26 May 2017

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Oil remains below $50 despite extension of cuts by OPEC

KEY MESSAGES:

Oil remained below $50 with WTI crude at $49.11, as OPEC agrees on extension of output cuts by member and non-member nations.

S&P 500 rebounded from the selloff seen last week and saw a weekly gain to 1.4% at 2,416 as Fed minutes confirmed the likelihood of a June hike. However, the yield curve flattened this week, as longer term growth prospects became murkier.

USD, euro steadied. Strong eurozone data and political uncertainty in the US remains a powerful driver for the euro. GBP tumbled 1.5% this week. Polls suggest the race is tightening with the Tory advantage over Labour falling to 5 percentage points.

Gold closed at $1,266.6 an ounce.

Market developments during the week

US assets reflected a rebound after last week's sell off as minutes from the Federal Reserve's last meeting showed officials unperturbed by recent signs of economic weakness. The Fed statement points toward a hike as soon as the meeting in mid-June, though FOMC voters added the caveat that "it would be prudent" to wait for evidence that a recent slowdown in economic activity had been transitory. The key judgement was that the current slowdown in growth in the US economy would prove transitory, and there was little evidence of serious dissent to this view. Members were similarly willing to look through the current slowdown in inflation, although further increases in rates beyond the immediate future is likely contingent upon an improvement in these figures.

Despite the upward revision to first-quarter GDP growth, with the second estimate indicating a 1.2% annualized gain on stronger consumption and investment, market reaction was relatively subdued given that the overall story is largely unchanged. Strength in consumption should leave the US economy 3.3% larger this quarter, for an average growth of 2.2% during the first half of the year. While this is far from red-hot, it nonetheless is enough to reduce slack and should enable the Fed to continue along its gradual rate hike path.

Also, the Bloomberg Consumer Comfort Index signalled optimism among US shoppers as the buying-climate gauge jumped to 46.7, highest since December 2001, from 44.8. Measure of personal finances increased to 62.1 last week from 60.6. Sentiment about national economy eased to 43.9, lowest since February, from 45.3. Overall comfort measure was 50.9 after 50.2.

Markit's Services Purchasing Managers Index rose further into positives, but its equivalent for the Manufacturing sector fell slightly, while another survey based index, the Richmond Manufacturing Index, fell sharply and New Home Sales contracted after a surge in March.

Political wrangling in Washington returned to the fore, taking the focus away from global economic growth, after the Washington Post reported that Trump asked intelligence chiefs to publicly deny any collusion between his campaign and Russia. Amid these concerns at home, President Donald Trump's first overseas trip since his inauguration got off to a successful start in Saudi Arabia, where he delivered a well-received speech on combating terrorism and witnessed the signing of $110 billion in defence deals. The trip continued with the NATO members meeting in Brussels, where the main concern was growing threat of terrorism globally. Also, a spat between UK and US intelligence services over the leaking of details of the investigation into the Manchester attack overshadowed the meeting.

Investors also weighed the impact of Trump's budget proposal. Trump seeks $3.6 trillion in cuts to reshape US

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Government, which would carve through range of federal safety-net programs Republican lawmakers have also been uneasy with Trump's proposal as the spending cuts that would mean steep reductions in food stamps, Medicaid health insurance payments and disability benefits. The budget plans face rejection by lawmakers from both parties. The White House also plans to trim the national debt by selling off half of the nation's emergency oil stockpile, part of a broad series of changes proposed by President Donald Trump to the federal government's role in energy markets. Presidential budget proposals typically undergo significant changes in Congress, but provide insight into White House priorities. The most common reaction to the austere budget released by the Trump administration on May 23 is that it can't possibly get past Congress.

An update from the Congressional Budget Office regarding the Republican health overhaul, indicated that the health-care bill passed by House Republicans would increase the number of uninsured by 23 million and make coverage costlier for those who need it most. The bill to repeal and partially replace Obamacare would also reduce the deficit by $119 billion over 10 years, CBO said. That figure is $32 billion lower than the estimated deficit reduction under an earlier version of the legislation. House Republicans passed the legislation in a 217-213 vote on May 4 without a final CBO score.

Currencies

The dollar steadied in the wake of Federal Reserve minutes showing officials unperturbed by recent signs of slower economic growth. The Bloomberg Dollar Spot Index is up 0.1% for the week.

The euro closed at $1.1166.

