18 August 2017

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Promising economic data overshadowed by Geopolitical events

KEY MESSAGES:

A relatively good week for economic data was overshadowed by geopolitical events. US retail sales rose by a robust 0.6% in July.

Terror attack in Spain, policy paralysis seen in the US battered global assets. Volatility spiked late in the week. S&P 500 plunged 1.5% on Thursday. The same day, Dow suffered its largest one-day loss since May.

US 10-Year Treasury rallied to 2.17%. Pound closed at $1.29, its third weekly decline as UK data underwhelmed.

WTI Crude traded for $47.25 a barrel. Gold climbed 0.4% to $1,295.1 an ounce.

Market developments during the week

Markets are settling down after a tumultuous few days spurred after terrorist attack in Barcelona, policy paralysis seen in the US and lingering tensions over North Korea. President Donald Trump is facing growing criticism within his own party for remarks equating neo-Nazis to counter-protesters in Virginia. In a heated press conference on Tuesday, he also criticized CEOs who are quitting his advisory council. Speculation that President Trump's top economic aide Gary Cohn, was poised to resign also contributed to the market roil Thursday as US stocks plunged 1.5%. Traditional havens including gold and the yen gained with core bonds across the euro region, and the dollar weakened. Later reports that he'd opted to stay on board brought some market calm. Cohn has been leading the president's efforts on tax reform.

The CBOE Volatility Index on Thursday shot up 32%, nearing the high it reached last week after the "fire and fury" remarks escalated a standoff with North Korea. A gauge of euro-area stock swings on Friday climbed as much as 20%.

The minutes from the Federal Open Market Committee meeting in July showed members were split on the inflation outlook while keeping the door open for a September announcement on the timing of balance-sheet reductions. The Fed next meets on Sept. 19-20.

Economic releases included US retail sales that advanced 0.6% in July after a 0.3% advance the previous month. The widespread gains came from department stores, building materials outlets signaling a robust start to consumer spending in the third quarter, according to Commerce Department figures. The broad increase followed upward revisions to the prior two months that erased previously reported declines.

Consumer sentiment climbed in August to 97.6, a seven-month high as a measure of the outlook for the US economy and personal finances registered the largest one-month advance since the end of 2011, according to University of Michigan survey data. Consumer sentiment has recovered following a two-month slide as President Donald Trump's legislative agenda ran into several roadblocks. Half of all consumers in each of the last three Michigan surveys reported that their finances had recently improved and were also upbeat about their financial prospects in the year ahead. Stronger household views about their financial well-being probably shows consumer spending will continue to expand and power the economy. A robust labor market remains a primary driver behind the improving attitudes about the economy.

US housing starts stumbled in July on an abrupt slowdown in apartment construction and a modest decline in single-family homebuilding that shows the industry will do little to spur the economy, Commerce Department data showed. Residential starts decreased 4.8%. While staying close to an

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almost 10-year high, the pace of one-family homebuilding is being held back by labor and lot shortages, according to construction firms. At the same time, builders remain optimistic that the market will benefit from strength in the job market and cheap borrowing costs.

Currencies

USD weakened over the week and decreased 0.2% on Friday.

The euro fell 0.85% to $1.17.

The British pound fell 0.77% to $1.29.

The Japanese yen fell 0.37% to 108.8 per dollar, the strongest in almost four months.

Equities

By the end of the week, S&P futures were flat closing at 2,424, signaling US markets may steady after the index plunged 1.5% Thursday. S&P 500 was down 0.7% over the week.

Stocks in Europe extended a global selloff partly due to terror attack in Spain. Airlines and hotels led the decline of the Stoxx Europe 600 gauge along with banks. Also contributing to the dropping European stock market was ECB minutes which revealed concern among officials that the currency could overheat.

Germany's DAX Index rose 1% over the week to 12,136.

The UK's FTSE 100 Index rose 0.04% to 7,313.

The MSCI Emerging Market Index dipped 0.5% on Friday.

Japan's Topix index was down 1.2% over the week.

Investors pulled $1.3 billion from equity funds in the week ending Aug. 16 as tensions over the Korean peninsula escalated, according to EPFR Global data. Outflows from US stock funds were triple that, suggesting doubts about Trump's stimulus plans are an additional worry. Heightened terror fears also added to the malaise.

