

# VIEWPOINT

## Newsflash

A new month and the 132<sup>nd</sup> issue of Viewpoint from Imperium Capital.

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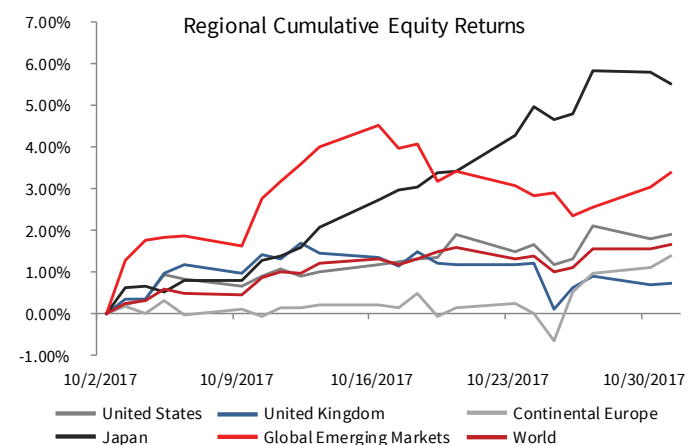
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## Market Commentary

Equity markets continued to rise in October, with several indices hitting all-time highs. The MSCI AC World Index has now risen for twelve consecutive months, taking 12 month returns to 23.2%. Volatility, typically measured by the VIX index, also reached all-time lows. The global economic backdrop remained supportive for equities with the synchronised global recovery continuing, as many economies, irrespective of geography, continue to expand.

The global economic backdrop was particularly beneficial to emerging market equities which continued to outperform developed markets, posting a 3.5% return in US Dollar terms, versus 1.9% for developed markets. Japanese stocks also outperformed, posting a 5.4% return in Yen terms, with investors reacting positively to the re-election of Prime Minister Shinzo Abe which should ensure continuation of stimulative policies. US equities rose 2.3% during the month, following better-than-expected GDP growth in Q3 of 3.0% annualised versus a 2.5% consensus, robust earnings data and unemployment falling to 4.2%. Given the backdrop of low inflation and the disruption from Hurricane Harvey and Hurricane Irma, the US economy and equity markets remained resilient.

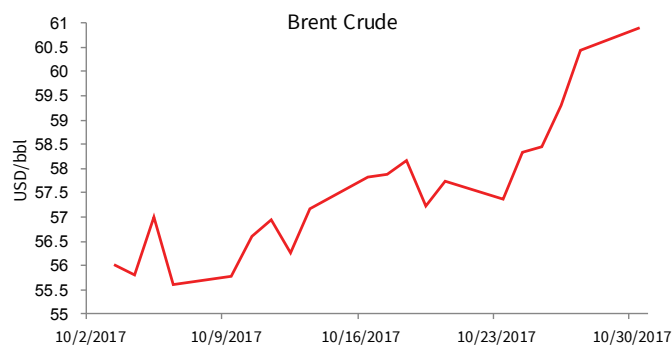
Figure 1: Regional cumulative equity returns in October.



Source: Bloomberg

Of further encouragement to US equities were the progress the Trump administration made in the Senate with proposed tax reforms, taking Trump closer to setting out major reforms subject to Congressional approval. Off the back of the positive backdrop in the US, the US Dollar appreciated versus most currencies and rose 1.6% on a trade weighted basis, taking it to the highest level since mid-July. The Euro, Sterling and Yen fell versus the US Dollar by 1.4%, 0.9% and 1.0% respectively.

