

# Weekly Digest

Week ending 8 October 2017

## Blaze of glory

Less than a month ago the Cassini probe crashed into the Saturnian atmosphere at around 70,000 mph; its eventual fate evidenced as the NASA team called the 'loss of signal' and the probe disintegrated. It brought to an end an extraordinarily successful mission that had its life extended several times and which beamed back a wealth of data and stunning images over almost a billion miles of empty space. (For those of planetary persuasion, the probe's story was wonderfully told in the BBC's recent Horizon documentary 'Goodbye Cassini – Hello Saturn').

The probe was launched 20 years ago this week, on October 15th 1997. Things could only get better as Tony Blair's New Labour had recently swept into Downing Street and the chancellor, Gordon Brown, gave the Bank of England independence from government direction. In the time between launch and last contact not much has changed 'up there' to the naked eye but back here on Planet Earth plenty has been going on, so how do things shape up today compared to yesterday?

It may not feel like it right now (Mrs. May), but UK Prime Ministers have had reasonable staying power since 1997 with Cassini having had a predominantly Labour life until the Tories returned to government in 2010. We've had an Asian crisis, the TMT bust and the great financial crisis whose fallout still very much influences activity today. For all the talk of absent inflation in the world right now, CPI in the UK is currently a full percentage point higher than it was at this time in 1997. As for central bank forecasting and inflation targeting, we all know how wrong they turned out to be as the target over and under-shot, reaching a high of over 5% and a low that was negative. Over 20 years though the average is actually 2.0%. Bang on. So with inflation at

1.9% in October 1997, Bank of England base rates would have been pretty low, right? Wrong: 7% and rising. 10yr gilt yields were over 6% and real rates over 3%; today they are closer to 1% and -2%. A global (but imbalanced) glut in savings coupled with extraordinary policy actions post crisis, has driven yields down to record levels, in turn pushing asset prices higher. UK government debt as a percentage of GDP has doubled in 20 years and after falling back post crisis, debt to disposable income is increasing again and at nearly 140% we are by definition spending beyond our means. Yet with unemployment at its lowest level since the early 70s (when I was born), who's to say there's anything wrong?

On the currency front Sterling remains around 15% lower in trade weighted terms than its pre referendum level and feels somewhat undervalued following its Cassini like descent in 2016. It is human nature to assign more importance to recent events and yet so much depends on your starting point; had Cassini launched a year earlier, Sterling's trade weighted starting level would have been within a whisker of today. Like the celestial bodies Cassini was sent to investigate, markets too are cyclical and asset prices adjust over time to reflect that. Brexit clearly throws a cloud of uncertainty over the economic health of the country for the next few years but like the team in Pasadena we have to plan longer term than that when investing our clients' money. Unlike the precise mathematics of space physics, the rhythm of markets fluctuates unpredictably and unidentified obstacles will come into our path, but we can use those opportunities to make marginal adjustments to our portfolios to help ensure a smoother journey and improve the certainty of outcome. After all, what success is a 20yr mission to Saturn if you end up landing on Mars?

## The Marketplace

- Oil fell 3.3% on the week with Brent at USD 55.6
- Gold fell 0.8% to 1273.5
- US and Turkey suspend visas in escalations of their diplomatic row
- Central banks set to cut quantitative easing

## Market Focus

### US

- The VIX volatility index is still with last Thursday's level of 9.19 marking an all-time low
- The S&P 500 Index closed at 2549, last Thursday saw another record high at 2552
- 10 year Treasury yields are at 2.4%
- The Dow Jones index ended the week at 22774, up 1.7%
- The Nasdaq was up 1.4% at 6065
- September employment figures declined by 33,000 marking the first decline since 2010. Hurricanes Harvey and Irma seen as major factors~\$90 billion losses likely to affect data. Average hourly earnings increased to 2.9 year on year (versus 2.6% expected)

### UK

- PMI unexpectedly fell to 48.1 marking a tilt into contraction
- Consumer spending fell by 0.3% in September marking four out of five months of falls. Expected price rises likely to exacerbate the situation

- Construction shrinks for the first time in a year.
- The FTSE was up 2% on the week, closing at 7523
- GBP drops to its lowest level in a month against the dollar

### Europe

- European stocks gained on the back of German production data which had the best month in six years. Production was up 4.7% over 12 months and output increased 2.6% since July
- The Eurostoxx 50 finished the week up 0.2% at 3603
- The Dax increased 1% to 12956
- Spanish banks mull moving operations out of Catalonia to other regions to temper the separatists. Unilateral declaration of independence is looking less likely

