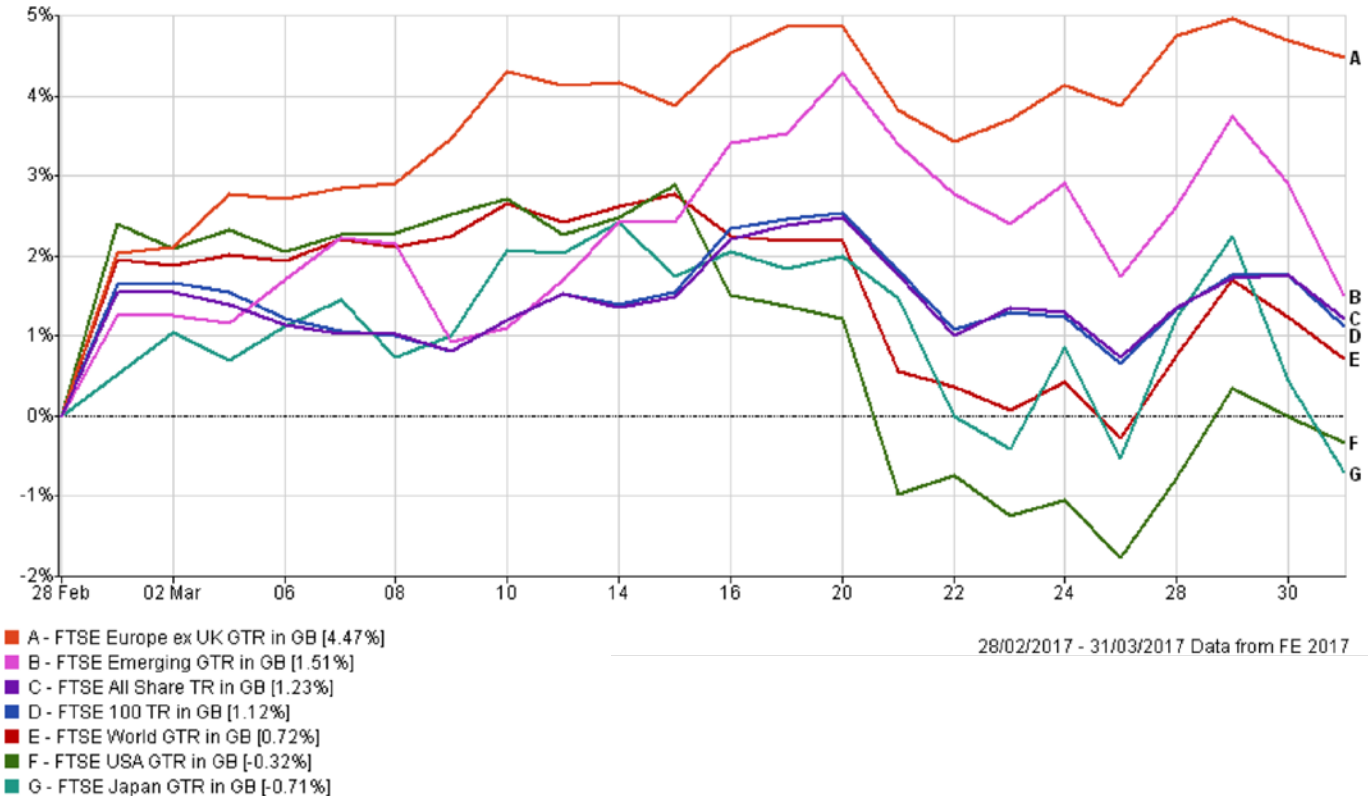
CAERUS
Portfolio Management

CAERUS Market Commentary – March 2017

Market overview

Markets were relatively hushed across March, responding to political noise and often forgetting market fundamentals. We are all firmly tuned into the Trump saga, no matter your opinion of the man, and markets are responding as the pantomime unfolds. The confidence of growth and inflation embedded by policy promises is being questioned and this will continue to adjust top line macros the world over, feeding into every asset class, such is the impact of the US in today's climate.



