

Weekly Digest

Week ending 22 January 2017

A Tale of Two Cities

Whether you're reading this in Tyne and Wear or the District of Columbia (DC), residents of Washington had reason to sit up and listen to their leaders in a week of significant and highly charged political content on both sides of the Atlantic. As the annual economic jamboree that is the World Economic Forum took place in Davos last week, preparations were afoot 4200 miles further west in Washington DC., for an event few would have predicted 12 months ago, let alone 16 years ago as did the creators of 'The Simpsons'. Indeed, in an episode named 'Bart to the Future' a young Lisa Simpson succeeds the outgoing President Trump, telling her Oval Office team "As you know, we've inherited quite a budget crunch from President Trump". I can pretty much guarantee Lisa will not be the next President, but her comments are prescient. And whilst it is easy to laugh at this innocuous foretelling we shouldn't forget that Springfield represents Anytown, USA and its residents the average Joe. And so it unfolded as 'The Donald' was sworn in as 45th President of the United States.

The wealthy US business and political elite (increasingly aligned in the forthcoming US administration) flying in from Davos would hear in the President's inauguration speech references to themes aired in Switzerland, albeit posturing somewhat against the prevailing Swiss wind. In the canton of Graubünden we heard talk of developing a "model of open and win-win cooperation... to remain committed to developing global free trade and investment. Pursuing protectionism... no-one will emerge as a winner in a trade war". Not the words of Theresa May but of Xi Jinping, leader of China and their first President to have attended the annual Forum. He used the opportunity to extoll the virtues of globalisation and to celebrate the achievement of the Paris Agreement (on climate change). Whilst not referencing the Americans specifically he did say when referring to the Paris Agreement "we should honour and abide by rules. One should not select or bend rules as he sees fit. All signatories should stick to it instead of walking away from it..." Another contemporaneous theme is that of technology and automation, which President Xi acknowledged has negative impacts, which need to be addressed. Meanwhile on Friday, President Trump reiterated his protectionist stance, blaming overseas production and imports for destroying American jobs and saying that "protection will lead to great prosperity and strength". He wants to rebuild the country with "American hands and American labour", not acknowledging the

unrelenting shift towards automation that will challenge the blue collar workforce which elected him. The respective messages from these east and west Pacific leaders could not have been more diametrically opposed. Ironically these two capitalist and communist flag bearers are probably more closely aligned by family wealth than by ideology.

Closer to home the UK Prime Minister Theresa May unveiled her 12 point plan for taking the UK out of the European Union. Here, the UK would not retain access to the single market but seek to negotiate a new free trade agreement with Europe, aspiring for cross border trade to be 'as frictionless as possible'. The market certainly welcomed the strong lead and positive direction after six months of somewhat rudderless navigation. The pound surged after her speech which went some way to show how large this 'uncertainty' premium has become. Later in the week she found time to swap Downing Street for Davos to reaffirm her points and the commitment of the UK to being "the best friend and neighbour to our European partners". The week's key speeches attested to the divisions in thinking around global trade and protectionist policies, pointing to a shift in rhetoric, away from central bankers towards government, key leaders and proponents of trade policy.

Back in the UK, we took time to take stock after a turbulent year of economic and political risk, the latter coming to dominate the agenda, setting the tone for 2017 in continental Europe. However, being right on some of the key calls last year was not necessarily the path to good fortune as market reaction to several of the unexpected binary outcomes brought rallies not riot, and speaks to the underlying risk in these seemingly (or artificially) low volatility markets. Traditional tools and risk management techniques will always be crucial inputs to our portfolio construction process, but perhaps don't carry quite as much 'bang for their buck' when it comes to their diversifying qualities and ability to protect capital. For that reason we recognise the importance of maintaining a broad and diverse asset allocation within our portfolios which can be dynamic enough to adapt to evolving risk premia, whilst at the same time not losing sight of the long term objective that will meet your financial goals. Whether you aspire to owning a hotel on Pennsylvania Avenue or a house off Main Street you need to plan for that outcome, as you never quite know how things might turn out. Just ask the Donald.

The Marketplace

- Trump inaugurated as 45th US President
- Chinese economy grows 6.7% in 2016
- Strong week for sterling ahead of Supreme Court decision
- UK December retail sales print disappoints
- ECB keeps interest rate on hold

Market Focus

US

- At 5pm GMT (12pm EST) on Friday, Donald Trump took the Presidential vows to become the USA's 45th President.
- An estimated television audience of 30.6 million viewed Trump's speech. No new details emerged about his policies, although he emphasised putting 'America First' in all decisions, and vowed to strip power away from Washington and give it "back to the people".
- US equity markets were largely flat (-0.1%) last week. The speech seemed to make little impact on markets, with all eyes on policy developments as Trump settles into the White House.

China

- Official figures showed China's growth over the final quarter of the year was 6.8%, higher than for the same quarter in 2015. This resulted in growth for the whole of 2016 of 6.7%, which is the lowest figure since 1990, but in the middle of the Chinese authorities' 6.5-7% target range.
- Other monthly data showed retail sales, industrial

- production, and fixed asset investment numbers rising 10.9%, 6.0%, and 8.1%, respectively in December year-on-year, which was in line with expectations.
- China's Shanghai Composite index rose 0.3% over the week.

