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INVESTMENT MANAGEMENT

Weekly Investment Update

The week in review

- A volatile week for markets globally
- Safe haven sovereign bonds rally
- Brexit vote outcome ever more opaque
- US/China agree temporary trade war truce

A confluence of monetary tightening, geo-political developments and deteriorating investor confidence contributed to a volatile week in markets.

Over the week, the FTSE 100 index fell over 2.5%, as investors worried about the ultimate Brexit outcome.

On Brexit, Theresa May lost three votes in parliament. Most significantly, MPs succeeded in achieving a direct say in the final agreement, should the current "withdrawl agreement" be rejected on 11th December. Previously Parliament had a "yes/no" vote, but now they can shape it. So a soft Brexit is more likely. The UK is due to leave the European Union on 29th March 2019.

At the G20 meeting in Argentina, a 90 day ceasefire to the trade war between US and China was agreed. The US will not increase tariffs on more than US$200bn of Chinese goods from 10% to 25%, as had been planned for January. China also committed to purchasing a substantial amount of US farm, energy and industrial goods.

Markets bounced on the good news, the S&P 500 producing a sustained rally of over 5%, which was its strongest such run since February 2016 before falling sharply at the week's end. Elsewhere, the US economy continued to show resilience, its ISM Manufacturing Index rising to 59.3 in November, beating analyst consensus expected at 57.5.

It was also noteworthy, Canada, US, and Mexico signed the successor agreement to NAFTA, which is set to come into effect on January 1, 2020.

In Europe, the STOXX 600, Germany's DAX, France's CAC indices experienced similar volatility, all falling over 3% over the week. Italy's FSTEMIB fell into in bear market territory, the FTSEMIB having declined over 20% from its highs.

In Asia, markets initially rallied in response to the temporary thaw in the US-China trade war, with export oriented economies benefitting the most. However, Asian indices also fell at the week's close, with MSCI's index of Asian shares excluding Japan down over 2%.

At the G20, Russia and Saudi Arabia agreed to extend their OPEC deal into 2019, without confirming any fresh output cuts, which supported the price. Meanwhile Qatar announced its decision to exit OPEC from January 2019. Oil prices have now extended their recent decline, and risk tumbling below the $50 level.

Elsewhere across the commodity complex, agriculture futures rallied in response to China's promise to substantially increase purchases of US farm produce. Soybean, wheat and corn prices jumped in response.

Turning to sovereign bonds, the risk off environment led to investors seeking safety in government bonds, benchmark yields falling.

The US 10 year treasury yield fell to its lowest level since September, closing below the psychological 3% level at 2.89%. The safe have German 10 year bund yield closed lower at 0.26%, while the UK 10 year gilt yield finished at 1.26%.

Global Markets	2018 YTD %*
FTSE 100	-9.2%
S&P 500	+2.7%
Dax	-16.3%
Nikkei 225	-3.86%
Hang Seng	-9.48%
Fixed Income	**Yield %**
UK 10 Yr	+1.26%
US 10 Yr	+2.89%
Commodities	**2018 YTD %**
Gold	-4.7%

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

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