04 August 2017

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

BOE holds with a dovish tone

KEY MESSAGES:

Bank of England kept interest rates unchanged, while cutting the country's economic growth forecast.

US stock indices remained supported by the continued flow of favourable earnings releases. Bond yields and the US dollar moved lower through Thursday but that dynamic reversed course with the robust payrolls report.

US 10-year treasuries yielded 2.26 %. Gold closed at $1,268.42 an ounce.

Crude falters on signs of rising output from OPEC, US. WTI Crude closed at $49.03 a barrel.

Market developments during the week

While strong economic growth boosted optimism with positive jobs report and growing consumer confidence, markets continued to shrug at mounting signs that President Donald Trump's policy agenda has run aground, with assets from stocks to the dollar largely looking past reports Thursday that Special Counsel Robert Mueller's probe into Russia's meddling in the 2016 election has intensified. The likelihood of a grand jury being named could potentially indicate that there is enough evidence of a crime. The Dow Jones Industrial Average initially fell, but only by 0.2% and it promptly resumed a rally that this week saw it charge through 22,000 points.

After Senate's approval on sanctions against Russia last week, President Trump, this week, blamed Congress for worsening relations with Russia, which accused him of caving in to legislators by signing a law that could keep sanctions in place for years. The exchange underscored the increasing strain between Trump and his own party in Congress.

Also North Korea made another attempt to trigger angst among Americans by launching another ICBM last Friday. Making things worse, the North Korea leader Kim Jong Un claimed that every part of the US is within its shooting range. China on Saturday condemned the latest test and communicated that it expects President Donald Trump won't take military action against North Korea. President Trump and Japanese Prime Minister Shinzo Abe called on China and Russia to do more to stop North Korea. China's biggest fears related to North Korea remain a collapse of Kim's regime that sparks a protracted refugee crisis, and a beefed-up US military presence on its border.

On the economic front, there were contradicting services PMIs from both research agencies Markit and ISM. Markit's reached a 6-month high, whereas ISM's fell to the lowest since September 2016.

Report on the US labor market revealed job gains were broad based during July with the jobless rate matching a 16-year low and monthly wage growth picked up. Unemployment rate, derived from separate survey of households, fell to 4.3%. Average wages rose a solid 0.3% m/m. This acceleration indicates that managers are finally starting to boost pay some more in a bid to keep or attract workers. Even so, the 2.5% pace of annual wage growth is little changed over the past two years. The solid job-market gains is expected to least keep household spending humming in the third quarter as the economy struggles to break out of a 2% growth pattern of the last several years.

Gains in US pending home sales showed a stabilizing market. Index rose 1.5% after a 0.7% drop. The increase puts the gauge in line with its average since the start of 2016 and shows growth in the residential real estate market is being sustained while contributing little to the economy.

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Currencies

The Bloomberg Dollar Spot Index declined this week to 0.2%. USD erased losses in the week after data showed employers added workers at a solid clip and monthly wage growth picked up.

The euro saw a weekly gain of 1% closing at 1.18. The common currency rose as much as 2% to a two-and-a-half-year high.

The British pound added less than 0.05% and closed at 1.31, heading for a second weekly gain.

Yen closed 0.09% lower at 110.6

Equities

The S&P 500 closed at 2,472. The Dow Jones Industrial Average, closed above 22,000 for the first time ever on Wednesday.

European stocks advanced euro's rally has been seen as a headwind for the region's equities, as it makes exports relatively more expensive for foreign buyers. The Stoxx Europe 600 Index was up 0.8%. The benchmark reached a session high as the single currency pulled away from the $1.191 level reached this week, the strongest versus the dollar since January 2015. Also, strong corporate results contributed positively. All 19 industry sectors climbed after the labor report; insurance was among the weakest, up just 0.1%. Last week's inflow of $4.7 billion was the 33rd consecutive week of net purchases, according to the data.

Of the 44% of companies in the Stoxx Europe 600 Index that have so far reported, 56% beat earnings-per-share estimates, down from 66% in the first quarter, strategists at JPMorgan Chase & Co. including Emmanuel Cau and Mislav Matejka said in a research note. The lag is prompting analysts to revise down earnings estimates which had been boosted by a sharp rebound in profits in the first quarter. Still, so far European firms have reported EPS growth of 16% from the year earlier period, which is 3% ahead of expectations, according to JPMorgan. That compares with earnings 5% above analyst estimates in the US If we strip out the energy sector, which has largely driven growth in Europe, the number falls to just 7%, the strategists said. Analysts expect earnings growth of about 9% this year in Europe.

