

Current Update

Market commentary from Rivers Capital Management.
For professional advisors only

March 2018

Market Commentary

February was the most challenging month for investors since early 2016. After a strong start to the year and with apparently improving economic conditions, the market volatility seemed to surprise many participants, at least momentarily. Market panic was however avoided and while nearly all markets did sustain losses for the month, these were modest, especially in sterling terms.

The catalyst for the change in market momentum was, primarily, concern regarding inflationary pressure in the US. The President has cut corporation tax, providing fiscal stimulus, and many firms have passed the savings on to their employees in higher wages. Fears over inflation prompted worries that the Federal Reserve, under new chairman Jerome Powell, would tighten monetary policy more rapidly than previously thought. As the Dow Jones index suffered its biggest one-day points fall in history, so the fears and falls travelled around the world. This affected nearly all assets with the Japanese stock market, for example, falling by 4.73% in one day – its biggest fall since 1990.

The month in the UK also saw some bad news on the jobs front - including the bankruptcies of Toys “R” Us and Maplin - as well as a slowdown in services and widening of the trade gap. On the other hand, UK productivity and manufacturing were both as strong as they have been since the financial crisis. Brexit continued to dominate headlines although there was little of substance to report. The FTSE 100 equity market recovered from its early losses finishing down nearly 4% while benchmark interest rates fell slightly, boosting Gilts modestly.

In Europe the political stalemate in Germany eased as Chancellor Merkel agreed coalition terms with the SPD although the stalemate appears to now pass to the Italians whose elections look likely to be especially difficult to resolve. Despite politics, European growth remained positive with the EU28 reported to have expanded by 2.5% in 2017. European equity markets saw marked losses with the German Dax losing 6% over the month. Interest rates changed very little despite a reduction in ECB purchases.

In the US there was more good economic news; 200,000 new jobs created, unemployment holding steady at 4.1% and the average hourly wage for private sector workers up 2.7%. The Federal Reserve Bank shared an optimistic view of the US economy. The minutes from its last meeting show that the Fed is preparing for “stronger than expected” economic growth this year as corporate America continues to benefit from the President’s decision to slash corporation tax. The 10Y Treasury yield rose to 2.9% at one point and led to the equity market sell off, however temporary. By the end of the month the S&P remained down about 4% with the 10 year bond still around 2.8%.

With Asian and Emerging Markets also down, not least the Indian market (down 5%) there were few places to hide. Whether the volatility continues or we return to a steady melt up depends very much on the decisions made by the Federal Reserve, as it so often does.

10 Key Events to Watch:

UK		Previous	Forecast
Friday March 09 2018	Balance of Trade JAN	£-4.896B	£-3.8B
Tuesday March 13 2018	Spring Budget 2018		
Tuesday March 20 2018	Inflation Rate YoY FEB	3%	3.20%
Wednesday March 21 2018	Unemployment Rate JAN	4.4%	4.40%
Thursday March 22 2018	BoE Interest Rate Decision	0.5%	
Thursday March 29 2018	GDP Growth Rate YoY Final Q4	1.8%	1.40%
GLOBAL			
Tuesday March 13 2018	Core Inflation Rate YoY FEB	1.80%	1.83%
Wednesday March 21 2018	Fed Interest Rate Decision	1.50%	1.75%
Wednesday March 28 2018	GDP Growth Rate QoQ Final Q4	3.20%	2.40%
Thursday March 08 2018	ECB Interest Rate Decision	0.00%	0.00%
Friday March 09 2018	BoJ Interest Rate Decision	-0.10%	-0.10%

Key Recent Announcements

BOE INTEREST RATE DECISION :-

Remained at 0.50% but the bank also warned that interest rates may rise sooner than anticipated, as the stronger economic growth will speed up inflation.

UK INFLATION RATE YOY JAN:-

The rate of inflation across the UK stood at 3 percent in January 2018, unchanged from the previous month and above market expectations of 2.9 percent.

UK UNEMPLOYMENT RATE DEC :-

The unemployment rate in the UK unexpectedly rose to 4.4 percent in the three months to December of 2017 from a 42-year low of 4.3 percent.

UNITED STATES FED FUNDS RATE:-

The Federal Reserve remains on course for more interest rate hikes despite the stimulus of tax cuts and government spending and market volatility,



UK	28-Feb-18	31-Dec-17
FTSE 100	7231	7687
FTSE 100 %Change	(6.0%)	
BoE Interest Rate	0.50%	0.50%
CPI	3.0%	3.10%
Govt, 10YR Yield	1.53%	1.19%
FTSE 350	4030	4277

Currency	28-Feb-18	31-Dec-17
GBP/USD	1.38	1.35
GBP/EURO	0.8865	0.8878

Commodity (\$)	28-Feb-18	31-Dec-17
Gold	1318.2	1309.3
Silver	16.39	16.98
Brent Crude Oil	64.63	66.87

Govt 10YR Bond	28-Feb-18	31-Dec-17
US	2.87	2.40
Japan (JGB)	0.05	0.05
Germany (Bund)	0.62	0.52

Global Markets (%)	28-Feb-18	31-Dec-17
Dow Jones	25,029	24,719
Dax	12,436	12,817
CAC	5,293	5,312
Nikkie 225	21,893	22,764
Shanghai	3,259	3,307
Sensex	34,184	34,056
Nifty 50	10,493	10,530

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