MARKET UPDATE

JULY 2018

EQUITIES ADVANCE IN JULY AS ROBUST CORPORATE RESULTS AND ECONOMIC FIGURES OUTWEIGH TRADE ISSUES

Despite the prominence of international trade issues in July, global equities gained ground over the month. US-China trade relations remained stressed amid tit-for-tat sanction announcements in July. However, trade differences between Europe and the United States diminished somewhat as both sides aimed for zero tariffs in future.

The United States was one of the stronger-performing equity markets, helped by broadly solid economic updates and a robust earnings season. The US S&P 500 Index gained 3.7% in US-dollar terms as the majority of companies that reported second-quarter results during the month exceeded analysts' expectations. Among the names in focus, Alphabet, the parent company of Google, was boosted by well-received results, although it was also the subject of a heavy competition fine from the European Commission earlier in July. Meanwhile, Facebook disappointed market participants with slower-than-expected user growth figures.

On the economic front, gross domestic product (GDP) growth came in at 4.1% for the second quarter on an annualized basis, broadly in line with expectations but solidly above the previous quarter's figure. Industrial production improved to a year-on-year pace of 3.8% growth, from 3.2% in the previous month. However, the unemployment rate ticked up slightly to 4% as the US work force expanded.

At its meeting in July, the European Central Bank maintained its pledge to stop quantitative easing support by the end of 2018 and keep interest rates low through to mid-2019. Meanwhile, in other economic news, the pace of year-on-year GDP growth in the euro area during the second quarter eased back further from the highs of recent quarters to post a flash estimate of 2.1%. Equities in Europe were buoyant, in part spurred by the easing of trade tensions with the United States, with the FTSE World Europe ex UK up 4% in sterling terms. In Japan, the central bank continued with accommodative monetary policy despite market speculation in the run up to its meeting that its policy stance was about to shift.

In the UK, the FTSE All-Share Index advanced 1.2% over the month while ongoing Brexit-related issues led sterling lower against the US dollar. There was some mildly disappointing economic data as inflation was expected to rise to 2.6% over the year to June but it remained at 2.4% for the third month in succession. Retail sales also frustrated with a drop of 0.5% in June, having risen by 1.4% in May. Economists had expected 1.3% month-on-month growth. However, more positively, the unemployment rate remained at a multi-year low of 4.2%.

Emerging market equities posted a modest advance following a number of difficult months in the first half of the year. Brazil and Mexico were among the top gainers amid easing local political worries in both countries. India, Thailand and Poland were also notable positive performers. Elsewhere, China's equities struggled given the ongoing protectionist trade worries. The yuan declined against the US dollar, while the country's authorities announced further stimulus measures, including tax cuts and funds for infrastructure projects. Turkey's equities were also weak. During the month, the Turkish central bank surprised market participants by keeping rates on hold in the face of currency weakness and an increasing rate of inflation.

In terms of major benchmark government bonds, the US 10-year Treasury yield moved higher (and the price fell back) over July, edging towards the 3% mark. In the UK, the 10-year Gilt yield advanced amid rising expectations for an August rate increase from the Bank of England's Monetary Policy Committee. In Europe, the 10-year German Bund yield increased from 0.3% to 0.44% over the month.

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Changing market predictions regarding the Bank of Japan's (BoJ) likely policy direction was a key influence on fixed-income markets, as anticipation of tightening was eventually dashed by the BoJ's reiteration of its intention to continue with stimulus measures. Emerging-market bonds followed their equity counterparts higher. Global corporate bonds, led by high yield, generally had a positive month as trade fears were put to one side amid a strong showing in results season.

Among commodities, crude oil prices fell in July on expectations that a number of oil-producing countries were looking to increase supplies. The price of gold slipped as the US dollar gained ground. Base metals were initially buffeted by trade worries but were then provided some support, in part because Europe and the United States made headway in their trade negotiations.

Sources: Equity-market returns from Financial Express.

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