

Arlo Associates Weekly Market Summary

21st October 2018

US LARGE-CAPS OUTPERFORM

With the S&P 500 and Dow Jones finishing the week marginally higher whilst the tech-heavy Nasdaq and small-cap Russell 2000 declined. The first week of corporate earnings reports for the third quarter were generally positive, with Morgan Stanley, Goldman Sachs and Netflix beatings analyst expectations, however investor confidence remains negative on global political and economic concerns.

NO-DEAL BREXIT BECOMING A REALITY

Forcing the pound lower against the greenback, after UK Prime Minister Theresa May suggested that she could extend the deadline and leave Britain under EU rules until at least 2021. The chance of a no-deal hit 50 percent in some camps, whilst other economists forecast a deal could be reached but it would come down to the wire. The pound closed at \$1.3072, after being as high as \$1.3233 midweek.

ITALY'S CREDIT RATING CUT TO BAA3

One level above junk, with Moody's Investors Service citing concerns on the nation's fiscal strength, stalled structural reforms and the new government's planned budget deficit, as key factors in the cut. The 10-year government bond hit 3.73 percent last week, a 4-year high, after the EU reprimanded Italy's government for breaking EU borrowing limits with their planned 2.4 percent budget deficit.

CHINA'S ECONOMY EXPANDED AT 6.5 PERCENT

Measured in the third quarter from a year earlier, the slowest rate of growth since 2009. The Shanghai index also fell to a 4-year low as the country faces higher debt levels and trade tensions with the US, although the full impact of the trade war will only become clear in the coming months. The currency hit its weakest level since 2016 and could break the 7 yuan per dollar psychological level.

OIL PRICES FELL FOR A SECOND CONSECUTIVE WEEK

With the international benchmark Brent crude down 0.3 percent, despite Friday's recovery on strong demand from China. Oil imports to China, the world's second largest importer, rose in September to a record 12.5 million barrels per day even whilst the economy slowed. The discount of US benchmark WTI to Brent crude hit \$11 a barrel, the widest margin since June, on rising US inventory.

IN OTHER FINANCIAL NEWS :

- **Eurozone inflation hit 2.1 percent in September**, exceeding the ECB's 2 percent target and supporting the central bank's plans to start tightening monetary policy.
- **UK inflation dropped to 2.4 percent in September**, down from 2.7 percent the month before, whilst the unemployment rate remained at 4 percent – a 43-year low.
- **Spanish banks must pay mortgage tax**, rather than their clients, after a ruling by the Supreme Court that could lead to billions of euros in legal claims from borrowers.
- **Saudi shares recover by Thursday**, despite the slump in the Tadawul following the controversy caused by the disappearance of journalist Saudi Jamal Khashoggi.

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