Bonds

The yield on 10-year Treasuries dropped two basis point to 2.17%.

Germany's 10-year yield rose three basis points to 0.41%.

Britain's 10-year yield fell two basis point to 1.08%.

Commodities

Oil headed for a third weekly drop on reports of rising US crude output and indications of slowing demand from China. Futures were down 3.2% for the week.

US production had the biggest weekly advance since June, according to Energy Information Administration data, offsetting the largest decline in stockpiles in almost a year. Oil processing in China fell in July, the biggest decline for that particular month in three years, figures from the National Bureau of Statistics showed.

West Texas Intermediate for September delivery was at $47.25 a barrel.

Brent for October settlement was $51.13 a barrel. Prices are down 1.8% this week. The global benchmark crude traded at a premium of $3.75 to WTI.

US crude output rose by 79,000 barrels a day to 9.5 million a day last week, the highest since July 2015, the Energy Information Administration reported Wednesday. Stockpiles declined for a seventh week to 466.5 million barrels. US gasoline demand in July increased by 1% from a year earlier to a record 9.69 million barrels a day, the American Petroleum Institute said Thursday in a monthly report.

While there were growing signs that the world's two biggest consumers may stymie OPEC-led efforts to trim a global glut, the biggest thorn in OPEC's side continues to be shale. America's shale gas production is about to surge c.12%. The Energy Department issued a report Monday estimating that the nation's prolific shale formations will yield 59.4 billion cubic feet a day in September, a massive jump from the roughly 53 billion projected for August.

Gold climbed 0.4% to $1,295.1 an ounce. Bullion and tin were among the best performing metals, and zinc traded above $3,100 a metric, near a 10-year high. Zinc

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rose to $3,103 a metric ton, extending a weekly gain to about 7%. For the year, the metal used to galvanize steel is up 21%, rivaling aluminum as the top-performing LME metal for 2017. Major zinc miners have announced the restarting of mothballed projects, which should help supply constraints of the metal. Falling house prices in China as property curbs start to bite are likely to put pressure on steel prices.

Copper and aluminum reached three-year highs in London. Chinese capacity curbs have boosted aluminum.

Other major economies:

Euro area

German economy extended its growth spurt in the second quarter, though at a slower pace than expected. The economy expanded 0.6% in Q2, driven by domestic demand. The report comes as Germany enters the final stretch of campaigning ahead of a Sept. 24 election, with opinion polls showing Merkel leading her Social Democratic challenger Martin Schulz by as much as 17 points. Her Christian Democratic Union-led bloc is benefiting from solid economic growth, bolstered by a pickup in consumer spending mainly due to declining unemployment and an increase in investment. The Federal Statistics Office revised first-quarter output up to 0.7%. There were positive reports from other regions as well. Exports and investment have led France to its strongest continuous expansion since 2011 and the Netherlands posted the fastest growth since the end of 2007. Italy, which has lagged the pickup of its peers, is starting to shake off its reputation as the sick man of Europe with an increase in gross domestic product that may top 1% this year for the first time since 2010.

China

Signs of a second-half slowdown in the Chinese economy are mounting, with industrial output, retail sales and fixed asset investment data published overnight all coming in below expectations. Industrial output rose 6.4% from a year earlier in July, versus June's 7.6%. Retail sales expanded 10.4% from a year earlier, compared with 11% in June. Fixed-asset investment in urban areas rose 8.3% from a year earlier in the first seven months.

Much of the country's economy is driven by the property market, which also appears to be cooling. The value of new homes sold rose 4.3% in July from a year earlier, the smallest increase since March 2015. Swings in sales always alter property developers' confidence and lead changes in investment. As commodity prices in China surge on reduced industrial capacity, weakening demand from real estate may erode those big gains.

As the country continues to remain vigilant for accelerated capital outflows, the State Council guideline posted on the government's website stated that China will restrict domestic companies from investing in overseas property, hotels, entertainment and sports clubs. Companies will instead be encouraged to support the Belt and Road initiative linking the country across Asia and Europe, which has faced questions about the financing of the ambitious project.

