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INVESTMENT MANAGEMENT

Weekly Investment Update

The week in review

- Geo-political risks move to the fore
- Italy and Spain political uncertainty unnerves markets
- Protectionism moves a step closer to reality
- Benchmark Treasuries remain safe havens

Markets started the week badly, the failure to agree an Italian government spooking markets and triggering fears for the integrity of the EU in the face of “populist” political momentum. Unsurprisingly among European equities, bank stocks fell the most, with Italian banks leading the decline.

However, markets stabilised late in the week, as Italian President, Sergio Mattarella, approved a new cabinet, paving the way for a new Italian government to be sworn in. Fears that Italy would be forced into new elections were accordingly alleviated. Given Italy’s precarious debt situation, a move away from the EU, and the implicit backstop of European Central Bank, would have been a dangerous precedent. Markets took heart that the Italian government succeeded in selling €5.6bn worth of new bonds, thereby reconfirming institutional investor confidence, despite the political upheaval.

Spain, also endured political turmoil, as a no confidence vote was proposed against Prime Minister Rajoy (over alleged corruption).

In terms of European data, there was good news, Germany’s unemployment rate moving to a new record low of 5.2% (vs. 5.3% expected). Elsewhere, April retail sales rebounded more than expectation too, while the Euro zone’s May economic confidence index remained steady at 112.5. In terms of euro-area inflation, the rate for May was 1.9%,ahead of economist expectations, and the highest reading in over a year

As geo-political risks receded over the week, US and European equity indices rebounded, the Italian market actually finishing only modestly lower than Monday’s opening level.

In terms of international trade, protectionism took a step closer to reality, as the Trump administration announced 25% tariffs on imported EU steel and aluminium. This news came close on the heels of the US announcing it would implement 25% tariffs on US$50bn worth of Chinese imports after 15th June,

Turning to Asia, markets moved higher in sympathy with the positive moves in European and US equities. Across the region, Japan’s Nikkei, Korea’s Kospi and China’s Shanghai Composite were all up, reassured by China’s May purchasing manufacturers index (PMI) being above expectations, at 51.9 vs. 51.4 expected.

Turning to fixed income, investor preference for safe haven assets boosted US Treasuries, with the yield on the US 10 year treasury down the most since the 2016 Brexit vote closing at 2.86%. Yields are now back to mid-April levels and reflect a sharp decline from a couple of weeks ago. Elsewhere, core European bonds were also in demand, with the UK 10 year gilt yield falling to 1.29%.

Global Markets	2018 YTD %*
FTSE 100	2.51
S&P 500	2.02
Dax	-1.12
Nikkei 225	-1.76
Hang Seng	3.11
Fixed Income	**Yield %**
UK 10 Yr	1.29
US 10 Yr	2.86
Commodities	**2018 YTD %**
Gold	-0.72

Source: FE Analytics/ Bloomberg.com **Local currency*

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