

## Smart<sup>im</sup>: Weekly Market Review

02 March 2018

Smart Investment Management

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

### *Markets and key events*

#### *Protectionism trumps interest rate concerns*

This week, markets were on tenterhooks for the inaugural congressional testimony of Jay Powell, new Chair of the Federal Reserve. However, it was President Trump of the United States (US) who sent markets into a spin as he announced major new tariffs on steel and aluminium imports across the board of 25% and 10% respectively. Over the week the US Standard & Poor's 500 index fell 2.5%, EuroStoxx 50 fell 2.8%, FTSE All Share fell 1.8%, Japanese Topix lost 3.0% and the MSCI Emerging Markets fell 2.0%.

#### *US Treasuries find a floor following emphasis on 'gradual'*

US Treasuries were treated to two speeches by Jay Powell, the first to Congress, which was interpreted by markets as being hawkish, sending the yield on the 10-year treasury back up to 2.92% (yields move inversely to price). At the subsequent speech to the Senate, Powell had an opportunity to soften his language as he emphasised gradual rises in interest rates and "no evidence the economy is overheating", erasing the worst of investors' fears as treasuries rallied. The 10-year treasury at 12pm London time on Friday, is now trading at a yield of 2.81%.

#### *Sterling falls*

Sterling tumbled after the publication of the European Union's draft Brexit treaty and Michel Barnier, the EU's chief negotiator on the UK leaving the EU, repeated that a transition trade deal is by no means certain. Sterling fell 1.45% versus the US dollar, and 1.50% versus the Euro, trading at \$1.377 and €1.119 respectively.

#### *Rising US oil inventories*

Oil fell over the week as data released by the US Energy Information Administration showed US crude inventories had risen by 3m barrels, a greater amount than forecast. Brent crude fell from \$67.3 a barrel to \$63.5 by Friday, whilst West Texas Intermediate fell from \$63.6 to \$60.7.

#### *Gold falls against rising expectations for path of US interest rates*

Gold also suffered a sharp fall following rising expectations for four US interest rate rises this year following Powell's first testimony, with the price falling to \$1,317 an ounce, its lowest level since early February.

## *Changes to the portfolios*

There have been no changes to the portfolios this week. However, our unwinding of the currency hedges against the Japanese Yen and the US dollar has taken some of the sting out of the portfolios in falling markets, as a weakening Sterling pushes up the value of overseas holdings in Sterling terms.

## *Issues under discussion*

Expectations have been raised for four US interest rates in 2018, and thereby to some extent, some of the near-term risks to the market have been reduced. However, concerns have quickly moved onto protectionism after Donald Trump threw in his tariff hand grenade this week, using 'national security' concerns as a flimsy excuse. This is more ironic when you consider the majority of aluminium and steel imports into the US come from Canada and Europe, rather than China, both regions that would consider themselves allies, and unlikely to be guilty of dumping practices. We will wait until the detail comes out next week before making any judgement, but the danger is it leads to a tit for tat escalation in protectionist policies, benefitting no one, as was the outcome in the 1930s.

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