Market Commentary – 1st February 2017

Be Careful what you wish for!

Over the last week, we have seen the Trump factor be negative as he temporarily closed the borders, sacked one of his staff and said we should have taken the oil from Iraq when we invaded and not left it to ISIS. Thus, the markets have had a bit of a wobble because of this unpredictable environment. Although I do not agree with his actions at all and he is being un–presidential, he is only doing what he said he would do and to that end, this should act as a reminder to us all, in that we should be careful what we wish for. One of the fundamental reasons why people voted for him, is because the populous all over the world are fed up with politicians saying one thing and then doing another. One positive to be taken from his actions is that he is being consistent with what he said and is doing what he said he would do, and that is certainly quite different. We are though used to a world that is far more benign with the minority having a voice and for the politicking to be done behind closed doors, so what we are seeing today with the minorities being ignored and everything debated out in the open, feels very raw and makes me slightly uncomfortable.

It is also worth noting that Donald Tusk (European Council President) said yesterday that he considers Trump as a threat to Europe, following Trump’s direct comments on Germany benefiting from such a weak Euro. Mr Tusk said the change in Washington was part of an external threat that also included an assertive China, an aggressive Russia and radical Islam. In a letter to 27 European leaders, Mr Tusk also said he believed most of them agreed with him. Several statements from Washington have prompted alarm in Europe’s capitals. In his letter, issued ahead of an EU summit in Malta this week, Mr Tusk said the new US administration placed the EU in a “difficult situation” as it appeared to “put into question the last 70 years of American foreign policy”. He concluded: “We cannot surrender to those who want to weaken or invalidate the Transatlantic bond, without which global order and peace cannot survive. We should remind our American friends of their own motto: “United we stand, divided we fall.”

Although I do worry about the rhetoric from America and disagree with his recent actions, he is just a businessman putting US business first and has a very direct and bull in a china shop way of going about it. The rhetoric from Mr Tusk above, along with what we hear from Mr Junker (President of the European Commission) and Wolfgang Schauble (German Finance Minister) only add to what I fear is happening in that here is hardening of stoic positions by the political elite in Europe. This is not good as it is coinciding with a period of rising political uncertainty throughout Europe with many feeling that their political elite are out of touch. As I have said on many occasions, I believe in Europe and like being part of Europe, but I believe that every single sovereign nation in Europe, (that includes Scotland and Wales) should be allowed to develop as part of the collective and on their own, not be told they cannot do something that is good for that nation, and that all things financial and trade related must be decided and agreed at the core. Any country that can find ways of strengthening its own financial situation by having some independence, whilst being part of the collective has to be good to strengthen the collective.

As we progress forward with the Brexit and trigger article 50 mid-March, these issues with Europe will become front and centre. Logic dictates that Europe needs us as much as we need them and therefore as the people have voted in the UK the political elite should respect that and negotiate with the aim of keeping Europe and Britain strong together, and satisfying the will of the British people. The reality though is that Tusk, Junker and Schauble do not think the same way and there are many others that are the same, and they will not want Britain to become a shining example of how we can prosper being outside of Europe, and want to see our demise as an example to all that you need to stay in the collective. It is my fear therefore that as Merkel cannot do anything to ameliorate or step in until she hopefully wins her election in the autumn we will have a protracted period of hard Brexit focus in the late spring and summer that will not be good for anyone in Europe.

As I said at the start we all need to be careful what we wish for because the reality is always somewhat different to the dream. We can dream of prosperity and Trump can dream of corporates coming back to the US and providing jobs etc. Life has to be a compromise especially politically and our politicians need to remember that they have a responsibility to protect us all especially the weakest, irrespective of the risks - that is not what Trump is doing!
Global Economic News

Over the last week, we have continued to see positive economic data. In the UK, the Confederation of British Industry’s (CBI) monthly orders was positive for the first time since spring 2015, which is remarkable and shows the underlying momentum, beating market expectations of +2. It was the highest reading since February 2015, as expectations for overall output over the next three months rose to +26 from +21 in December and those for domestic prices during the same period rose to +28 from +26. We also had stronger than anticipated GDP growth for Q4 coming in at 0.6% and running at 2.2% YoY which is far better than what was being forecast pre Brexit when all economists were saying we would be in a recession by Q3 2016. For the US we have had strong data with good home sales, new home starts and house price increases all being positive. Manufacturing data as a flash for January was also higher than expected in January reflecting a continued strengthening of the underlying fundamentals in the US. In Europe, we also saw continuing strong data with YoY flash GDP at 1.8% with strong PMI data, which was again slightly higher than anticipated. Overall therefore the trend is for the reflation trade to continue and for growth to continue to come through and cause earnings to potentially increase and drive equity momentum higher.

