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INVESTMENT MANAGEMENT

Weekly Investment Update

The week in review

- "Meaningful vote" on Brexit confirmed as 15th January
- Federal Reserve alters its stance
- Germany suffers economic slowdown
- Oil price rallies

In terms of Brexit news, Members of Parliament launched a bid to block a no deal exit from the EU. The "meaningful vote" on Brexit is set to take place on 15th January. Meanwhile, Prime Minster May was trying to extract concessions from the European Union to make her deal more palatable. It comes after a Commons vote ruled that PM May must return with a Brexit "Plan B" within three days of a defeat on her deal, rather than the expected 21 days. This is on top of an amendment to the finance bill earlier in this week that limited the Treasury's power in the event of a no deal outcome playing out without Parliament's approval. The Brexit deal deadline remains the 29th March.

Unsurprisingly, sterling experienced one of its worst starts to a year, the pound falling to a low against the euro of before recovering slightly. In contrast, the US dollar benefitted from safe haven flows, followed closely by the Japanese yen, which rallied sharply over concerns about China growth.

There was very positive news from the US, as nonfarm payrolls rose 312,000 in December, beating expectations of 184,000. Federal Reserve Chair Powell also signalled a change in the policy. He said that the Fed "will be prepared to adjust policy quickly and flexibly" and "will be patient as we watch to see how the economy develops." He added that "there is no preset path" for Fed rate policy and the Fed listens "very carefully to markets". Markets interpreted his comments positively and as a likely pause in the Federal Reserve's rate hiking cycle. The S&P 500, Dow and NASDAQ indices rallied in response.

In Europe, worries over a slowing euro zone economy were confirmed by the German industrial output fall of 1.9% in November, receding 4.7% on a yearly basis, its worst decline since 2009. The dramatic downturn raises the risk that Europe's largest economy may be slipping into recession.

Elsewhere, Asian markets gained on optimism that trade talks between the US and China would be fruitful. Besides the optimism around the ongoing US-China trade negotiations, sentiment bounced on the news that China's Finance Ministry is set to propose an annual fiscal deficit target of 2.8% of GDP for 2019, marking a small budget expansion from the deficit target of 2.6% in 2018.

On the commodity front, both Brent and WTI oil closed up higher, rising by over 9%, the most in over two years.

In terms of sovereign bonds, The 10 year US Treasury closed at 2.71%, after touching a low of 2.54% at one stage, while the UK 10 year gilt yield closed at 1.29%. In Europe, the German Bund yield closed at 0.24%.

Global Markets	2018 YTD %*
FTSE 100	+1.78%
S&P 500	+2.59%
Dax	+1.43%
Nikkei 225	+3.08%
Hang Seng	+3.49%
Fixed Income	**Yield %**
UK 10 Yr	+1.29%
US 10 Yr	+2.71%
Commodities	**2018 YTD %**
Gold	+0.8%

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

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