Japan

Japan's economy grew for a sixth straight quarter, increasing by an annualized 4 % in the three months ending June 30, with growth driven by domestic spending. Should the economy extend the run of expansion into this quarter, it will be the best performance since 2001. After more than four years under Prime Minister Shinzo Abe, the yen has fallen, corporate profits have soared and the economy is running above its potential growth rate. Yet inflation remains stubbornly low, despite massive monetary stimulus from the central bank. Economists are watching intently for signs that the tightest labor market in decades is beginning to bring wage gains.

Canada

Canada's benchmark home price fell 1.5% in July, the most in nearly a decade as Toronto led a fourth straight decline in sales with a fall in prices of 4.7%. This can be attributed to government efforts through the introduction of foreign buyer's tax, rising mortgage costs.

Canadian consumer prices in July have showed some signs of relief, Statistics Canada reported. Annual inflation accelerated to 1.2% in July after falling to an almost two-year low of 1% in June.

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Legislated changes to electricity prices in Ontario are acting as the biggest drag to inflation. The report also showed a second straight gain in core inflation. Canadian inflation data is being closely monitored by investors as they try to gauge the likelihood of another rate increase this year. The Bank of Canada is expected to continue on a rate hike path, but only as long price pressures hold up. Canada's dollar appreciated after the report, rising 0.6% to C$1.2611 against its US counterpart.

Egypt

Joining the line of bond issues by emerging market countries comes Egypt which plans to raise as much as $4 billion to fund the budget deficit, a Finance Ministry official said. With local borrowing costs above 15%, the government plans to tap global debt markets again to capitalize on growing investor confidence after it floated its currency and cut costly energy subsidies. The steps helped seal a three-year $12 billion loan program from the International Monetary Fund in November. Egypt had a budget deficit of about 11% of economic output as of the end of June. The government faces a financing gap of about $10 billion for the current fiscal year, the official said. Much of that is expected to be plugged by loans agreed with multilateral lenders including the IMF, World Bank.

The North-African country raised $7 billion from the sale of Eurobonds in the fiscal year that ended in June, including $4 billion in January consisting of five-, 10- and 30-year bonds with yields of 6.125%, 7.5% and 8.5%, respectively. The country is rated B3 at Moody's Investors Service, six levels below investment grade.

India

Indian central bank Governor Urjit Patel and Deputy Viral Acharya are pushing commercial banks to cut borrowing costs in a bid to boost investment, after what many economists see as a final policy-rate reduction in this cycle. Both voiced concerns about inflationary pressures from farm loan waivers announced by several state governments and warned this could crowd out private borrowers, according to minutes of this month's meeting published Wednesday. The six-member monetary policy committee had voted 5-1 for an interest-rate cut. The benchmark repurchase rate was lowered to 6% from 6.25% as predicted by 41 of 57 economists in a Bloomberg survey.

UK

Pound closed at $1.29, its third weekly decline as UK data underwhelmed. While sterling found some initial support on higher-than-forecast retail sales figures on Thursday, an underlying trend showed that consumers were flagging. Data from the statistics office showed demand for food spurred the volume of goods sold by 0.3%.

Similarly, while labor-market data this week showed a drop in the unemployment rate, wage growth still lagged inflation. The jobless rate dropped to 4.4% in the second quarter from 4.5% in the three months through May. Wage growth excluding bonuses accelerated to 2.1%. While earnings picked up more than forecast, they still lag inflation and are less than half the pace seen in the decade before the financial crisis. Productivity also fell in the second quarter, according to the data published by the Office for National Statistics.

The pound fell to a one-month low against the dollar on Aug. 16, the day after a report showed annual consumer prices rose less in July at 2.6%, lesser than expected. The data may portend slower second-quarter growth when the latest gross domestic product figures are released on Aug. 24.

Investors expect volatility in pound in the coming week as the UK will publish two papers on Monday with more expected in the following days, laying out positions in at least three different areas that it wants to negotiate with the EU.

Jason Granite
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%	1.37%	3.56%	2.54%
FTIM Safety First 3	3.26%	1.91%	1.68%	3.69%	2.74%
FTIM Safety First 4	4.38%	2.93%	2.11%	4.20%	3.11%
FTIM Safety First 5	5.63%	3.23%	2.76%	4.65%	3.60%
FTIM Safety First 6	10.10%	5.04%	4.03%	5.33%	4.94%

Date: 18 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.