

# VIEWPOINT

## Newsflash

A new month and the 123<sup>rd</sup> issue of Viewpoint from Imperium Capital.

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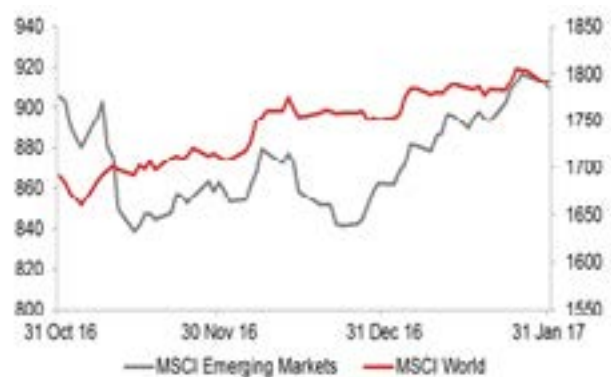
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## Market Commentary

The early weeks of 2017 in financial markets have been a sharp contrast to the same period in 2016, when markets fell sharply on fears about China's slowdown and currency weakness. This year markets have continued their post-election pattern, rising on expectations of 'Trumpflation', and higher growth and corporate profits. Equities, again led by the US, have continued to outperform bonds, with the MSCI World index up 2.4% in January while global government bonds were up 0.9%. However, it was notable that global emerging markets, which underperformed markedly in the aftermath of the election amidst fears of trade protectionism and a strong dollar, recovered strongly, with the MSCI Global Emerging Markets index up 5.5% for the month, helped by currency gains and strong rises in Asian and Latin American markets. The USD, which had risen sharply over the second half of last year, confounded the bulls with a sharp setback in January; the USD trade weighted index fell by 3.7% from its late December peak to month end, with emerging market and commodity linked currencies enjoying a strong rally as well as the euro and Japanese Yen rising by 2.7% and 3.7% respectively. Pound Sterling, weighed down by concerns about a 'hard' Brexit, underperformed, but still managed a 1.8% rise against the USD. Gold, meanwhile, benefitted from the weaker dollar and prospects of reflation, rising 5.1% in the month.

Figure 1: Emerging market equities play catch-up



Predictably, the period was dominated by Trump’s inauguration and first policy moves. All the evidence demonstrates that he is a man in a hurry, and fully intent on implementing his key campaign messages; the early executive orders signed and measures intended to be introduced included pulling the US out of the Trans-Pacific Partnership trade deal, possible border tax on imports, a Federal hiring freeze, ban on travel from certain countries, deregulation of certain industries, most notably banks, etc. as well as construction of the wall on the US-Mexican border. The difficulty for investors is interpreting these moves and assessing their impact on financial markets, but the general belief is that the measures will boost growth at least in the short to medium term. This comes at a time when global growth is picking up and leading indicators point to accelerating growth ahead, not just in the US but also Europe and Japan.

Figure 2: Upward trend of US business & consumer confidence continues



The other big event was the unveiling by Prime Minister Theresa May of the UK’s Brexit strategy. Her key speech suggested that the UK is prepared to leave the single market and customs union in order to regain control of its borders and to restore independence from EU laws by exiting from the jurisdiction of the European Court of Justice. May set out a vision of the UK as an open and expansive global trading nation with a comprehensive free trade agreement with the EU. The speech was well received by markets, bringing much needed clarity to the UK’s stance; and sterling has settled for now in the mid-1.20s against the USD. Meanwhile the UK economy continued to perform well, growing by 2.0% in 2016, and the Bank of England has now lifted its 2017 growth expectations from 0.8% in August last year to 2.0% today. Before too long the markets will begin to focus on the next interest rate move in the UK, which should be up, not down, as many had predicted in the immediate post referendum aftermath.

