28 July 2017

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Corporate earnings dominate markets

KEY MESSAGES:

A selloff in global technology shares sent benchmark indexes tumbling amid heightened concerns about corporate earnings. The dollar halted a rebound.

As expected, the FOMC voted unanimously to leave its benchmark rate unchanged, while signalling that the balance sheet normalization process will likely begin in October.

The S&P 500 Index closed at 2,473. Declines in auto-related shares and commodity producers dragged European stocks lower.

US 10-year treasuries yielded 2.30 percent. WTI Crude closed at $49.67 a barrel. Gold was the strongest in six weeks at $1,264.57 an ounce.

Market developments during the week

The Nasdaq 100 endured an uncontrolled selloff, with Amazon leading the way lower. Broader equity gauges were spared major pain as a rally in energy helped pick up the slack; the Dow Jones Industrial Average closed at a fresh record. Economic data revealed the U.S. economy rebounded in the second quarter, however, results for the first three months of the year showed the economy had slightly more tepid growth than previously reported. Before Friday's selloff, signs of economic recovery had boosted stocks in the U.S. and globally to records. Technology shares have led the charge, with companies in the sector soaring 22 percent this year for the best performance among 11 groups in the S&P 500.

Trump administration dealt another series of blows this week. In control of Congress and the White House, Republicans suffered a major defeat in its effort to roll back Obamacare, falling one vote short. The repeal effort has seemingly collapsed before, only to be revived. President Donald Trump was quick to respond on Twitter, calling on Republicans to let Obamacare "implode, then deal." The Obamacare setback is the latest backdrop after a probe into the Trump campaign's potential collusion with Russia is drawing closer to the president himself, and Republican lawmakers have had to abandon a key plank of their tax-code overhaul. Trump administration officials and top congressional lawmakers said in a joint statement Thursday that the border-adjusted tax wouldn't be part of negotiations on tax legislation. The announcement was a victory for retailers and other import-heavy industries. But another proposal, hiking the top income-tax rate, is reportedly still under consideration.

Also this week, the US Senate gave final approval to legislation strengthening sanctions against Russia and restricted President Trump by preventing him from unilaterally lifting penalties. The measure, passed 98-2 Thursday by the Senate, has already cleared the House and now goes to the president. The bill also imposes new sanctions on Iran and North Korea. Russia retaliated to this by ousting diplomats and ordering to vacate two properties in Moscow.

One of the major economic releases include the second quarter US GDP of 2.6% confirming the slowdown at the start of 2017 was temporary. Pickups in consumer and business-equipment spending powered the economic rebound. Trade added to growth as exports rose faster than imports while inventories were slight drag. Price data in the report indicated that inflation moved away from the Federal Reserve's 2 percent goal. Excluding food and energy, the Fed's preferred price index, tied to personal spending, rose at a 0.9 percent annualized rate last quarter, matching the weakest gain since 2010. Even so, the results are unlikely to deter Fed policy makers from implementing plans to begin shrinking their $4.5 trillion balance sheet in the coming months and continuing a gradual pace of

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interest-rate increases. Fed officials said in a statement Wednesday, after their latest meeting, that they still expect inflation to stabilize around their objective “over the medium term.” The Central bank said they would begin running off balance sheet “relatively soon” and left their benchmark policy rate unchanged as they assess progress toward their inflation goal.

Another major release was the US Consumer sentiment which was reported to be at a 9-month low in July, survey data from the University of Michigan showed dropping to 93.4 from 95.1 in June. Current conditions gauge, which measures Americans’ perceptions of their personal finances, advanced to a 12-year high of 113.4 from 112.5 in the prior month. While 51 percent of consumers indicated that their finances had improved recently, households were wary about their prospects. The drop in the main gauge of sentiment shows confidence is the lowest since President Donald Trump was elected.

Also released was the US housing market data showing stability as sales of new homes were slightly less than forecast. Single-family home sales increased 0.8 percent month on month to 610k annualized pace. Americans, taking advantage of low mortgage rates and confident in a strong job market that’s providing steady wage gains, are still on the hunt for new homes.

Currencies

The Bloomberg Dollar Spot Index dipped 0.2 percent.

The euro closed at $1.1729 remaining close to same levels as last week.

The British pound gained 0.8 percent during the week closing at $1.31. GBP headed for a weekly advance even as BOE tightening odds ease due to lackluster economic data.

The Japanese yen lost 0.09 percent this week closing at 111 per dollar.

The Swiss franc was the biggest loser among its Group-of-10 peers, extending a selloff to reach the weakest level versus the euro as investors were seen selling the Swiss franc against euro on the back of the monetary policy divergence between the respective central banks. While the European Central Bank is moving toward a tightening of policy, the SNB is sticking to its dovish stance. The franc declined 3 percent this week closing at 1.1370 per euro.

