LOM OFFSHORE FINANCIAL SERVICES

Monthly Global Market Commentary
April 23, 2018

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Last week, investors shifted focus from political tensions to first quarter earnings releases. the U.S. equity market started strong as high earnings boosted market optimism. All major indices pared gains later in the week led primarily by weak technology sector performance. Nevertheless, the S&P 500 index, the Dow Jones Industrial Average, and the Nasdaq all ended the week slightly higher.

The first quarterly earnings after the tax cut started with mostly positive results. Among 17% of the S&P 500 companies that published financials, the majority have beaten estimates. All the large American banks have reported numbers which exceeded analysts' estimates; however, their performance was not immediately rewarded in the stock market. Investors are concerned their bottom line earnings growth was mainly driven by tax savings, not from a sustainable increase in business activity. Bank executives have announced plans to use extra free cash flow to pay back shareholders, either in the form of dividend increase or share buybacks.

On Thursday, the world's largest chipmaker, Taiwan Semiconductor Manufacturer Ltd Co. announced a lower revenue forecast for this year based on a prediction of softer smartphone demand. The share prices of Apple and its major suppliers all fell following the news, leading to a sell-off in technology stocks and the broader equity market.

Crude oil prices continued to climb higher last week, approaching $70 per barrel. The rising commodity price boosted inflation expectations, which pushed the 10-year treasury yield to 2.96%, the highest level in four years. Inflation erodes the value of future coupon payments, which typically results in investors demanding a higher yield for the risk of buying long-term bonds. As a global benchmark for borrowing costs, the rising 10-year U.S. Treasury yield indicates higher interest burdens for mortgages, student loans, corporate and government debt. Once the Treasury yield reaches above a certain level, some investors may argue that at 3.05%, holders of stock for the sole purpose of collecting a dividend income will begin shifting from stocks to bonds, putting downward pressure on the stock market.

On the international front, North and South Korea held a series of meetings to discuss plans to end their 68-year military conflict. On Thursday, South Korean President Moon Jae-in said that North Korea leader Kim Jong Un is willing to denuclearize without the retreat of U.S. troops from South Korea. In return, North Korea demands a lift of the current sanctions against the country and guaranteed safety from President Trump. Given North Korea's past record of breaking their promises, their commitment to the statement remain questionable. Whether the communist country is only seeking temporary economic relief, or the young leader is truly more open to change the country will be revealed in time.

Looking to the week ahead, 37% of the S&P 500 will report corporate results. Earnings will likely again be the key driver behind market movement. Also progress on the trade negotiations with China, or updates on geopolitical tension with Russia are key macro events to be watched.

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Stock Market Performance

	4/23/18	W-o-W	M-o-M	Y-o-Y
DJIA	24,470	-0.4%	4.0%	19.1%
S&P 500	2,676	-0.1%	3.4%	13.9%
MSCI World	2,100	0.0%	3.1%	14.0%
S&P/TSX	15,484	1.2%	1.7%	-0.8%
BSX	2,574	0.9%	-0.1%	33.4%
FTSE100	7,380	2.5%	6.6%	3.7%
DAX	12,551	1.3%	5.6%	4.2%
CAC	5,421	2.0%	6.4%	7.2%
Nikkei	22,088	1.2%	7.1%	18.6%
Hang Seng	30,254	-0.2%	-0.2%	25.8%
Shanghai	3,068	-1.4%	-2.7%	-3.3%

Key Rates and Prices

Currencies	4/23/18	Month ago	Year ago
EUR	$1.22	$1.24	$1.07
GBP	$1.39	$1.41	$1.28
JPY	¥108.33	¥104.74	¥109.09
CAD	$0.78	$0.78	$0.74
CHF	$1.02	$1.06	$1.00
AUD	$0.76	$0.77	$0.75
Fixed Income			
3M LIBOR	2.36	2.29	1.16
3M Treasury Bill	1.81	1.72	0.78
2Yr Treasury Note	2.47	2.26	1.18
10Yr Treasury Note	2.97	2.81	2.25
Fed Funds Rate	1.75	1.75	1.00
Commodities			
Gold/oz.	1,324.16	1,347.25	1,284.10
Silver/oz.	16.73	16.56	17.94
Copper/lb.	3.17	3.02	2.55
Oil	67.47	65.88	49.62

Global Economic Calendar (April 23rd — April 27th)

Mon: Existing Home Sales (US)
Tues: New Home Sales (US); Consumer Confidence (US)
Wed: EIA Petroleum Status Report (US)
Thurs: Durable Goods Orders (US), Money Supply (US); Jobless Claims (US)
Fri: Baker-Hughes Rig Count (US); Employment Cost Index (US); Consumer Sentiment (US)

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