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INVESTMENT MANAGEMENT

Weekly Investment Update

The week in review

- The European Central Bank downgrades euro-area growth forecast
- Equity markets slide as volatility returns
- EU officials pessimistic on Brexit ahead of next weeks vote

In an unexpected move, European Central Bank (ECB) President Mario Draghi announced a fiscal stimulus plan to ease monetary policy in response to a global economic slowdown, as it cut euro-zone growth rates to 1.1%, down 0.6% from the forecast just 3 months ago. The export dependent economy has felt the impact of the ongoing trade tensions, a slowdown in China and uncertainty around Brexit. As part of the package offered, the ECB left its main refinancing rate, which determines the cost of borrowing in the economy, at 0% until the end of 2019. It also announced the launch of a new series of quarterly targeted longer-term loans for banks to try and generate liquidity, starting in September 2019 and ending in March 2021. Each with a maturity of two years, which will be indexed to the refinancing rate, meaning that their cost will go up if rates are hiked next year. In a policy statement, the central bank said "These new operations will help to preserve favorable bank lending conditions and the smooth transmission of monetary policy".

Equity markets moved into a downward trend towards the end of the week, as major indices felt the pressure around the slowing of global growth. China led the way, as the Shanghai Composite index sank the most in 2019 on Thursday with a loss of 4.4%. This came on the back of surprising comments from the nation's largest broker Citic Securities Co. saying they have a "sell" rating on Chinese stocks, as they feel that they are significantly overvalued and could decline more than 50% within the next year.

With China setting the tone, The Euro Stoxx 600 index fell the most in a month, with carmakers and miners leading the decline. The MSCI Emerging Markets index sank to the lowest point in five weeks, and U.S equities fell to their lowest in 3 weeks as the S&P traded lower 7 days out of 8 since the 25th February. Assets considered as safe havens, such as Japanese Yen and gold, held their status and rallied as investors fled equity markets.

Brexit uncertainty looms once again as negotiators on both sides are still in intense talks on the subject of the Irish backstop prior to the significant vote in Parliament on 12th March. The EU have put forward new proposals to try and make the backstop more acceptable for both parties, however, the latest proposals do not meet the demands made by Geoffrey Cox, the U.K's Attorney General. In a speech on Friday, PM May said that the vote next week is in the EU's hands, and that she still hopes to get legally binding changes from the EU ahead of the vote. Many UK lawmakers say the proposed backstop risks binding the UK to EU rules forever after Brexit, casting doubt over whether Parliament will be convinced to vote positively on PM May's revised deal next week.

Finally, the US 10 year treasury yield broke through support levels after investors shunned equities over global growth concerns, the UK 10 year yield also finished lower at 1.18%, dropping from 1.32% last week.

Global Markets	2019 YTD %*
FTSE 100	+5.73%
S&P 500	+8.98%
Dax	+6.97%
Nikkei 225	+9.77%
Hang Seng	+12.62%
Fixed Income	**Yield %**
UK 10 Yr	+1.18%
US 10 Yr	+2.64%
Commodities	**2019 YTD %**
Gold	+0.90%

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

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