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INVESTMENT MANAGEMENT

Weekly Investment Update

The week in review

- Turkey's economic problems dominate
- UK inflation rises to 2.5%
- UK unemployment falls to 4%
- Gold falls below $1,200 per ounce

Turkey endured severe currency problems, somewhat linked to the Federal Reserve tightening cycle, but exacerbated by US trade sanctions. The Turkish lira has fallen almost 45% this year. The currency crisis in Turkey hurt investor confidence and emerging market indices, the MSCI Emerging Markets Index falling to its lowest level this year.

Contagion concerns rose sharply. More specifically investors were worried how the rapid depreciation of the Turkish lira might negatively impact certain European banks due to their significant loan exposure to Turkey. Unsurprisingly, European banks underperformed, with the Euro banks index retreating sharply. Five European banks (BBVA, Unicredit, ING, BNP, and HSBC) have notable loan exposure to Turkey.

UK inflation rose to 2.5% (CPI) in July, while the Retail Prices Index (RPI) fell to 3.2%. In terms of wage growth the Office for National Statistics reported that average earnings rose by 2.7% for the three months to June. On the high street, retail sales data showed a surprise 0.7% increase in July, as warmer weather encouraged shoppers

UK Q2 GDP rose 0.4% to 1.3% year on year, while UK unemployment fell to 4%, a new 43-year low.

Moving onto Brexit news, German Chancellor, Angela Merkel hinted that a more flexible approach to Brexit talks might be required. Coincidentally, the UK Foreign Secretary, Jeremy Hunt, noted that "we need a change in approach by the EC, if we're going to have a pragmatic deal that works for everyone". The ultimate Brexit outcome remains opaque.

Turning to Europe, Germany's 2Q GDP rose by 0.5%, equating to annual growth of 2.0% Elsewhere, the Euro area's revised 2Q GDP was reported at 2.2% year on year, while Germany and France's July inflation (CPI) was confirmed at 2.1% and 2.6% respectively

Turning to sovereign bonds, the US 10 year Treasury closed at 2.86%, while the UK 10 year gilt yield closed at 1.24%. In comparison, the Turkish 10 year sovereign bond yield rose to a high of 21.5%.

In terms of commodities, gold's price fell sharply, falling below $1,200 per ounce for the first time since early 2017.The strength of the US dollar was blamed as the catalyst. In fact, gold has underperformed, despite the geopolitical turmoil in Turkey and other risks facing the global economy.

At the wider level, the broad commodity complex has also displayed material weakness, with the bellwether, CRB raw industrials index, touching its lowest level this year. Copper, in particular, fell to its lowest level since last July. The price of copper has fallen by over 20% so far this year.

Global Markets	2018 YTD %*
FTSE 100	+1.56
S&P 500	+7.55
Dax	-5.27
Nikkei 225	-.18
Hang Seng	-6.67
Fixed Income	**Yield %**
UK 10 Yr	+1.24
US 10 Yr	+2.87
Commodities	**2018 YTD %**
Gold	-9.64

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

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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