

Weekly Digest

Week ending 8 January 2017

Happy New Year, for what it's worth

Happy New Year! For those, like me, returning to a bursting inbox with invitations to shop in the online sales, there is an almost equally giddy number of 2017 investment outlooks to wade through too. I like reading outlooks from other investment houses. They are the product of highly experienced, hard-working, well-meaning teams who have clearly put a huge amount of effort into producing their output. I like the fact that these documents are widely shared affording me and my contemporaries the opportunity to compare and contrast different house views and to spend time immersed in opinions that either complement or conflict with our own. But at the same time they serve to highlight that we crave structures for the sake of their comfort rather than their utility.

It is all too easy to think of a new year as a new beginning, a clean slate, but the reality is, of course, that a new year is anything but that. A New Year's resolution to get fit may well yield results but it does not do so by deleting the glut of the past. Likewise, there is no global economic or business 'reset' button that allows us to go back to square one on the first of January and then go from there. The reality is that business performance today, and for the foreseeable future, is to a large extent the product of evolving strategy and planning that is years in the making. Likewise economic strategy (if one can reasonably speak of such a thing) is the product of the ebb and flow of the political environment overlaid on longer term prevailing macro winds. Clearly in this sense any talk of a new year is arbitrary; a new year is simply an artificial line in the sand that demarks one period from the next. So, while we may think of a new year as an opportunity to start afresh, the reality is for investors that New Year's Day is just another day. The corollary of this is, perhaps, more important, however. In that sense, every day

is a new beginning. Thinking in this way is powerful. If we can separate ourselves from the artifices that we have created in the work space, the weekly meeting, the monthly call etc., we can be much freer in our approach to portfolio management. The market does not wait for you to have a monthly meeting; it is constantly, relentlessly evolving. As a result it is important to have a nimble and flexible approach to investing that remains alive to opportunity regardless of where you are in your weekly / monthly / quarterly meeting cycle.

The discipline that comes with managing Outcome-based solutions helps in this regard. Take last year as an example. We finished the year comfortably ahead of our return targets in many of our solutions but this does not afford us the opportunity to rest on our laurels. We know that our funds are open to new investors every day and that these new joiners expect us to invest their capital in the combination of assets that we believe gives them the best opportunity to achieve their required return while taking as little risk as possible over a reasonable time period. For these investors, that arrive today, today can be rightly thought of as a new beginning and they understandably demand that their capital be invested as such. This discipline is important because it forces us to keep looking forward for new opportunities for today's most appropriate combination of asset classes. We cannot simply anchor to what we held in the past or reduce risk in the portfolio because longer standing investors happen to be ahead of their returns target.

Every day is a start on a new Outcomes-based solutions journey, so rather than wish you a happy new year, it is more apt to wish you a happy new day. For the sake of convention, efficiency and our sanity, you will forgive me for leaving it another 12 months before I do so again.

The Marketplace

- New Year brings positive signs for global growth
- Brexit rumours send sterling lower
- US economy adds 156,000 jobs in December
- Chinese currency strengthens; PBoC raises trading band limit
- Euro Area Consumer Price Inflation prints 1.1% for December

Market Focus

US

- US equities rose 1.7% in the first week of the New Year amid positive growth indications from economic data and US central bankers predicting upside surprises as more likely in the near future.
- The Services Purchasing Managers Index and the ISM non-manufacturing index for December came in at 53.9 and 57.2 respectively. With any reading above 50 representing an expansion, both figures show encouraging signs for growth.
- The monthly non-farm payrolls report reported that 156,000 jobs were added in December. Although this was below expectations, the highlight of the report was year-on-year average hourly earnings growth increasing from 2.5% to 2.9%: the highest growth rate since June 2009.

UK

- Sterling depreciated 0.5% against the dollar last week, and has fallen a further 1.0% at time of writing to reach USD 1.217.
- The move comes following an interview with PM Theresa May, where she hinted that access to the EU's single market following Brexit was not certain, warning there was no prospect of Britain keeping "bits of" EU membership.
- Last week also saw Britain's ambassador to the EU, Sir Ivan Rogers, resign, weeks before formal exit negotiations are due to begin following the triggering of Article 50.

- UK equity markets rose 1.0% last week. Economic data was positive, with December PMIs for services and manufacturing coming in above expectations at 56.1 and 56.2 respectively, categories except food, with transport costs increasing the most amid the continued recovery in oil prices (which rose 1.6% last week).

