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Smart[im]: Weekly Market Review

25 May 2018
Smart Investment Management

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

Markets and Key Events

Markets faced a mixed week as geopolitics once again rattled equity markets after President Donald Trump on Thursday, cancelled a planned summit between the United States (US) and North Korea. President Trump blamed the breakdown on talks on recent hostile comments from top North Korean officials and concern over Pyongyang's commitment to giving up its nuclear weapons. Although US equities declined later in the week, the S&P 500 index finished the period marginally higher by 0.55% as of 12pm London time. However, the Eurostoxx 600 fell 0.70%, the FTSE All Share declined 0.36%, whilst in Asia there were more significant falls with Japanese Topix falling by 2.40% and the Chinese Shanghai composite down by 1.63%.

Europe and the UK (United Kingdom)

In Europe, the main focus remained over political uncertainty in Italy, as talks between the far-right League and anti-establishment 5-Star Movement *raised* the prospects of forming a potential Eurosceptic, populist coalition government. This prompted a steep sell off in Italian government debt, with the country's 10-year bond yield, which moves inversely to its bond price, rising to 2.438%, its highest level since October 2014.

Meanwhile, data on Wednesday revealed that UK inflation had unexpectedly fallen for a second consecutive month in April with the CPI (Consumer Price Index) falling 2.4% year on year. The lack of inflation has again dashed the prospect of further interest rate rises by the Bank of England and consequently on this news, the pound fell against the dollar to as low as $1.3303.

Asia Pacific and Emerging Markets

The stronger US dollar continued to weigh on Emerging market equities and currencies as countries reliant on international funding face a higher cost of servicing dollar-denominated debt. This pressure was especially evident this week as seen by the decline of the Turkish Lira, with the currency declining as much as 9% from the start of the week to Wednesday, before the central bank reacted with an emergency interest rate rise in an attempt to stop investors selling the currency.

Fears of protectionist trade policies in the Asian region also came to the fore again, this time as the US administration launched a national security investigation into automobile imports. This particularly impacted Japanese automakers, for example Toyota Motor slumped 3.3% immediately on the news. Elsewhere, the Australian S&P/ASX 200 declined this week by 0.9%, driven by the weakness in the materials sector which fell 2.8% over the period. Major miners Rio Tinto and BHP Billiton suffered as iron ore prices fell approximately 4.2% this week alone.

Fixed Income

The heightened sense of geopolitical risk this week saw the rise in demand for perceived 'safe haven' assets. In particular, the yield on 10-year US Treasuries, which moves inversely to their bond price, declined again this week below the 3% mark to 2.9514%. 10 Year equivalent German Bunds and UK Gilts also rallied, with yields lower by 14 and 13 basis points respectively.

Commodities

Crude oil prices were slightly lower this weeks after falls on Thursday were prompted by speculation that OPEC (Organization of the Petroleum Exporting Countries) could remove production caps in response to the prospect of reduced supplies from Venezuela and Iran. Venezuelan output has slumped from 2 million barrels per day in early 2017 to below 1.5 million in April due to underinvestment, whilst renewed US sanctions on Iran could also hurt oil production. Brent Crude is trading lower at $77.18 per barrel.