11 August 2017

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

US-North Korea tensions escalate

KEY MESSAGES:

President Donald Trump intensified warnings to North Korea over missile threat.

US Inflation figures came in showing a fifth straight week of tepid price growth, casting doubt on Fed's move.

Global markets rebounded, switching from risk off mode that favoured treasuries, yen and gold over the week. S&P 500 slid 1.3%. FTSE 100 closed 2.4% lower. US 10-year treasuries closed at 2.20%.

Oil slipped to $48.38 a barrel, heading for the biggest weekly loss in a month of 2.4%, as the outlook for demand dimmed in an already shaky market. Gold rose 2.2% over the week closing at $1,287.8 an ounce.

Market developments during the week

Markets started to stabilize by Friday after US-North Korea tension rattled global assets, as investors were seen switching to risk-off mode, with gold, bonds and the yen all rising. President Trump stepped up his campaign of pressure on North Korea, promising a response to any strike against America or its allies. It has shaken global markets, a sell-off was seen in Asia. The CBOE Volatility Index climbed to the highest level since Trump's election victory, while gold hit a two-month high. While Korea tensions still remain in focus, US stocks halted a three-day slide, volatility eased and Treasuries slipped.

Of the economic releases, the major piece of information that investors were keenly observing was the US inflation figures. The figures came in below forecast, adding fodder to the debate among policy makers over whether price gains are indeed making clear progress toward the Fed's 2% goal. Consumer price index rose 0.1% month on month after being unchanged the prior month; up 1.7% year on year. Excluding food and energy, so-called core CPI rose 0.1% month on month; up 1.7% year on year. Economists cited retailers' lack of pricing power and still-tepid wage gains as factors keeping price pressures subdued.

The figures followed data showing wholesale prices unexpectedly decreased 0.1% in July from the prior month, the first drop in nearly a year,reflecting widespread declines across groups such as chemical wholesalers, retail apparel and airline services.

While investors are waiting to see a pick up in the inflation figures. The data added up to a fifth straight miss on core-price forecasts placing burden on Federal Reserve policy makers to explain why they're moving toward a December interest-rate increase. The Fed targets 2% inflation based on a separate Commerce Department price gauge, which will next be updated on Aug. 31. New York Fed President William Dudley said Thursday that "it's going to take some time" for inflation to rise to the central bank's target, even as he offered a generally positive outlook for the US economy, job market and price pressures.

Among other releases were US worker productivity gains that accelerated in the second quarter to a pace that's still tepid by historical standards, a Labor Department report showed.

Geopolitics ruled the market headlines this week with President Trump ramping up pressure on North Korea, cautioning Kim's regime against following through on threats to fire missiles near Guam and vowing "fire and fury" if he keeps provoking the US. On Thursday, the president doubled down on the rhetoric, saying Kim "should be very nervous" and suggesting the earlier warning didn't go far enough. Trump's remarks reinforced the aggressive stance the US president has taken in the confrontation with North Korea, despite efforts by Secretary of State Rex Tillerson to damp

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down rhetoric. The standoff has rattled financial market worldwide. The S&P 500 Index lost 1.5%, the steepest slide since May 17, and the CBOE Volatility Index spiked 45% to 16.12, its highest closing price of Trump's presidency. Stocks in Asia declined with US equity-index futures. South Korea's benchmark Kospi index fell as much as 1 %, while the won declined as much as 0.8 %, falling to a three-week low. Japan's Topix index fell 1.1%. Gold climbed 0.5% to $1,283.28 an ounce, the strongest in two months.

Prime Minister Malcolm Turnbull said Australia would back the US, if North Korea attacked, while China called on both countries to avoid taking the "old road" of taking turns to escalate tensions. Japan, meanwhile, moved missile interceptors into place after North Korea threatened to fire rockets at Guam, the Nikkei newspaper reported.

The tensions were sparked, in part, by the Aug. 5 unanimous vote in the United Nations Security Council to impose new sanctions on the Kim regime. The restrictions described by diplomats as the "most stringent" against the nation also freeze the assets of some of North Korea's biggest companies, including a maker of massive monuments and a Pyongyang-based insurance company that's been linked to a slush fund for leader Kim Jong Un and his family. The penalties agreed to aim to cut North Korean exports by about $1 billion a year.

In case the escalating rhetorical exchanges between the US and North Korea worsen, global financial markets would also suffer a tremendous shock in the short term, with flight to safe haven assets such as gold, the US dollar and the Swiss franc. Commodity shippers would be most affected as tensions could escalate into activity that could disrupt commodity flows among countries. While it remains a war of words for now, an intensification could lead to higher insurance rates for vessels, exclusion zones or port disruptions, which may increase transport costs and force route changes, according to shipping analysts, academics and industry consultants.

Currencies

The Bloomberg Dollar Spot Index fell 0.4% on Friday after US inflation remained subdued for the fifth week.

The euro and GBP remained close to last week levels with the euro closing at at $1.18, GBP closing at $1.3015.

The Japanese yen fell 1.45% over the week to 109.1 per dollar.

South Africa's rand tumbled 1.1% on Tuesday after President Jacob Zuma survived a bid by opposition lawmakers to oust him, crushing the prospect of new leadership reviving the country's economy.

Equities

The S&P 500 closed at 2,442. The S&P 500 Index rebounded from its steepest drop since May, bringing a measure of calm to global equity markets that have been roiled by tensions on the Korean peninsula. The calm on Friday wasn't enough to undo the damage done by the geopolitical confrontation as the index was down 1.3% over the week.