Sweden’s krona gained the most versus the dollar Friday after data showed the Swedish economy grew more than expected in the second quarter, expanding 1.7 percent versus analysts’ forecast of 0.9 percent growth. Retail sales in June also beat analyst expectations.

Equities

The S&P 500 Index fell 0.08 percent to 2,473. US stocks extended declines in global equities amid disappointing earnings that have rattled technology shares. Amazon lost 4.1 percent, while Starbucks Corp. fell 6.8 percent. The selloff comes after U.S. and global stocks rallied to records amid signs of economic growth and as more than three-quarters of reporting S&P 500 companies delivered earnings that beat forecasts.

Low volatility continues with the VIX declining 16 percent in July alone, poised for its biggest monthly decline since November.

The Stoxx Europe 600 Index declined 1.1 percent, the lowest in almost 14 weeks. Declines in auto-related shares and commodity producers dragged European stocks lower as a busy earnings week drew to a close. Fund managers poured $3.3 billion in European equity funds in the week ended July 26, the largest inflows in 11 weeks, according to a Bank of America Merrill Lynch note citing EPFR Global data.

Germany’s DAX Index fell 0.6 percent over the week to 12,165. France’s CAC 40 Index sank 1.3 percent.

The U.K.’s FTSE 100 Index decreased 0.66 percent to 7,404.

The MSCI Asia Pacific Index dropped 0.6 percent, erasing its gain for the week. Tech shares in the gauge fell 1.5 percent.

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Japan's Topix index fell 0.4 percent as data on Friday showed that while household spending in Japan rose 2.3 percent, its first gain in more than a year, Japan's key price gauge was unchanged in June.

Bonds

The yield on 10-year Treasuries advanced six basis point to 2.30 percent.

Germany's 10-year yield gained four basis points to 0.55 percent, the highest in more than a week.

Britain's 10-year yield advanced four basis points to 1.22 percent.

Commodities

West Texas Intermediate crude saw fifth straight advance as signs, at least for now, point to a market that's achieving a balance between supply and demand. Both West Texas Intermediate and Brent crude surged more than 7 percent this week. Government data Wednesday showed that U.S. crude stockpiles fell to the lowest since January declining by 7.21 million barrels, while gasoline inventories shrank to the smallest this year. The nation's fuel use in June surged to the highest for that month in a decade, according to the American Petroleum Institute. Russia Energy Minister Alexander Novak said he sees the oil market rebalancing more quickly in the second half of the year. Kuwait joined the U.A.E. in promising to pump less oil after Saudi Arabia called on OPEC producers to cut more supply.

West Texas Intermediate crude for September delivery closed at $49.67 a barrel. Total volume traded was about 11 percent below the 100-day average. Brent for September settlement added $1.03 to $52.52 a barrel. The global benchmark crude traded at a premium of $2.67 to WTI.

Copper declined 0.2 percent to $2.87 a pound, the first retreat in more than a week.

Gold climbed 0.4 percent to $1,264.57 an ounce, the strongest in six weeks.

The Bloomberg Commodity Index declined 0.2 percent.

Other major economies:

Euro area

The euro-area economy recorded its fastest expansion in six years in the second quarter even as momentum eased in June due to weakening services activity. A composite Purchasing Managers' Index dropped to a five-month low of 55.7, IHS Markit reported. Manufacturing grew at its steepest pace since 2011, while a gauge for services slipped to a five-month low. Individually, French GDP saw a 0.5 percent increase in the second quarter. Net trade made the biggest contribution in more than seven years. Spain and Austria both grew at 0.9 percent over that period. Renewed momentum has prompted string of GDP revisions from the International Monetary Fund, which now sees growth of 3.1 percent for 2017 compared to a previous estimate of 2.6 percent, and the Spanish government, which forecasts growth of 3 percent instead. The latest health-check on the Spanish economy comes on the back of Thursday's second-quarter unemployment report, which saw the nation's jobless rate fall to the lowest level in eight years. Retail sales data in June pointing to renewed impetus from consumers after spending lost some ground at the start of the year.

Euro-area economic sentiment rose to a decade-high of 111.2 in July amid increased optimism in services and construction, according to the European Commission. Confidence in industry stayed at the highest in more than six years. With political clouds having cleared pertaining to Macron's election win and tax cuts implemented by predecessor Francois Hollande taking hold, consumer confidence is near the highest in a decade. The International Monetary Fund has urged the ECB to keep its stance "firmly accommodative" until inflation has sustainably entered on a path toward its goal. Consumer prices increased an annual 1.3 percent in June and Draghi said the rate is likely to hover around that level in the coming months. In July, inflation remained steady at 1.5 percent in Germany and 0.8 percent in France.

