

MARKET UPDATE: POSITIVE EUROPEAN MOMENTUM SET TO CONTINUE

19th February 2018

LAST WEEK – KEY TAKEAWAYS

US inflation comes in at higher than expected...

On Wednesday, the US Labour Department reported that headline US inflation hit 2.1% in January, higher than the consensus forecast of 1.9% and in line with the rise seen in December. Market volatility heightened temporarily – as it did following wage growth data the previous week - with equities selling off and bond yields trending higher. However, Wall Street soon recovered with equities posting further gains by the end of the day.

...while firms are benefiting from tax reforms

The reporting season in the US is almost finished, with many corporates reporting benefits from the recent tax reforms in the country. Research from Credit Suisse found that of 277 stocks in the S&P 500 that have provided tax guidance, the tax burden of these companies has fallen by an average of 4.9% (from 27.4% to 22.5%) and their earnings per share estimates for the year have risen by 5.9%.

UK retail sales growth weakens in January

UK retail sales growth came in at 0.1% in January 2018, according to the Office for National Statistics. This was weaker than had been expected, as it seems consumer spending has been hampered by prices rising faster than wages. The British Retail Consortium recently noted that ‘sales as well as profits are seemingly harder to come by’.

Japan’s growth slows in the fourth quarter

Japan’s economy, the third-largest in the world, expanded by an annualised 0.5% in the last three months of 2017, below analyst forecasts of 0.9%. However, this still represents the country’s eighth consecutive quarter of growth – the longest streak since the 12-quarter stretch that ended in 1989. Third-quarter growth was 2.5%. It was also announced that Bank of Japan governor Haruhiko Kuroda has been reappointed for a second term, interpreted as a sign that the central bank is in no rush to cut its massive stimulus programme.

French unemployment at lowest level since 2009

Unemployment in France dropped to 8.9% in the final three months of 2017, according to national statistics office Insee. Down from the 9.6% rate in the previous quarter, the figure represents the lowest jobless rate since 2009. This is welcome news for president Emmanuel Macron, who has also seen the French economy picking up – last year’s 1.9% expansion was its fastest growth in 10 years.

LOOKING AHEAD - TALKING POINTS

Eurozone consumer confidence expected to remain buoyant

The last 12 months has seen a noticeable improvement in consumer sentiment within the Eurozone, and this has resulted in increasing consumer spending which reached an all-time high in the third quarter of 2017. This in turn, has helped contribute to stronger economic growth; the European Commission recently noted that the economic expansion in the region is now more balanced than at any time since the financial crisis (source: Bloomberg L.P.). Eurozone consumer confidence is expected to remain in positive expansionary territory when the next reading is released on Tuesday.

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EU Consumer Spending – Q3 2008 to Q3 2017



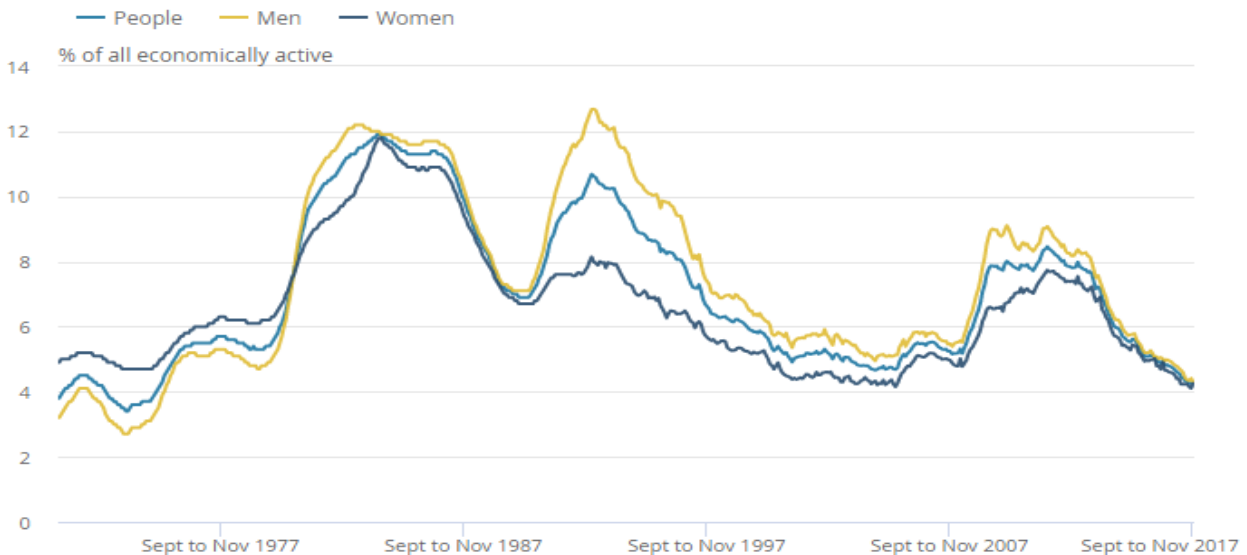
Source: Eurostat, Tradingeconomics.com

Confidence within the region will likely be tested in the coming weeks, especially as the Italian election approaches (Italy's parliamentary election is due on the 4th March). Millions of voters are said to be undecided. An election deadlock is expected with no one party projected to win a large enough share of the votes to secure an overall majority.

UK unemployment set to remain at 42-year low

UK unemployment is expected to remain unchanged at 4.3% when the latest data release is made on Wednesday. The Bank of England believes that such low levels of unemployment will result in rising wages and more rapidly rising interest rates.

UK Unemployment Rates seasonally adjusted – January to March 1971 to September to November 2017



Source: Labour Force Survey, Office for National Statistics

THE OMNIS VIEW

Through a well-diversified approach to asset allocation, the Omnis investment team aims to defend and grow the value of your portfolio through market cycles. Periods of heightened market volatility, like we have seen over the last few weeks, can provide shorter term opportunities within the market. However, it is also important to ignore short-term 'noise' and focus on the fundamentals. We believe that economic fundamentals currently appear strong.

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