14 July 2017

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Safety First Portfolio Update
Cash Reinvested

KEY MESSAGES:

Oil prices have slumped into a bear market on concern that OPEC production cuts since the start of the year aren't deep enough to counter a global glut.

Bond yields are lower on the disappointment in June inflation.

U.S. stocks rose, while Treasuries fell as Janet Yellen signaled continued stimulus as the US economy sustains a steady pace of growth.

Dollar was mixed against its major peers.

The Bank of Canada saw through soft inflation figures and raised its overnight lending rate this week for the first time in 7 years.

Market developments during the week

Fedspeak took center stage this week as Fed Chair, Janet Yellen emphasised the Fed's narrative that the economy is healthy enough to withstand further rate increases and the process of balance sheet reduction is expected to begin this year.

The long-term Treasury yields and U.S. dollar were further weighed down by a soft retail spending report with sales retreating in June, falling short of expectations for a modest gain, while U.S. equities soared toward all-time highs.

Both the CPI and retail sales reports came in below consensus, adding further downside risk to the pace of Fed hikes over the next year and a half.

The consumer-price index was unchanged (forecast was for 0.1% rise) in June following a 0.1% decline the prior month. From a year earlier, prices were up 1.6% (forecast was 1.7%), the lowest reading since last October. after a 1.9% gain. Excluding food and energy, the core CPI rose 0.1% for a third straight month (forecast was 0.2%); it was up 1.7% from June 2016. Prices for core services continued to post moderate 0.2% monthly increases supported by higher prices for shelter, medical care, motor vehicle insurance, education and personal care These gains were partly offset by drops in airfares, new and used vehicles, wireless phone services.

According to the advance Census Bureau report, Retail sales unexpectedly fell 0.2% for a second month in June, signalling consumers are providing only modest support for the U.S. economy. Purchases dropped 0.2% after falling 0.1% the previous month. Sales fell in six of 13 major retail categories in June. Sales excluding car dealers and gas stations fell 0.1% after no change a month earlier. Retail control-group sales, which are used to calculate GDP and exclude the categories of food services, auto dealers, building materials outlets and gasoline stations, were down 0.1% on the month.

The Federal Reserve's tightening of monetary policy should be a boon for banks. Lenders have pushed up interest charges for borrowers: the "prime rate", has risen from 3.5 % a year ago to 4.25 %. The average rate on savings accounts has remained unchanged - a paltry 0.08 %.

Currencies

Dollar tumbles to a 10-Month Low, was lower by almost 0.7 %, its steepest drop since June as measured by the Bloomberg Dollar index. USD struggled in many places including against sterling, but did manage to regain some ground against the euro.

The pound rises to a Nine-Month High as weak inflation data in the U.S. weighed on the dollar, while traders are increasingly betting on tighter monetary policy in the U.K. Pound Sterling rallied against both EUR and USD after, senior BoE Monetary Policy Committee member, Ian McCafferty

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said that he believed the Bank should exit its QE programme earlier than the indications from current consensus.

The euro weakened on Friday, even against the US dollar which was coming under broad pressure elsewhere.

The more aggressive rhetoric from the BoC has sent the Canadian dollar rallying this year by 4 % against its US counterpart. CAD and AUD both rose to highest in more than a year. AUD reached 0.7829, its highest since April 2016.

The currencies of New Zealand and Sweden have all gained against the US dollar due to improving economic growth, even if their central banks are cautious about changing policy quite yet.

In contrast, the yen has been weakening against every other G10 currency as the Bank of Japan recommits to buying bonds and keeping the monetary spigot open. USD/JPY touched 112.27, its lowest since July 3, as Treasury yields fell, with the yield on the 10-year dropping as low as 2.28%.

Equities

European stock markets largely finished lower Friday, with bank shares taking a hit after their U.S. peers kicked off a new earnings season, but regional equities on the whole marked their best weekly performance in more than two months.

Benchmarks in Germany, France, Spain, Italy and the U.K. each closed in the red, but the Stoxx Europe 600 SXXP, +0.18% managed to finish higher by 0.2%, with commodity shares among its advancers. Friday's session ended with a drop in bank shares that pulled the Stoxx Europe 600 Banks Index down by 0.7%.

U.S. stocks held steady as investors assessed June inflation figures and earnings from Wall Street banks. The S&P 500 added 1.4 % for the best week since May. The Dow Jones Industrial Average climbed for the sixth week in seven and the Nasdaq 100 posted the best advance of 2017.

Hong Kong stocks record best week in a year as banks rally.

Bonds

The benchmark U.S. 10-year yield fell as low as 2.277 % Friday, with futures prices jumping to 126-01, after weaker-than-forecast readings on inflation and retail sales.