Greece returned to the private debt market this week for the first time in years, raising 3 billion euros at a relatively affordable interest rate of 4.6 percent. The economy is showing signs of life, growing a bit in the first quarter, and the government has gotten a tighter grip on the budget. But Greece's long-term debt position is still dire, and its

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deeper structural reforms have barely begun.

Canada

Canadian Growth tripled forecast rising 0.6 percent as oil production rebounded signaling policy makers can probably continue unwinding monetary stimulus as the economy moves toward full output. Growth in the oil, gas and mining industry accounted for about two-thirds of the increase. On an annual basis, the 4.6 percent expansion was the fastest in almost 17 years.

The report also suggested more balance in spending by consumers carrying record debt burdens. Real estate cooled after Ontario brought in a suite of measures including a foreign buyer tax in April to cool the market in Toronto, Canada's biggest city. Real estate and rental leasing fell 0.2 percent in May after five previous gains, and activity of real estate agents fell 6.3 percent, Statistics Canada said.

Qatar

It was reported that efforts to resolve the standoff between Qatar and a Saudi-led alliance have reached an impasse, amid signs the bloc wants to extract more concessions from Doha. The Saudi-led alliance is yet to respond to proposals by the U.S. and the U.K. that aimed to start direct negotiations. Qatar's benchmark stock index dropped as much as 0.6 percent after the report. The country's credit risk, measured by credit default swaps, also dropped. However, by the end of the week, Qatar approached the United Nations to have a greater role in resolving its standoff with a Saudi-led alliance.

Turkey

Turkey is preparing to increase its debt limit for the first time since 2009 after first-half borrowing left the Treasury near its legal ceiling. The Treasury's debt limit can be raised by 10 percent with government approval. Any increase above that requires a change in the law. Public finance laws currently allow the government to borrow about net 47.5 billion liras ($13.3 billion) this year, according to calculations by economists Haluk Burumcekci, the founder of Burumcekci Research & Consulting, and former Treasury undersecretary Mahfi Egilmez. Turkey is in the midst of a credit boom as the government seeks to spur lending to reignite an economy that has flagged in the wake of last July's failed coup. Measures include tax breaks, the easing of banking regulations, as well as a state-backed fund. Net borrowing in the first six months already reached 46.5 billion liras, including 26.7 billion liras domestically and the equivalent of 19.8 billion liras overseas. The nation's year-to-date debt rollover ratio is 114 percent, on pace to be the highest on record in a Treasury data set going back 2003. The nation's bonds extended their decline after the news, with the yield on the 10-year lira note climbing as much as 11 basis points before trimming its increase to 6 basis points.

UK

On Brexit front, Chancellor of the Exchequer Philip Hammond said the U.K. wanted discussions with the European Union over transitional arrangements to start as soon as September. Achieving that will depend on the 27 other EU governments agreeing they and the U.K. have made "sufficient progress" on determining rights for citizens, the border between the two Irelands and the financial settlement the bloc wants Britain to pay. The EU is eyeing an October summit of leaders as the earliest opportunity for such a decision. The risk of quitting without an agreement in place for trade would leave U.K. subject to tariffs. However, the slow pace of Brexit negotiations means that sufficient progress is unlikely to be achieved by October to allow for discussions to start on the future relationship between the European Union and Britain, the bloc's chief negotiator Michel Barnier said.

The week was scant on economic releases. Major release was the UK GDP which showed an expansion of 0.3 percent in the second quarter. It suggests the economy's resilience since the Brexit vote has weakened and it leaves the BOE's divided policy makers with low level further evidence to justify a interest-rate increase next week. While services were the sole positive contributor to GDP, the sector was mainly driven by retail and the film industry.

Also came in a report on UK Consumer Confidence which dropped this month to match the weakest reading since just after the Brexit vote, led by a sharp drop in

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confidence in the economy. The reading of minus 12 in GfK's consumer-confidence index is down 2 points from the previous month. A gauge of how consumers see the economy progressing fell 5 points to minus 28, while their eagerness to make major purchases also waned. The markets will be keenly watching the BOE's upcoming meeting on Aug 3 where the Central Bank will announce its decision on interest rates and release the quarterly inflation report. The market-implied probability of a rate increase by year-end has fallen to 34.5 percent, from 41.4 percent before the GDP report.

Jason Granite
Chief Investment Officer
28 July 2017

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

	2016 Performance	2017 Performance	Volatility* 04/01/16
FTIM Safety First 2	1.53%	0.47%	2.41%
FTIM Safety First 3	3.26%	0.91%	2.69%
FTIM Safety First 4	4.38%	1.34%	3.44%
FTIM Safety First 5	5.63%	1.93%	3.81%
FTIM Safety First 6	10.10%	3.08%	5.16%

Date: 28 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.