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INVESTMENT MANAGEMENT

Weekly Investment Update

The week in review

- Brexit emergency summit set for Sunday
- US equities erase year-to-date gains
- European Commission rejects Italy's latest draft budget
- Crude Oil rises after 6 weeks of losses

Prime Minister May met with EU Commission President Juncker. The two leaders made "good progress". PM Theresa May needs 320 votes to get the draft agreement passed. Interestingly, Michel Barnier suggested it might be best to prolong the Brexit transition period until 2022. The proposed Brexit deal is planned to be ratified on the 25th of November by the Special European Council, however, this summit may be more about the preparation of a hard Brexit if the prospects of the deal passing the UK Parliament do not improve before then. Further adding to the complexity of where Brexit heads, the DUP abstained on the UK finance bill, which implements the budget. The bill only just scraped through.

US equities finally capitulated he Dow Jones Industrial Average declined over 2% and the S&P 500 fell over 1.5%, followed closely by the Nasdaq Composite index. In fact, the Nasdaq has fallen into correction territory, down more than 14% from August peak. Ultimately, the decline erased year to date gains for both the Dow and S&P 500.

Italy's budget saga rolled on, as the European Commission rejected the latest Italian draft 2019 plan, with Commissioner Moscovici warning against Italy adopting "free rider" behaviour. Moscovici confirmed that Italy would have two weeks to answer queries from the EC after which the EC would have to make the decision whether or not to recommend opening an Excessive Deficit Procedure (EDP) to the Eurogroup.

The Excessive Deficit Procedure will require Rome to provide a plan of corrective action and policies, though the nation risks a significant fine if it doesn't follow through. Italy's Deputy Prime Minister Matteo Salvini responded that he was open to small tweaks in the budget, but said he would not compromise on the main principles.

Elsewhere, the OECD updated its macroeconomic forecasts, revising down its global growth projection for 2019 to 3.5%. The forecast for the euro area growth was forecast to be to 1.8%, the US 2.7%,while China was revised down to 6.3%. In their projections for 2020, the OECD expects global growth to remain steady, as faster growth in most emerging markets balances a further slowdown in developed markets and China.

Over in Asia, sentiment continues to be negative, with Chinese equity markets suffering heavy losses. This appears to be due to a WSJ article suggesting that the US was persuading telecoms firms to avoid using equipment from China's Huawei Technologies.

US Treasury yields closed down to 3.05%. Gilt yields fell to 1.38% as markets remained unsure ahead of the EU summit and the eventual UK Parliament vote.

After six weeks of losses, crude's price rose, with a barrel of West Texas intermediate closing at $52 on hopes that a OPEC would cut production. However, elsewhere President Trump thanked Saudi Arabia for lower oil prices.

Global Markets	2018 YTD %*
FTSE 100	-4.70%
S&P 500	+0.84%
Dax	-12.95%
Nikkei 225	-3.84%
Hang Seng	-10.18%
Fixed Income	**Yield %**
UK 10 Yr	+1.39%
US 10 Yr	+3.05%
Commodities	**2018 YTD %**
Gold	-6.19%

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

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