UK

- Sterling rose 1.6% against the US dollar last week to USD 1.24 ahead of the UK Supreme Court's decision on whether Parliament must vote before Article 50 can be invoked.
- UK PM Theresa May's speech at the World Economic Forum in Davos on Tuesday, in which she emphasised that Britain would be open for business after Brexit, initiated a particularly strong daily sterling rally of 3.1%.
- Notable data releases included retail sales falling 2.0% month-on-month in December, compared to an expected decline of 0.4%, although sales were still 4.9% higher than a year earlier.
- UK equities were down 1.9% over the week.

Europe

- Thursday's monetary policy meeting at the European Central Bank offered few surprises, as the main interest rates and structure of the bond purchasing program were left unchanged. ECB President Mario Draghi emphasised a focus on any 'sustained adjustment' in inflation rates.
- The meeting was held behind the backdrop of euro area headline inflation rising to 1.1% year-on-year.
- The euro appreciated 0.6% against the US dollar over the week to USD 1.07, while Continental European equities lost 0.8%.

Alex Harvey (CFA) & Oliver Bickley

Asset Class/Region	Currency	Currency returns			
		Week ending 20 Jan 2017	Month to date	YTD 2017	12 months
Developed Market Equities					
United States	USD	-0.1%	1.5%	1.5%	24.0%
United Kingdom	GBP	-1.9%	0.8%	0.8%	32.1%
Continental Europe	EUR	-0.8%	0.8%	0.8%	16.6%
Japan	JPY	-0.7%	1.0%	1.0%	17.1%
Asia Pacific (ex Japan)	USD	-0.3%	4.1%	4.1%	27.1%
Australia	AUD	-1.2%	-0.2%	-0.2%	22.1%
Global	USD	-0.3%	1.8%	1.8%	22.0%
Emerging Market Equities					
Emerging Europe	USD	-1.1%	-0.5%	-0.5%	47.0%
Emerging Asia	USD	-0.4%	3.9%	3.9%	25.0%
Emerging Latin America	USD	1.3%	4.9%	4.9%	59.1%
BRICs	USD	-0.2%	4.1%	4.1%	37.3%
MENA countries	USD	0.2%	0.3%	0.3%	29.7%
South Africa	USD	-1.7%	2.8%	2.8%	48.4%
India	USD	-0.5%	1.8%	1.8%	15.8%
Global Emerging Markets	USD	-0.3%	3.6%	3.6%	32.0%
Bonds					
US Treasuries	USD	-0.3%	0.1%	0.1%	-0.7%
US Treasuries (inflation protected)	USD	-0.2%	0.6%	0.6%	5.1%
US Corporate (investment grade)	USD	-0.4%	0.2%	0.2%	6.0%
US High Yield	USD	-0.1%	1.1%	1.1%	23.5%
UK Gilts	GBP	-0.4%	-2.1%	-2.1%	5.2%
UK Corporate (investment grade)	GBP	-0.4%	-1.1%	-1.1%	8.3%
Euro Government Bonds	EUR	-0.7%	-1.5%	-1.5%	1.0%
Euro Corporate (investment grade)	EUR	-0.3%	-0.5%	-0.5%	4.7%
Euro High Yield	EUR	0.2%	0.7%	0.7%	13.2%
Japanese Government	JPY	-0.3%	-0.5%	-0.5%	2.6%
Australian Government	AUD	-0.5%	0.0%	0.0%	1.3%
Global Government Bonds	USD	-0.2%	0.1%	0.1%	-0.1%
Global Bonds	USD	-0.2%	0.1%	0.1%	1.0%
Global Convertible Bonds	USD	0.1%	1.5%	1.5%	7.1%
Emerging Market Bonds	USD	-0.4%	1.1%	1.1%	12.8%

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Property					
US Property Securities	USD	0.6%	0.8%	0.8%	16.5%
Australian Property Securities	AUD	-2.1%	-5.2%	-5.2%	3.2%
Asia Property Securities	USD	-1.1%	4.0%	4.0%	21.4%
Global Property Securities	USD	-0.3%	0.8%	0.8%	16.7%
Currencies					
Euro	USD	0.6%	1.7%	1.7%	-1.7%
UK Pound Sterling	USD	1.6%	0.2%	0.2%	-12.8%
Japanese Yen	USD	-0.1%	2.1%	2.1%	2.0%
Australian Dollar	USD	0.7%	5.0%	5.0%	9.4%
South African Rand	USD	-0.6%	0.7%	0.7%	23.3%
Swiss Franc	USD	0.7%	1.7%	1.7%	0.2%
Chinese Yuan	USD	0.3%	1.1%	1.1%	-4.2%
Commodities & Alternatives					
Commodities	USD	0.0%	1.3%	1.3%	28.8%
Agricultural Commodities	USD	0.8%	4.1%	4.1%	8.9%
Oil	USD	0.1%	-2.3%	-2.3%	99.0%
Gold	USD	1.1%	5.1%	5.1%	10.0%
Hedge funds	USD	-0.1%	0.5%	0.5%	6.3%

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