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INVESTMENT MANAGEMENT

Weekly Investment Update

The week in review

- Brexit disagreements spill into the open
- Sterling falls on Brexit concerns
- EU/Italy negotiate a budget solution
- Emerging markets fall sharply again

Brexit headlines took centre stage, as investor sentiment soured following disagreements from all sides involved. There was criticism of Theresa May's Brexit plans from chief negotiator, Michel Barnier, who stated he was strongly opposed to parts of Theresa May's Brexit plan after May said she would not "be pushed into accepting compromises on the Chequers proposals that are not in our national interest."

The FTSE 100 index rose the most in over a month, after sterling fell, as institutional investors de-risked their currency reserves. Brexit uncertainty appeared to be impinging on UK economic growth with the UK's IHS Markit's construction purchasing managers' index for August falling to 52.9 from the prior month's 14 month high of 55.8. UK Manufacturing Purchasing Manager (PMI) Index also dropped to 52.8 in August, its lowest level in more than two years.

Meanwhile Europe continued to underperform, with both the STOXX 600 and the DAX closing down over the week, both indices experiencing their longest losing run since the January sell-off. Once again, investors' focus was on Italy and in particular the geo-political risk it represents. Salvini, deputy prime minister of Italy, stated that the country's budget would lower taxes and respect "all the rules," toning down his earlier rhetoric challenging the European Union's budget restrictions. However, the Italian 10year bond remained elevated at 3.2%, up from 2.7% on June 1, when the new government was sworn in.

Europe economic data revealed country divergence. The Eurozone manufacturing data was 54.6, while Germany's came in at 55.9 However, the big negative surprise came from Italy which came in at 50.1, a two year low for Italy.

The S&P 500 continued its inexorable rise, supported by supportive economic data. US ISM Manufacturing Index rose to 61.3 in August, beating the consensus expected 57.6 (a level higher than 50 signal expansion; levels below 50 signal contraction).

Asian markets underperformed, the Nikkei, Shanghai Comp, Kospi and Hang Seng indices all falling. The MSCI Emerging Markets Index also continued to fall, having dropped almost 20% since 25th January. Argentina, Brazil and Turkey are all appeared to be suffering their own crises, exacerbated by the reduction in global dollar liquidity from a tightening Federal Reserve. It appears that emerging market economies are caught in something of a perfect storm.

Oil (WTI) moved higher due to Tropical Storm Gordon in the Gulf of Mexico that forced oil platforms to be evacuated, compounded by oil supply disruptions in Libya due to renewed strife.

The US 10 year treasury yield closed higher at 2.88%, while the UK 10 year gilt yield finished at 1.42%.

Global Markets	2018 YTD %*
FTSE 100	**-2.27**
S&P 500	**+9.1**
Dax	**-7.45**
Nikkei 225	**+0.16**
Hang Seng	**-7.08**
Fixed Income	**Yield %**
UK 10 Yr	**+1.42**
US 10 Yr	**+2.88**
Commodities	**2018 YTD %**
Gold	**-7.83**

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

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