30 January 2017

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

President Trump's commits towards campaign promises through initial executive orders

KEY MESSAGES:

Executive orders of President Trump grabbed the markets attention throughout the week with the major highlight being memoranda reviving construction of the Keystone XL and Dakota Access pipelines and withdrawing from Nafta. USD is again down this week. US Equities showed positive performance and the 10-year Treasury yield fell below 2.5 %. Oil traded around $52 a barrel, Gold headed for its longest slump in 3 months closing at $1,189.60 an ounce.

The UK's Supreme Court ruled that Parliament's permission is necessary to trigger Article 50. Positive UK GDP results and Theresa May visited the White House as she aimed to forge a new commercial relationship with the US.

Market developments during the week

Executive orders from President Trump drew investors' attention this week as he completed his first week in office. Markets remained susceptible to policy announcements. The executive orders issued so far include a memorandum directing the US trade representative to withdraw from the Trans-Pacific Partnership; memoranda reviving construction of the Keystone XL and Dakota Access pipelines; an executive order cutting federal funds to "sanctuary cities" that decline to enforce certain US immigration laws; and a memorandum ordering "expedited reviews of and approvals for" new and expanded manufacturing facilities.

The signing of an executive order approving the Keystone XL and Dakota Access pipelines was applauded by markets and a rally in US equities ensued, helped in part by strong earnings, which pushed the Dow Jones Industrial Average above the coveted 20,000 mark by mid-week.

However, the withdrawal from Nafta, a 23-year-old trade agreement involving US, Canada and Mexico escalated concerns of a trade war. After several tweets from Trump saying that Mexico should pay for the construction of a border wall or not bother attending a planned meeting next week, Nieto cancelled the meeting. Several hours later White House spokesman Sean Spicer said that wall would be financed by a 20% import tax on Mexico, a move that most economists would describe as forcing US consumers to pay for the wall. Following criticism along these lines, deputy White House spokesperson Sarah Sanders said the import tax was "just an idea, nothing firm has been decided". While the Mexican leader has expressed a willingness to negotiate portions of the agreement, he has remained steadfast in refusing Trump's demands that his country foot the bill for a border wall. Automakers would be the hardest hit, as Ford Motor Co., General Motors Co. and Fiat Chrysler Automobiles NV have assembly plants in Mexico. Several foreign automakers also have Mexican factories that export vehicles to the US, including Honda Motor Co. Ltd., Volkswagen AG and Mazda Motor Corp. Other American companies that benefit from Nafta include Whirlpool Corp. and General Electric Co.

A day after a rift between the US and Mexico opened over the US leader's plan for a border wall and his insistence that Mexico pay for it, Trump said Friday he and Pena Nieto "had a very good talk" and blamed past US leadership for negotiating trade agreements that give other countries an advantage. It's more likely Trump is using the threat of withdrawal as a ploy to make Mexico and Canada give up more in a Nafta renegotiation. Canadian Prime Minister Justin Trudeau signaled that he's willing to renegotiate.

Also, President Donald Trump is willing to consider removing US sanctions against Russia when he has his first official discussion with Vladimir Putin on Saturday.

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The first talks between the two leaders since Trump's inauguration are stirring unease in Europe over the future of sanctions imposed by the US and the European Union after Russia's 2014 annexation of Crimea and its support of separatists fighting in eastern Ukraine. Trump also is due to speak on Saturday with the leaders of France and Germany, which back the sanctions. UK's Theresa May firmly endorsed continuing a sanctions regime that the US has imposed jointly with European leaders.

Domestic data took a backseat this week. It was reported that the US GDP rose at a slightly slower pace than forecast. It rose at a 1.9 % annualized rate following the prior quarter's 3.5 % gain that was the largest increase in two years. Business investment picked up, which may be a harbinger for faster expansion in 2017.

Consumer confidence also rose in January to a 13-year high, reflecting ongoing optimism about post-election fiscal policies and their impact on economic growth. The University of Michigan said Friday that its final index of sentiment increased to 98.5 from 98.2 in December. The strong job market and optimism among consumers and companies for President Donald Trump's policies are likely to keep growth humming along in 2017, though tensions over trade could temper any gains.

US existing home sales fell by 2.8% to 5.49 million annualized in December, a pace slightly below the estimated 5.52 million level. The pullback, was largely anticipated as buyers rushed to lock in rates before they climbed any further, and in doing so, brought demand forward at the expense of future sales. Furthermore, initial jobless claims also disappointed, rising by 9k more than what was expected to 259k in the week ended Jan. 21, and new home sales tumbled 10.4% in December.

Equities

The S&P 500 Index pared its weekly gain. The measure has gained 1 % in the week and closed Wednesday at a record.

