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INVESTMENT MANAGEMENT

# Weekly Investment Update

## The week in review

- Brexit uncertainty hits sterling
- US- China trade war begins
- Base metal prices fall in response
- China eases market access rules

Uncertainty prevailed in the UK, with both the political climate and sterling experiencing big swings. Initially markets were re-assured by Prime Minister, Theresa May securing cabinet approval for her proposal for a "softer" Brexit, however, the resignation of Brexit Secretary Davis, closely followed by that of Foreign Secretary Boris Johnson, unsettled investors. Sterling responded negatively, as markets assessed an increased likelihood of a challenge to PM May's leadership.

Protectionism news dominated, as President Trump initiated a global trade war by imposing tariffs on US$34 billion worth of Chinese imports. Beijing called the move "typical trade bullying" and responded with retaliatory tariffs.

To enflame matters, the US released an additional list of US$200bn worth of Chinese imports to be hit with higher tariffs of 10%, although a final decision on the tariffs is not expected until after the public consultations period which ends on 30th August.

On a more positive note, the US technology benchmark, the Nasdaq index achieved a new record high.

In Europe, the macro data was broadly weaker than expectations. In Germany, the July ZEW economic sentiment survey came in at 72.4 vs. 78.1 expected, disappointing economists.

Back in the UK, the May trade deficit was narrower than expected at -£2.8bn vs. -£3.4bn expected, with upward revisions to the prior month.

Late in the week, Asian markets rebounded strongly, with the Nikkei, Kospi, Hang Seng and Shanghai Composite indices all rebounding.

Chinese stocks are still among the world's worst performers this year. In addition to the trade war threat, investors have been troubled by a domestic deleveraging campaign weighing on liquidity, signs of an economic slowdown, and a weaker currency. However, Chinese bourses are likely to respond positively to the decision by China's securities regulator to ease restrictions on foreign investment in stocks listed on the Shanghai and Shenzen exchanges.

Turning to sovereign bonds, the US 10 year treasury yield closed lower at 2.84%. Gilts yields were volatile, the UK 10 year gilt yield trading as high as 1.313% before eventually finishing at 1.26%.

Turning to the commodity complex, lead, copper, zinc and aluminium prices fell noticeably. Oil (WTI) was also caught up in the sell off, while Brent oil also experienced price weakness, delivering its sharpest fall since February 2016.

Overall, investors appeared to be worried about the impact of mounting trade tariffs, while bracing themselves for the possibility of lower economic growth in the future.

| Global Markets | 2018 YTD %* |
|---|---|
| FTSE 100 | +2.20 |
| S&P 500 | +5.57 |
| Dax | -3.05 |
| Nikkei 225 | +0.24 |
| Hang Seng | -2.30 |
| **Fixed Income** | **Yield %** |
| UK 10 Yr | +1.26 |
| US 10 Yr | +2.84 |
| **Commodities** | **2018 YTD %** |
| Gold | -4.81 |

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



Ascencia Investment Management • Frenkel House • 15 Carolina Way • Salford • Manchester • M50 2ZY • T +44 (0) 161 886 8000 • W www.ascenciaim.co.uk

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