



QUESTIONS ABOUT CASH HOLDINGS NO LONGER COOL

This week Elon Musk’s refusal to answer “boring” questions about Tesla’s finances cost the company \$2bn in market value. Its first quarter revenue and earnings were better than expected; Wall Street analysts mainly wanted to know why he burnt through more cash than expected. However, “boring, bonehead questions are not cool”. Losses were not confined to Tesla. Investors have also been fretting about the outcome of the US-China trade talks in Beijing. Some good news for the Fed though; it has been able to hold off on raising rates until next month as inflation has almost risen in line with target.

Back in the UK, investors mainly had the local elections to worry about. With one of the last outspoken Remainers resigning from Theresa May’s cabinet on Sunday, there were concerns that heavy Conservative losses would add even more doubt as to what will actually happen when the UK leaves the EU. The results however turned out decidedly mixed. Elsewhere, oil was unsettled by “new and conclusive” proof from the Israeli Prime Minister that Iran has been stockpiling nuclear weapons, fuelling fears that the Iran nuclear deal will be abandoned.

THE MARKETS THIS WEEK

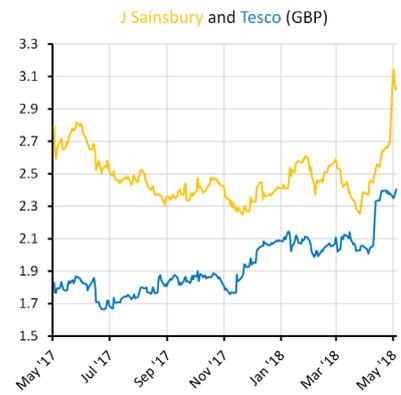
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+0.39%	-1.40%	+0.87%	+0.40%	-0.29%	-0.01%	-0.06%	-0.83%	-1.53%	+8.38%	-1.62%



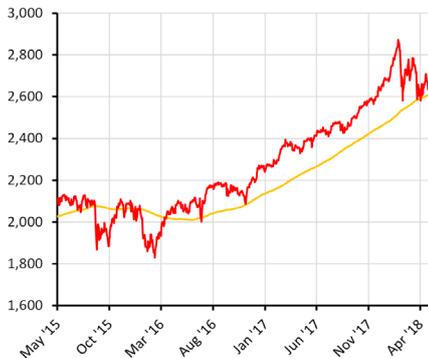
UK: CABINET AND GROCERY RESHUFFLES

The pound has fallen to a four-month low against the dollar this week as further doubt has been cast over the government’s ability to execute its Brexit plan. Last Sunday, the outspoken pro-European Amber Rudd resigned as Home Secretary in response to the Windrush immigration scandal. She had denied that her department had operational targets for the deportation of illegal immigrants but evidence later emerged to the contrary. She has been replaced by former Deutsche Bank Director Sajid Javid just days before important talks are due to be held on the post-Brexit customs arrangement with the EU27.

Another concern for the government this week has been the proposed merger between Sainsbury’s and Asda, the second and third largest UK supermarket chains after Tesco. The tie-up means that the two companies will account for around 30 percent of UK grocery sales and 60 percent including Tesco. It is no wonder therefore that Members of Parliament have called on the Competition and Markets Authority (CMA) to investigate the impact of the merger on suppliers.



S&P 500 with 200-Day Moving Average (USD)



US: FED BOLSTERS EXPECTATIONS OF JUNE RATE RISE

This week both the S&P 500 and Dow Jones fell below their 200-day moving averages in intraday trading. While this is the second time in a month this has happened for the Dow Jones, the S&P 500 hasn’t breached its resistance level since the sell-off in February. The poor performance of US equities this week can likely be attributed to uncertainty over the outcome of trade talks between the US and China as well as some disappointing earnings reports from the likes of Spotify and AIG. However, this was somewhat offset by decent employment data and reassurance from the Federal Reserve that inflation is returning to target.

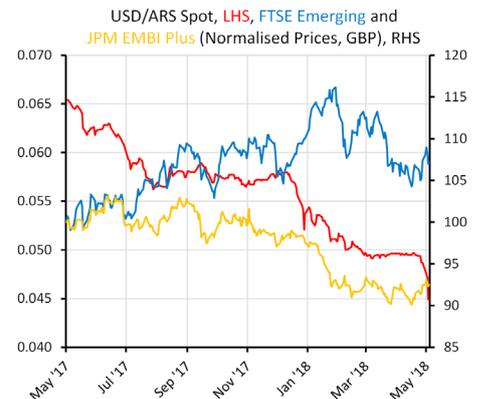
On Wednesday the central bank voted unanimously to keep the target range for the federal funds rate unchanged at 1.5-1.75 percent, expressing confidence that year-on-year inflation will remain close to its two-percent target, which it came close to hitting this week, over the medium term. The FOMC expects growth to continue at a moderate pace and the labour market to remain strong. The hold on interest rates has bolstered expectations of a hike next month, with the market implied probability of a quarter point rise now standing at 78 percent.



EM: PESO SLIDE HIGHLIGHTS VULNERABILITY OF EMERGING MARKETS

This week central bank intervention failed to stop a steep slide in the Argentine peso, highlighting the weakening of investor sentiment towards emerging markets. On Thursday the Central Bank of Argentina raised interest rates by three percentage points to 33.25 percent in an attempt to stem the currency’s decline against the dollar. However, this was unsuccessful with the peso reaching an all-time low of \$0.0449 on Friday. The interest rate rise was the second central bank intervention in just a week. It raised interest rates by three percent just six days prior in an attempt to stem the currency sell-off.

The frantic intervention from the central bank highlights the sensitivity of emerging markets to changes in dollar-denominated assets. Returns from emerging market currencies, equities and bonds have fallen in recent times. The FTSE Emerging Index and the JPM Emerging Markets Bond Index Plus have fallen markedly in the year to date. This can be attributed to a rally in the US dollar, the prospect of rate rises from the Federal Reserve as well as rising Treasury yields. A rise in dollar borrowing costs has also dampened the popular carry trade of borrowing in dollars to invest in higher-yielding emerging market currencies.



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