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Newsflash

A new month and the 130th issue of Viewpoint from **Imperium Capital**.

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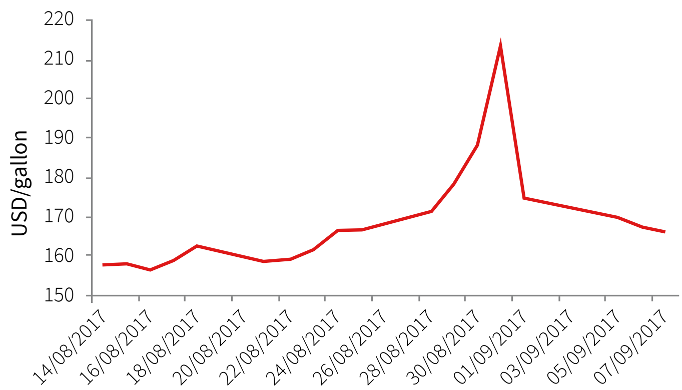
Market Commentary

Economic trends globally remained broadly favourable and constructive for risk assets, demonstrated by equity markets realising positive returns for a tenth successive month. Despite this, a number of factors served to disturb markets and spike volatility to the highest levels since the US election.

Three events were of particular concern to investors and led to flows into more defensive assets. Firstly, the serious escalation in the North Korean nuclear weapons crisis and increasingly bellicose rhetoric from the Trump administration has risen the risk of military conflict involving the US, China and Russia, potentially leading to dramatic global consequences. Secondly, Texas was hit by Hurricane Harvey, one of the strongest hurricanes ever to reach mainland US, causing immense damage, cost and disruption. Gasoline prices were immediately affected with the hurricane decommissioning 20% of US refining capacity, whilst insurance sector stocks fell steeply. Thirdly, the US debt limit came into light once again, with congress needing to raise the ceiling by 3rd October 2017 to avoid default.

Figure 1: Gasoline Future Prices

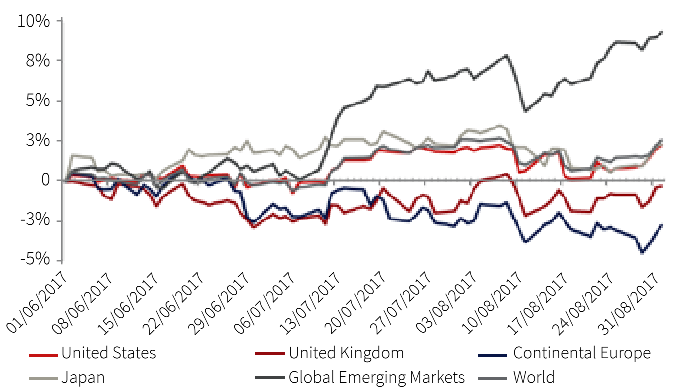


Whilst unnerving to investors, each of these events were ultimately kept in a realistic perspective. Despite the unpredictable nature of President Trump and Kim Jong-un, investors made the reasonable assumption that neither party would engage in an ultimately catastrophic nuclear war. More likely, North Korea will become a fully-fledged nuclear power as it appears nothing short of highly unfavourable military action will prevent it. It therefore becomes a policy of containment, with North Korea, an insignificant economy globally, remaining mired in deep poverty. The impacts of the hurricane, whilst extremely damaging and costly at present, are mostly short term and the US is well placed to rebuild infrastructure and rapidly restore operating capacity. Lastly, the US debt ceiling will likely create lots of noise and fractious deal making between Congress and the President, but a deal will be made and the US will not renege on its financial obligations.

Despite these events causing short term shocks to markets, they are unlikely to lead to a sharp and sustained reversal in market trends. Global economic data remains the key underlying driver of markets, and the trend of positive data has remained almost universal. GDP in all major economies showed strong growth in Q2, with annualised growth in the US at 3.0% and Japan 2.5% whilst year-on-year the Eurozone advanced 2.3% and China 6.9%. GDP growth globally advanced at its fastest rate for 7 years at 3.8%, underpinning strong growth in corporate profits. Leading indicators, including consumer confidence, business surveys and employment growth all suggest a continuation of growth at a sustainable pace, while inflation has remained markedly subdued. Core measures of inflation remain below central bank target rates in the US, Eurozone, Japan and even in the UK, despite predictions that Sterling's fall over the past 18 months was going to lead to higher inflation. This has facilitated loose monetary policy without the fear of an inflationary surge.

