Wealth Design Weekly Market Update: Weekly Market Commentary as of 19th October 2018. Federal Reserve Minutes Hints towards a Quicker Pace of Rate Hikes.

This third market update is provided based on data supplied by FE Analytics and is made available to Wealth Design Group clients.

Federal Reserve Minutes Hints towards a Quicker Pace of Rate Hikes.
Last week the paranoia over interest rates that has haunted the markets throughout October looks a little more justified, following the release of the minutes from the September meeting of the US Federal Reserve's rate setting body, the Open Market Committee. The latest sell was off sparked by fears that the bank might hike rates faster than expected, and it appears those fears were well founded with several members of the committee pushing for rates to move into restrictive territory.

Elsewhere another market fear was stoked, this time of Britain facing a chaotic exit from the European Union. Theresa May is desperately trying to negotiate the final withdrawal agreement but getting a settlement that resolves the Irish backstop requirements, market access for businesses, minimises barriers to trade and satisfies the Tory backbenches is looking increasingly unlikely. This will probably be one of the last acts of the May premiership, what she does next will likely set the course of the British economy for a generation.

Technology: Netflix Share Price Soars after Earnings Report
Last week saw a recovery in the tech stocks that had been beaten up over the last few weeks. They have been led by Netflix, which experienced a dramatic reverse in sentiment following its latest quarterly earnings report. The key metric for investors, the number of new subscribers had a surprise drop in Q2 but managed to comfortably beat the company's forecast of five million expected new users with the actual figures coming in at close to seven million. As a result, the share price of the stock leapt by 9.7 per cent. In addition, the S&P communications sector, which includes Netflix and was previously the third worst performing sector in the S&P 500, rallied to become one of the market leaders.

Despite this, Netflix continues to burn through cash with close to a billion dollars spent this quarter, although the company remains optimistic that cash flow would be flat for 2019 as profits grow to pay for the spending. Netflix continues to spend aggressively in order to expand its international video library. This in turn helps the company increase its competitive advantage as it gears up to expand the user base of countries such as India and Brazil.

UK: Wage Growth Outstrips Inflation Amidst Political Uncertainty

UK wage growth recorded its fastest rise since the financial crisis according to the latest earnings and working hours report published by the Office of National Statistics. Average earnings excluding bonuses rose to 3.1 per cent in the three months to August. Unemployment remained flat at four per cent even as the number of people employed was down 0.2 per cent from the previous three-months. This slight decrease in employment numbers was attributed to the increase in the number of people classed as "inactive".

In additional positive news, total wage growth outstripped inflation at 2.7 per cent in comparison to 2.4 per cent for the same period. While this may cause the Bank of England to consider further interest rate hikes, the continued uncertainty around the Brexit outcome will probably mean it remains cautious. Summit talks this week broke down leaving both sides without an exit agreement; as a result, Prime Minister Theresa May signalled she is open to extending the deadline and while a special November summit looks unlikely, there is a further summit arranged for December to conclude a deal.

EM: Chinese Renminbi Drops to its lowest Point in 21 Months

The Chinese Renminbi (Yuan) this week dropped to its lowest level for the last 21-months, down six per cent. The trade war escalation, continual rate hikes by the Fed and a slowdown in GDP growth have all played a part in the currency sell-off which has gathered momentum since last June. The currency currently stands at 6.94 Rmb per dollar which is very close to the low of 7 Rmb per dollar recorded in the last global financial crisis.

It would be difficult to ignore the psychological impact of the currency crossing the 7 Rmb per dollar mark as the sell-off could accelerate at this level. Investor confidence, already dented by the steep fall in the Argentine Peso and Turkish Lira, could collapse and trigger a sell-off in other emerging market currencies. Due to the limited transparency from the Chinese central bank, it is unclear as to whether the institution will allow the currency to drop past this barrier or intervene to stop the currency from falling further.