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# Smart[im]: Weekly Market Review

**27 April 2018**
**Smart Investment Management**

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

**Markets and Key Events**

## Corporate earnings alarm and reassure

It has been a mixed week for stock markets, as rising US (United States) Treasury yields combined with corporate earnings results that both alarmed and reassured investors. As of 12pm London time, the US Standard & Poor's 500 index fell 0.1% over the week, the technology focused Nasdaq Composite fell 0.4%, MSCI Emerging Markets were down 2.05%, whilst the Japanese Topix index rose 1.5%, EuroStoxx 50 index rose 0.7%, FTSE All Share rose 1.2% and the Australian S&P/ASX 200 index rose 1.5%. 10-year US Treasuries lost 0.3%, however 10-year UK Gilts rose 0.1%, as did 10-year German Bunds. The US dollar index rose 1.6% and Gold fell 1.4%, now trading at $1,320 an ounce.

## US Treasury yield rises above 3%

The US Standard & Poor's 500 index fell 1.3% on Tuesday as rising earnings from Alphabet, Google's parent company, and Caterpillar, an industrial bellwether, were overlooked, with investors instead focused on signs of margin pressure and rising costs. This coincided with the 10-year US Treasury yield briefly rising above 3% for the first time in more than four years. Positive results later in the week, notably from Facebook, with the company's net income rising by 63% year-on-year in the for the first quarter of the year, helped propel markets upwards again towards the end of the week. On Friday, first quarter GDP came in at 2.3%, ahead of consensus expectations.

## Brent crude $75

Brent crude oil rose as high as $75.47 after President Trump described the Iran nuclear deal as "insane", raising the prospect of sanctions being placed on Iran once more, including the exporting of oil.

## Eurozone growth rolling over

The German Ifo Business Climate survey, a leading indicator for economic activity in Germany fell for the fifth month in a row, indicating a slowdown in the recovery, but not a contraction. Whether this is due to the 'Beast from the East' winter blizzard or something more fundamental, remains to be seen. But the moderating Eurozone recovery led the ECB (European Central Bank) to remain cautious, announcing no changes to monetary policy. The euro is now trading at $1.21 to the dollar, off its highs of $1.25 reached in February.

## Sterling under pressure

The UK's first quarter GDP growth, which was forecast to be weak, came in much worse at just 0.1%, the weakest quarter since 2012. This has put serious doubts over an interest rate rise in May and Sterling is under pressure, now trading as low as $1.38 to the US dollar.

## Changes to the portfolios

We have made a small increase to the UK equity weighting within Smartfund Growth and Balanced, as UK equities have been noticeably left behind in the equity rally due to a combination of investors shunning the UK due to Brexit risk, and international companies being sold down as Sterling has rallied versus the US dollar, as the translation of earnings from abroad falls in value. We suspect that should the UK suffer a hard Brexit, Sterling would weaken and international companies listed in the UK would rise in Sterling terms. However, should the UK negotiate an acceptable deal to both parties, although Sterling would likely rise in value, we also think that international investors would be tempted back in. In this scenario, it is not a given that a strengthening currency would lead to share price falls. Despite this addition, we remain underweight UK equities.

We increased the weighting to Energy stocks within Smartfund Growth and added a small position in Smartfund Cautious, with Balanced already having a holding. This is not a bet on the oil price, which we have no strong views on, despite the very robust rally in the oil price this year. It is a reflection of the high levels of free cash flow being generated by the integrated oil companies after a programme of cost cutting and the postponement of capital projects since the oil price collapsed to under $30 a barrel.

Within the fixed income holdings in Smartfund Balanced and Cautious, we sold out of US short duration high yield, as the costs of hedging the currency risk outweigh the low returns on offer, and have introduced a holding in local currency emerging market debt. Many emerging market countries continue to recover economically, whilst experiencing moderating inflation and falling interest rates, which is advantageous for fixed income.