China

- PMI readings for China were also positive: the composite PMI index (including both manufacturing and services) printed 52.9 in December, the highest in forty-five months.
- China's free-floating offshore renminbi currency recorded its biggest ever two day gain on Wednesday and Thursday last week, rising 2.5%. This prompted the People's Bank of China (PBoC) to raise the mid-point of the trading band limit of the onshore renminbi. This represents the biggest one day change in the onshore currencies' rate since it was unpegged from the US dollar in 2005.
- The scale of the move in the offshore market was exacerbated by lack of liquidity, causing prices to be more volatile than under normal trading conditions.
- The currency retreated slightly on Friday, however, leaving its weekly gain at 1.8%. While Chinese equities gained 3.0% for the week.

Continental Europe

- Europe also reported strong economic data for December. The Euro Area composite PMI came in at 54.4, its highest reading since 2011. Inflation data also signaled growth, with headline euro area Consumer Price inflation rising to 1.1% month-on-month, compared a 0.6% in November.
- Continental European equities rose 1.4% during the week.

James Klempster (CFA) & Oliver Bickley

Asset Class/Region	Currency	Currency returns			
		Week ending 06 Jan 2017	Month to date	YTD 2017	12 months
Developed Market Equities					
United States	USD	1.7%	1.7%	1.7%	16.2%
United Kingdom	GBP	1.0%	1.0%	1.0%	23.7%
Continental Europe	EUR	1.4%	1.4%	1.4%	7.5%
Japan	JPY	2.3%	2.3%	2.3%	6.6%
Asia Pacific (ex Japan)	USD	2.6%	2.6%	2.6%	14.8%
Australia	AUD	1.6%	1.6%	1.6%	17.4%
Global	USD	1.8%	1.8%	1.8%	13.0%
Emerging Market Equities					
Emerging Europe	USD	1.1%	1.1%	1.1%	31.9%
Emerging Asia	USD	2.5%	2.5%	2.5%	13.7%
Emerging Latin America	USD	1.8%	1.8%	1.8%	39.4%
BRICs	USD	2.6%	2.6%	2.6%	20.2%
MENA countries	USD	1.2%	1.2%	1.2%	14.0%
South Africa	USD	1.2%	1.2%	1.2%	25.6%
India	USD	0.4%	0.4%	0.4%	5.9%
Global Emerging Markets	USD	2.2%	2.2%	2.2%	18.8%
Bonds					
US Treasuries	USD	0.2%	0.2%	0.2%	0.8%
US Treasuries (inflation protected)	USD	0.3%	0.3%	0.3%	4.6%
US Corporate (investment grade)	USD	0.3%	0.3%	0.3%	5.9%
US High Yield	USD	1.0%	1.0%	1.0%	18.3%
UK Gilts	GBP	-1.6%	-1.6%	-1.6%	7.2%
UK Corporate (investment grade)	GBP	-0.8%	-0.8%	-0.8%	8.5%
Euro Government Bonds	EUR	-0.9%	-0.9%	-0.9%	1.6%
Euro Corporate (investment grade)	EUR	-0.3%	-0.3%	-0.3%	4.1%
Euro High Yield	EUR	0.5%	0.5%	0.5%	9.8%
Japanese Government	JPY	-0.1%	-0.1%	-0.1%	3.2%
Australian Government	AUD	0.6%	0.6%	0.6%	2.6%
Global Government Bonds	USD	-0.2%	-0.2%	-0.2%	0.9%
Global Bonds	USD	-0.1%	-0.1%	-0.1%	1.6%
Global Convertible Bonds	USD	1.0%	1.0%	1.0%	2.8%
Emerging Market Bonds	USD	1.4%	1.4%	1.4%	10.8%

Asset Class/Region	Currency	Currency returns			
		Week ending 6 Jan 2017	Month to date	YTD 2017	12 months
Property					
US Property Securities	USD	2.2%	2.2%	2.2%	9.1%
Australian Property Securities	AUD	0.1%	0.1%	0.1%	9.8%
Asia Property Securities	USD	4.0%	4.0%	4.0%	8.9%
Global Property Securities	USD	2.1%	2.1%	2.1%	8.5%
Currencies					
Euro	USD	0.1%	0.1%	0.1%	-2.3%
UK Pound Sterling	USD	-0.5%	-0.5%	-0.5%	-16.0%
Japanese Yen	USD	0.0%	0.0%	0.0%	1.3%
Australian Dollar	USD	1.4%	1.4%	1.4%	3.2%
South African Rand	USD	-0.5%	-0.5%	-0.5%	15.3%
Swiss Franc	USD	0.1%	0.1%	0.1%	-1.1%
Chinese Yuan	USD	0.3%	0.3%	0.3%	-5.4%
Commodities & Alternatives					
Commodities	USD	0.7%	0.7%	0.7%	18.5%
Agricultural Commodities	USD	2.0%	2.0%	2.0%	6.0%
Oil	USD	0.5%	0.5%	0.5%	66.8%
Gold	USD	1.8%	1.8%	1.8%	7.2%
Hedge funds	USD	0.3%	0.3%	0.3%	3.6%

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