

Week in review

Week ending 12 October 2018

Key highlights

1. Down time
2. Going loco?
3. Oil not so slick
4. Gimme shelter
5. And finally ...

Down time

Global equity markets took a sharp turn for the worse this week. The sell-off was widespread, with global indices tumbling as nervousness grew about US monetary policy, the trade war with China and the lofty valuations at which many growth stocks had been trading. High-yield bonds and oil joined the rout too.

The main factor in the global slump was the threat of rising US interest rates. The US economy is in strikingly good health, stoking fears that it could overheat. With unemployment now at levels not seen since the 1960s, investors are concerned that accelerating wage growth will lead to higher inflation. That in turn could lead to interest rates rising at a faster pace than previously expected – meaning that companies will find it more expensive to fund their growth.

Yields on US Treasuries rose in response to the prospect of higher rates. The yield on the benchmark 10-year bond reached a seven-year high on Wednesday. Unusually, as the stock-market plunged, bond prices continued to decline. Towards the end of the week, however, Treasury yields began to fall back as investors responded to the attractions of higher risk-free returns. Gold was a notable beneficiary of the spike in risk aversion; the gold price was up around 1.7% over the week.



Going loco?

Investors were further unnerved by open hostility between the White House and the Federal Reserve. Describing the recent rate rises as “ridiculous”, President Trump directed his ire towards the US central bank on Wednesday. “The Fed is going loco”, he said.

By Thursday’s close, the S&P 500 had fallen by 5.4%. More than two-thirds of its constituents have now fallen 10% or more from their highest point of the past year. Among these are many of the large technology stocks that have led the US market’s charge in 2018. Amazon, Google and Facebook came under heavy selling pressure, as investors assessed the higher costs they may face from higher wages and greater security requirements after recent data-theft scandals.

Oil not so slick

In the UK, the FTSE 100 also experienced a sharp correction, sliding to its lowest level for six months. Oil stocks were among the heaviest fallers as the price of Brent crude fell back from the four-year high of the previous week.

Against this, there was some optimism that the UK government and the European Union were close to agreeing a Brexit deal. But this was insufficient to offset the global pressures bearing down on the FTSE, which ended Thursday down 4.5% for the week.

Gimme shelter

Nor was there much shelter from the storm in the rest of the world. The FTSE World Europe ex UK index was down 4.6% by Thursday’s close. In contrast to the US, Europe’s technology stocks proved relatively resilient, as excitement about

corporate activity on the continent offset the global concerns somewhat. Nevertheless, all sectors declined overall.

Asian shares were hit hard too. As Chinese investors returned from the long National Day holiday, the Shanghai Composite tumbled to its lowest level for four years. The central bank’s decision to reduce the reserve requirement for banks was outweighed by fears about the impact of US tariffs on a slowing domestic economy. In Japan, meanwhile, the Topix hit a four-week low, with particularly pronounced sell-off in companies that are heavily exposed to China.

And finally ...

We have a lot in common with baboons, with whom we share around 94% of our DNA. Like us, they’re social primates with a strong sense of kinship, elaborate hierarchies and pronounced personalities. There are considerable differences too, of course. We have bigger brains and a better grasp of technology; they, on the other hand, have the edge in agility and brightly coloured posteriors.

But with their gaping snouts, yellow fangs and a diet that includes insects and lizards, baboons aren’t commonly associated with oral hygiene. Nevertheless dental care seems to be another area where our snouted cousins put us to shame.

Hamadryas baboons at Paignton Zoo in Devon have been filmed flossing their teeth – using bristles from brooms to extract obstinate fragments of food. This behaviour appears to be widespread – much more so than the low flossing rates that our dental practitioners habitually lament. But if they can’t get bristles, baboons have been known to simply pluck a hair from the pelt of a friend and start flossing away with that – a procedure that human dentists don’t generally recommend.

Please talk to your financial adviser for more information

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