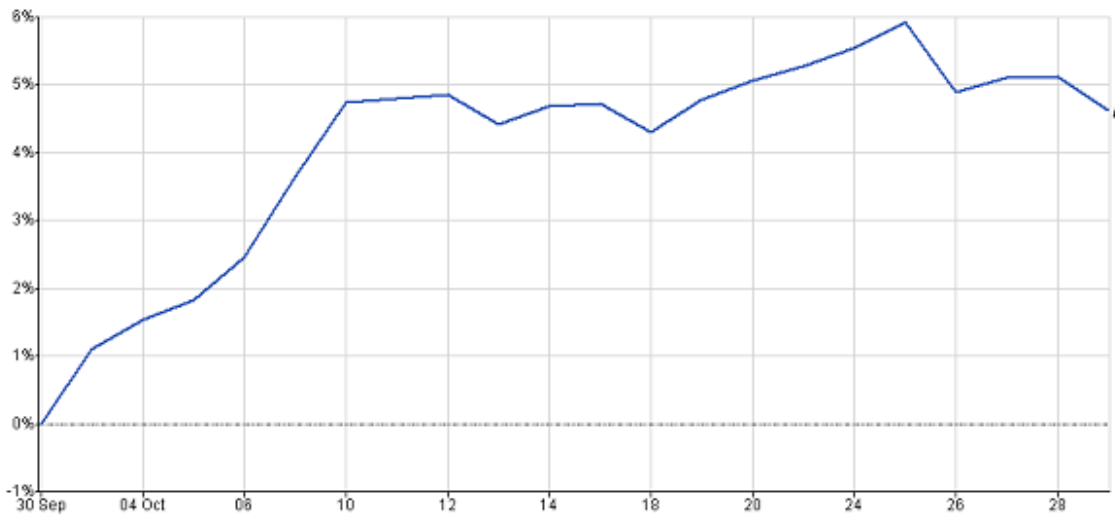




CAERUS Market Commentary – October 2016

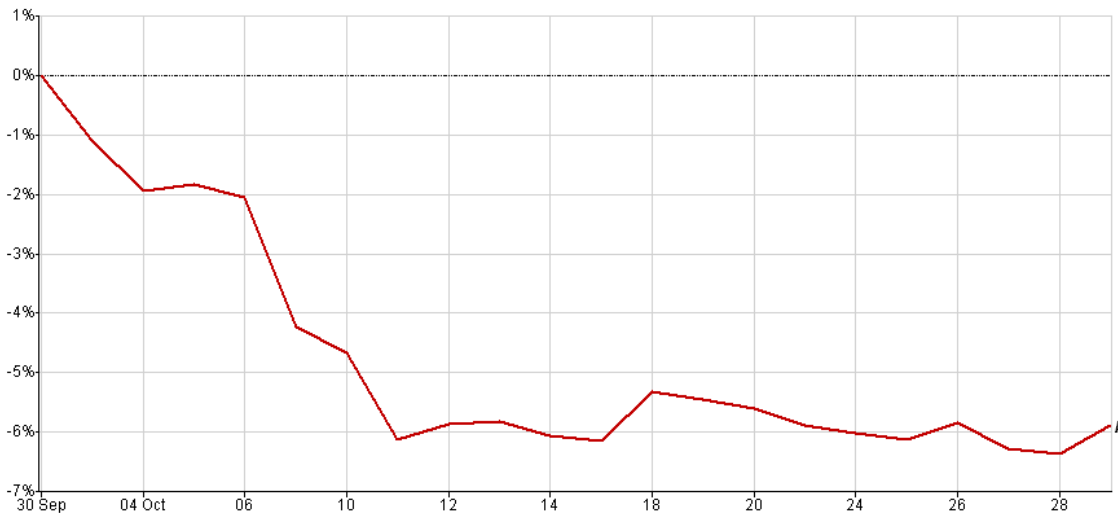
Market overview

The FTSE World returned a little under 5% during the month of October. However, as has become a regular occurrence since the UK's decision to leave the EU, currency devaluation was the primary driver of returns for UK Investors. Versus the US Dollar, Sterling lost around 6% during the past month – essentially all in the first 10 days – amid worries of a 'hard Brexit'.



