14 April 2017

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Rising tensions with North Korea

KEY MESSAGES:

Geo political concerns rose, with President Trump said to have offered to ease friction over US-China trade in exchange for help dealing with North Korea. US dropped a non-nuclear bomb in combat on ISIS positions in Afghanistan. US Russia relations continued to worsen on Syria attack issues.

The French election concern reignited less than two weeks before the vote, with increased odds of victory of an anti-EU candidate.

Risk off sentiment continued, with global equities falling, Treasury prices surging and safe havens seeing a rally. Gold advanced 2.5% this week to $1,286.25 an ounce. WTI crude rose 1.8% closing $53.18 per barrel.

Market developments during the week

The risk off sentiment continued this week as global equity markets entered a key period, with the earnings season ramping up against a backdrop of mounting geopolitical tensions around Syria and North Korea, as well as elections in Europe. Trump's struggle to push through his fiscal agenda and the debate over the pace of monetary policy adjustment in the world's biggest economy also cloud the picture.

This week further intensified the geo political angst that spurred last week, with the authorization of missile strikes against Syria for a chemical weapons attack on civilians. US Russia relations, soured by Russian hacking and deepening differences over Syria were further stressed. President Donald Trump stated he thinks it's "unlikely" Russia had no advance knowledge of Syrian President Bashar al-Assad's chemical weapons attack on civilians last week. Russia, this week, vetoed a UN Security Council resolution demanding that Bashar al-Assad's government cooperate with an investigation into the deadly toxic gas attack in northern Syria that the US and allies blame on the regime. The UN vote came shortly after US Secretary of State Rex Tillerson met in Moscow with Russian President, Vladimir Putin, and Foreign Secretary, Sergei Lavrov, on Syria and other issues dividing their countries.

The US this week dropped the largest non-nuclear bomb it's ever used in combat on Islamic State positions in Afghanistan Thursday night, which killed at least 36 militants, a move the Trump administration said was aimed at denying the group's freedom of movement.

Last weekend's Trump/Xi summit was also highly looked upon by investors to gauge the progress of US China relations. President Donald Trump added public pressure to his efforts to encourage China to rein in North Korea, saying Tuesday that he told Chinese President, Xi Jinping, that such action will help improve the conditions of a trade deal with the US. China is North Korea's most important trading partner, giving Xi's government leverage over its isolated neighbour. The protest against North Korea intensified, as President Trump sent North Korea another fresh warning, calling it a problem country that will be taken care of. In response to this, a North Korean official stated it 'will go to war' if US provokes. It also coincides with rising concern that North Korea may conduct another nuclear test or missile launch.

President Trump appeared to have toned down his aggressive opinion on China, with dropping of campaign promise to label China a currency manipulator. Bond yields and the USD fell after his interview with WSJ, where he appeared to acknowledge that China hasn't been intervening to weaken its currency recently. The remarks are seen as reducing the risk that China could dump its holding of Treasuries in retaliation for being tagged a currency manipulator. China's currency traded outside of the country gained the most since last month, and rose further on Thursday after the PBOC strengthened its

currency fixing by the most in almost three months. The Treasury is expected this month to release its first report on foreign-currency practices under Trump, which is the formal channel to impose a manipulator designation that would lead to negotiations and penalties. The department is required by law to report to Congress twice a year on whether America's major trading partners are gaming their currencies. Treasury's last currency report, in October, included China and five other nations on a watch list of countries at risk of engaging in unfair foreign-exchange practices, but it didn't name any country a manipulator, a step the US hasn't taken since 1994.

Condemning the growing protectionist wave initiated by the Trump administration, IMF Chief Managing Director, Christine Lagarde, warned that putting up barriers to trade would be a self-inflicted wound to an improving global economy. Further warning the US against targeting the exchange-rate policies of any single nation, she stated that currency assessments must be done on a cohesive, global basis.

On the economic front, the cost of living in the US declined in March for the first time since February 2016, showing inflation is moving up only gradually, a Labor Department report showed. The consumer-price index decreased 0.3%. Excluding food and energy, the core CPI fell 0.1% from the prior month.

Retail Sales in US declined in March for a second month, hurt by fewer purchases of automobiles, Commerce Department data showed. Value of purchases fell 0.2% after February sales were revised to a 0.3% decrease.

Fewer Americans than forecast filed for unemployment benefits last week, with applications hovering just above a four-decade low, as per a Labor Department report. Jobless claims decreased by 1,000 to 234,000 (forecast was 245,000) in the week ended April 8.