The bond market's main focus next week will be the European Central Bank's policy decision on the 20th July.

Commodities

Benchmark Brent crude has dropped 16 % this year and was 24 cents higher at $47.98 a barrel in London on Thursday.

Saudi Arabia pumped slightly above its oil production target last month for the first time since output curbs. Rising Opec output in focus as prices largely fail to respond to supply deal.

The US Energy Information Administration said US crude stocks fell 7.6m barrels, the biggest drop since September. US benchmark West Texas Intermediate was up slightly at $45 a barrel, but both benchmark contracts are down more than 15 % so far in 2017.

Kuwait pumped 2.72 million barrels a day in June, making it 90 % compliant with its output quota under the cuts agreement, the International Energy Agency said Thursday in a report. The Gulf country, which currently can pump up to 3.15 million barrels a day, has plans to increase capacity to 4 million by 2020 and to keep it at that level until 2030. Kuwait plans to raise this capacity to as much as 4.75 million barrels a day after 2030 as the OPEC member builds refineries in Asia to process more of its crude, the head of state-run Kuwait Petroleum International Ltd. said.

The world's biggest oil producers are starting to take electric vehicles seriously as a long-term threat. The London-based researcher expects those cars to reduce oil demand 8 million barrels by 2040, more than the current combined production of Iran and Iraq. The Organization of Petroleum Exporting Countries raised its 2040 EV fleet prediction to 266 million from the 46 million it anticipated a year ago. The International Energy Agency more than doubled its central forecast for EVs, raising its 2030 EV fleet size estimate from to 58 million from 23 million. The world's top automakers have a combined plan to sell 6 million EVs a year by 2025, rising to 8 million in 2030, according to Bloomberg New Energy Finance.

Major economies:

Euro area

German and French CPI revisions were released for June, although both monthly changes remained the same as the previous release, at 0.2% and 0.0% month on month change respectively.

China

Soy agreement is the latest China-U.S. agreement in 100-day round Contracts signed Thursday - for the import of 12.5 million tons of U.S. soybeans and 371 tons of pork and beef - another result of the renewed economic-diplomacy push started by Trump and Xi Jinping at their April meeting in Florida. China's exports to the U.S. rose 19.8 % in June, from a year earlier. Imports climbed 14.8 %, leaving the monthly trade surplus at $25.4 billion and the year-to-date figure at $117.5 billion, as per Bloomberg calculations.

The two nations have been working on "very major trade components," says Trump at a press conference in Paris. But, Trump has threatened tariffs or quotas on steel imports, which may hurt China and other nations.

China's central bank injected $53bn (Rmb360bn) into the banking system on Thursday, through its medium-term lending facility, double the Rmb180bn in such loans that matured on the same day. It is the latest sign that policymakers have eased up on a fierce deleveraging campaign that has caused turmoil among lenders in recent months.

Other economies

Emerging markets:

Emerging Market equities near technical level unseen in seven years. Investors' demand for emerging-market stocks, which had suffered a selloff over the past two weeks, is being rekindled after Yellen signaled the gradual path of rate increases amid weak inflation. The comments have helped calm fears over valuations, slowing growth in major economies such as India and political turmoil in Brazil, Turkey and South Africa. ETFs showing stronger momentum in developing markets.

India:

India is considering a proposal to lift a cap on Foreign Investment in local supermarkets

Australia:

Australia has revised down the value of its resources and energy export earnings in the financial year ended June by $9.9 billion (4.6 %) to $205 billion, due largely to falling prices for iron ore, its most valuable export. However, iron ore prices and metallurgical coal prices have declined sharply in recent weeks, with further declines forecast in the coming quarters.

The downward revision primarily reflects an earlier than expected decline in iron ore prices since the March 2017 Resources and Energy Quarterly. Export earnings for iron ore have been revised down by $7.2 billion to $65 billion. Export earnings have also been revised down for LNG by $1.0 billion, largely due to unplanned outages at LNG plants.

A downward revision to the iron ore price, metallurgical coal and copper price outlooks contributed to downward revision in resource and energy export earnings in 2017–18 by $13 billion to $202 billion, and in 2018–19 by $8.3 billion to $200 billion.

Canada:

The Bank of Canada lifted its benchmark lending rate on Wednesday for the first time since 2010, reacting to rapid job growth and buoyant property prices. The jobless rate fell to 6.5 % in June, from 6.8 % at the start of this year, and 7.2 % in January 2016, according to Statistics Canada. Concerns have also bubbled about sharp increases in property values in many areas.

The BoC decision follows the Federal Reserve, which in June increased rates for the fourth time since December 2015. Notwithstanding cautious remarks from Fed chief Yellen earlier on Wednesday, global central bankers have been taking a more hawkish tone on monetary policy.

