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Smart[im]: Weekly Market Review

25th January 2019
Smart Investment Management

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

Markets and key events

Overall it was a mixed week for global markets. Sentiment was muted after weaker than expected data was released in China and the Eurozone, reinforcing fears that the global economy may be slowing. This was not helped by comments from US Commerce Secretary, Wilbur Ross, who stated that both China and the US were "miles and miles" away from resolving their trade issues. Chinese Vice Premier Liu He will visit the United States next week for the next round of trade negotiations with Washington.

However, shares managed to rally at the end of the week after some corporate earnings results were well received by investors. On Wall Street, robust earnings from IBM, Procter & Gamble and United Technologies provided a lift to the main stock indices. In particular, chipmakers in the technology sector led the market, as European semiconductor group STMicroelectronics jumped more than 10% on Thursday after its results proved better than expected. In the US, the Philadelphia Semiconductor index also hit its highest level since the start of December, following some positive earnings surprises.

Overall the late rally helped markets in Asia finish higher over the week. As of 12pm London time, the Hong Kong Hang Seng index stood out finishing up 1.77%, whilst the Japanese Topix rose 0.55%. The S&P 500 and the FTSE All share still finished lower, respectively by 1.06% and 1.52%. However, stocks in Europe fared better as the EuroStoxx 600 finished marginally higher by 0.38%.

Europe and the United Kingdom (UK)

In Europe, on the economic front, any hopes that the slowdown in the economy were temporary were dashed as the composite Purchasing Managers' index (PMI) declined once again. The forward-looking business survey, often a prelude for upcoming GDP readings, fell to a reading of 50.7 down from 51.1 in December. Factors such as the protests in France may have temporarily weighed on sentiment, but ongoing automobile sector weakness, Brexit worries, and trade wars were again widely cited as factors preventing a bounce back in data. The PMI is still above a reading of 50, suggesting activity is still expanding, though the latest reading was its lowest in 66 months.

Also, this week, the European Central Bank (ECB) decided to leave its key benchmark rate unchanged at zero. Though the ECB did acknowledge the weaker economic data it gave no indication of whether it was preparing to cut interest rates, saying its council "expects the key ECB interest rates to remain at their present levels at least through the summer of 2019".

Elsewhere in the UK, Pound Sterling traded over $1.31 for the first time since November, based on increased speculation that members of Parliament are unwilling to crash out of the EU without a deal.

Asia Pacific

The early focus this week was on Chinese economic data. Official readings showed the country's economy growing at an annual rate of 6.6% in 2018, down from 6.8% in 2017, the slowest pace since 1990. Growth has now slowed for three consecutive quarters, prompting concern among investors that the country could drag down the global economy. Japan was also the latest economy in Asia to report a fall in exports in December 2018. The year-on-year drop of 3.8% was double

the forecast by economists and marked the sharpest fall since October 2016. Other countries in the region whose exports shrank in December include China, South Korea, Indonesia, Thailand and Singapore.

The Australian S&P/ASX 200 finished the week higher by 0.44%, led by Utilities, consumer discretionary and property stocks. Banks and mining stocks were the only sectors to finish in negative territory.

Fixed Income

German 10-year government bonds yields, which move inversely to the bond price, fell a further 8 basis points this week. The brief rally in the safe haven asset came after the release of weaker European data, as well as the more dovish remarks from the ECB. Elsewhere equivalent 10-year Gilt yields and US Treasury yields fell 8 basis points and 6 basis points respectively.

Commodities

Overall, oil prices came under pressure given concerns of slowing economic growth, finishing the period lower by 2.3% at $61.26 per barrel. Oil prices rose on Thursday, boosted by the US threat of sanctions on OPEC member Venezuela, but gains were limited by US data showing record high oil inventories and a large, unexpected build in crude stockpiles.

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