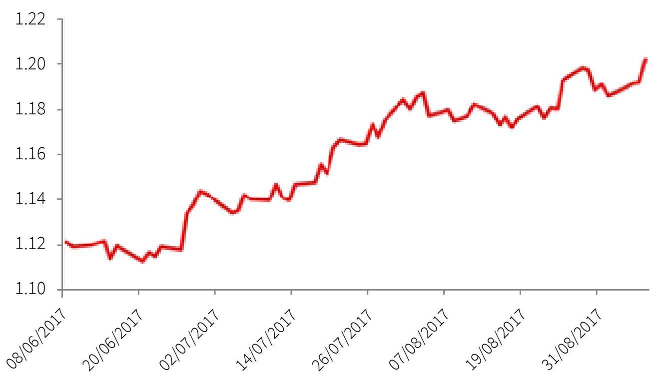
Markets were able to resist the shocks presented by the previous events, with equity markets advancing, demonstrated by the MSCI World index returning 0.1%. Emerging markets continued to outperform, posting a 2.2% return in August, taking year-to-date returns to 28.3%. The more risk-averse sentiment and downward surprises on inflation pushed government bonds higher, with US Treasuries and global government bonds both returning 1.2%. In contrast to recent patterns, government bonds outperformed corporate bonds as US investment grade and high-yield bonds only returned 0.8% and 0.0% respectively. Year-to-date, the best performing bond sector is hard currency emerging market debt, up 8.8% following a 1.9% return in August. Gold notably benefitted from prevailing geopolitical tensions, returning 4.1% and taking year-to-date returns to 14.7%.

Figure 2: Regional Cumulative Equity Returns



Currency moves continued to have a notable impact on returns. Whilst on a trade weighted basis the US Dollar stabilised, the Euro continued to strengthen which is beginning to have an impact on corporate prospects and equity markets in Europe. This is demonstrated by the drifting returns of the MSCI Europe ex UK, which has fallen 2.8% in the past 3 months, although year-to-date returns are still strong at 7.9%. Year to date returns are significantly heightened in US Dollar terms at 21.6% due to the 13.2% rise in the Euro versus the US Dollar.

Figure 3: EUR/ USD



After a strong performance year-to-date, markets are entering a more turbulent period. Whilst corporate profits have been strong, the rises in share prices in the last year have outstripped earnings, pushing valuations higher. The global economy appears on-track for continuing growth, but rising political risks both internationally and within the US present opportunities for unpredictable and damaging events. In addition, we are beginning the transition towards monetary policy normalisation with the US Federal Reserve and European Central Bank likely to announce tightening of policy and reduced liquidity injections, raising the risk of policy missteps and leaving markets vulnerable to a correction. Despite this, the fundamentals underpinning markets remain strong and this cycle is particularly long. We believe it is important to remain invested, and periodic bouts of weakness in markets present buying opportunities.

Source: Bloomberg. Returns in US dollars unless otherwise stated. July 2017.

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 August 2017		
		Currency	1 Month	Year to date
Developed markets equities				
United States	S&P 500 NR	**USD**	0.2%	11.5%
United Kingdom	MSCI UK NR	**GBP**	1.5%	7.4%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-0.5%	7.9%
Japan	Topix TR	**JPY**	0.0%	7.8%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	1.0%	27.3%
Global	MSCI World NR	**USD**	0.1%	13.5%
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	**USD**	6.6%	16.2%
Emerging Asia	MSCI EM Asia NR	**USD**	1.4%	31.8%
Emerging Latin America	MSCI EM Latin America NR	**USD**	4.6%	24.7%
BRICs	MSCI BRIC NR	**USD**	3.8%	31.8%
Global emerging markets	MSCI EM (Emerging Markets) NR	**USD**	2.2%	28.3%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	1.2%	3.3%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	1.1%	2.5%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.8%	5.4%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.0%	6.0%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	2.0%	2.6%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	1.3%	4.4%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.8%	0.1%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	0.5%	2.0%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	0.2%	5.4%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.6%	0.2%
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.1%	2.5%
Global Government Bonds	JP Morgan Global GBI	**USD**	1.2%	7.0%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	1.0%	7.2%
Global Convertible Bonds	UBS Global Focus Convertible Bond	**USD**	-0.1%	8.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	1.9%	8.8%

Source: Bloomberg *[e] denotes estimate*

Market Performance - Global (Local returns)

