

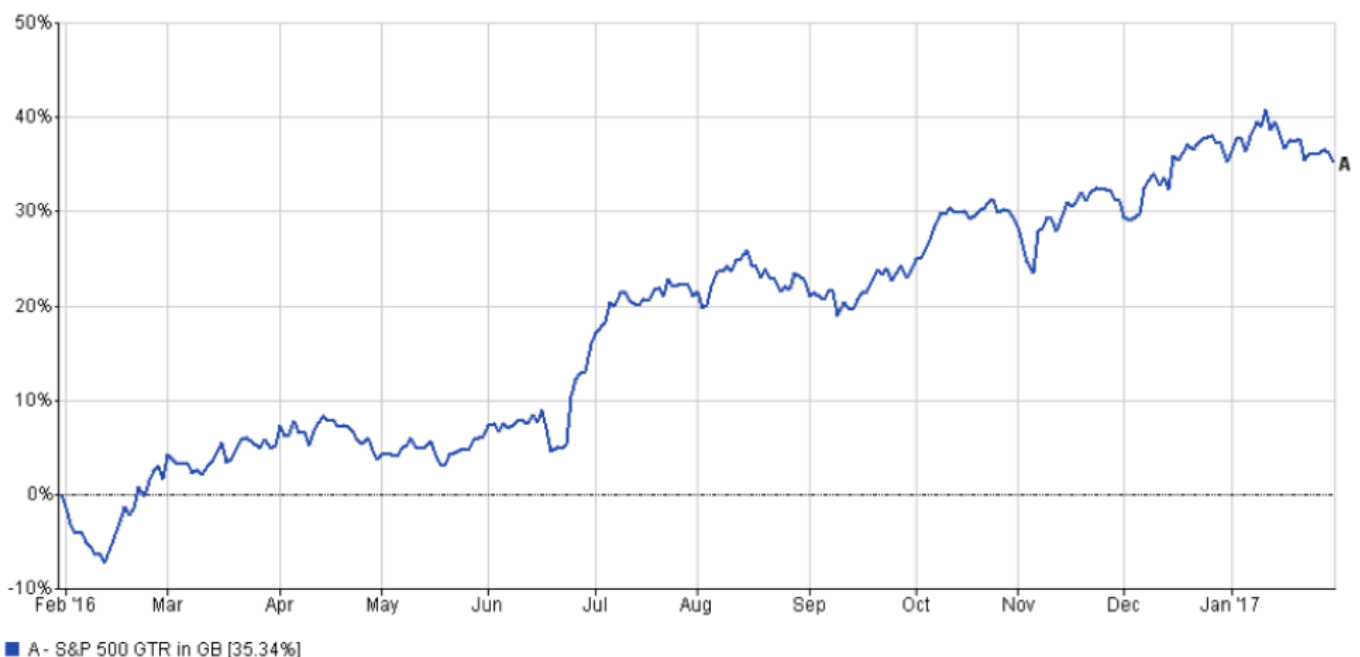


CAERUS Market Commentary – January 2017

Market overview

A modest start to the year, with a rise of 1.47% for the FTSE World Index. However, there were good performances from Emerging Markets (up 3.65% in sterling terms) and Japan up 2.8%. Modest rises were recorded for the United States and Europe at 0.87% and 0.74% respectively, whilst the UK actually suffered from a small fall of 0.17%.

Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



29/01/2016 - 31/01/2017 Data from FE 2017

The chart, above, is the trade-weighted value of the US dollar. It may be the most important factor in determining returns in the year ahead, as explained below.

United States

The Dow Jones of 30 leading US companies has made 19 new highs since the Presidential election. 'Animal spirits' have been revived with the election of Trump, as the markets anticipate an expansionist programme of infrastructure spending, less regulation, tax cuts and reduced health costs for smaller companies. Whether all this will be achieved and by when is a moot point. Watch out for interest rate rises from the Federal Reserve, up to four are expected this year, as inflation is expected to rise as a consequence of the mentioned policies. It may be a bumpy ride this year.

United Kingdom

The UK economy continues to grow, with GDP up 0.6% in the final quarter of 2016. It appears that the consumer continued to spend and even business confidence turned positive. However, in 2017 the effects of a weaker pound will begin to feed through

to inflation, with forecasts predicting a figure above 2%, and some commentators even expecting 4%. How a rise will affect the behaviour of both companies and the consumer remains to be seen. On the UK leaving Europe, it appears the government position will be to leave the single market, the so-called 'hard Brexit' option. At the moment, before the triggering of Article 50 most likely in March, it is speculation as to how both the EU and the UK will approach the negotiations and the eventual deal to be struck.

Europe

Europe starts the New Year with improved sentiment, with consumer inflation expectations rising. This is important for Europe, as much of the last few years have been trying to avoid deflation. It will also be pleasing to the European Central Bank, which has spent billions buying government bonds to inject monies into the banking system to encourage lending. Of particular note was the growth in Spain of 3.2% in 2016. However, the region is facing some headwinds with three elections in the coming year in the Netherlands, France and Germany.



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Japan

With interest rises in the United States strengthening the dollar against the yen, a weak yen should boost Japanese exports and thus the earnings of those companies. However, with the abandonment of the Trans-Pacific Partnership (TPP) by the new Trump presidency, Japan may have to forge new trade deals.

Emerging Markets

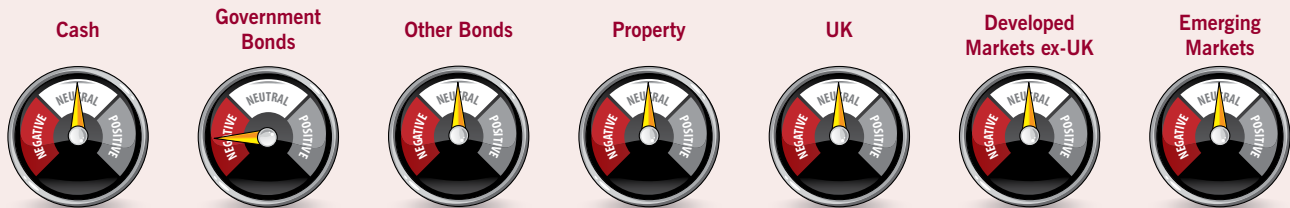
After a good year in 2016, Emerging Markets may face challenges. If, as expected, the dollar continues to strengthen with interest rates rises in the US, then Emerging Markets may struggle. As commodities are priced in dollars, their value will go down if the former rises in value. Another headwind may be the imposition of tariffs by the US. An example would be Mexico and a potential border tax. However, it is not all bad news. If US economy does grow, that is good for growth within Emerging Markets.

Asia Pacific

The abandonment of the TPP by the United States is a blow to the Asia Pacific region. Twelve countries signed up to the TPP in early 2016. The objective was to boost economic growth, by reducing tariffs between the members, and create a single market. Not only did the TPP include Japan but also Malaysia, Singapore, Australia, New Zealand and some countries in Latin America.

**All performance data quoted in this article is derived from FE Analytics*

CAERUS Sentiment Indicator



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