On the corporate earnings end, out of the 454 companies in the S&P 500 that have so far reported second-quarter results, 68% have beaten analysts' average estimates for revenue and 78% have topped per-share earnings expectations, according to data compiled by Bloomberg. Earnings rose an average of 9.8 %, while sales have climbed 5.5%. In every sector, at least half of the companies have surpassed or met expectations, with many also getting a boost from a sinking US dollar and overseas demand.

The Stoxx Europe 600 Index declined 1%, for five-day retreat of 2.7 %, the most since Nov. 4.

FTSE 100 fell 2.4% to 7,329.

Geopolitical tensions also sent Asian markets tumbling. The MSCI All-Country World Index was down 1.5% in the week. Financial and technology shares dropped the most. Stocks in developed Asia, China, South Korea and Indonesia fell more than 1%.

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The CBOE Volatility Index lost 7.2%, after Thursday's 44 % rise. While the Volatility Index slipped Friday, it's still higher by almost 50% in the week, the most since January 2016.

Bonds

The yield on 10-year Treasuries fell six basis point to 2.20%. A slew of corporate credit investors, meanwhile, are betting the eerie calm in bond markets won't last, with risks ranging from a sharp uptick in yields that awakens volatility, to geopolitical tensions, and the looming deadline on the US debt ceiling.

Britain's 10-year yield decreased twelve basis points to 1.06%, the lowest in six weeks.

Germany's 10-year yield dipped seven basis points to 0.39%, the lowest in almost six weeks.

Commodities

West Texas Intermediate crude declined 0.4% to $48.38 a barrel, the lowest in two weeks, leading to a weekly decline of 2.4%. The International Energy Agency reduced demand estimates for OPEC crude this year and in 2018 by about 400,000 barrels a day, and said there are doubts about the group's commitment to cutting production. Even a pledge by Saudi Arabia and Iraq to strengthen their commitment to the curbs and maintain balance in world crude markets isn't helping to prop up prices.

Brent for October settlement declined 13 cents to $51.77 a barrel on the London-based ICE Futures Europe exchange. The global benchmark traded at a premium of $3.19 to October WTI.

Earlier in the week, an Energy Information Administration report showed US crude inventories dropped for a sixth straight week. This didn't help prop up oil prices as markets interpret the drop to be seasonal.

Gold rose 2.2% over the week closing at $1,287.8 an ounce.

Other major economies:

Euro area

Among the economic releases were German and French Consumer Prices, which changed 0.4% and -0.3% respectively in July.

French Industrial Production that fell short of expectations to shrink 1.1% in June.

German Industrial Output fell sharply in June, registering its biggest drop of the year after several months of expansion.

Trade Balances for Germany, Italy and France came in with Germany's surplus larger than expected and France's deficit smaller than expected. Italy's Trade Balance that rose higher into surplus.

China

China's producer price gains held steady rising 5.5% in July. Commodity prices could be the reason as the consumer price index increased 1.4% way below the government ceiling of 3%. Also the government's drive to reduce industrial capacity by capping supply of raw materials seems to take hold.

South Africa

South Africa's rand fell after President Jacob Zuma survived a no-confidence motion in parliament, despite more than two dozen members of his own party voting against him, with the final tally coming in at 198 votes against 177. The real loser may be his own party, the African National Congress, which is seeing its support wither as a result of misrule by President Zuma, a former intelligence operative who's been implicated in a series of scandals. The ANC faces elections in 2019.

Egypt

Egypt's budget deficit fell to the lowest level in five years shrinking to 10.9% of GDP, after the government embarked on an International Monetary Fund-backed plan to repair public finances. Measures include cutting subsidies, introducing value-added taxes and curtailing growth in public sector wages. Investor confidence has soared since the government floated the currency and secured a $12 billion IMF loan in November, and the country's foreign-currency reserves rebounded to a record last month. The government plans to fully

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scrap fuel and electricity subsidies over the coming years, forecasting a primary budget surplus in the current fiscal year and an overall deficit of 9.1% of GDP.

Though the spending cuts have improved state finances, they've increased the pressure on the nation's residents who also face inflation running at almost 30%. Earlier on Tuesday, the government tightened access for new applicants to a costly rations card program, which subsidizes foodstuffs for more than 75% of the population. The most recent Egypt's urban annual inflation rate accelerated to its highest level in decades climbing 33% in July. Annual core inflation, which strips out volatile and regulated items, rose to 35.26%, according to the central bank.

UK

The week judged less updates on Brexit progress ahead of the third round of talks with the EU later this month. The major headline was report by Sunday Telegraph that the UK will offer £36 billion ($47 billion) to settle the Brexit divorce bill, in a bid to spur discussion toward a future trade deal. Brexit Secretary David Davis played down the report.

Economic release includes UK Consumer spending figures that disclosed consumers cut back on spending in July for a third month, putting them in their worst expenditure slump in more than four years, while the household savings ratio fell to a record low. UK Industrial Production rose 0.5% in June, driven partly by improved energy production. However, Manufacturing Production was less impressive.

The Royal Institute of Chartered Surveyors released property prices report reflecting stagnated prices in July, primarily slump continuing in London. Homebuilders slumped after the report. Nationwide, RICS said its price gauge fell to its lowest level in more than four years, despite increases in Northern Ireland, the West Midlands and the southwest.

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

	2016 Performance	2016 Volatility	2017 Performance	2017 Volatility	Volatility since inception *04.01.16
FTIM Safety First 2	1.53%	1.42%	1.19%	3.56%	2.42%
FTIM Safety First 3	3.26%	1.91%	1.55%	3.69%	2.69%
FTIM Safety First 4	4.38%	2.93%	1.98%	4.20%	3.42%
FTIM Safety First 5	5.63%	3.23%	2.62%	4.65%	3.78%
FTIM Safety First 6	10.10%	5.04%	3.86%	5.33%	5.11%

Date: 11 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.