell but then rallied, regaining the $1.28 mark to finish only moderately lower on the day. The rise in Sterling seems to reflect the market view that there will be renewed time to discuss and potentially avoid a 'no-deal' or 'Hard Brexit'. However, with only a couple of months until the UK is due to leave the EU, and views still polarised between MPs, it is far from certain that any deal will be formally agreed by the deadline in March.

Away from the political news, the latest economic data from Germany fuelled concerns over the Eurozone economic outlook. Germany led a sharp fall in Eurozone industrial activity, where production declined 1.7% between October and November, lower than forecast. This was followed by news that Germany's economy had grown 1.5% in 2018, its slowest pace for five years, following growth of 2.2% 2017. GDP fell 0.2% in the third quarter from the second, with fourth-quarter figures due in February.

Asia Pacific

Adding to fears of a slowing global economy was worse than expected export data out of China. Trade figures showed exports in December slid 4.4% year on year, the largest fall since the end of 2016. However, this was later met by a policy response from the government. This included a cut to value added tax rates for selected industries and the introduction of tax rebates. Meanwhile, China's central bank also injected a record $84bn into the country's banking system via open market operations on Wednesday, in an effort to boost liquidity and promote lending within the economy.

In Australia, trade optimism between the US and China, Australia's largest trading partner, helped lift the S&P/ASX 200 higher by 1.8% over the week. The financial sector led, with the 'big four' banks all rising. The Australian dollar, often seen as a proxy for Chinese growth, rallied to finish trading at US 0.7191 ¢.

Fixed Income

With the rise in equities, demand for safe haven assets waned over the period. Yields, which move inversely to the bond price, moved marginally higher for most major government bonds. Benchmark 10-year US treasury yields and 10-year UK Gilt yields both rose by 7 basis points, whilst equivalent German bund yields rose 3 basis points.

Commodities

Oil prices continued to rise this week, helped by hopes that a trade war truce would limit the threat to demand. The Brent crude price rose 2.27% per cent to $61.85 a barrel. In other news the EIA (Energy Information Administration) has forecasted the US to become a consistent net oil exporter late next year in 2020. US crude oil production would rise to average 12m barrels per day in 2019 and 12.9m barrels per day in 2020 after breaking historical output records last year.