■ A - FTSE World GTR in GB [4.63%]

30/09/2016 - 31/10/2016 Data from FE 2016



■ A - Pounds Sterling in US [-5.89%]

30/09/2016 - 31/10/2016 Data from FE 2016

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United Kingdom

In what is likely to be a long running saga, discussions around the conditions of the UK's exit from the EU continue; with a 'hard' exit outcome beginning to take centre stage. Are concerns over Theresa May's negotiations beginning to impact the Bond prices as well as currency? Gilt yields have climbed steeply during the month, with the 10 year Gilt yield now at around 1.25%. Whether sentiment for the asset class has officially changed or not is a question Investors continue to deliberate over. While the FTSE 100 continues to benefit from the depreciation in Sterling (up 13.72% for the month), domestic companies are feeling the ill-sentiment directed at a potentially isolated economy. The net effect for the FTSE All Share during October was a modest gain of 0.56%.

United States

Brexit was a lesson to many about the perils of trying to predict politics.

At the time of compiling this Commentary, we wondered if there would be a final twist in the US Presidential race. Right up to the election, a Clinton win had seemed a certainty, following the last in a fairly long line of Trump misdemeanours that had come to light, but the reopening of FBI enquiries appeared to increase the chances of an upset.

The FTSE USA fell around 2% in Dollar terms during October. It will be interesting to monitor market reaction to the election result over the coming weeks, and how it might impact the much anticipated December rate rise from the FED.

One thing is now certain, Mr Trump is in.

Europe

Draghi confirmed that the ECB's bond buying programme is unlikely to stop anytime soon, although without providing the further clarity many had hoped for. It appears QE will run beyond the March 2017 end date;

tapered or not. Given Eurozone interest rates are at -0.4% and inflation is still a long way short of the 2% target, an end to QE is hard to imagine in the near future.

European markets returned 3.7% for Investors during October on the back of some generally positive economic data, while the Euro fell 2.39% against the Dollar.

Japan

Following the previous month's announcement of the new yield curve control strategy, Japan returned 8% through October (5.33% in local currency). Headline inflation remains unchanged with a year-on-year drop of 0.5%. Even taking out more volatile energy and food prices – a measure known as "core core" inflation – only brings the figure up to zero, still a long way off the 2% target.

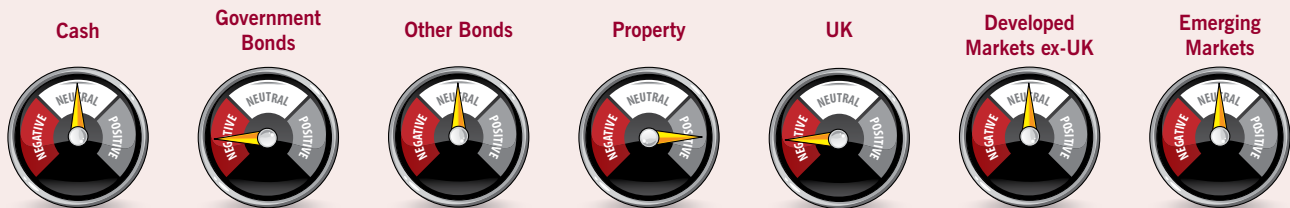
The Bank of Japan may, however, look at the improving unemployment rate as a sign of policy success. Whether this can feed through and stimulate the stagnant economy remains to be seen.

Emerging Markets

October was another strong month for Emerging Markets, up 7.85%. The result of the US presidential election is important for this asset class, as is the speed of potential monetary policy tightening by the FED. While the Trump Presidency may reduce the odds of a rate hike, his protectionist agenda is sure to be seen as a big headwind given the current exposure to US trade.

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

CAERUS Sentiment Indicator



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