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INVESTMENT MANAGEMENT

## Weekly Investment Update

### The week in review

- Equity market correction continues
- Brexit outcome remains uncertain
- EU rejects Italy's budget plan
- Emerging Market equities continue to struggle

Equity markets fell globally, the FTSE 100 falling below the 7,000 level. UK high street woes continued, Debenhams announcing the closure of up to 50 stores, putting 4,000 jobs at risk, after posting an annual pre-tax loss of £492m, the biggest deficit in its 240 year history.

US equities also sold off sharply, led lower by technology sector. In fact, the S&P 500 dropped to its lowest level since May. The DOW and NASDAQ indices fell over 2% respectively during the week.

The Federal reserve downplayed the impact of the Fed's policy on equity prices with Vice Chair Clardia saying that the fundamentals of the economy are "very, very solid". On the continent, leading indexes hit multi-year lows. The STOXX 600 and the DAX closing at their lowest levels since 2016.

In terms of Brexit, the UK PM Theresa May disclosed that "95% of the Withdrawal Agreement and its protocols are now settled." Elsewhere, Brexit Secretary Dominic Raab hinted the UK might provide an alternative to a fixed time

limited Irish backstop arrangements, thereby showing some signs of flexibility over the issue as the EU wants the "backstop" arrangement to be open ended. During the week, there have been persistent rumours of a fresh challenge to the Prime Minister's Conservative Party leadership. Sterling weakened amid growing speculation that Theresa May could soon face a vote of no confidence.

Institutional investors were also occupied by Italy, after Moody's, the credit reference agency, downgraded the country's credit rating, after the EU rejected Italy's 2.4% budget deficit plan.

Italy's Finance Minister Tria acknowledged that he recognised that Italy's spending plans did not comply with EU rules, but that he wanted "constructive" talks on the issue. Meanwhile, Italy was still very much in focus, as the European Commission rejected Italy's medium-term budget proposals, asking the government in Rome to return to the drawing board and put forward new proposals within three weeks

In Asia, markets initially rebounded after China's government announced details of a personal income tax cut. However, later in the week, Asia shares slumped, with the MSCI Asia Pacific index dropping over 2%, while Japan's Topix index closed 2.6% lower.

Emerging market returns were mixed, as equities lost but currencies gained.

Turning to fixed income, bonds sold off again, with US 2 year Treasury yield touching a new decade high before closing at 2.81%. The US 10 year Treasury yield rose to 3.09%.

Within the commodity complex, gold, considered a safe haven asset by investors, rallied. In fact, gold advanced to a 3 month high. Crude oil fell, closing at \$76 per barrel.

Global Markets	2018 YTD %*
FTSE 100	-5.64
S&P 500	+2.76
Dax	-12.47
Nikkei 225	-5.04
Hang Seng	-13.62
Fixed Income	Yield %
UK 10 Yr	+1.41
US 10 Yr	+3.09
Commodities	2018 YTD %
Gold	-5.07

Source: FE Analytics/  
Bloomberg.com

\*Local  
currency

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