

Arlo Associates Weekly Market Summary

13th August 2017

US EQUITIES FELL AND VOLATILITY ROSE

With most major indices down over the week and Thursday's sell-off ending a 15-day streak in which the S&P 500 hadn't seen a daily move beyond 0.3 percent. The key factor in souring market sentiment was the escalating rhetoric between the US administration and North Korea, with Trump saying that any aggression from Kim Jong-un's military would be met with "fire and fury".

US COMPANIES HAD THE BEST EARNINGS SEASON SINCE 2004

As over 80 percent of S&P 500 members reported better-than-expected corporate profits. Business leaders noted that impressive global growth, with almost every economy in expansion, and a weaker dollar were the key drivers in boosting earnings. Tech companies were top of the board, with 92 percent beating expectations, with healthcare and financials just behind.

EUROPEAN EQUITIES HAD ONE OF THEIR WORST WEEKS THIS YEAR

With the widely tracked benchmark Stoxx Europe 600 index falling 3 percent. Whilst the strong recovery in Eurozone economies has pushed share prices higher in recent months, a stronger Euro is now weighing on exports – German exports in June were at the lowest level in ten years. A flight to safety saw 10-year bunds rally, with the yield falling to 0.42 percent.

THE BANK OF JAPAN ABANDONED ITS HARD INFLATION TIMELINE

Originally set at '2 percent in 2 years' in 2013, it has been postponed six times as aggressive monetary stimulus has failed to move inflation far above zero. The central bank's governors are committed to hitting the 2 percent target, but removing the timeline will save them having to extend it again as prices are unlikely to rise anytime soon.

OIL PRICES FELL FOR THE SECOND CONSECUTIVE WEEK

With weak compliance of OPEC production cuts meaning the market will take more time to rebalance. Investors were also nervous about escalating tension with North Korea, generally taking a 'risk-off' approach across most asset classes. WTI crude ended the week 1.5 percent lower at \$48.82 a barrel, with Brent crude down 0.6 percent at \$52.10.

IN OTHER FINANCIAL NEWS :

- **UK house prices rose at the slowest level in 4 years**, according to the RICS July report, whilst the number of house sales fell due to continued political certainty.
- **Year-on-year US inflation hit 1.7 percent in July**, up from 1.6 percent in June but below both economist expectations and the Fed's 2 percent target.
- **China's foreign reserves hit a nine-month high in July**, up \$29 billion to \$3.08 trillion, a clear sign that the central banks effort to curb capital outflows has worked.
- **The rand weakened but South African stocks steadied**, as President Jacob Zuma narrowly survived his sixth parliamentary vote of no-confidence since 2009.

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