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INVESTMENT MANAGEMENT

Weekly Investment Update

The week in review

- Brexit uncertainty reaches new levels
- UK inflation (CPI) falls unexpectedly
- Italy challenges EU budget rules
- European equity markets struggle

Brexit uncertainty reached new highs, as Theresa May refused to sign off on a draft agreement that would see the UK remain in the customs union. The PM also announced she was prepared to delay Britain's departure from the EU. The whole Brexit timeline is now in jeopardy.

Elsewhere, EU's chief Brexit negotiator, Michel Barnier, commented that "despite intense efforts, some key issues are still open, including the backstop for IE/NI to avoid a hard border." There is now a view that Theresa May is trying to "solve the unsolvable" with regards to Northern Ireland border issue. Ultimately, an agreement needs to be reached between the DUP and the Conservative Party's hard Brexiteers.

Elsewhere, UK inflation unexpectedly fell in September, reducing the likelihood of another interest rate hike by the Bank of England. The consumer price index (CPI) came in at 2.4%, down from 2.7% in August.

European Union member countries submitted their 2019 budget drafts to the European Commission over the week, which brought Italy's intention to run a budget deficit of 2.4% to the fore. It is likely to trigger a confrontation if the European Commission declares that Italy's budget is non-compliant. Italian bond yields rose to their highest level in 4 years in response.

In Europe, leading equity indices retreated. Both the broadly representative Euro Stoxx 600 and Germany's export dependent DAX indices fell over trade worries, particularly related to the automotive sector.

Asian equities struggled, the MSCI Asia Pacific Index underperforming, while China's Shanghai Composite index closed at its lowest level since November 2014. Japan's Nikkei index was the one standout markets, for its resilience.

US equity indices struggled before rebounding due to a recovery in the value of technology stocks. However, investors remained cautious, as they mulled minutes from the Federal Reserve's most recent meeting that highlighted it was staying on course for more interest rate hikes, despite growing criticism from President Trump.

Within the commodity complex, Brent crude traded at \$80.04, retreating from its recent high, while

gold traded higher at \$1,230 per ounce for the first time since July.

The yield on the benchmark US 10 year treasury and 30 year Treasury bonds rose to 3.2% and 3.3%, while the UK's 10 gilt yield finished at 1.53%.

Global Markets	2018 YTD %*
FTSE 100	-5.3
S&P 500	+5.2
Dax	-10.0
Nikkei 225	+1,16
Hang Seng	-12.0
Fixed Income	Yield %
UK 10 Yr	+1.53
US 10 Yr	+3.17
Commodities	2018 YTD %
Gold	-5.74

Source: FE Analytics/
Bloomberg.com

*Local
currency

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