Asset Class/Region	Index	To 31 August 2017		
		Currency	1 Month	Year to date
Property				
US Property Securities	MSCI US REIT NR	**USD**	-0.3%	3.0%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	0.5%	-5.7%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	1.1%	22.0%
Global Property Securities	S&P Global Property USD TR	**USD**	0.4%	11.4%
Currencies				
Euro		**USD**	0.6%	13.2%
UK Pound Sterling		**USD**	-2.2%	4.6%
Japanese Yen		**USD**	0.3%	6.4%
Australian Dollar		**USD**	-0.7%	10.4%
South African Rand		**USD**	1.4%	5.2%
Commodities & Alternatives				
Commodities	RICI TR	**USD**	-0.1%	-2.9%
Agricultural Commodities	RICI Agriculture TR	**USD**	-4.7%	-3.7%
Oil	Brent Crude Oil	**USD**	-0.5%	-7.8%
Gold	Gold Spot	**USD**	4.1%	14.7%
Hedge funds	HFRX Global Hedge Fund	**USD**	0.0%*	3.5%*
Interest rates				
United States			1.25%	
United Kingdom			0.25%	
Eurozone			0.00%	
Japan			0.10%	
Australia			1.50%	
South Africa			6.75%	

Source: Bloomberg *[e] denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 31 August 2017		
		Currency	1 Month	Year to date
Developed markets equities				
UK - All Cap	MSCI UK NR	**GBP**	1.5%	7.4%
UK - Large Cap	MSCI UK Large Cap NR	**GBP**	1.4%	6.6%
UK - Mid Cap	MSCI UK Mid Cap NR	**GBP**	1.4%	7.5%
UK - Small Cap	MSCI Small Cap NR	**GBP**	1.2%	13.3%
United States	S&P 500 NR	**USD**	2.5%	6.7%
Continental Europe	MSCI Europe ex UK NR	**EUR**	2.4%	16.4%
Japan	Topix TR	**JPY**	2.5%	9.3%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	3.3%	21.9%
Global developed markets	MSCI World NR	**GBP**	2.4%	8.6%
Global emerging markets	MSCI EM (Emerging Markets) NR	**GBP**	4.6%	22.8%
Bonds				
Gilts - All	BofA Merrill Lynch Gilts TR	**GBP**	2.0%	2.6%
Gilts - Under 5 years	BofA Merrill Lynch Gilts TR under 5 years	**GBP**	0.3%	0.4%
Gilts - 5 to 15 years	BofA Merrill Lynch Gilts TR 5 to 15 years	**GBP**	1.6%	2.8%
Gilts - Over 15 years	BofA Merrill Lynch Gilts TR over 15 years	**GBP**	3.4%	4.0%
Index Linked Gilts - All	BofA Merrill Lynch Inflation-Linked Gilts TR	**GBP**	4.9%	3.0%
Index Linked Gilts - 5 to 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR 5 to 15 years	**GBP**	2.1%	2.2%
Index Linked Gilts - Over 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR over 15 years	**GBP**	6.1%	3.4%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	1.3%	4.4%
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	3.5%	-1.1%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	3.1%	0.9%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	2.3%	1.5%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	3.8%	7.9%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	3.5%	10.0%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	3.1%	13.7%
Global Government Bonds	JP Morgan Global GBI	**GBP**	3.5%	2.5%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**GBP**	3.4%	2.6%
Global Convertible Bonds	UBS Global Focus Convertible Bond	**GBP**	2.2%	4.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**GBP**	4.3%	4.1%

Source: Bloomberg *[e] denotes estimate*

Market Performance - UK (All returns in GBP)

Asset Class/Region	Index	To 31 August 2017		
		Currency	1 Month	Year to date
Property				
UK Direct Property	UK IPD All Property TR	**GBP**	0.0%*	5.7%*
Global Property Securities	S&P Global Property USD TR	**GBP**	2.7%	6.7%
Currencies				
Euro		**GBP**	2.8%	7.9%
US Dollar		**GBP**	2.2%	-4.5%
Japanese Yen		**GBP**	2.5%	1.6%
Commodities & Alternatives				
Commodities	RICI TR	**GBP**	2.2%	-7.0%
Agricultural Commodities	RICI Agriculture TR	**GBP**	-2.5%	-7.8%
Oil	Brent Crude Oil	**GBP**	1.8%	-11.7%
Gold	Gold Spot	**GBP**	6.5%	9.8%
Interest rates				
United Kingdom			0.25%	
United States			1.25%	
Eurozone			0.00%	
Japan			0.10%	

Source: Bloomberg [e] *estimate*

Asset Allocation Dashboard

Positive Neutral Negative

Asset class	View
Equities	
Developed equities	Neutral
UK equities (relative to developed)	Neutral
European equities (relative to developed)	Neutral
US equities (relative to developed)	Negative
Japan equities (relative to developed)	Positive
Emerging market equities	Positive
Fixed Income	
Government	Neutral
Index-linked (relative to government)	Neutral
Investment grade (relative to government)	Neutral
High yield	Neutral
Loans	Neutral
Emerging market debt	Neutral
Convertible bonds	Neutral
Alternatives	
Commodities	Neutral
Property (UK)	Neutral
Currencies	
GBP	Negative
Euro	Neutral
Yen	Neutral

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