



FOR RETAIL INVESTORS

WEEKLY MARKET ROUND-UP

RIDING HIGH

WEEK ENDING 11 MAY 2018



STOCKS HEAD HIGHER

Equities rallied around the world as weaker US inflation took the pressure off the Federal Reserve to raise interest rates for the time being. In the UK, the Bank of England left rates unchanged (see below) and forecast slower price rises. Easing political tensions between the US and North Korea boosted Asian stocks after the date between Donald Trump and Kim Jong-un was confirmed. The oil price was also on the move this week, climbing more than 3% after the US President withdrew from the Iran nuclear agreement. Elsewhere, it was a quiet week for the global bond market, with Italy an exception (see below).



BANK OF ENGLAND STAYS PAT ON RATES

The Bank of England left UK interest rates unchanged at 0.5%, having raised them last November. In the end the decision surprised no one, but what a change from just weeks ago, when expectations ran high that the Bank would hike rates again to counteract inflation, which is above its 2% target. What happened in the interim? Data was released showing that UK economic growth weakened earlier this year: partly due to the snow, though worries about Brexit may have also been to blame. Last week sterling touched its lowest level against the US dollar in four months.



A TALE OF TWO TELCOS

Shares in UK-based telco BT were punished last week after the company disappointed investors by a distinctly downbeat outlook on revenues and profits. BT said it would save costs by cutting its workforce by 13,000, mostly in back office and middle management jobs. Meanwhile, mobile operator Vodafone is expanding its European footprint. It agreed to buy Liberty Global's operations in Germany, Hungary, Romania and the Czech Republic in a €18.4 billion (£16 billion) deal. Over the last 12 months, Vodafone's shares have gained 7.8% while BT's lost 17.8% (in sterling terms and on a total return basis).



ITALIAN POPULISM

Populism is on the rise in Italy after two anti-establishment parties edged closer to forming a government. The Five Star Movement and the far-right League, led by Luigi Di Maio and Matteo Salvini, revealed talks this week that would help them secure power in the eurozone's third-biggest economy. The former rivals have begun looking into agenda and policies of the joint government as well as their picks for prime minister and cabinet. Investor nerves about what a Eurosceptic government will mean for the future of the euro area sent 10-year bond yields to a six-week high (bond prices fall as yields rise).



ENDING THE MALAISE IN MALAYSIA?

As political shocks go, the result of last week's Malaysian general election did not disappoint. Frustrated with corrupt practices, the electorate voted in favour of the pro-democracy party, spearheaded by 92 year-old former prime minister, Mahathir Mohamad. While the stock market was closed for a public holiday following the result, analysts are concerned about the country's deteriorating fiscal position on plans to re-introduce the fuel subsidy and ban the goods and services tax. Shorter term, the moves will lead to less government revenue but the overall outcome is deemed positive.

DOLLAR ON THE MOVE



The US dollar has started to move upwards, following months of weakness



% Higher US interest rates have attracted inflows into the currency

Bar chart icon A stronger US economy, forecast to grow at 2.9%* for 2018, is also helping...

? icon ...while geopolitical turbulence is prompting dollar buying on safety grounds

Source: Bloomberg. Dollar index as at 10 May 2018. *Source: IMF as at April 2018.

MARKET DATA – % CHANGE IN WEEK ENDING 11/05/2018

EQUITIES

	LAST VALUE	% CHANGE
FTSE All-Share (UK)	4,232	+2.02%*
MSCI All Country World	517	+2.08%*
S&P 500 (US)	2,723	+2.63%*
Stoxx 600 (Europe)	392	+1.24%*
Topix (Japan)	1,795	+2.23%*
MSCI Asia ex Japan	718	+2.12%*
MSCI Emerging Markets	1,157	+2.18%*

FIXED INCOME

Bloomberg Barclays Global Aggregate bond index, GBP-hedged – total return	589	+0.07%
10-year Gilt yield	1.42%	+0.02%**
10-year US Treasury yield	2.95%	+0.00%**
10-year Bund yield	0.55%	+0.00%**
10-year Japanese government bond yield	0.05%	+0.00%**

COMMODITIES

Gold (US\$, per troy ounce)	1,325	+0.78%
Brent Crude (US\$, per barrel)	77.45	+3.45%

CURRENCIES

GBP/USD	1.35	+0.13%
GBP/EUR	1.14	+0.35%

Source: All data sourced from Bloomberg as at 11.01am, 11 May 2018. *In GBP terms. **Yields move inversely to prices.

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