US companies are faring better. So far, 78% of S&P 500 companies have beaten earnings expectations. All sectors have shown positive earnings growth this quarter, according to JPMorgan.

FTSE 100 closed 1.8% higher at 7,500

Bonds

Treasuries fell by the end of the week after July hiring came in stronger than forecast, underpinning the case for tighter monetary policy. The gain pared the weekly loss to three basis points closing at 2.26%.

Germany's 10-year yield lost seven basis points to 0.46%.

Britain's 10-year yield fell six basis points to 1.16%. Yield on two-year gilt fell two basis points to 0.24%.

China's bond market is appearing to be staging a comeback, with both domestic and foreign buyers lured by the nation's yields. Yields on 10-year government bonds have settled at around 3.6%, well over a percentage point more than those on US Treasuries and roughly 3 percentage points over what's available in Europe. A selloff in corporate bonds that started late last year has subsided, leaving top-rated notes paying 82 basis points more than high-grade dollar bonds from Asian issuers, a turnaround from offering 50 basis points less in December. Bond issuance has also recovered, with July's local sales of 694.5 billion yuan ($103 billion) back up to almost 90% of last year's monthly average, according to data compiled by Bloomberg.

Commodities

West Texas Intermediate crude closed at $49.03 a barrel. Crude is down more than 1.5% this week after last week's 8.6% rise. The decline came as rising output from the US and OPEC stoked fears that recent declines in inventories might just be temporary. US oil output expanded by 20,000 barrels a day to 9.43 million a day, according to a report from the EIA earlier in the week. While crude stockpiles have declined the past five weeks during strong seasonal demand, inventories are still about 95 million barrels above the five-year average. Output from the Organization of Petroleum Exporting Countries last month

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climbed to the highest level this year, driven by a gain in supplies from Libya. Representatives of some OPEC and non-OPEC nations are due to meet in the United Arab Emirates capital on Aug. 7-8 to discuss why some of them aren't fully implementing their commitment to cut output, according to an OPEC statement.

Brent for October settlement added 5 cents to $52.06 a barrel. Prices are down 0.9% this week after a 9.3% surge in the period ended July 28. The global benchmark crude traded at a premium of $2.77 to October WTI.

Gold closed at $1,268.42 an ounce.

Copper closed at $2.88 a pound.

Other major economies:

Euro area

The euro-area economy expanded again in the second quarter indicating the growth is becoming self-sustaining. GDP in the region rose 0.6% in the three months through June, after increasing 0.5% at the start of the year. France enjoyed its strongest continuous expansion since 2011 in the second quarter, driven by exports and investment, while Spain experienced the fastest growth since 2015, national data published last week showed. The Austrian economy also gathered pace, while Belgium's performance weakened. One of the euro area's main challenges was highlighted in a separate report on manufacturing. While the PMI pointed to broad-based economic growth with PMI at 56.6, price pressures showed further signs of easing in July. Eurozone Unemployment fell to 9.2%, the lowest level since February 2009.

While declining unemployment data showed a sign of confidence in Germany, the PMI data for the region showed the economy slowed more than initially estimated at the start of the third quarter, leaving it trailing the euro region's other large nations. IHS Markit's German composite PMI for July dropped to 54.7, down from 56.4 in June. That's a 10-month low and the first time in more than 12 years that the survey for Germany has lagged France, Italy and Spain. The figures nevertheless indicate a solid quarterly growth of between 0.4% and 0.5%. In the euro area overall, the composite PMI fell to 55.7 in July.

Consumer-price growth in the euro area stayed at 1.3 %supporting the view that deflation risks have disappeared, but too little to meet the ECB president's goal of just under 2 %. While it confirms Draghi's prediction that inflation would remain near June levels in the coming months, it also reinforces his assessment that, despite better economic growth, there isn't yet a self-sustained upward trend. Officials will have ample time to ponder economic data and policy options ahead of their Sept. 7 meeting.

Canada

Canada's labor market continued its exceptional performance in July, with the jobless rate falling to the lowest since before the financial crisis. The unemployment rate fell to 6.3%, as the labor market added another 10,900 jobs during the month, Statistics Canada reported. The total increase over the past year of 387,600 is the biggest 12-month gain since 2007. The jobs figures bolster confidence the country is quickly running out of economic slack and higher Bank of Canada interest rates may be needed to cool off growth, even with a separate report out Friday showing the country's trade sector disappointed in June. A trade deficit C$3.6 billion with a pullback in June for exports, down 4.3% during the month.

The central bank already raised rates last month, and investors are pricing in at least one more hike by the end of this year. Two-year government bond yields rose 2 basis points to 1.25%, and the 10-year yield climbed 4 points to 1.93%.