Consumer confidence climbed for the sixth time in the last seven weeks. Weekly comfort measure rose to 51 in period ended April 9 from 50.2; personal finances gauge increased to 60.1 from 58.9; Sentiment about national economy rose to 49.3, the highest level since August 2001, from 47.5, as per Bloomberg Consumer Comfort Index figures.

President Trump stated a strong USD is hampering the ability of American firms to compete.

Currencies

Asian currencies jumped after the US President stated the US dollar was 'too strong'

The yen is up 2%, its biggest weekly gain in a month, closing at 108.58 per USD.

The US's decision to divert an aircraft carrier to North Asia sparked a selloff in South Korea assets and renewed concern of Chinese involvement in any regional conflict. The Kospi slipped the most in more than five weeks and the won was one of the biggest losers among major currencies as geopolitical concerns lingered. South Korea's won dropped 0.9%, after rebounding in the previous two sessions.

The ruble fell for the first time this week, while the euro was up less than 0.1% to $1.0615. The Turkish lira fell for a second day, slumping 0.4%.

The Australian dollar jumped as employment surged more than expected in March.

Equities

Global equities were dropping as markets pursued risk off moves. Trading was thin with many markets around the world closed Friday for holidays.

The S&P 500 Index lost 1.2% this week closing at 2,328.95.

Credit Suisse fear gauge jumped 46% this month, nearing a record as US stock calls wane. The higher the reading, the more expensive it is to buy protection relative to upside calls.

The Stoxx Europe 600 Index lost 0.4%.

FTSE 100 gained 0.3% this week closing at 7,327.59

Asian markets were also falling.

The Topix fell 0.6% to the lowest closing level since Nov. 22. The index dropped for a fifth straight week, the longest losing streak since December 2015.

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South Korea's Kospi index lost 0.8% for the week.

The Shanghai Composite Index slipped 0.9%, also capping a weekly decline.

Russia's Micex slumped more than 4% this week, the worst showing since mid-January. Shares in Turkey slipped 0.1%.

Bonds

The yield on 10-year Treasuries was essentially flat at 2.24% on Thursday, following three days of declines. Bond yields dropped during the week to the lowest level this year after President Donald Trump said he will not brand China a currency manipulator. Bonds also benefited from Trump's comments that he likes the Federal Reserve's low-interest-rate policy and is leaving open the possibility of re nominating Chair Janet Yellen.

UK 10-year gilts yielded 1.04% compared to 1.1% last week.

Germany's 10 year bunds yielded 0.18%, eight basis points lower compared to last week.

Commodities

West Texas Intermediate crude rose 1.8% this week closing $53.18 per barrel on Thursday. This brings the third weekly gain for crude, after IEA report disclosed market nearing balance stating production cuts have brought world markets very close to balance and should soon deplete stockpiles that rose in the first quarter. Stockpiles edged higher because of supply increases the countries made before the deal took effect on Jan 1. Stockpiles will decline by about 1.2 million barrels a day in the second quarter if the group maintains current output levels, and by 1.6 million a day if it extends the curbs into the second half, the IEA's data indicated.

As regards the supply demand angle, Libyan oil production fell by 30% dropping to 6-month low on field halt just one week after reopening from an earlier halt. The North African nation's output dropped to 490,000 barrels a day from 703,000 a day after the Sharara field shut. While Wafa oil field resumed output two weeks after closing, allowing the country to lift force majeure at pipelines connected to one of its export terminals.

Nigeria is expected to revive oil production this summer as it completes maintenance and repairs, and expects fellow OPEC members to extend output curbs in the second half of the year. With production losses due to militant attacks, Nigeria had been exempt from output cuts by the OPEC. The nation will join the OPEC measure once it has fully restored output it's lost, which could happen as early as October or November, and meanwhile expects the counterparts to extend the cuts to keep oil prices above $50 per barrel as stated by its oil minister.

US crude production is expected to rise in the months ahead as explorers added rigs for a 13th week. Rigs targeting crude rose by 11 to 683 this week, the highest level since April 2015, according to Baker Hughes Inc. data.

Gold performed strongly, as investor worries over political and economic discord drove demand for the metal as a haven. Bullion advanced 2.5% this week to $1,286.25 per ounce in Friday trading.

