Equities regain momentum

After a negative start to the week, equity markets reasserted their upward trajectory amid a continuation of the positive corporate profit growth trend and President Trump's pledge to announce a 'phenomenal' tax-cutting plan within the next few weeks. In short, equities were up, bonds were down, commodity prices were stronger and the US dollar recovered some of its recent losses. In general, it was a 'risk-on' kind of week, with economically sensitive assets tending to do relatively well.

The US S&P 500 Index hit a new record high, and while the outcome wasn't necessarily as great everywhere the tone was generally positive heading into the weekend. Stock markets in the Asia Pacific region ended the week particularly well, with Japan's market having one of its best days of 2017, helped in part by US dollar strengthening that helps the country's exporters. Australian equities had their best week in over two months.

Positive signals on China

While Japan's Prime Minister Abe got to meet and play golf with President Trump, US relations with China showed signs of a thaw as a telephone conversation between the countries' respective leaders finally took place. It won't have gone unnoticed in Washington though that Chinese exports to the US rose by 9% in January from a year ago. But while that could bring the US tariff conversation back to the fore, the data is also indicative that Chinese economic activity is proving resilient. Growth in China's services sector as measured by the Caixin purchasing managers index was maintained amid solid demand, although the pace of growth dipped from the prior month. The strength of commodity prices such as copper and iron ore in recent months support the data on improving manufacturing in China and around the world; China is the world's largest consumer of basic resources.

Germany in good health

As noted in recent weeks, there has been a widening of the yield spread between German and other eurozone government bonds. Part of the rationale for this is the diverging narrative around economic and political circumstances. The German economy appears in good stead. And although industrial production growth in December was negative, factory orders (which are forward-looking) rose in the month at the fastest pace in more than two years – the year-on-year increase was 8.1%. And data for December also revealed that Germany's trade surplus hit a record high in 2016, potentially fuelling conflict with the US and within the EU about this imbalance.

France and Greece rattle bond markets

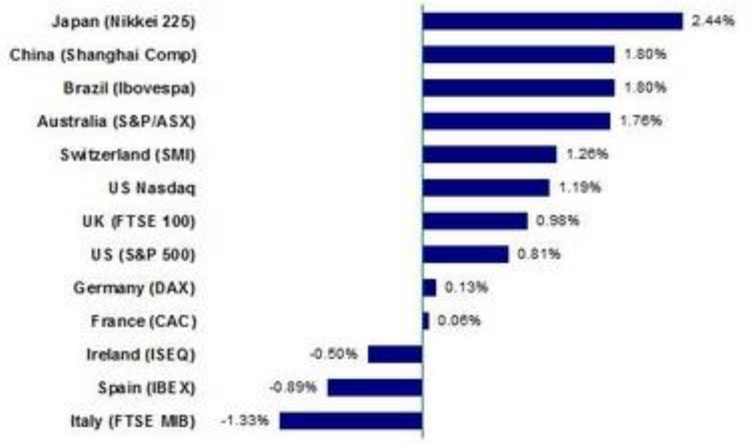
French bonds began the week poorly as Marine Le Pen launched her 'France First' Presidential campaign and Francois Fillon committed to staying in the election following charges that he gave jobs to his wife and kids, paid for from the public purse – some have questioned the extent of work involved. While pollsters predict that Le Pen will win the first round of voting before being well beaten in a run-off, it is unclear who the other run-off candidate will be – and markets dislike uncertainty after Trump and Brexit.

Greece was back in the headlines as talks on the country's debt burden and bailout remained in deadlock. The International Monetary Fund appeared to weigh in on Greece's side in arguing for significant debt relief and a lower budget surplus target, in stark contrast to the EU's preference. Two-year Greek bond yields spiked to almost 10%, before easing lower towards the end of the week.

Meanwhile, Ireland raised €1.25 billion from bond sales this week, split between five-year and 10-year bonds on yields of 0.09% and 1.03% respectively.

Source: All information is from Bloomberg Finance LP as at 10 February 2017 unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed.

A Week on the Markets



Source: Bloomberg Finance LP. Capital returns in local currency for the week to Friday 10 February 2017

Past performance is not a guarantee of future results.

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