

Weekly Investment Update

22nd August 2019



Global News

Italian Prime Minister Conte – Italy’s Prime Minister, Giuseppe Conte, announced his resignation this week. This comes as the coalition’s deputy Prime Minister Matteo Salvini, who leads the right wing Lega party, recently called for a vote of no confidence in Conte. Italy has been governed by a two-party government since March 2018, with elections not able to give a majority. Italy’s future now lies in the hands of President Mattarella, who after accepting Conte’s resignation, will hold talks to see whether any parties can form a majority government. If a clear majority cannot be found, a fresh election will be called in Rome.

US-China trade war – China have retaliated to the 10% import tariffs on \$300 billion worth of goods implemented by US President Donald Trump. China announced that it will impose additional tariffs on \$75 billion of US imports, with the countermeasures taking effect from the 1st September.

PM Johnson visits Germany – UK Prime Minister Boris Johnson visited the German Chancellor Angela Merkel for the first time since becoming PM. During the meeting, both parties said that they would like to see the UK leave on the 31st October with a deal in place, with the only real issue being the Irish backstop agreement. PM Johnson stated that the EU must drop the backstop from the deal otherwise the deal will not get through parliament. Chancellor Merkel added that the issue could take years to resolve, however, she then added “perhaps we can find this solution in the next 30 days.” PM Johnson accepted the challenge, and countered stating that if the backstop agreement could be changed, there would be a prospect of “making progress very rapidly”.

German economic data – Germany’s manufacturing purchasing managers index (PMI) figure came in at 43.6, above forecasts of 43. Despite the figure beating forecasts, it still falls below the key level of 50, which separates contraction and expansion. This is now the seventh month of contraction in manufacturing, with orders falling at the fastest pace in six years. Germany’s service PMI figure also fell to a seven month low, reinforcing fears of a German recession in the third quarter of 2019.

Market Summary

Global Equities – Major global equity markets had a mostly positive week, with investors waiting for the latest speech from the Federal Reserve’s annual conference on Friday. As of Thursday’s close, the FTSE 100 finished slightly positive (+0.23%), the Euro Stoxx 600 closed up (+1.29%), and the German DAX index performed well, closing up (1.59%). The Nikkei 225 (+0.96%) and the Hang Seng (+1.26%) both finished positive. On Friday, however, markets slipped, as China retaliated with their own set of tariffs on US imports.

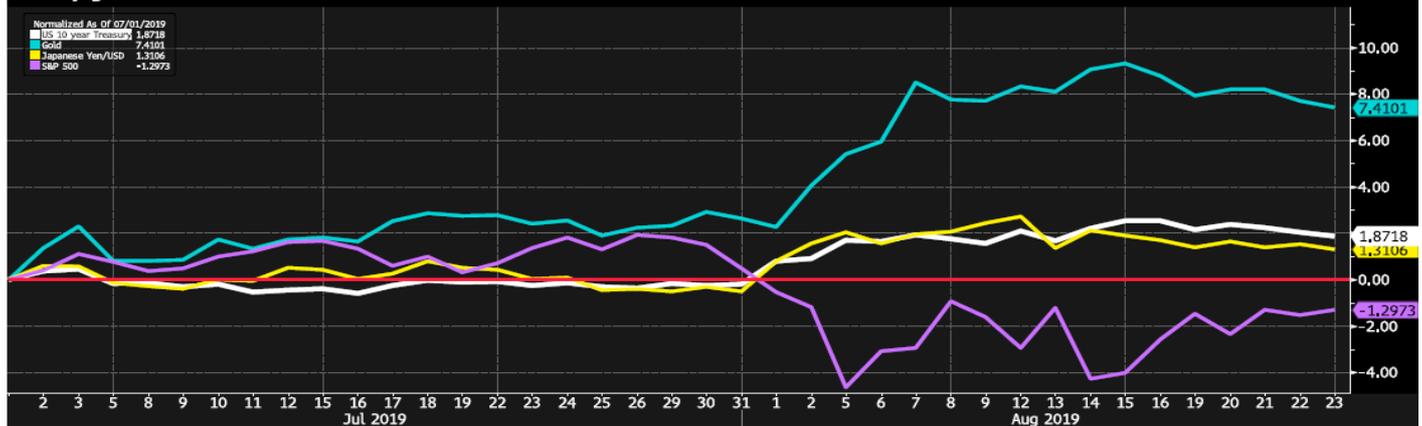
Commodities – Gold prices slipped below the \$1,500 support level on Friday, hitting \$1,493.50 ahead of Federal Reserve chairman Jerome Powell’s monetary policy speech.

Oil prices, both Brent Crude and WTI, rose slightly this week. Prices are currently being held in a tight range due to a combination of OPEC+ cuts and supply disruptions in Venezuela and Iran.

Fixed Income – This week, Germany auctioned 30-year bonds with a 0% coupon for the first time. With the entire German yield curve in negative territory, this was a test for the demand of safe haven assets. The bonds were sold with a record low yield of 0.11%.

Chart of the week

Havens Outperform S&P in 3rd Quarter Gold, yen and bonds all do better than stocks



Source: Bloomberg

The above chart illustrates a change in market sentiment, from a "risk on" to a "risk off" environment, where traditional safe havens have been outperforming risk assets since the start of July (equity markets).

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	- Germany GDP	- France GDP	- Germany unemployment figure - Germany CPI - US jobless claims	- Japan unemployment rate

Market Performance – 22/8/19

Global Market Indices	2019 YTD %*
FTSE 100	+9.59%
S&P 500	+17.99%
Dax	+11.03%
Nikkei 225	+6.51%
Hang Seng	+6.43%
Fixed Income	Yield %
UK 10 Yr Gilt	+0.55%
US 10 Yr Treasury	+1.64%
Commodities	2019 YTD %
Gold	+16.65%
Currency	
GBP/USD	1.22 (/8/19)
GBP/EUR	1.10 (/8/19)

Source: FE Analytics/ Bloomberg.com

*Total Return/Local currency

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