IMPERIUM CAPITAL

momentum

NEWPORT

Weekly Digest

Week ending **27 November 2016**

Geopolitical issues still dictating the agenda

Politics continues to dominate headlines globally, with economic and company news proving mundane by comparison. Ultimately we believe that politics is inherently unpredictable and as a result we do not invest on the basis of our view of the political environment. We do, however, take account of factors such as politics as part of our Outcomes Based Investment approach but it is largely in relation to risk management and the timing of trades rather than investing on the basis of political views. This is probably just as well because given the elevated amount of political news in the press of late it would be very difficult to separate the important information from noise.

For example two seemingly settled issues, Brexit and Trump's election victory, still raise a lot of questions. The latter is still subject to a relatively mundane recount in a few states (notwithstanding Trump's recent unsubstantiated assertion that 'millions' of illegal votes went against him) but the former could still be subject to constitutional challenges such as a recent High Court decision that confirmed that the government must consult Parliament before invoking Article 50. Furthermore, ex-Prime Minister Tony Blair last week made tentative steps back into the political sphere to try and challenge the decision to leave the European Union. While Blair may be a long way from frontline politics today, he remains a credible political operator and so this move should be taken seriously.

French politics took an interesting turn over the weekend with avowed Thatcherite, François Fillon becoming the frontrunner for next years' Presidential election. He has beaten former President Nicolas Sarkozy and the erstwhile favourite former PM Alain Juppé. Fillon took 67 per cent of the final primary vote for the centre right Republican party. Current President François Hollande has a personal approval rating of only 4% according to a recent poll conducted for Le Monde last month and his Socialist Party's lack of traction in the pools puts Fillon as favourite for next year's election according to Bloomberg. This would be an exalted status were it not for 2016's habitual provision of political upset. In May, Fillon will be pitted against Marine Le Pen's National Front party's anti-immigration and anti-EU policies which bears some resemblance to both the successful Brexit debate and Trump's policies.

The next major vote takes place in Italy, with a constitutional referendum taking place next weekend. Prime Minister Matteo Renzi's flagship reforms are aimed at kick starting the economy by cutting red tape and public spending. It is a gamble for him and the reforms are not universally liked as they risk centring too much influence on the incumbent PM. Italy remains a large European nation and a substantial debtor in the region. As a result, the result of the referendum will be watched closely as a guide for Italy's longer term growth prospects and also because a 'no' vote would see Renzi step down.

As if an attempt to wrest the attention from centre right (and indeed further right) politics, Fidel Castro's death over the weekend brought the policies of the left and far left back into focus. His death does create some longer term political uncertainty in Cuba (which may take a more business friendly tack under his brother Raul now that he is out of the way) but Cuba's economy is too small to have a material impact globally. President elect Trump's stance regarding Cuba is what might be considered consistent with a traditional republican view that Castro was a 'tyrant' and it seems likely that some of president Obama's olive branches will be rescinded.

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

The **Marketplace**

- US indices record new highs
- Fillon wins French centre-right primary
- UK Q3 GDP growth at +0.5% amid sombre OBR forecasts
- Euro area PMIs show encouraging signs of growth
- Trump reiterates intent to leave TPP

Market **Focus**

US

- The US dollar index rose by 2.2% last week and for its tenth consecutive day, as investors piled into the currency on the prospect of more fiscal stimulus and tighter monetary policy under President-elect Trump The same factors led to investors selling more bonds, as global bond prices fell 2.1% last week, with yields on US 10-year Treasuries rising 21 percentage points to reach 2.35%.
- The market implied probability of a US interest rate rise in December is now at 98%. Janet Yellen, Chair of the US Federal Reserve, also primed investors for a rate rise, saying it would be required "relatively soon" if economic data continued to strengthen.
- Economic prints were subsequently positive, also: consumer price inflation rose by 0.4% month-on-month, whilst jobless claims dropped to their lowest level in over forty years at 235,000, and housing construction starts in December reached a nine-year high at 1.32 million.
- US equities rose 0.9% over the week, with the S&P Financials index again standing out, gaining 2.2%.

Europe

- Former Prime Minister François Fillon won a landslide victory in the French centre-right presidential nomination on Sunday, securing 66.6% of the vote and defeating rival Alain Juppé. He will now likely stand against populist far-right Candidate Marine Le Pen in next May's presidential election. Mr Fillon's proposed policies involve EUR 100 billion in spending cuts over five years, cutting 500,000 public sector jobs, raising VAT by 2%, increasing the retirement age to 65, and providing EUR 50 billion in tax breaks for companies.
- The French CAC 40 index is down 0.6% on Monday morning, at time of writing.
- The November composite Purchasing Managers Index reading for the euro area rose to 54.1 from 53.3 in October, beating expectations for no change. The services sector drove the improvement with its PMI rising from 52.8 to 54.1, whilst the manufacturing sector PMI rose 0.2 points to 53.7. PMI readings are seen as an effective barometer for economic activity, with any reading above 50 representing an expansion of economic activity.