The pound closed at $1.28 with a weekly loss of 1.5% amid terrorist attacks and polls showing Prime Minister Theresa May losing ground to her main opponent ahead of next month's election.

China's yuan strengthened the most in four months, amid speculation that China's central bank has been intervening to support its currency. The yuan closed at 6.8621 per dollar, taking its weekly advance to 0.36%.

The yen rose 0.5% to 111.259 per dollar, after dropping 0.3% on Thursday.

Equities

S&P 500 pares weekly gain to 1.4% at 2,416 after a 6-day rally took it to all-time highs. Also, retailer results boosted confidence in the American consumers' ability to jumpstart economic growth.

With the next reporting season not starting until July, the vacuum leaves stocks with a greater susceptibility to shocks. Stocks have shown a higher tendency to retreat outside earnings season.

The Stoxx Europe 600 Index dropped 0.2%, with oil and gas producers falling 1.3%. Automakers slid 0.8%.

FTSE 100 closed at 7,551, gaining 1 % this week.

MSCI's emerging-market index added 0.2%. Asian stocks were battered by Chinese markets mid-week when Moody's Investors Service pursued a rating cut and later recovered, pushing its gain in the five days to 2%. Japan's Topix trimmed its weekly advance to 0.6%.

Bonds

The yield on 10-year Treasury notes gained one basis point this week to 2.24%. US bonds are on course for a fourth month of gains.

Benchmark German and French yields dropped three basis points with German 10-year bunds yielding 0.33%.

UK 10-year gilts yielded 1.01%.

Japan's sovereign yield curve bear-steepened after the nation's auction of 40-year bond sale met weaker-than-expected demand. The 10 year Japan bonds yielded 0.04%.

Commodities

West Texas Intermediate crude rose 0.4% to $49.11, after sinking 4.8% in the previous session. Crude is down almost 4% this week after OPEC's move to prolong supply cuts for nine months disappointed investors

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hoping for more. Though it pared back few of its losses as markets realized they ‘overreacted’ to the OPEC Deal.

OPEC and its allies extended oil production cuts for nine more months after last year’s landmark agreement failed to eliminate the global oversupply or achieve a sustained price recovery. The producer group together with Russia and other non-members agreed to prolong their accord through March. No new non-OPEC countries will be joining the pact, according a delegate. The market was unimpressed as prices tumbled more than 5 %to under $49 a barrel in New York and more than a billion barrels were traded. Nigeria and Libya will remain exempt from making cuts and Iran, which was allowed to increase production under the original accord, retains the same output target, Kuwait’s Oil Minister Issam Almarzooq said after the meeting. That deal gave the Islamic Republic room to increase output to a maximum of 3.797 million barrels a day. While stockpiles are shrinking, ministers acknowledged that the surplus built up during three years of overproduction won’t clear until at least the end of 2017.

Gold futures rose 0.85% this week to $1,266.6 an ounce, heading for the highest since April.

Metals were on a retreat this week as Moody’s Investors Service reduced its rating on China. Nickel slumped 2.6% and copper fell 0.9%. Iron ore futures declined 6.5%. China is the top user of materials.

Major economies:

Euro area

Strong eurozone data and political uncertainty in the US remained a powerful driver for the single currency. The euro-area PMI impressed as a Purchasing Managers’ Index remained at 56.8 in May with manufacturing expanding at the fastest pace in more than 6 years and a gauge for services slipped, IHS Markit said.

Data earlier on Tuesday showed that economic activity accelerated both in France and Germany. Ifo business climate index relating to business sentiment in Germany jumps to 114.6 vs estimate 113.1. Consumption, investment and trade all contributed to 1Q growth. Business confidence rose to the highest since 1991 this month. GfK German Consumer Climate, a prominent measure of consumer confidence in Germany, was released at 10.4, a slight increase compared to last month’s release, underlining the sustained strength of the German economy.

Germany’s booming economy is the single-biggest driver of a regional upswing that is adding pressure on Mario Draghi to open a debate in June about unwinding the European Central Bank’s unconventional stimulus. While ECB president Draghi acknowledged the recovery is becoming increasingly solid and broad, he also warned that price pressures remain muted. The European Central Bank is looking for data confirming that the region’s recovery is solid and broad-based as it prepares to debate how to exit its unconventional stimulus policies. While the report suggests the upswing is set to continue, input costs point to a weakening in underlying inflation in the second half. However, according to the agency, the euro-area economy is growing at a pace that would warrant a tightening of monetary policy if it wasn’t for weakening inflation.