As regards real estate, Toronto home prices in July suffered the worst monthly decline in 17 years and sales plunged as government efforts to cool the market and the near-collapse of a mortgage lender made buyers leery. The benchmark Toronto property price, which tracks a typical home over time, dropped 4.6 %to C$773,000 ($613,000) from June. Prices are still up 18%from the same month a year ago, according to the Toronto Real Estate Board. Among the government efforts is a proposal to introduce a new tax to fend off speculators and expanded rent-hike protection. Rent control is proposed to be imposed on buildings constructed after

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1991, effective April 20, which limits annual increases.

Strong economic data, central bank hawkishness, and positive developments in crude oil markets have combined to create ideal conditions for loonie strength in recent months.

China

Industrial metals, including copper, climbed after manufacturing data from China showed another expansion. The manufacturing PMI slowed to 51.4 in July, down from 51.7 in June. The non-manufacturing PMI was 54.5 versus 54.9 a month earlier. A statistics official attributed the slowdown in manufacturing activities in July to high temperatures in some regions and floods in others, while some factories had regular equipment maintenance. Challenges lie ahead for the second half as policy makers slow the pace of credit expansion and vow to tackle excessive leverage. As China's great deleveraging kicks in, smaller companies appear to be already feeling the squeeze a sub gauge for them slumping to 48.9 from 50.1 in June.

Japan

Japan's industrial output expanded in June increasing 1.6% in June from May, when it fell 3.6%. The decline in May partly reflected Golden Week holidays, when many factories cut back output. Measured year on year production rose 4.9%. A pick-up in global demand and a weak yen have helped Japanese exporters.

UK

On Brexit front, sterling sold off on the day BOE's Inflation Report. Monetary Policy Summary and press conference suggested the BoE's Monetary Policy Committee is back in its comfort zone, confident the current overshoot in inflation does not yet warrant a response. Like the IMF, the BoE downgraded its growth forecast for 2017 to 1.7%. BOE Governor Mark Carney was quite explicit about the MPC's expectation that some degree of policy tightening would be necessary over the three year forecast horizon, but his heavily caveated warnings had little impact. The central bank now projects economic growth of 1.7% this year and 1.6% in 2018, down from 1.9% and 1.7%.

The bank's latest forecasts factor in "uncertainty about the eventual shape of the UK's economic relationship with the EU," which "weighs on the decisions of businesses and households and pulls down both demand and supply," Carney said. Companies are keeping a lid on pay increases until they know what kind of access they'll have to Europe's market in a few years, Carney said.

GBP later recovered after Bank of England Deputy Governor Ben Broadbent said interest rates could rise more than the markets expect. Two-year gilts pared this week's rally on his remarks, though he told BBC Radio that any increase would be gentle.

Economic releases this week include UK Manufacturing which for the first time in three months in July, bolstered by the strongest jump in export orders in seven years. A measure of factory output rose to 55.1 from a revised 54.2 in June, according to IHS Markit's Purchasing Managers' Index. UK Services indicated slow growth. According to the PMI, services grew faster than economists forecast in July, with an index rising slightly to 53.8 from a four-month low of 53.4 in June. Publishing its latest Purchasing Managers Index, Markit said the UK is on track for 0.3% expansion this quarter, matching the previous three months. But subdued optimism in the face of Brexit suggests growth will remain modest and could easily weaken in coming months.

The Bank of England's Money and Credit report for June showed headline M4 money supply contracting by 0.2% month on month. Consumer credit growth slowed in June after the Bank of England measures to limit some areas of risk from borrowing. Unsecured lending rose 10% from a year earlier, the least in more than a year, the UK central bank said on Monday. It grew 1.5 billion pounds on the month. The BOE in June responded to the rapid buildup of credit by ordering lenders to hold billions of pounds of extra capital and strengthened rules on mortgage lending.

On real estate side, shares of UK homebuilders were tumbling on Friday when a British real estate magazine reported the government could cancel its program to help first-time buyers onto the property ladder. The FTSE 350 Household Goods & Home Construction Index fell as

04 August 2017

much as 2% on the news. Investors were only partially reassured by a government statement that the program's review does not mean its cancellation.

Jason Granite
Chief Investment Officer
04 August 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%	1.06%	2.44%
FTIM Safety First 3	3.26%	1.43%	2.70%
FTIM Safety First 4	4.38%	1.89%	3.44%
FTIM Safety First 5	5.63%	2.54%	3.81%
FTIM Safety First 6	10.10%	3.74%	5.14%

Date: 04 August 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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