Indices

Index	March Return
FTSE World Index	0.72%
FTSE USA TR GBP	-0.32%
FTSE Europe ex-UK TR GBP	4.47%
FTSE Japan TR GBP	-0.71%
FTSE 100	1.12%
FTSE all share	1.23%
FTSE EM	1.51%
FE UK property Proxy TR in GB	0.73%

Past performance is not an indication of future returns. The value of Investments and any income from them is not guaranteed and can go down as well as up.*

United States

US stock markets finished marginally down for the month. Having continued their upward march at the outset to the month, to the sound of the Trump drum, they were put into a hasty retreat as confidence waned over the ability of the administration to deliver on promises. In particular, the failure to get a replacement health bill past the Republicans, let alone in front of the Senate, highlighted two points to market participants. First, that amendments to key policies were not as easy as sending a tweet and, if Obamacare couldn't be reversed, then other more significant policy change may also be delayed or not realised at all. Secondly, without the funding cuts created from scrapping Obamacare, there is not enough budget to implement the tax cuts markets have been frothing at the mouth over. On the data front, strong results continued out of the world's largest economy, with improving

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jobs data, and the ISM's, the PMI's and consumer's confidence. In between all this the FED raised interest rates by 0.25%. This was less of an event, given markets had been fully pricing in this rise over the preceding weeks. What it does show is how much relevance the FED and markets pay to the commentary and guidance given by central bankers.

United Kingdom

The most significant event this month for the UK was the delivery of article 50. By now, markets are further down the road in re-evaluating the speed of the negative impact of the divorce from our largest trading partner. Consequently, both the FTSE 100 and the FTSE 250 finished flat on the month. There are still obstacles and hurdles to overcome, but this will need evaluation on a sector by sector and company by company basis. A current example that cropped up last month was the plight of the low cost regional airlines such as EasyJet and Ryanair who will likely need to relocate some headquarters to Europe to continue Europe-to-Europe routes. What we did see was a rise and fall in gilt yields, similar to that seen in the US, as confidence of inflation and global rate rises was checked.

Europe

Europe successfully negotiated the first of its election hot potatoes with the avoidance of the far right Dutch party run by Wilders – although far-right populism remained strong – picking up more seats than previously held. Over to France, next, and the National Front party, headed by Marine Le Pen, who have been gaining in the polls. Rightly or wrongly, markets have been fairly sanguine to the risk, (ignoring their mistakes over Brexit and Trump). Europe continued to rise, driven by improving data points out of its weaker nations such as Italy and Spain. Across the month, we saw improving employment prospects, increasing inflation and positive manufacturing PMIs. The only real disappointment came out of Germany with poor factory orders and retail sales results.

Japan

Poor retail sales figures followed up by falling CPI and household spending data pushed an otherwise benign month for Japanese equities into the red, across the final few days. From a fixed income perspective, the central bank commitment to a zero rate cap on the 10yr JGB government bond continued to hold the yield curve steady.

Emerging Markets

Emerging Market equities performed well in March, flying in the face of the US rate rise that occurred half way through. Despite worry over the impact from a rising US rate environment, there is cause for optimism. Emerging Market balance sheets look far stronger, both centrally and at the company level. Further, with rate rises likely driven by strong US growth, there will be an underlying tail wind to the exporters from the asset class. March served to strengthen this thesis but there are plenty of bumps to come, not least from the visit of President Xi to Florida to listen to Trump's views on trade. The tweets surrounding punitive tariffs could escalate to a trade war which would undoubtedly cause volatility just as the Emerging Equity Markets are gaining a foothold in recovery. Further tension surrounding North Korea could add more volatility into the mix, but companies still remain well priced.

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

CAERUS Sentiment Indicator