



FOR RETAIL INVESTORS

WEEKLY MARKET ROUND-UP

VOLATILITY AMID MARKET DISCONTENT

WEEK ENDING 9 FEBRUARY 2018



MARKETS SUFFER FEBRUARY WOBBLE

Equity markets in the US, Europe and Asia suffered their worst weekly performance in years, as fears of faster inflation and interest rate rises than previously expected prompted a sea of red across trading screens. Despite the declines, leading indices in the US and Japan remain above their average of the past 200 days. Commodities also faced a challenging week, with Brent crude, gold and copper all falling in value. All major currencies apart from the yen retreated against the US dollar, with sterling back below the US\$1.40 mark amid further concerns about what a Brexit transition deal will look like.



FEAR INDEX SPIKES ON MARKET TURBULENCE

The VIX, the so-called fear index that measures volatility (turbulence) on the S&P 500, shot to its highest level in almost two and a half years amid a sharp decline in the share price index. It later declined somewhat but remains above historical averages. The last time the VIX spiked so high was August 2015, when China devalued its currency and markets fell temporarily. Prior to 5 February, volatility had been low for months, reflecting tranquil markets. Specialised volatility-based securities, essentially bets that the VIX would stay low, faced losses last week.



OIL COMPANIES CASH IN ON FIRMER CRUDE

The price of oil rowed back to below US\$65 per barrel for Brent crude last week, after advancing above US\$71 in late January, its highest level in more than three years. The firmer oil price over recent months has given a leg up to the cash flows of oil companies announcing their results last week. BP's fourth-quarter 2017 profit more than quadrupled from the year before. Total, the French oil and gas giant, reported fourth quarter net income up 19%. And Tullow Oil, an Africa-focused exploration company, reported its first operating profit in three years.



PENSIONS CAUSING PAIN

General Electric, one of the icons of American capitalism, is struggling with an eye watering pension deficit, which is complicating attempts to turn around its fortunes by breaking up into smaller units. The company's reported US\$31bn deficit – for context, that's larger than Cameroon's entire economy – doesn't leave it as the only vast company with a big hole to plug. Boeing has a reported shortfall of US\$20.1bn, with General Motors close behind on US\$18.3bn. Pension returns have been pressured by low interest rates that prevailed in the aftermath of the financial crisis.



A TALE OF TWO DIVIDEND PAYERS

Anglo-Australian mining giant, Rio Tinto declared the biggest dividend in the company's history last week. Profits rose on the back of higher iron ore prices and as a result of an extensive cost cutting programme. Elsewhere, income investors were relieved to hear that GlaxoSmithKline was committed to paying the group's dividend. Its share price had suffered recently due to fears of a cut but management's confidence in new products to help maintain growth allayed such fears. Both Rio and Glaxo offer dividend yields of around 6%, among the highest in the FTSE 100.

BITCOIN: GLASS HALF EMPTY?

The much-hyped crypto-currency has more than halved in value since its mid-December peak



MARKET DATA – % CHANGE IN WEEK ENDING 09/02/2018

EQUITIES

	LAST VALUE	% CHANGE
FTSE All-Share (UK)	3,932	-3.77%*
MSCI All Country World	501	-4.04%*
S&P 500 (US)	2,581	-4.82%*
Stoxx 600 (Europe)	372	-3.89%*
Topix (Japan)	1,732	-4.31%*
MSCI Asia ex Japan	711	-3.87%*
MSCI Emerging Markets	1,163	-3.76%*

FIXED INCOME

Bloomberg Barclays Global Aggregate bond index, GBP-hedged – total return	572	+0.43
10-year Gilt yield	1.59%	+0.02%**
10-year US Treasury yield	2.85%	+0.01%**
10-year Bund yield	0.75%	-0.01%**
10-year Japanese government bond yield	0.07%	-0.02%**

COMMODITIES

Gold (US\$, per troy ounce)	1,315	-1.38%
Brent Crude (US\$, per barrel)	64.30	-6.24%

CURRENCIES

GBP/USD	1.39	-1.67%
GBP/EUR	1.13	-0.04%

Source: All data sourced from Bloomberg as at 11.10am, 9 February 2018. *In GBP terms. **Yields move inversely to prices.

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