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INVESTMENT MANAGEMENT

Weekly Investment Update

The week in review

- Brexit rumours swirl ahead of the deadline
- US political system in likely gridlock
- EU and Italy on collision course
- Oil prices fall sharply

In terms of Brexit news flow was littered with unsubstantiated rumours. There were indications that the UK government may have settled for a "no deal" and that the date for a possible EU summit had been pushed to the 27th/28th November.

However, there were also hints that PM Theresa May had secured concessions from Brussels to allow the UK to stay in a customs union with the EU and thus avoid a hard border in Northern Ireland.

After the S&P 500's worst month (October) since 2011, US equities rallied sharply on the back of strong US employment data that underpinned positive sentiment towards the US economy. In addition, yearly US wage growth rose to 3.1%, its highest level since 2009. US inflation pressures appear to be rising, implying further Federal Reserve monetary tightening in 2019.

Looking at the US mid-term election, the Republicans strengthened their hold on the Senate, while the Democrats regained their majority in the House of Representatives. Political commentators agreed this outcome implied a legislative deadlock by which Democrats may try to frustrate the future plans of President Trump.

Outside the US, Europe's STOXX 600 index rose over 3%, its best week since December 2016. However, October's euro area composite purchasing managers index (PMI) fell to 53.1, its lowest level since September 2016.

Italy's budget uncertainty appeared to undermine economic confidence, the country's composite index dropping to 49.3, thereby indicating economic contraction. In terms of Italy's budget standoff, there were signs that the EU Commission might be proposing financial sanctions on the country as soon as 21st November. However, Finance Minister Tria was quoted as saying in a Euro-group meeting of the Euro-area Finance Ministers that Italy remained committed to reducing its debt ratio and hope to reach a compromise with the EU.

Over in emerging markets, the MSCI Emerging Market index gained over 5%, with Hong Kong's Hang Seng leading the way, as reports suggested that the US and China were approaching a trade agreement. However, Chinese President Xi Jinping showed no signs of making any concessions to the US at the Shanghai trade fair. Xi strongly denounced what he called "law of the jungle" trade practices in a thinly veiled attack on President Trump.

In terms of sovereign bonds, the US 10 year treasury yield closed at 3.2%, after touching a high of 3.25%, which in fact is higher than the closing high made back in October. The UK 10 year gilt yield closed 1.5%.

Over the week, WTI and brent crude oil prices fell respectively, reaching their lowest levels since February, after the US issued temporary waivers to eight countries on the purchase of Iranian crude.

Gold retreated slightly to US$ 1,218 per ounce.

Global Markets	2018 YTD %*
FTSE 100	-3.7%
S&P 500	+6.7%
Dax	-10.8%
Nikkei 225	+0.5%
Hang Seng	-9.4%
Fixed Income	**Yield %**
UK 10 Yr	+1.53%
US 10 Yr	+3.21%
Commodities	**2018 YTD %**
Gold	-6.6%

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

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