UK

- Data from the Office for National Statistics shows the UK economy grew 0.5% from July through September this year, in line with expectations. Output was boosted by export growth of 0.7%, strong consumer spending, and a 0.9% rise in business investment.
- Less encouraging were Office for Budget Responsibility forecasts accompanying UK Chancellor Philip Hammond's autumn budget statement. National debt is forecast to increase by GBP 220 billion over five years to GBP 1.945 trillion, peaking at 90.2% of GDP by 2018. Growth forecasts for next year were also revised down from 2.2% to 1.4%, with uncertainty from Brexit negotiations and higher inflation cited as the main causes.
- UK equities rose 1.2% last week, whilst sterling appreciated 1.0% versus the dollar to reach USD 1.25

Japan

- The yen continued its downward trend, depreciating 2.1% against the dollar over the week to JPY 113.2, it has now fallen by 7.4% month-to-date against the greenback. On the back of this weakness, Japanese equities rose 2.5% last week, bringing their month-to-date gains to 5.1%.

James Klempster (CFA) & Oliver Bickley

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Asset Class/Region	Currency	Currency returns			
		Week ending 25 Nov 2016	Month to date	YTD 2016	12 months
Developed Market Equities					
United States	USD	1.4%	4.3%	9.8%	7.6%
United Kingdom	GBP	1.2%	-1.2%	14.1%	12.3%
Continental Europe	EUR	0.6%	0.0%	-3.7%	-6.9%
Japan	JPY	2.5%	5.1%	-3.4%	-6.1%
Asia Pacific (ex Japan)	USD	1.8%	-2.5%	7.6%	6.1%
Australia	AUD	2.8%	4.3%	8.4%	10.8%
Global	USD	1.4%	1.9%	5.5%	3.5%
Emerging Market Equities					
Emerging Europe	USD	2.3%	-1.7%	14.2%	3.4%
Emerging Asia	USD	1.4%	-4.1%	6.8%	3.7%
Emerging Latin America	USD	1.3%	-11.9%	28.0%	17.1%
BRICs	USD	1.8%	-4.5%	12.5%	7.2%
MENA countries	USD	0.7%	3.7%	2.8%	0.8%
South Africa	USD	1.0%	-8.0%	12.0%	-3.1%
India	USD	-0.2%	-8.4%	-0.1%	1.6%
Global Emerging Markets	USD	1.3%	-5.4%	10.0%	4.8%
Bonds					
US Treasuries	USD	-0.2%	-2.8%	1.2%	1.1%
US Treasuries (inflation protected)	USD	-0.2%	-2.4%	4.6%	3.7%
US Corporate (investment grade)	USD	-0.1%	-2.9%	5.2%	4.5%
US High Yield	USD	0.5%	-0.7%	14.7%	12.0%
UK Gilts	GBP	0.5%	-1.6%	8.3%	7.7%
UK Corporate (investment grade)	GBP	0.3%	-1.3%	8.3%	7.9%
Euro Government Bonds	EUR	0.0%	-1.8%	2.3%	1.2%
Euro Corporate (investment grade)	EUR	0.3%	-1.0%	4.2%	3.4%
Euro High Yield	EUR	0.3%	-1.0%	7.0%	5.0%
Japanese Government	JPY	0.0%	-1.0%	4.0%	4.9%
Australian Government	AUD	-0.2%	-2.2%	2.6%	3.2%
Global Government Bonds	USD	-0.3%	-4.4%	2.2%	3.0%
Global Bonds	USD	-0.2%	-3.9%	2.2%	2.7%
Global Convertible Bonds	USD	0.1%	-1.8%	-0.4%	-1.1%
Emerging Market Bonds	USD	0.0%	-4.8%	8.0%	6.1%

Source: Bloomberg

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Asset Class/Region	Currency	Currency returns			
		Week ending 25 Nov 2016	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	1.7%	-2.1%	2.2%	4.0%
Australian Property Securities	AUD	2.3%	-0.4%	1.5%	3.1%
Asia Property Securities	USD	0.7%	-3.7%	4.3%	3.4%
Global Property Securities	USD	1.2%	-3.5%	1.8%	2.5%
Currencies					
Euro	USD	0.1%	-3.5%	-2.4%	-0.3%
UK Pound Sterling	USD	1.0%	1.9%	-15.3%	-17.5%
Japanese Yen	USD	-2.1%	-7.4%	6.2%	8.4%
Australian Dollar	USD	1.6%	-2.1%	2.3%	2.7%
South African Rand	USD	2.5%	-4.5%	9.7%	0.2%
Swiss Franc	USD	-0.4%	-2.5%	-1.2%	0.7%
Chinese Yuan	USD	-0.3%	-2.1%	-6.0%	-7.6%
Commodities & Alternatives					
Commodities	USD	1.8%	0.2%	8.6%	1.9%
Agricultural Commodities	USD	1.1%	0.3%	3.3%	2.3%
Oil	USD	0.8%	-2.2%	26.7%	2.3%
Gold	USD	-2.0%	-7.3%	11.5%	10.5%
Hedge funds	USD	0.2%	0.7%	1.3%	0.1%

Source: Bloomberg

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