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Smart[im]: Weekly Market Review

19 January 2018
Smart Investment Management

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

Markets and key events

The US Dollar decline dominated headlines this week, as the currency dropped to a 3 year low because of US government shut down fears. So far, Republicans and Democrats have failed to pass a long-term funding bill to keep federal agencies running, as members of Congress are at an impasse over what should be included in the spending bill. On Thursday the House of Representatives passed a stopgap bill to fund federal agencies beyond Friday night, but this measure still faces opposition in the Senate.

Nonetheless, US equity markets have sustained their rally since the start of the year, with gains in the technology and healthcare sector pushing the S&P 500 higher by 0.4%. The Eurostoxx 600 rose by 0.5% after the euro pulled back from its rally last week, providing some relief to exporters. The FTSE 100 sold off over the period by 0.7% as UK retailers led the decline. In particular, it was revealed today that British shop sales slid by more than expected during the Christmas period with the quantity of goods bought falling by 1.5% on a monthly basis. Finally, positive GDP data for China lifted shares in Asian and Emerging Markets. The MSCI Emerging Markets index is higher by 1.6% and the Shanghai Composite (China) index is up 2.7% for the week.

Fixed Income

Notably this week bond yields continued to climb further. The benchmark 10-year US Treasury yield, which moves inversely to its price, rose to its highest level since 2014, reflecting further expectations of a stronger global economy and rising inflation. The 10-year yield is now trading at 2.63%, having troughed at 1.36% in July 2016.

Meanwhile, the 10-year German bund yield also sold off, now trading at 0.57%, levels last seen in July of last year. The 10-year UK Gilt yield is now trading at 1.33%.

Europe and UK (United Kingdom)

In the UK, inflation data eased for December as annual growth in the CPI (consumer price index) fell to 3.0%, down from 3.1% in November. Analysts now expect the fall in Sterling, triggered by Brexit, to drop out of the year-on-year inflation calculations with further falls in inflation to come.

Inflation in the Eurozone fell further from the European Central Bank's (ECB) target of around 2% over time. Consumer prices rose at an annual pace of 1.4% in December, having risen 1.5% the previous month. However, core CPI (excluding more volatile food and energy components), inflation has stayed muted at 0.9%.

Asia and Australia

Official Chinese economic data showed that China's GDP growth rate stabilised at 6.8% year on year for the fourth quarter of 2017, slightly higher than the expected 6.7% growth rate. The economy's growth has been driven by exports and the news has so far allayed investor's fears of any immediate 'hard landing' or serve slowdown in the economy. Elsewhere in the region, Japan's industrial production increased less than initially estimated in November. Industrial production rose at a stable rate of 0.5% month-over-month in November, just below the 0.6% increase reported prior.

The Australian S&P / ASX 200 share market index slipped 1.1% over the week with Energy and Telecoms sectors being the biggest detractors. Australian share markets appeared to ignore positive data as the economy added 34,700 jobs in seasonally adjusted terms for December, topping forecasts for an increase of 15,000. The Australian Dollar rallied strongly, following the robust GDP data from Australia's largest trading partner China. The currency is now trading at USD 80¢.

Commodities

Brent Crude oil hovered close to the $70 per barrel mark, but declined by 1.63% over the week to trade at $68.87 per barrel as of 12pm. The biggest weekly fall since October has been attributed to a bounce-back in US production which outweighed ongoing declines in crude inventories. Furthermore, in its monthly report, the International Energy Agency (IEA) said it expects US production to soon exceed 10 million barrels per day overtaking Saudi Arabia and rivalling Russia.

Changes to the Portfolios

There have been no changes to the portfolios.