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Smart[im]: Weekly Market Review

19 October 2018
Smart Investment Management

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

Markets and key events

Markets faced a volatile period after last week's sell off. At the start of the week, quarterly earnings reports from US corporates helped ease the mood amongst investors, with some reassuring figures from Goldman Sachs and Morgan Stanley, who benefited from their Investment Banking revenues. Earnings are expected to hold up on a year on year basis thanks to tax cuts implemented from earlier this year. The brief positive sentiment did not last long however, as US stocks fell more than 1% on Thursday alone as investors assessed a range of risks including uncertainty between the US and Saudi Arabia, and renewed criticism of Italy's budget by the European Union (EU).
Following the ongoing investigation into the disappearance of missing Saudi journalist Jamal Khashoggi, global business leaders and officials continue to pull out of the Future Investment Initiative conference next week in Riyadh. US Treasury secretary Steven Mnuchin is the latest official to withdraw from the conference, signalling growing pressure building against Saudi Arabia. However, whether Saudi Arabia faces any meaningful repercussions or sanctions remains to be seen.

As of 12pm London time, the S&P 500 is only marginally higher by 0.06% over the period. The FTSE All share and Eurostoxx 600 fared slightly better, but only returning 0.28% and 0.27% respectively. Markets in the East performed the worst, as the Shanghai Composite (China) finished lower by 2.17%, the Japanese Topix was down 0.56%, whilst emerging markets also suffered, as the MSCI Emerging Market index fell 1%.

Europe and United Kingdom (UK)

This week, the European Commission notified the Italian government in a letter that its proposed budget spending was too high. The renewed political risk prompted Italian government bonds to sell off, as 10-year yields (which move inversely to the bond price) rose to a four year high of 3.744% as of 12pm London time. The Italian stock index, the FTSE MIB, also suffered, down 2.2% this week.

Elsewhere, in the UK, households were given good news as wage growth hit its highest level since the 2008 crisis. Average weekly earnings, excluding bonuses were 3.1% higher year on year, this is the first time the headline rate of pay growth has been higher than 3% in a decade. The positive data coincided with inflation figures falling more than expected, indicating an increase in real take-home pay for consumers. The consumer price index fell to 2.4% from 2.7% the prior month, with the fall being attributed to a decline in food, transport and recreation. Energy suppliers, however, raised their prices.

Asia Pacific

Amongst the data releases this week, notably, China's growth data disappointed as new figures show that the world's second largest economy is growing at is slowest pace since 2009. The annual GDP growth rate was released at 6.5% for the third quarter, below expectations of 6.6% annual growth and lower than last quarter's figure of 6.7%. Weakness largely came from the manufacturing sector, as statistics showed the weakest factory output since February 2016. The news comes amid continuing pressure in the domestic share markets and a falling Renminbi versus the US dollar. In a bid to calm investors, China's policy makers have made coordinated statements to bolster confidence, claiming equity valuations were not in line with economic fundamentals.

Australia proved to be a bright spot amongst the wider Asia Pacific region. The S&P/ASX 200 largely shrugged off the end of week negativity in markets, to finish the week up 0.78%. The financial sector recorded its best result in four weeks, led by major insurers. The volatile performance of global equities this week also rewarded gold miners as the precious metal was in demand. Newcrest Mining rose 3.7% while Saracen Mineral Holdings rose 12.7%.

Fixed Income

In contrast to the selloff in Italian debt, the relative safety of 10-year German government bunds prompted yields, which move inversely to bond prices, to fall 9 basis points, equating to a return of 0.84%. Equivalent 10-year US treasury yields rose marginally by 2 basis points over the week to 3.17%.

Commodities

Oil prices declined over the period. As of 12pm London time, Brent crude oil slipped 0.58% to $79.96 per barrel, whilst West Texas Intermediate prices declined by 3.22% to $69.04 per barrel. This came after news that US crude stockpiles have risen for four straight weeks. Inventories rose sharply even as US production fell by 300,000 barrels per day, due to offshore facilities closing temporarily for Hurricane Michael.

Gold, considered a 'safe haven' asset, benefitted from investor uncertainty, rising $8 over the week to $1,230 per ounce.

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