The Stoxx Europe 600 fell 0.4 % following three days of gains that left it still on course for a weekly rise of 0.9 %. Banking stocks retreat as UBS reports drop in margins.

Emerging-market stocks and currencies pared their weekly gains as the USD's strength and heightened political risk from Turkey to Brazil reduced the demand for riskier assets. MSCI Emerging Markets Index weakened 0.4 %, paring its gain in the week to 2.2 %.

Bonds

Ten-year Treasury yields fell below 2.50%. However, this week saw hedge funds and institutional investors taking opposite sides of the Treasury market. Speculators upped their bearish bets, with leveraged funds' short positions on five-year notes exceeding longs by a record 1.1 million contracts, data compiled by the US Commodity Futures Trading Commission show. Institutional investors, on the other hand, boosted their long positions in the same notes to an all-time high in January.

Japanese 10-year yields fell one basis point to 0.07 %. The BOJ boosted the amount of 5 to 10 year bonds it buys in its outright purchase operations, underscoring a commitment to keep its yield-curve target.

Greek bonds slumped on Friday as a meeting of euro-area finance ministers in Brussels Thursday ended with few indications of how Greece and its creditors will agree further government belt-tightening and German Finance Minister said "time is running out" for Athens to get more aid. The yield on 10-year notes was headed for the biggest increase since Dec. 15.

Currencies

USD slid against all its Group of 10 peers after the Trump administration vowed in its revamped website to withdraw from the Trans-Pacific Partnership and renegotiate the North American Free Trade Agreement. It slid as much as 1% versus the yen. The USD measure is down 0.4% for the week in its longest slump since February.

The pound fell 0.5%, paring a 1.3% weekly gain. The yen slid 0.5% as Japan's central bank stepped in to buy debt. The euro was little changed.

The peso climbed 0.3% after earlier falling as much as 0.5%. The Mexican peso strengthened even as souring relations with the US pushed the countries closer to a trade war.

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The Turkish lira fell 1% and is down 3.2% for the week. Turkey's lira fell for a seventh week, the longest streak since September 2015, as President Recep Tayyip Erdogan was cited saying that higher interest rates would hurt the currency and the economy.

Commodities

West Texas Intermediate crude fell 1.7% to $52.90 a barrel after surging 2% Thursday on optimism that OPEC and other oil-producing nations would adhere to their pledged output cuts.

The two biggest OPEC suppliers of crude to the US said that despite Trump's stated commitment to achieve energy independence, the US will still need to import oil. US refineries rely on imports for about half the roughly 17 million barrels that they process daily. Saudi Arabia and Venezuela lead the pack of OPEC suppliers to the US. They account for more than half of US imports from the 13-nation group. President Trump's goal may not be completely unobtainable as US oil production has been on the rise and signs point toward possible energy independence years from now. To achieve that, though, the country may need to reconsider a push for exports that was supported by Republicans. Since scrapping restriction on sales to countries other than Canada at the end of 2015, US crude exports have risen to more than 700,000 barrels a day. At current consumption levels, total independence from imports would require almost doubling domestic production.

Gold headed for its longest slump in three months. It fell as much as 0.2 % to $1,189.60 an ounce, the lowest price in more than two weeks.

Palladium is down 8.3% this week at $723.33 an ounce, heading for the biggest weekly decline in a year.

Major economies:

Euroarea

German business sentiment unexpectedly slipped to 109.8 in January, per Munich-based Ifo institute's business climate index. It slipped from its highest level in almost three years in a sign that momentum in Europe's largest economy may have weakened at the start of the year amid political concerns. Confidence in France, one of Germany's biggest trading partners, also missed forecasts, with a gauge published by the national statistics office down 1 point to 104.

A Purchasing Managers' Index signaled quarterly growth of 0.4%, with broad-based expansion in both manufacturing and services. Although composite PMI for the euro area slipped slightly to 54.3 in January, IHS Markit said economic momentum in the single-currency area remains robust. Inflation pressures are starting to build, per the report, but are being driven by commodity price rises and import costs due to the weakening euro. Economic prospects in France, which is facing a presidential election this year, also look positive, with the composite PMI rising to 53.8, the highest since June 2011. In January, private-sector employment rose for a third month, with manufacturers reporting the strongest rate of increase. Companies maintained a positive outlook toward activity over the next year, as orders gained for a seventh month.

Spain's unemployment rate dropped to 18.6%, consistent with the slow but steady upwards trend in the domestic and regional jobs markets.

The near-absence of underlying price growth is a concern for the European Central Bank, which hasn't met its inflation mandate in almost four years. Policy makers are relying on record-low interest rates and a 2.28 trillion-euro ($2.5 trillion) asset-purchase plan to fuel inflation, especially as euro-skeptic parties gain ground ahead of elections in some of the region's largest economies.