Iron ore dropped into bear-market territory. Spot ore with 62% content in Qingdao dropped to $68.68 by Thursday. Iron ore is in retreat after a procession of negative outlooks, with Barclays among banks saying that gains were unsustainable, along with Australia's central bank and even some mining companies. There is concern that curbs in China may hurt steel consumption, as well as forecasts that a further expansion in mine supplies from Brazil, Australia and China will undermine prices. Steel in China has also sagged. China has been tightening restrictions on its real-estate market in recent months, after prices soared, clouding the outlook for construction steel, including reinforcement bar.

Still, while prices have dropped, they remain well above levels seen 12 months ago.

Major economies:

Euroarea

Though euro remained close to last week levels, it was weak during the week versus GBP, demonstrating the extent to which political risk continues to weigh on the single currency, especially in light of the

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attempted bus bombings and upcoming French elections.

The French elections are now closer and the only sure thing is gridlock in Parliament, as the two front-runners for the voting that begins April 23, Emmanuel Macron and Marine Le Pen, head non-establishment political movements that are unlikely to get majorities in the legislative elections that follow in June. Should either become France's president, they would be forced to seek uncomfortable alliances with rivals, or risk five years of limbo. As regards the polls, first-round support for Melenchon rose by 2% to 18 %, according to a daily rolling poll released Monday by Opinionway. The Kantar survey mirrored by the Bloomberg poll composite, gives both Melenchon and Fillon about 18% and Macron and Le Pen just over 23%, putting all four candidates in a position to be among the top two after the first round of voting.

China

China's broadest measure of new credit increased more than estimated in March, amid strong growth in shadow banking. Aggregate financing stood at 2.12 trillion yuan ($308 billion), the PBOC reported. New loans slowed for a second month while the money supply increased at the most sluggish pace since July.

On the trade side, China's exports jumped 16.4%, the most in 2 years as global demand held up. Imports moderated showing a 20.3% rise after a holiday-season surge in February, leaving a trade surplus of $23.93 billion. Over the first quarter, Chinese crude imports in March surged to a record, topping the US as the world's biggest overseas buyer. Iron ore imports were near a monthly record. The surge in China's crude imports came in as domestic output sags after producers cut spending last year amid oil's crash. Shipments during March rose 11% month on month to 9.21 million barrels a day. Domestic output slid 8% in first two months of year.

Canada

Investors were looking for the Bank of Canada decision on interest rate. It held its benchmark interest rate at 0.5% and upgraded its growth outlook for this year to 2.6% (previously 2.1%). Notwithstanding the upward revision to the numbers, its language emphasized downside risks and caution on the outlook for the Canadian economy

The loonie strengthened this week as crude oil prices continued their upwards march, and March Housing Starts data showed a sharp increase surging to over 250k units (annualized). Manufacturing sales beat expectations in February, with volumes rising 0.1% to the highest level since September 2008.

With crude oil still trending upwards strongly and ongoing geopolitical tension it means that the loonie is likely to remain perfectly capable of further sharp moves.

Other major economies

Australia

Australia's central bank signaled deeper concern amid heightened risks from rising household debt and escalating property prices in Sydney and Melbourne. The Reserve Bank of Australia, in its semi-annual Financial Stability Review, said interest-only loans are rising and now account for almost a quarter of owner-occupier mortgages. It also noted about one-third of mortgage holders have either no buffer or less than one month's repayments. Under regulators' latest tightening measures, home lenders will have to restrict interest-only loans to 30% of total new residential mortgages. Lenders will also have to place strict limits on the number of interest only-loans of more than 80% of a property's value, and ensure strong scrutiny and justification of any interest-only loans of more than 90% of a home's value, the Australian Prudential Regulation Authority said.

Egypt

Egypt Inflation accelerated at slowest pace in 5 months. The annual rate reached 30.9%; monthly rate 2%. The price shock from the pound's flotation appears to be easing.

Turkey

Turkey's net foreign exchange reserves fell to $29.99 billion last week, an 11-month low. Central bank actions such as new swap auctions have been effective in

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helping to boost the currency from record lows, but they also contributed to the 21% decline in reserves from their peak this year. Lira fell, as Turks are due a vote this weekend on a proposal to reshape Turkey's democracy by abolishing the post of prime minister and handing President Recep Tayyip Erdogan sweeping executive powers. Investors are struggling to see much upside in either result. Turkish equities started the week on a world-beating tear.

On a positive note, Turkey's plan to spur lending is paying off ahead of referendum. Loan-growth accelerated as government incentives start working. Annual loan growth quickened to 21.2% at the end of March, matching levels achieved in January that marked the fastest pace in 14 months, according to the banking regulator, known as the BDDK. The acceleration comes after the government introduced incentives including state-guaranteed loans, tax cuts and looser banking provisions to help revive the nation's economy after a failed coup attempt in July.