Chancellor Angela Merkel blamed a “too weak” euro for part of Germany’s trade surplus, telling a group of students that bolstering domestic consumption was the best way to address imbalances with countries such as France. Merkel was asked how to deal with the trade imbalance between the two nations. Merkel took up Franco-German trade relations to illustrate how greater consumption at home could reduce imbalances, with more Germans buying French products as a way to bolster imports while also low oil prices and the ECB’s monetary policy. Later German Finance Minister Wolfgang Schäuble made comments echoing Angela Merkel’s criticism of the effects of loose monetary policy on the German economy.

On the Brexit front, European Union ministers finalized their Brexit negotiating position a day after the UK threatened to quit talks on its departure unless the bloc drops its demands for a divorce payment as high as €100 billion ($112 billion). Governments of the 27 remaining nations approved their mandate for the EU’s chief negotiator Michel Barnier at a two-hour meeting in Brussels. The size of Britain’s exit bill, and which types of negotiations can

begin before it is determined, has been a source of debate for weeks and will prove an early test of the ability of both sides to find common ground.

Greece saw the debt relief talks stretching to June, as euro-area finance ministers in Brussels on Monday failed to break an impasse, delaying the completion of the country's bailout review and the disbursement of fresh loans needed to repay obligations in July. The IMF has been seeking more debt relief for the country, pushing euro-area creditors to ensure the sustainability of Greece's €315 billion ($354 billion) of obligations before it participates in the program. Some nations including Germany object to a debt restructuring while also insisting that the Washington-based fund join the program to lend credibility to the bailout. Greece doesn't have a large maturity deadline until July, when about €7 billion in obligations come due, but delaying the resolution of the program review adds to months of uncertainty that have taken their toll on the Greek economy, which has slipped back into recession, and kept the country from returning to the bond market.

Canada

The Bank of Canada convened its policy meet this week and kept interest rates on hold. Subdued inflation was expected as the reason to remain on sidelines. The Central Bank's statement was, however, interpreted by many observers and market participants as a "hawkish hold". Rates remained unchanged, but the statement accompanying the decision was markedly more optimistic on the prospects of the Canadian economy, saying that adjustment to lower oil prices was "largely complete" and labour market data was "robust". The loonie strengthened on the news.

China

China was in the headlines this week with a cut in its debt rating by Moody's Investors Service and negative comments from MSCI Inc. on the nation's stock market. The rating on China's debt was cut to A1 from Aa3. Moody's cited the likelihood of a "material rise" in economy-wide debt and the burden that will place on the state's finances, while also changing the outlook to stable from negative. Moody's lowered China's credit-rating outlook to negative from stable in March 2016, citing rising debt, falling currency reserves and uncertainty over authorities' ability to carry out reforms. About a month later, S&P Global Ratings also warned that rising local debt was pressuring the nation's rating. Total outstanding credit climbed to about 260% of GDP by the end of 2016, up from 160% in 2008, according to Bloomberg Intelligence. Stocks fell as much as 1.3% and the yuan slipped on the news. Iron ore led a slump in industrial commodities following the announcement. China's finance ministry chastised Moody's for the downgraded Beijing's sovereign credit rating. The move underscores broader doubts over whether President Xi Jinping's government can simultaneously cut excessive leverage and steady growth, all with a twice a decade reshuffle of top party posts looming later this year.

However, by the end of the week, Chinese stocks erased losses spurring speculation that state-backed funds were active in the market with the Shanghai Composite Index rising 1.4% to 3,107.83 at the close. A gauge of financial companies on the CSI 300 Index jumped 3.8%, with all but two of its 66 companies gaining. The ChiNext gauge of mostly smaller companies erased a drop of as much as 1.8% to end in the black. In Hong Kong, a gauge of Chinese stocks capped the strongest finish in more than two months. Sudden gains in China's $6.6 trillion equity market often drive speculation that state-directed funds are intervening to bolster demand for shares.

Also, efforts were extended by the PBOC to undermine the impact of market forces on its currency. PBOC said to plan to add new factor to yuan fix methodology. It is considering to change the way it calculates the daily fixing, adding a "counter-cyclical factor" that may blunt the impact of big market swing.