### Asia

- The Nikkei was up 1.6% at 20691
- The Hang Seng finished the week up 3.8% at 28458
- Indian 10 year treasury yield set to rise to 6.85%
- MSCI Emerging Markets Index had its biggest weekly gain since August closing at 1103 on Friday

*Alex Harvey (CFA) & James Jones*

Asset Class/Region	Currency	Currency returns			
		Week ending 6 Oct. 2017	Month to date	YTD 2017	12 months
<b>Developed Market Equities</b>					
United States	USD	1.2%	1.2%	15.1%	19.7%
United Kingdom	GBP	2.1%	2.1%	8.8%	11.6%
Continental Europe	EUR	0.5%	0.5%	12.7%	19.4%
Japan	JPY	0.7%	0.7%	13.3%	27.2%
Asia Pacific (ex Japan)	USD	1.7%	1.7%	29.1%	21.2%
Australia	AUD	0.5%	0.5%	4.4%	8.9%
Global	USD	0.7%	0.7%	16.8%	19.5%
<b>Emerging markets equities</b>					
Emerging Europe	USD	-0.3%	-0.3%	14.3%	22.9%
Emerging Asia	USD	2.4%	2.4%	35.0%	24.6%
Emerging Latin America	USD	1.3%	1.3%	28.4%	23.8%
BRICs	USD	3.4%	3.4%	37.5%	28.8%
MENA countries	USD	0.2%	0.2%	1.2%	14.1%
South Africa	USD	1.7%	1.7%	14.1%	12.1%
India	USD	1.7%	1.7%	28.0%	18.2%
Global emerging markets	USD	2.0%	2.0%	30.3%	23.0%
<b>Bonds</b>					
US Treasuries	USD	-0.2%	-0.2%	2.1%	-1.2%
US Treasuries (inflation protected)	USD	-0.1%	-0.1%	1.7%	-0.4%
US Corporate (investment grade)	USD	0.0%	0.0%	5.2%	2.8%
US High Yield	USD	0.2%	0.2%	7.2%	8.6%
UK Gilts	GBP	-0.3%	-0.3%	-0.5%	-3.0%
UK Corporate (investment grade)	GBP	0.0%	0.0%	2.6%	1.3%
Euro Government Bonds	EUR	-0.1%	-0.1%	-0.5%	-2.6%
Euro Corporate (investment grade)	EUR	0.1%	0.1%	1.8%	0.9%
Euro High Yield	EUR	0.2%	0.2%	6.2%	8.0%
Japanese Government	JPY	0.0%	0.0%	-0.3%	-1.7%
Australian Government	AUD	0.2%	0.2%	2.1%	-0.9%
Global Government Bonds	USD	-0.6%	-0.6%	5.1%	-1.9%
Global Bonds	USD	-0.5%	-0.5%	5.8%	0.0%
Global Convertible Bonds	USD	0.4%	0.4%	9.7%	7.1%
Emerging Market Bonds	USD	-0.1%	-0.1%	8.5%	3.0%

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Asset Class/Region	Currency	Currency returns			
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<b>Property</b>					
US Property Securities	USD	0.3%	0.3%	3.0%	5.0%
Australian Property Securities	AUD	-1.0%	-1.0%	-6.2%	-6.1%
Asia Property Securities	USD	1.8%	1.8%	23.6%	17.1%
Global Property Securities	USD	0.5%	0.5%	12.4%	10.7%
<b>Currencies</b>					
Euro	USD	-0.7%	-0.7%	11.4%	5.1%
UK Pound Sterling	USD	-2.5%	-2.5%	5.6%	3.5%
Japanese Yen	USD	-0.1%	-0.1%	3.8%	-7.8%
Australian Dollar	USD	-0.9%	-0.9%	7.9%	2.4%
South African Rand	USD	-1.4%	-1.4%	-0.3%	1.2%
Swiss Franc	USD	-0.9%	-0.9%	4.1%	0.2%
Chinese Yuan	USD	-0.1%	-0.1%	4.7%	0.9%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	-1.0%	-1.0%	-2.4%	0.5%
Agricultural Commodities	USD	0.4%	0.4%	-3.4%	-1.1%
Oil	USD	-3.3%	-3.3%	-2.1%	5.9%
Gold	USD	-0.8%	-0.8%	10.5%	1.5%
Hedge funds	USD	0.4%	0.4%	4.9%	6.0%

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