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Malaysia:

The ringgit has declined more than 7 % against the dollar in the past 12 months, even after recovering in 2017. Exports from Indonesia to Vietnam are surging but Malaysia's shipments are growing the fastest, accelerating to a seven-year high of 33 % in May. This is boosting the economy and with domestic consumption improving, the central bank is likely to keep rates unchanged in the next six to 12 months. Central bank is forecast to hold key rate at 3% on Thursday. Malaysia's exports are equivalent to about 70 % of gross domestic product in 2016 at constant prices, according to government data. The World Bank predicts Malaysia's economy will expand at least 4.9 % annually from 2017 to 2019, from 4.2 % last year.

UK

RICS British monthly house price index dropped to +7 in June from +17 in May, its lowest since July last year (since just after Brexit vote) and below all forecasts in a Reuters poll of economists. UK election jitters played the greatest role in pushing house price rises to 11-month low.

The U.K. acknowledged for the first time on paper that it will have to pay money to the European Union as it withdraws from the bloc. In a written statement to parliament touching on a "financial settlement", the government recognised on Thursday "that the U.K. has obligations to the EU, and the EU obligations to the U.K., that will survive the UK's withdrawal — and that these need to be resolved". As negotiators prepared for a round of talks on Monday, Britain's exit liabilities — estimated by the EU to stand at up to €100bn gross — were proving one of the biggest flashpoints.

British tourism boosted by 21 % jump in foreign holidaymakers, adding to other signs that the fall in the value of the pound since last year's Brexit vote is helping the country's tourism industry. The overall number of foreign visitors to Britain rose by 9.9 % compared with a year earlier, including a nearly 2 % fall in business travellers, the ONS said on Thursday.

Repeal Bill:

After Brexit, the government published details of its "Great Repeal Bill" with the formal title of the European Union (Withdrawal) Bill. The bill aims to ensure European law will no longer apply in the UK. The government's White Paper says there is no precise figure for the number of EU rules which will be transferred into domestic law. However, there are believed to be 12,000 EU regulations (one type of EU law) in force, while Parliament has passed 7,900 statutory instruments implementing EU legislation and 186 acts which incorporate a degree of EU influence.

There are three principal elements that make up this Bill. 1. The Bill will repeal the 1972 European Communities Act, which took Britain into the EU. 2. The Bill will convert all EU law into UK law to prevent a black legal whole after Brexit. Thousands of European laws, dictats and directives will be turned into UK law before Brexit is completed in mid-2019. 3. The Bill will create the necessary powers for MPs to change these laws once Britain has left the EU, so that the UK Parliament can then "amend, repeal and improve" the laws as necessary.

The repeal bill will mean the UK is no longer bound by the European Court of Justice. However, UK courts should be able to refer to the ECJ after Brexit on matters "relating to facts that occurred before the withdrawal date".

Blocking of repeal bill:

Theresa May has found herself in charge of an uncomfortable minority Government, it will only take a minor rebellion within Tory ranks, or by the Democratic Unionist Party MPs, for the Bill's progress to be interrupted. Theresa May is facing the threat of a humiliating parliamentary defeat over Brexit after Labour has warned it could block the legislation if it doesn't feel confident rights and rules will be protected after leaving the union. Great repeal bill is rejected by Nicola Sturgeon and Carwyn Jones over concerns about human rights and Westminster 'power grab'.

However, under so-called Henry VIII clauses, which give the Government powers to change old laws that have already been passed by Parliament and they allow the Prime Minister to change existing laws without Parliament's full approval.

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Upcoming events:

The FOMC meets on the 25th and 26th July and is expected to remain on hold. Next week will also see the start of monthly housing data.

Our portfolios

As a part of our continued monitoring of market developments, we deem this as the correct time to adopt a defensive strategy and reinvest the portfolios. We have identified that global growth looks resilient, which is supported by earnings and an upward trending equity market. Further to this, inflation may have peaked for 2017 with a chance of falling in the second half of 2017 on the back of a declining oil price. However there in an increased risk of conflict with President Trump giving a very clear warning over North Korea's recent missile tests. Trump has informed China that the U.S. is prepared to act alone in pressuring the nuclear-armed government in Pyongyang. We continue to keep our Safety First funds invested in sources that meets our risk targets while monitoring the events that pose volatility risks.

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14 July 2017

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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%	0.06%	2.32%
FTIM Safety First 3	3.26%	0.29%	2.60%
FTIM Safety First 4	4.38%	0.62%	3.37%
FTIM Safety First 5	5.63%	1.07%	3.73%
FTIM Safety First 6	10.10%	2.09%	5.11%

Date: 14 July 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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