Weekly Investment Update

The week in review

- Draft Brexit agreement reached
- Negative reaction prevails
- Italy defies the EU's budget guidelines
- Oil price collapses

In terms of Brexit news, a draft withdrawal agreement with the EU was agreed. However, Prime Minister Theresa May received a hostile response, with strong domestic opposition within her own party and other parliamentary supporters of her government.

Jo Johnson, the minister of state for transport who had had early sight of it, resigned calling Theresa May's Brexit deal "a terrible mistake" claiming the UK economy would suffer,

Its approval is far from certain with key questions still outstanding, such as whether the DUP will support the deal. Initial reactions were not promising, Nigel Dodds, the Deputy Leader of the DUP, stating that if the deal subjects Northern Ireland to "rules and laws set in Brussels, not in Westminster or Belfast, then that's unacceptable."

Elsewhere, the Brexiteer, Jacob Rees-Mogg, described the proposed deal as "a failure to deliver on Brexit," while Labor Party Leader Jeremy Corbyn warned that his party would vote against the proposal if it does not "work for the whole country."

Negative news flow was compounded by two more cabinet resignations, including that of Dominic Raab, the Brexit Secretary. The dates of 24/25 November could mark an EU summit, however, there is much uncertainty ahead and the chances of a summit to agree on a way forward with the EU appear to be rapidly fade.

UK equity market reaction was noteworthy. The overseas earnings focused FTSE 100 index was relatively unchanged, but the more domestically orientated FTSE 250 ended over 1% lower. At the sector level, UK homebuilders closed sharply down, in fact the most since June 2016 referendum. Sterling also suffered, the pound falling heavily relative to the dollar.

Turning to Italy's EU budget stand-off, the government re-submitted its new 2019 budget to the EU. However, Italy reiterated that it would not change its 2.4% deficit target for 2019.It appears Italy is on collision course with the EU, raising the odds that the Commission institutes its Excessive Deficit Procedure imminently.

German economic data revealed that the German economic growth was slowing. Official data showed a 0.2% fall compared to the previous quarter, its first contraction since 2015.

In Asia, markets were weak, the MSCI Asia Pacific and Japan's Topix indices closing over 1% lower, although a rebound was witnessed as positive trade talk news helped temper the worst of the sell off.

In terms of commodities, oil suffered its worst successive losing streak since 1983, the price falling for 12 successive days and by more than 20%. At an OPEC meeting, Saudi Arabia signaled that it would reduce oil exports by as much as 500,000 barrels a day in December, as producers increasingly worry about oversupply in 2019

Turning to sovereign bonds, the US 10 year Treasury yield closed at 3.1%, while unsurprisingly the UK 10 year gilt yield fell, as investors sought safety from the Brexit uncertainties finishing at 1.4%.

Global Markets	2018 YTD %*
FTSE 100	-4.8%
S&P 500	+3.8%
Dax	-12.1%
Nikkei 225	-2.5%
Hang Seng	-9.7%
Fixed Income	**Yield %**
UK 10 Yr	+1.39%
US 10 Yr	+3.11%
Commodities	**2018 YTD %**
Gold	-5.8%

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

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