Bar comments from politicians that cause noise which changes the sentiment on a day to day basis, the economic fundamentals are strong and positive for risk to be rewarded in the coming quarter.

Barometers

As we are constantly looking at Economic data and have set a number of Barometers that test the outlook, and to give our readers some consistency, we have selected the following six barometers that we will review weekly as detailed below:

US Earnings  - As of last Friday (with 34% of the companies in the S&P 500 reporting actual results for Q4 2016), 65% of S&P 500 companies have beat the mean EPS estimate and 52% of S&P 500 companies have beat the mean sales estimate. Earnings Growth: For Q4 2016, the blended earnings growth rate for the S&P 500 is 4.2%. If the index reports earnings growth for Q4, it will mark the first time the index has seen year-over-year growth in earnings for two consecutive quarters since Q4 2014 and Q1 2015.

UK & Non-UK Gilt Yields; Over the last week we have seen bond yields fall and then rise again, but as more and more data points to an improving global economic situation, we only see a further strengthening of bond yields and a corresponding fall in valuations as being the consistent trend. Momentum and trend is therefore for valuations to continue falling. As you can see volatility is still high in assets that should not be functioning like this, which is a further example of why the assets should not be invested into.

GBP to USD/Euro/JPY;
We have seen further strengthening in Sterling following strong UK data and continued optimism around a soft Brexit. Noting my comments though at the very start of this weekly, we do not expect this optimism to continue and we expect the trend to reverse once Europe states its position in the usual way from Junker, Tusk and Schauble. The GBP / USD has broken out of the expected range and many indicators we look at reflect that people are starting to short the currency, which will cause pressure on the downside. Daily fluctuation are at the moment very high.

- GBP / USD – Range 1.25 – 1.10 - Today 1.26
- GBP / EUR – Range 1.20 – 1.10 – Today 1.17
- GBP / JPY – Range 1.50 – 1.25 – Today 1.43

**Oil Price;**

Oil has gone up slightly over the week and is trading at $53 for Crude and $56 for Brent. Overall over the month we are down slightly (circa 1%) but in terms of volatility that is normal for this asset and still follows a period of significant increases with the annualised return 77% for Crude and 71% for Brent. This stabilisation of price is in line with expectations.

**Gold Price**

Gold is range-bound now and with a strengthening sterling not good. We do not expect much in the way of price movement and although it is a good diversifier, unless we see risks of a soft Brexit decrease and sterling fall, there is no gain to be made accepting it is a safe asset. We are certainly not seeing any indicators of a risk off period, which is the purpose of this barometer.

**Gold Six months**

![Gold chart by TradingView](chart)

**Model Portfolios & Indices**

Over the week, we have seen virtually all developed market indices fall based on a fear of the unpredictability
of President Trump. Despite this, all the portfolios have shown positive returns over the week and are up over all time periods. We need to see further growth in the short term and it is expected at this stage in the cycle, if we are to believe the economic data. As I write most European Indices are higher by circa 1% which is positive at the start of month 1 and we expect this trend to continue. As we said last week, fear of a hard Brexit for as long as data in the UK remains strong will have no impact on the asset allocation and a poor outlook in the UK will only make us adjust our exposure to the UK, which is directionally at about 20% across all the portfolios. Overall therefore, good or bad, Brexit data will only impact the UK asset allocation.

This day in History

On this day in 1884, the first portion, or fascicle, of the Oxford English Dictionary (OED) considered the most comprehensive and accurate dictionary of the English language, is published. Today, the OED is the definitive authority on the meaning, pronunciation and history of over half a million words. Past and present plans for the dictionary began in 1857 when members of London’s Philological Society, who believed there were no up-to-date, error-free English dictionaries available, decided to produce one that would cover all vocabulary from the Anglo-Saxon period (1150 A.D.) to the present. Conceived of as a four-volume, 6,400-page work, it was estimated the project would take 10 years to finish. In fact, it took over 40 years until the 125th and final fascicle was published in April 1928 and the full dictionary was complete – at over 400,000 words and phrases in 10 volumes – and published under the title A New English Dictionary on Historical Principles.

As always have a great week and if you need any help or have any questions please come back to us immediately.
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