Japan

Japan's core consumer inflation gauge rose for a fourth month in April, the longest run of gains since mid-2015, but it's far below target and weak underlying price pressures point to limited gains ahead. Consumer prices excluding fresh food increased 0.3% in April from a year earlier, the fastest pace since April 2015 (estimate 0.4%).

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Other major economies

South African political risks are starting to rise, as the top leadership of South African's ruling African National Congress will discuss removing President Jacob Zuma from his post at a meeting this weekend. The rand rallied. While the committee rejected the possibility of ousting Zuma at a meeting in November, opposition to his rule has mounted within the party's ranks following his March 31 decision to fire Pravin Gordhan as finance minister, a move that prompted S&P Global Ratings and Fitch Ratings Ltd. to downgrade the nation's sovereign credit rating to junk. President Zuma is due to step down as ANC leader in December and as president in 2019. His term has been marred by a succession of scandals, including a finding by the nation's top court that he violated his oath of office by refusing to repay taxpayer money spent on his private home. Labor unions and the South African Communist Party, which form part of the country's ruling coalition, have called for his replacement.

At a Central Bank meeting convened this week, it kept rates on hold for a seventh straight meeting keeping the repurchase rate at 7% for 14 months. Though inflation eased to within central bank's target range in April at 5.3%, the central bank warned politics and ratings downgrades could still knock the rand and scupper an improving inflation outlook. The rand strengthened 0.4% to 12.8568 per dollar on Thursday. Yields on rand-denominated government bonds due December 2026 rose one basis point to 8.51%.

UK

UK was jolted by blast that struck at end of Ariana Grande concert in Manchester killing 22 people, 59 others were injured. Islamic State claimed responsibility. The attack came just two weeks before the June 8 election and as Britain prepares to leave the European Union. Election campaigning was suspended after the attack and was allowed to resume on Friday. UK assets remained resilient after the attack. UK equities rose a third day, the pound pared its decline and gilts were steady. The tragedy is the latest in a series of attacks to traumatize Europe over the past two years and was the main concern at this week's meeting of NATO leaders in Brussels. While U.K still remains alert to further attacks rising the UK terrorism threat level from "severe" to "critical" -- the highest level -- for the first time in a decade.

Pound also fell as growth slows more than estimated. The second reading of first-quarter growth showed the economy grew slower than originally estimated, with a 0.2% expansion in the period. The report from the Office for National Statistics also showed that exports fell 1.6% and net trade knocked 1.4 percentage points off GDP, equaling a record drag. Consumer spending weakened, with household activity adding the least to the economy since 2014.

The pickup in inflation is largely due to the pound's 16% plunge since the Brexit vote in June. That's also pushing up companies' import costs, and department store Marks & Spencer Plc this week said it's a "tough trading environment." The poor performance of trade in the first quarter given sterling's depreciation reinforces the view that while it may be helping exporters' margins, there's been limited impact on the broader economic picture.

For the Bank of England, the latest GDP figures may harden the view among policy makers about maintaining support for the economy. The bank had expected GDP in the first quarter to be revised up to 0.4 per cent. Current market consensus reflects the BOE could be on hold until 2019, after the country has left the EU.

For consumers and companies, there's also a surprise election early next month, while the buildup to the Brexit negotiations has been marked by tensions that's raised questions over what type of deal Britain will be able to forge with the European Union.

As regards the June 8 election update, pound was further affected by polls tightening as traders wake up to election risk. Sterling tumbled Friday, putting it on course for its worst week this year against the dollar, as a poll showed the Conservative Party's lead over the main opposition Labour Party has narrowed to five percentage points. That came after weeks of surveys showing a bigger Tory lead had made the vote all but a foregone conclusion for the market. The tighter poll prompted a measure of expected volatility that covers the June 8 election to jump by the most since October's flash crash. Still UK stock markets have priced-in a Conservative victory on 8 June and that result might not impact the markets in any

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meaningful way. Whereas tightening poll results show the chances of a Labour victory as very low. A surprise Labour victory could see UK equities dip in the short term, creating potential buying opportunities. Bond yields would be likely to fall, and prices rise, as investors take down some of their risk positions. This would make government bonds more expensive and therefore even less attractive than currently.

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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%	0.55%	2.40%
FTIM Safety First 3	3.26%	0.79%	2.69%
FTIM Safety First 4	4.38%	1.22%	3.50%
FTIM Safety First 5	5.63%	1.63%	3.87%
FTIM Safety First 6	10.10%	2.71%	5.31%

Date: 26 May 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.

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