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# Smart[im]: Weekly Market Review

**29 March 2018**
**Smart Investment Management**

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

**Markets and key events**

The week started negatively for European Equities as markets reacted to comments from German central bank chief, Jens Weidmann, that the European Central Bank should slow its crisis-fighting policies of extremely low interest rates and large bond purchases. Across the Atlantic however, the week started on a rather more positive note as both major US (United States) indices saw their biggest 1-day jump since August 2015, with the Dow Jones Industrial Average Index up 2.84% and S&P (Standard & Poor's) 500 index increasing by 2.72%. The stock market rebound was triggered by indications that trade tensions were beginning to ease amidst reports that the US and China are conducting behind-the-scenes talks to avoid a global trade war. Asian equities were also buoyed by easing fears of a trade war rebounding across the piste.

On Tuesday, European Equities played catch-up to the US with the Euro Stoxx 50 ending the session up 1.17% and the UK's FTSE (Financial Times Stock Exchange) 100 gaining 1.62%. Over in the US, equity markets started the day positively but tumbled in the last hour of trading with early advances dampened by technology stocks with Facebook and Nvidia in particular, leading the markets lower. Meanwhile, over in Asia, all major benchmarks traded in the red as they were hit by the overnight US sell-off.

Wednesday was a much quieter day for equities as markets paused for breath after such a volatile start to the week. As we rolled over to Thursday investors dusted themselves down after a woeful week for the tech sector, readying for what was set to be the first quarterly drop in global equities in two years.
As at as at 12:00pm BST (British Summer Time), Global equities as measured by the MSCI AC World Index are up 0.38% for the week. This positive return has been driven largely by the performance of US Equities with the S&P 500 and the Dow Jones industrial average ending the week up 0.65% & 1.34% respectively, however, the technology rich Nasdaq Composite ended the week down a disappointing 0.62%.

Turning to Asia, the Chinese Shanghai Composite was up 0.25% in contrast to the Hong Kong Hang Seng which was down -0.71%, whereas over in Japan, the Topix Index was up a very strong 2.35%.
Over in Europe, The FTSE 100 was up a very strong 2.15% and in Continental Europe, the EuroStoxx 50 was up 1.61%.

*Australia*

On Thursday, Australian shares wrapped up their worst March quarter performance since the Global Financial Crisis on a sour note despite a modest rebound in the major banks. The S&P/ASX 200 index slipped 0.6% on the final session before the Easter break, ending the week down 1.05%, bringing the losses for the year to 306 points, or 5 per cent. Investors have only suffered two worse March quarters over the past 25 years – a 15% plunge in 2008 and a 6.3 % loss in 1994.
Fixed Income

Government bonds saw inflows this week, as investors sought out shelter against the equity market turmoil with treasury yields declining steeply (bond yields have an inverse relationship with prices). But much of that rally was undone by an auction for $29 billion of 7-year US Treasury notes, which struggled to attract appetite from debt investors and resulted in little movement in bond markets over the week. The yield on 10-year US Treasuries is steady at 2.76 per cent. The yield on 10-year German Bunds are 0.502 per cent, while the UK 10-year yield is 1.37 per cent.

*Oil*

Oil prices were boosted this week as the producer cartel OPEC (Organization of the Petroleum Exporting Countries) and other suppliers indicated they would continue to withhold output for the rest of the year and potentially into 2019. However, gains were wiped out by news of rising crude inventories and production in the United States with Brent Crude ending the week at $69.30, down 1.63%.

*Gold*

Gold traded under pressure this week, besieged by short selling, driven predominantly by "black box" programme trading and to some extent by a stronger US dollar after data showed US economic growth in the final quarter of 2017 was stronger than initially thought. Gold ended the week at $1,329.3, down 1.95%.

## *Changes to portfolios*

Within the model portfolios we took the decision to switch our UK Smaller Companies exposure from River & Mercantile UK Smaller Companies into a the Chelverton UK Equity Growth Fund. We took this decision after a fund manager change at River and Mercantile.

The Chelverton UK Equity Growth Fund invests in UK Companies which fall outside the top 100 UK equities with a bias toward UK small and mid-caps. The fund focuses on companies that are highly cash generative and able to fund their own growth. These companies will typically have some form of sustainable competitive advantage, such as a unique product or a dominant position in a market.

Within our European equity exposure, we switched BlackRock Continental European Income into the Man GLG Continental European Growth Fund. We remain big fans of the BlackRock Continental European Income Fund, however, in this somewhat low growth environment, Man GLG Continental European Growth's focus on businesses that enjoy a strong market position, with a sustainable competitive advantage over rivals, is a strategy that should outperform.

*SmartFunds*

The SmartFunds have had an indifferent start to the year as the reaction of equity markets to news flow and events has been sharp leading to sudden falls followed by sharp bounces. These market conditions do not lend themselves to the structure of the fund, as the funds volatility mechanism has the effect of leveraging the portfolio (increased exposure) into the sell-offs and deleveraging the portfolio (decreased exposure) into the bounces thus causing the fund to underperform. The volatility mechanism is designed for steady directional markets and we believe that this is the environment that we are increasingly entering into and thus, expect the fund's performance to start improving going forward.