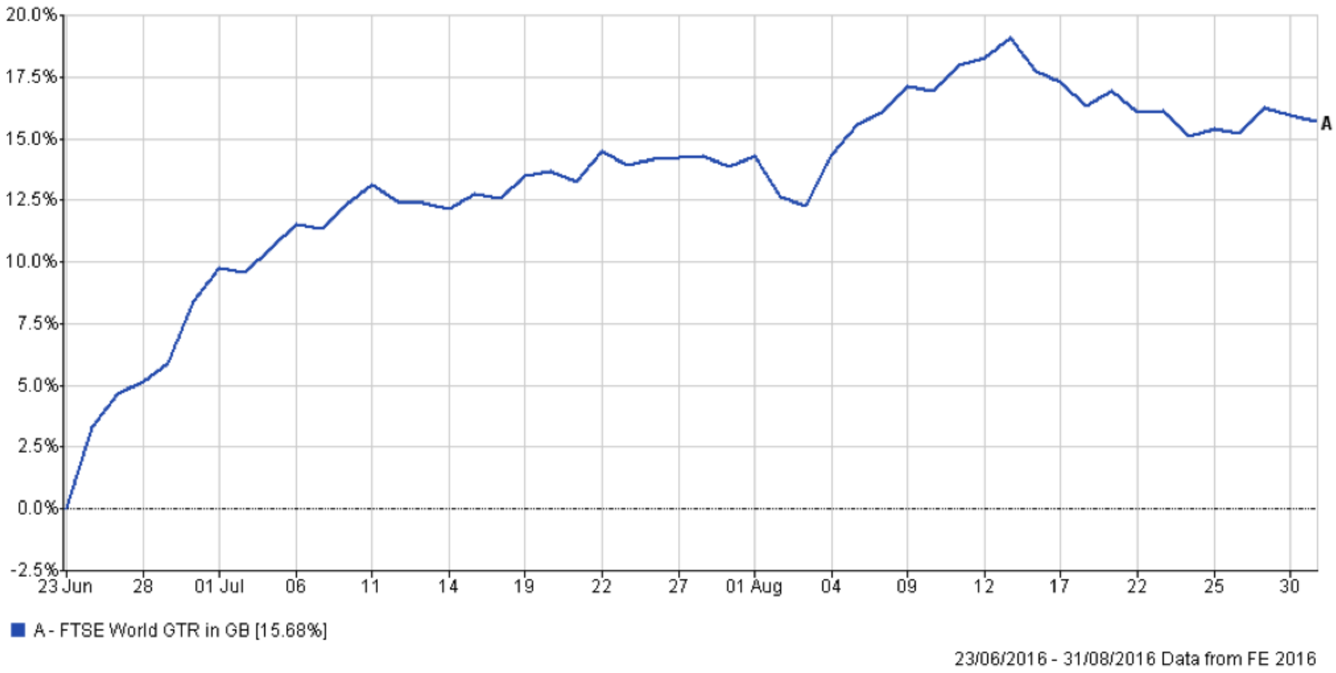
CAERUS
Portfolio Management

CAERUS Market Commentary – August 2016

Market overview

The FTSE World index nudged up by 1.2% during the month of August. Usually, the news flow becomes more subdued in the summer months, but, in the UK and US, politics has maintained its interest. Although the UK has not yet invoked Article 50 and, hence, set the timetable rolling to leave the EU, there has been much discussion about the possible outcomes for both the UK and Europe, as yet to be determined. In the US, the Presidential election in November is fast approaching. Will Trump be an unexpected winner?



United Kingdom

The FTSE All Share enjoyed another positive month with a gain of 1.9%. It appears that the worst immediate fears post the result in late June have not turned to reality. This certainly appears to be the case with the stock market. The FTSE All Share is up over 15% post June 23rd (see chart above). Consumers continue to spend, perhaps a result of the low savings rates since the Bank of England lowered the base rate to 0.25%, the first change in rates since 2009. Although some forward-looking surveys of the economy do suggest a slowdown in activity, at the moment, there is little hard evidence that this is occurring. And, with the fall in sterling post the vote, overseas tourists are now finding the UK a more attractive destination along with "staycation" Brits.

United States

Likewise, the United States rose by 1.5% in August resulting in a gain of over 21% for the year to date. The economy continues to generate new jobs (1.3 million year to date) and the unemployment rate is below 5%, combined with some modest wage growth of 2.6%. Of perhaps more interest for the stock markets, however, was the meeting of central bankers at Jackson Hole, Wyoming. In particular, the speech by Janet Yellen of the Federal Reserve was much anticipated. She hinted that if new job figures continue to increase and inflation picks up, then yes, the "Fed" will be inclined to increase rates in the future, but she gave no specific idea of when. Perhaps her caution was justified, given the economy just grew at 1.1% in the second quarter of 2016.

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Japan

Despite a lacklustre economy, Japan's unemployment rate fell to a 21 year low of just 3%. Offsetting this good news was the fact that the economy just grew at 0.2% to end June and that inflation remains the target of 2%. Earlier in the month, another stimulus package was announced of $276bn. It includes spending on infrastructure projects and reconstruction of regions affected by the earthquake in 2011.

Emerging Markets

Year to date, the Emerging Markets have risen nearly 30%, outpacing Developed Markets. One of the leading Emerging Markets, Brazil, has just hosted the Olympics and is currently staging the Paralympics. Since the beginning of 2016, the mood towards Emerging Markets has significantly changed. From being the dull laggard, performance is now up sharply, and EM funds are enjoying strong inflows. China, which is perhaps the mainstay of the sector, saw its factory activity expand at the fastest pace for nearly two years. And Brazil is again hitting the headlines, with the impeachment hearing of its President, Dilma Rousseff, and her subsequent removal from office.

Europe

Similar to the UK, there appear to be, at the moment, no serious effects from the June Brexit vote. Eurozone economic activity was as its highest level for seven months in August. The Purchasing Managers survey (PMI) is an indicator of activity in both manufacturing and services. A PMI score of over 50 indicates growth of economic activity, whilst below 50 indicates the economy is contracting. The August score in Europe was 53.3, up from 53.2 in July. However, inflation remains weak at just 0.2%.

All figures sourced from FE Analytics and in sterling.

CAERUS Sentiment Indicator