Weekly Investment Update

The week in review

- US interest rates remain unchanged
- Bank of England interest rate increases by 0.25%
- US/China trade relations deteriorate
- Sovereign bond yields rise
- Gold price falls

The Federal Reserve left its funds rate unchanged, but is expected to raise them at its next meeting in September. Last week, US Q2 GDP growth was reported to be 4.1%, while US core inflation (PCE) was reported to be 2.0%.

Interestingly, in July, US equities achieved their highest monthly gain since January. The inexorable rise of the technology sector came to an abrupt halt, as Facebook, Netflix and Twitter reported disappointing subscriber growth and suffered steep price falls. The NASDAQ technology index fell the most since August 2015.

In the UK, the Bank of England's monetary policy committee voted 9-0 in favour of a 0.25% rise in borrowing costs to 0.75%.The committee reiterated its guidance that any future rate rises "are likely to be at a gradual pace and to a limited extent". This is only the second time since March 2009.

Elsewhere, Asian bourses sold-off over the week, with the MSCI Asia Pacific Index sliding over 1%, as trade fears unsettled investors. Chinese and Hong Kong equity markets, in particular, reacted badly to President Trump's new threat to raise trade tariffs from 10% to 25% on US$200bn worth of Chinese imports.

Turning to Japan, the central bank, kept its interest rate unchanged, promising to maintain its loose monetary policy, which hurt the yen and Japanese stocks.

Euro area Q2 GDP data revealed economic growth had fallen to its lowest level in two years, with higher oil prices and protectionist concerns being mentioned as causes. European equities underperformed, the broadly based Stoxx 600 Index falling in response. Germany's benchmark DAX Index proved to be the region's biggest loser over the week. .

Turning to sovereign bonds, a broad based sell off was witnessed. The US 10 year Treasury yield moved through the psychologically important 3% level again, before closing at 2.97%. The UK 10 year sovereign bond yield closed at 1.35%. In Europe, sovereign bond yields also closed higher. It is noteworthy, the Japan 10 year sovereign bond yield rose, testing its recent upper limit, breaking through 0.10%.

On the commodity front, gold fell into correction territory, down more than 10% from its high for the year. A stronger dollar is often negative for gold because it makes the metal more expensive for international investors.

In terms of oil, the WTI price weakened. following a surprise increase in U.S. crude inventories that added to existing concerns about the rapid rise in global crude supply. Saudi Arabia, Russia, Kuwait and the United Arab Emirates have increased production as agreed at the OPEC meeting in June.

Global Markets	2018 YTD %*
FTSE 100	**+1.33**
S&P 500	**+6.89**
Dax	**-2.87**
Nikkei 225	**-0.11**
Hang Seng	**-5.07**
Fixed Income	**Yield %**
UK 10 Yr	**+1.35**
US 10 Yr	**+2.97**
Commodities	**2018 YTD %**
Gold	**-7.63**
Source: FE Analytics/ Bloomberg.com	****Local currency/TR***

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