Questions remain on whether the growth in lending can be sustained. The loan-to-deposit ratio of banks climbed to a record 124.8% at the end of February, according to the banking regulator data, which means banks either need to attract more deposits or borrow externally to find fresh funding. Banks are seeking a change in the way their liquidity-coverage ratios are calculated to free up more cash. The timing couldn't be better for President Recep Tayyip Erdogan and the government's efforts to reignite economic growth before a referendum this weekend that could give him sweeping new powers, whose administration has been grappling with a stubbornly high inflation and unemployment and high levels of corporate debt.

Singapore

Singapore left monetary policy unchanged and stated it can maintain a neutral stance for an extended period of time to help support the economy's recovery. Singapore's economy grew at its fastest pace in more than five years with fourth quarter GDP rising an annualized 12.3% driven by surge in manufacturing of 39.8% as export recovery strengthened. Singapore is benefiting from a recovery in Chinese demand. The economy is closely watched as a barometer for growth in the region and, in some areas, as a proxy for Chinese activity.

South Korea

South Korea also held its key interest rate steady as exports and inflation data indicate the economy is improving.

Saudi Arabia

Saudi Arabia recently came up with its first issue of dollar-denominated Islamic notes, six months after selling the biggest ever bond by an emerging market country. An interest rate used by Saudi banks to price loans stood at its lowest level in almost 14 months. That rate, known as Saibor, will probably fall further after the latest sukuk issue. It raised $9 Billion via the inaugural Islamic Bond. The Saudi financial system is also benefiting from a doubling in oil prices, since they hit a 12-year low in January 2016. Saudi banks' combined loans-to-deposit ratio, a key measure of liquidity, improved to 88.1% in February from 90.8% in August, according to central bank data. Bank lending grew 2.8% in 2016, the slowest pace since 2009, according to central bank data.

Still, the Saudi budget remains in the red and the deficit will probably be 7.6% of output this year as per analysts. That means government spending cuts may continue, hurting growth and reducing demand for investment funds. Loan demand in Saudi Arabia will be "subdued" this year, Moody's Investors Service said last month, while economic growth is likely to slow to 0.4% in 2017, the weakest in nine years, the International Monetary Fund forecast. But with oil firmly above $50 a barrel and the Saudi government proving it can tap international investors for enough liquidity to pay its bills, the economy appears to have some breathing space.

UK

GBP rose above $1.25 on Thursday, after President Trump said USD was getting too strong.

Inflation in the UK remained at 2.3% in March as the timing of the Easter break led

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to a drop in airfares, offsetting increases in the price of food and clothing. On the month, consumer prices rose 0.4%, the Office for National Statistics said. Airfares fell 4%, compared with a 23% jump a year earlier, when the Easter holiday fell in March.

UK labor market data showed wage growth remains far from matching the rapid increase in inflation seen in recent months. As a result, real wage growth, which is wage growth less inflation, turned negative for the first time since 2014. Consumer spending and the retail industry have been important drivers of growth over recent years, so a simultaneous weakening of these two factors could have critical implications for the UK.

The financial squeeze on Britons appears to be hitting spending power, with the British Retail Consortium reporting on Tuesday that retail sales fell the most in six years in the first quarter. It reported retail sales dropped 0.7% from a year earlier on a like-for-like basis, noting that the timing of the Easter holiday, which this year falls in April, may be distorting the numbers. Food sales declined 0.2%, their first decline since the period through August.

Real estate prices in Britain's capital are losing momentum as London's housing market is in its worst slump since the depths of the financial crisis 8 years ago, part of a broader slowdown that may continue. The Royal Institution of Chartered Surveyors said its price balance for the city fell to the lowest since February 2009 last month. It declined to minus 49, indicating that a greater %age of agents reported drops in March.

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14 April 2017

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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 Performance	2017 Performance	Volatility* 04/01/16
FTIM Safety First 2	1.53%	0.60%	2.14%
FTIM Safety First 3	3.26%	0.85%	2.46%
FTIM Safety First 4	4.38%	1.27%	3.33%
FTIM Safety First 5	5.63%	1.87%	3.64%
FTIM Safety First 6	10.10%	3.02%	5.20%

Date: 14 April 2017
Source: FTIM / FE Analytics

Safety First Portfolio strategies were launched on 29/04/16. 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.