Weekly Investment Update

The week in review

- Sterling falls on Brexit worries
- US economic momentum maintained
- US/China trade dispute ratchets up
- Oil demand falls

As Brexit concerns mount, sterling weakened noticeably. In fact, sterling was the worst performing G10 currency over the over the recent period. Sterling dropped to US$1.27, with a similar fall against the euro to €1.11.

Sterling's fresh 11 month low was not helped by UK Trade Secretary, Liam Fox's forecast that there was a 60% chance of the UK not reaching a Brexit deal with the EU, later confirmed by Mark Carney, Governor of the Bank of England, who stated that the possibility of a "no-deal" Brexit was uncomfortably high. Persistent negative Brexit news flow fuelled the deteriorating investor sentiment towards the pound.

Elsewhere, US economic momentum was maintained. The US unemployment rate fell to 3.9% in July from 4.0% in June, while average hourly earnings rose 0.3% in July, up 2.7% versus a year ago. The S&P 500 index enjoyed sustained upward momentum and succeeded in reaching its highest level since January 26th.

In terms of trade wars, President Trump used social media to boast how the Chinese equity market had dropped 27% and how US tariffs "were working far better than anyone ever anticipated". Trump's administration will impose 25% tariffs on an additional $16bn of Chinese goods from August 23rd. Predictably, China retaliated by announcing the country was imposing fresh tariffs on the US, increasing (from 5% to 25%) on $60bn of US imports.

Repercussions from the US tariffs explained the weak performance of China's equity market, the Shanghai Composite index falling over the week. By the week's close, Asian bourses recovered somewhat, in part boosted by news that China's regulators plan to further open the domestic market to overseas investors.

Turning to Europe, the broadly representative Stoxx 600 index bounced back paring recent losses.

Meanwhile, somewhat surprisingly, the volatility index (VIX), which reflects investor anxiety, fell to its lowest level since late January, implying institutional investors are relaxed about the current state of global markets.

Elsewhere the Turkish Lira dropped to a fresh record low, despite the central bank's move to tweak inject liquidity into the banking sector.

Turning to sovereign bonds, the US 10 year Treasury yield closed at 1.25%, while the UK 10 year Gilt yield finished at 1.25%.

Within the commodity complex, oil (WTI) price fell c 3% on the news that US oil stockpiles were higher than expected, according to Energy Information Administration (EIA) data. Another headwind for the oil price has been the trade dispute between the United States and China, after Chinese import data showed a slowdown in energy demand.

Global Markets	2018 YTD %*
FTSE 100	+3
S&P 500	+7.9
Dax	-1.87
Nikkei 225	+0.27
Hang Seng	-2.01
Fixed Income	**Yield %**
UK 10 Yr	+1.25
US 10 Yr	+2.89
Commodities	**2018 YTD %**
Gold	-7.29

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

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