China

China's central bank has ordered the nation's lenders to strictly control new loans in the first quarter of the year, people familiar with the matter said, in another move to curb excess leverage in the financial system. The new guidance from the People's Bank of China puts an emphasis on mortgage lending, as authorities grapple to contain runaway property prices.

In another sign of the effort to curb risks, the PBOC on Tuesday unexpectedly increased the interest rates on medium-

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term loans that it uses to manage liquidity. Earlier, the central bank said it will include wealth-management products held off bank balance sheets in its macro prudential assessment framework for gauging risk to the financial system starting in the first quarter.

UK

As Trump seeks to redraw the trade map, the first of the world leaders to visit the White House was Theresa May, as she seeks to lay the groundwork for a commercial deal. The relationship with the world's biggest economy is an important plank in Britain's post-Brexit future. The prime minister said she believed she could work with the president to forge a new commercial relationship despite his protectionist rhetoric.

The British economy grew by 0.6% in the fourth quarter of 2016, more than economists had been expecting. The growth was driven entirely by services, with zero support from construction and production, in a continuation of the recent trend of a lopsided expansion. The fourth-quarter GDP estimate showed that services jumped 0.8%, adding 0.6 percentage point to GDP and offsetting stagnation in industrial production. Bank of England of England Governor Mark Carney has warned of pressure from inflation and weaker business spending. Carney said last week that consumption-led growth "tends to be both slower and less durable" as it eventually overtakes earnings.

British manufacturers are enjoying their strongest orders in nearly two years but their costs are rising sharply following last year's Brexit vote which pushed down the value of sterling, a survey showed on Wednesday. In the latest sign of how Britain's economy has so far withstood the shock of June's vote to leave the European Union, the Confederation of British Industry's monthly industrial orders balance rose to +5 in January from zero in December. The latest retail sales data shows a slowdown in spending, and inflation is only just beginning to bite. Businesses now also have a clearer picture of the path of Brexit, so investment behaviour is likely to change in 2017. However, corporate concerns about the challenges of the UK leaving the European Union have not been eased much by the strong performance of the economy. Businesses from airline EasyJet Plc to telecommunications firm BT Group Plc cited Brexit-linked problems such as a weaker pound and loss of business as they offered investors a forbidding outlook for this year.

The British Supreme Court ruled that UK Prime Minister Theresa May must seek the permission of parliament to trigger Article 50 of the Lisbon Treaty to start the country's exit from the European Union. The 11 judge court said, however, that the devolved administrations in Wales, Scotland and Northern Ireland would not need to be consulted on the decision to trigger Brexit talks. Prime Minister Theresa May was also forced to back down again on Brexit as she agreed to publish a so-called white paper on her negotiating plan. May pledged to formally release her strategy for the negotiations.

With the current heightened political risks and the rising optimism in global growth, the economic climate remains favorable for risk assets, especially equities versus poor-returning government bonds.

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Please see FTIM Safety First portfolio performance on the next page

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Frenkel Topping Investment Management's ("FTIM's") Safety First performance

	2016		Since launch (29 Apr – 31 Dec 2016)	
	Performance	FTIM Volatility*	Performance	FTIM Volatility*
	FTIM Safety First 1 is currently a cash product with returns in line with base rate			
FTIM Safety First 2	1.53%	1.42%	1.07%	1.26%
FTIM Safety First 3	3.26%	1.91%	2.33%	1.70%
FTIM Safety First 4	4.38%	2.93%	3.13%	1.98%
FTIM Safety First 5	5.63%	3.23%	3.68%	2.68%
FTIM Safety First 6	10.10%	5.04%	7.53%	4.87%

Date: 31 December 2016
Source: FTIM / FE Analytics
Safety First Portfolio strategies were launched on 29/04/16. From 31.12.16 performance is being reported on a quarterly basis starting 31st March 2017. All figures are on a bid - bid, total return basis and are quoted net of underlying fund charges, our DFM fee of 0.6% including VAT and a platform fee of 0.2%. Advice charges would depend on the charges made by your independent financial adviser. The deduction of these charges would reduce the performance shown.
Actual Past Performance Data is from 29/4/16 only as the models only launched on this date and therefore 5-year performance data is not available and 12-month performance figures are not able to be shown. Pre - launch performance from 4/1/16 – 29/4/16 is Simulated Past Performance.
The figures represent performance of a model portfolio; individual account performance may differ if your account does not follow the model.
Past performance is not a reliable indicator of future performance. Investment values can go down as well as up and may be affected by exchange rate variations.

*Volatility is a measure of the movement in the price of an asset around its average return. The higher the volatility the more risk involved in the investment.

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