Figure 2: US Dollar gains late in the month



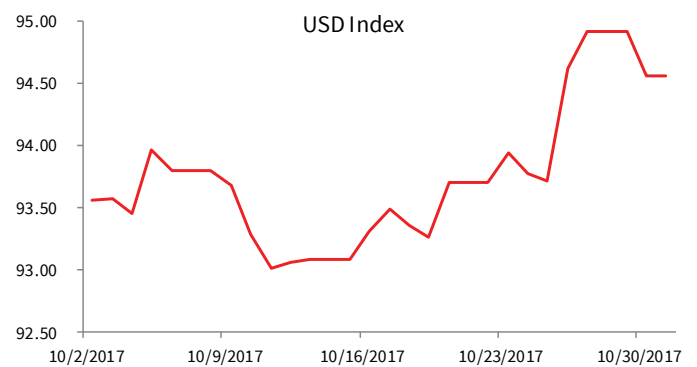
Source: Bloomberg

In European markets, events in Catalonia caused some short-lived volatility, but the effects were mostly felt in Spain where economic growth expectations had been cut. Despite this, continental European equities returned 1.9%.

The pattern in bond performance was similar to that seen year-to-date, with credit, high yield and convertible bonds significantly outperforming government bonds, although European government bonds returned a strong 1.1% in the month. European government bonds were supported by a somewhat dovish European Central Bank (ECB) announcement on the tapering of bond purchases, which will be halved to EUR 30 billion from January 2018 and will continue to an extended date of September 2018. The ECB also made it clear interest rates would remain at the current historically low levels well beyond the end of quantitative easing (QE) and that the program could be increased again if needed.

Arguably the most notable move in October was in oil, with Brent crude rising 6.7%, now up 37% from June lows, taking it to the highest level since mid-2015. The oil market is demonstrating ongoing signs of tightening with OPEC's cuts taking effect on the market at a time when stronger global economic growth is leading to increased demand. The test for oil markets is whether prices above USD 60 will lead to increased shale oil output in the US, although this may be balanced by sustained growth in developed and emerging economies underpinning prices.

Figure 3: Brent crude breaks USD 60 in October



Sources: Bloomberg

Volatility hit new lows in the month but showed some signs of picking up as the month progressed. After the long upward march of markets, in an unprecedented run since November last year, a correction is long overdue. There is no shortage of factors that cause shorter term concerns, not least of which is the further tightening of policy likely to come from the Federal Reserve in December, and a meaningful pull back in markets is to be expected. However, the economic recovery generally is broadening on what appears to be a sustainable basis, with nearly all data releases and leading indicators during the month suggesting improved growth lies ahead, while tightening of monetary policy will be gradual. We expect this cycle to be sustained for some considerable time ahead and opportunities for returns outweigh the risks; hence periodic bouts of weakness in markets will present buying opportunities for risk assets.

## Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 October 2017		
		Currency	1 Month	Year to date
<b>Developed markets equities</b>				
United States	S&P 500 NR	USD	2.3%	16.3%
United Kingdom	MSCI UK NR	GBP	1.6%	8.3%
Continental Europe	MSCI Europe ex UK NR	EUR	1.9%	14.3%
Japan	Topix TR	JPY	5.4%	18.6%
Asia Pacific (ex Japan)	MSCIAC Asia Pacific ex Japan NR	USD	4.1%	32.1%
Global	MSCI World NR	USD	1.9%	18.2%
<b>Emerging Market Equities</b>				
Emerging Europe	MSCI EM Europe NR	USD	-0.1%	14.4%
Emerging Asia	MSCI EM Asia NR	USD	5.3%	38.8%
Emerging Latin America	MSCI EM Latin America NR	USD	-3.6%	22.2%
BRICs	MSCI BRIC NR	USD	3.0%	37.0%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	3.5%	32.3%
<b>Bonds</b>				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.1%	2.2%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.2%	2.1%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.4%	5.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.4%	7.5%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.3%	0.1%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.5%	2.9%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	1.1%	0.7%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	1.1%	2.9%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	1.2%	7.3%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.0%	-0.2%
Australian Government	JP Morgan Australia GBI TR	AUD	1.3%	3.3%
Global Government Bonds	JP Morgan Global GBI	USD	-0.4%	5.3%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.4%	5.9%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	0.7%	10.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-0.1%	8.5%

## Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 October 2017		
		Currency	1 Month	Year to date
<b>Property</b>				
US Property Securities	MSCI US REIT NR	USD	-1.1%	1.6%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	2.2%	-3.1%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	1.7%	23.5%
Global Property Securities	S&P Global Property USD TR	USD	-0.2%	11.6%
<b>Currencies</b>				
Euro		USD	-1.4%	10.7%
UK Pound Sterling		USD	-0.9%	7.6%
Japanese Yen		USD	-1.0%	3.0%
Australian Dollar		USD	-2.3%	6.2%
South African Rand		USD	-4.0%	-2.8%
<b>Commodities &amp; Alternatives</b>				
Commodities	RICI TR	USD	2.2%	0.7%
Agricultural Commodities	RICI Agriculture TR	USD	0.2%	-3.5%
Oil	Brent Crude Oil	USD	6.7%	8.0%
Gold	Gold Spot	USD	-0.7%	10.3%
Hedge funds	HFRX Global Hedge Fund	USD	0.4%	4.9% <sup>e</sup>
<b>Interest rates</b>				
United States			1.3%	
United Kingdom			0.3%	
Eurozone			0.0%	
Japan			0.1%	
Australia			1.5%	
South Africa			6.8%	

## Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 31 October 2017		
		Currency	1 Month	Year to date
<b>Developed markets equities</b>				
UK - All Cap	MSCI UK NR	GBP	1.6%	8.3%
UK - Large Cap	MSCI UK Large Cap NR	GBP	1.7%	7.5%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	1.3%	7.9%
UK - Small Cap	MSCI Small Cap NR	GBP	2.9%	17.7%
United States	S&P500NR	USD	3.2%	8.2%
Continental Europe	MSCI Europe ex UK NR	EUR	1.5%	17.4%
Japan	Topix TR	JPY	5.4%	13.2%
Asia Pacific (ex Japan)	MSCIACAsia Pacificex Japan NR	USD	5.0%	22.8%
Global developed markets	MSCI World NR	GBP	2.8%	9.9%
Global emerging markets	MSCI EM (Emerging Markets) NR	GBP	4.5%	23.0%
<b>Bonds</b>				
Gilts - All	BofA Merrill Lynch Gilts TR	GBP	0.3%	0.2%
Gilts - Under 5 years	BofA Merrill Lynch Gilts TR under 5 years	GBP	0.0%	-0.4%
Gilts - 5 to 15 years	BofA Merrill Lynch Gilts TR 5 to 15 years	GBP	0.2%	0.5%
Gilts - Over 15 years	BofA Merrill Lynch Gilts TR over 15 years	GBP	0.5%	0.4%
Index Linked Gilts - All	BofA Merrill Lynch Inflation-Linked Gilts TR	GBP	0.9%	-0.3%
Index Linked Gilts - 5 to 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR 5 to 15 years	GBP	0.5%	0.5%
Index Linked Gilts - Over 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR over 15 years	GBP	1.1%	-0.7%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.5%	2.9%
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.8%	-4.9%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	1.3%	-1.8%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	1.3%	-0.1%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.7%	3.4%
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Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	GBP	0.6%	-1.5%
Global Convertible Bonds	UBS Global Focus Convertible Bond	GBP	1.6%	2.3%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	0.8%	0.9%

## Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 31 October 2017		
		Currency	1 Month	Year to date
<b>Property</b>				
UK Direct Property	UK IPD All Property TR	GBP	0.0%	7.6%
Global Property Securities	S&P Global Property USD TR	GBP	0.7%	3.8%
<b>Currencies</b>				
Euro		GBP	-0.6%	2.7%
US Dollar		GBP	0.8%	-7.1%
Japanese Yen		GBP	-0.1%	-4.3%
<b>Commodities &amp; Alternatives</b>				
Commodities	RICI TR	GBP	3.1%	-6.3%
Agricultural Commodities	RICI Agriculture TR	GBP	1.1%	-10.3%
Oil	Brent Crude Oil	GBP	7.6%	0.5%
Gold	Gold Spot	GBP	0.2%	2.6%
<b>Interest rates</b>				
United Kingdom			0.3%	
United States			1.3%	
Eurozone			0.0%	
Japan			0.1%	

## 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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