Politics was also to the fore in Europe, where worries are rising about the increasing popularity of populist, anti-EU, anti-immigration parties. With key elections ahead in Holland (March), France (May) and Germany (August/September) markets began to price in a rising element of political risk. It was notable that European government bonds (-2.1%) materially underperformed US Treasuries (+0.2%) in January. At the same time spreads of French and peripheral Eurozone markets bonds widened considerably versus Bunds, to multi-year highs. Also of concern to markets is the impending tapering of asset purchases by the European Central Bank from EUR 80bn per month now to 60bn from April, and the growing prospect of a further reduction from the end of 2017 as growth and inflation pick up across the Eurozone. These asset purchases have been vital in keeping interest rates on peripheral Eurozone bonds at ultra- low levels and the prospect of this buying support fading has caused yields to begin to rise.

Figure 3: Uncertain times in Europe



For now the Trump reflation trade, higher growth, a pickup in inflation and moderate policy tightening by the Fed, dominate markets and we expect equities to continue to outperform bonds through 2017. However, markets have moved a long way from the trough of early 2016, and especially post the US election. This leaves them vulnerable to a correction both on a valuation basis and as a result of the inevitable political and policy risks faced globally. In particular, the unpredictability of Trump heightens uncertainty and the period of subdued volatility we have enjoyed over the past few months will surely be tested before too long.

However this cycle is particularly long and it will be important to stay invested, anything less is likely to lead to disappointment. Opportunities for returns outweigh the risks so periodic bouts of weakness in equity markets will present buying opportunities.

## Market Performance – Global (local returns)

Asset Class/Region	Index	To 31 January 2017		
		Currency	1 Month	Year to date
<b>Developed Markets Equities</b>				
United States	S&P 500 NR	USD	1.9%	1.9%
United Kingdom	MSCI UK NR	GBP	-0.5%	-0.5%
Continental Europe	MSCI Europe ex UK NR	EUR	-0.1%	-0.1%
Japan	Topix TR	JPY	0.2%	0.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	5.8%	5.8%
Global	MSCI World NR	USD	2.4%	2.4%
<b>Emerging Market Equities</b>				
Emerging Europe	MSCI EM Europe NR	USD	1.8%	1.8%
Emerging Asia	MSCI EM Asia NR	USD	5.9%	5.9%
Emerging Latin America	MSCI EM Latin America NR	USD	7.6%	7.6%
BRICs	MSCI BRIC NR	USD	6.3%	6.3%
Global Emerging Markets	MSCI EM (Emerging Markets) NR	USD	5.5%	5.5%
<b>Bonds</b>				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.2%	0.2%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.9%	0.9%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.3%	0.3%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	1.5%	1.5%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-1.8%	-1.8%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.9%	-0.9%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-2.1%	-2.1%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.6%	-0.6%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.7%	0.7%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.7%	-0.7%
Australian Government	JP Morgan Australia GBI TR	AUD	0.6%	0.6%
Global Government Bonds	JP Morgan Global GBI	USD	0.9%	0.9%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.8%	0.8%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	2.1%	2.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	1.5%	1.5%

Source: Bloomberg. \* denotes estimate

## Market Performance – Global (local returns)

Asset Class/Region	Index	To 31 January 2017		
		Currency	1 Month	Year to date
<b>Property</b>				
US Property Securities	MSCI US REIT NR	USD	-0.1%	-0.1%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-4.9%	-4.9%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	5.5%	5.5%
Global Property Securities	S&P Global Property USD TR	USD	1.2%	1.2%
<b>Currencies</b>				
Euro		USD	2.7%	2.7%
UK Pound Sterling		USD	1.9%	1.9%
Japanese Yen		USD	3.7%	3.7%
Australian Dollar		USD	5.2%	5.2%
South African Rand		USD	1.9%	1.9%
<b>Commodities &amp; Alternatives</b>				
Commodities	RICI TR	USD	0.9%	0.9%
Agricultural Commodities	RICI Agriculture TR	USD	3.1%	3.1%
Oil	Brent Crude Oil	USD	-2.0%	-2.0%
Gold	Gold Spot	USD	5.1%	5.1%
Hedge funds	HFRX Global Hedge Fund	USD	0.5%	0.5%
<b>Interest rates</b>				
United States			0.75%	
United Kingdom			0.25%	
Eurozone			0.00%	
Japan			0.00%	
Australia			1.50%	
South Africa			7.00%	

