Wealth Design Weekly Market Update: Weekly Market Commentary as of 26th October 2018. Markets Begin to Stabilise.

This market update is provided based on data supplied by FE Analytics and is made available to Wealth Design Group clients.

Markets Begin to Stabilise

This week markets appeared to stabilise, albeit in an unstable fashion, with a mix of up days and down days. It's probably too soon to declare the dust settled, negative reports from Amazon and Google has triggered a further wave of selling, but there might be light at the end of the tunnel. Right now, most equity markets are down about 8 per cent from a month ago; with Europe down a bit more based on the shenanigans in Italy. As corrections go this feels about right, although we might see Asian markets fall a bit more before we truly bottom out.

Elsewhere the UK remains braced for the budget, which is due to be delivered next week. Philip Hammond is in a difficult position, he needs to maintain a war chest in case Brexit is worse than the forecast while simultaneously finding the money to deliver on Theresa May's spending pledges. Investors have been easy targets for previous cash strapped Chancellors, we wait with trepidation for Monday's announcement.

Commodities: Gold Continues Extended Rally as Oil Prices Cool Down

Gold continued its extended rally this month and rose by three per cent as investors left volatile global markets to park their assets into the re-emerging "safe-haven". Mining Companies such as Fresnillo and Randgold rallied, registering gains of 9.1 and 3.8 per cent respectively. The metal also benefitted from rising inflation and a stronger dollar.

While gold has been a beneficiary from poorer economic conditions, oil prices have cooled down as spending tightens. In addition, the Saudi authorities confirmed that they will look to ramp up production to 11 million barrels a day. The move was made in order to help offset the loss of Iran's oil supply when the sanctions come into effect next week. However, there may yet be sanctions applied to Saudi Arabia due to the murder of journalist Jamal Khashoggi. How much oil is actually required to fully cover the loss of Iran's supply by OPEC members remains unclear.

Eurozone: Italy's Standoff with the European Commission Accelerates

Italy continues to dominate the headlines this month. The week the country saw its budget thrown out by the European commission and was given a three-week window to submit a new plan. The reason for the rejection was that the country's budget plan deviated substantially from the recommendations to improve debt to GDP levels by 0.6 per cent.

Instead, Italy plans to increase public spending in order to kickstart an economy which has undergone a long period of stagnation. The spread between the German and Italian 10-year government bond yields, used by investors as an indicator of political tension, widened by seven basis points after the announcement.

The pressure continues to build on the country's banks who have substantial holdings in Italian government bonds.

US: Quarterly Earnings Announcements Produces Mixed Results

With earnings season in full swing, this week saw Microsoft and Twitter produce positive results. Amazon announced a record three-month profit of $2.9 billion but still managed to disappoint investors as quarterly net sales fell below analyst expectations.

It was a similar story for Alphabet, who after a period of strong revenue growth slowed down with the latest figure just shy of the consensus. Google also become embroiled in a sexual misconduct scandal. Reports surfaced that 48 people were sacked over the last two years of which, 13 were senior members of staff.

Elsewhere, earnings reports for US industrials companies also highlighted plans to pass on rising costs caused by labour shortages and increased tariffs to consumers.