Source: Bloomberg. \* denotes estimate

## Market Performance – UK (all returns in GBP)

Asset Class/Region	Index	To 31 January 2017		
		Currency	1 Month	Year to date
<b>Equities</b>				
UK - All Cap	MSCI UK NR	GBP	-0.5%	-0.5%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-0.7%	-0.7%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	0.3%	0.3%
UK - Small Cap	MSCI Small Cap NR	GBP	0.5%	0.5%
United States	S&P 500 NR	USD	0.0%	0.0%
Continental Europe	MSCI Europe ex UK NR	EUR	0.4%	0.4%
Japan	Topix TR	JPY	1.6%	1.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	3.9%	3.9%
Global Developed Markets	MSCI World NR	GBP	0.6%	0.6%
Global Emerging Markets	MSCI EM (Emerging Markets) NR	GBP	3.6%	3.6%
<b>Bonds</b>				
Gilts - All	BofA Merrill Lynch Gilts TR	GBP	-1.8%	-1.8%
Gilts - Under 5 years	BofA Merrill Lynch Gilts TR under 5 years	GBP	-0.3%	-0.3%
Gilts - 5 to 15 years	BofA Merrill Lynch Gilts TR 5 to 15 years	GBP	-1.2%	-1.2%
Gilts - Over 15 years	BofA Merrill Lynch Gilts TR over 15 years	GBP	-3.1%	-3.1%
Index Linked Gilts - All	BofA Merrill Lynch Inflation-Linked Gilts TR	GBP	0.1%	0.1%
Index Linked Gilts - 5 to 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR 5 to 15 years	GBP	-0.1%	-0.1%
Index Linked Gilts - Over 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR over 15 years	GBP	0.2%	0.2%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.9%	-0.9%
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-1.6%	-1.6%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-1.5%	-1.5%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.4%	-0.4%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-1.7%	-1.7%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.1%	-0.1%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	1.2%	1.2%
Global Government Bonds	JP Morgan Global GBI	GBP	-0.9%	-0.9%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	GBP	-1.0%	-1.0%
Global Convertible Bonds	UBS Global Focus Convertible Bond	GBP	0.3%	0.3%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-0.4%	-0.4%

Source: Bloomberg. \* denotes estimate

**Market Performance – UK (all returns in GBP)**

Asset Class/Region	Index	To 31 January 2017		
		Currency	1 Month	Year to date
<b>Property</b>				
UK Direct Property	UK IPD All Property TR	GBP	0.0%*	0.0%*
Global Property Securities	S&P Global Property USD TR	GBP	-0.7%	-0.7%
<b>Currencies</b>				
Euro		GBP	0.6%	0.6%
US Dollar		GBP	-1.9%	-1.9%
Japanese Yen		GBP	1.8%	1.8%
<b>Commodities &amp; Alternatives</b>				
Commodities	RICI TR	GBP	-0.9%	-0.9%
Agricultural Commodities	RICI Agriculture TR	GBP	1.3%	1.3%
Oil	Brent Crude Oil	GBP	-3.7%	-3.7%
Gold	Gold Spot	GBP	3.2%	3.2%
<b>Interest rates</b>				
United Kingdom			0.25%	
United States			0.75%	
Eurozone			0.00%	
Japan			0.00%	

Source: Bloomberg. \* denotes estimate

## Asset Allocation Dashboard

■ Positive
 ■ Neutral
 ■ Negative

Asset class	View
<b>Equities</b>	
Developed equities	●
UK Equities (relative to developed)	●
European Equities (relative to developed)	●
US Equities (relative to developed)	●
Japan Equities (relative to developed)	●
Emerging Market Equities	●
<b>Fixed Income</b>	
Government	●
Index-linked (relative to government)	●
Investment Grade (relative to government)	●
High Yield	●
Loans	●
Emerging Market Debt	●
Convertible Bonds	●
<b>Alternatives</b>	
Commodities	●
Property (UK)	●
<b>Currencies</b>	
GBP	●
Euro	●
Yen	●

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