08 September 2017

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Risk off moves return

KEY MESSAGES:

The looming hurricane, the debt-ceiling battle, lowering probability of rate hike this year and nuclear threats from North Korea have triggered a risk-off tone in global markets. Traders are bracing for a possible missile launch from North Korea by Sep 9, its foundation day.

Haven demand continues to fuel US Treasuries, with 10-year yields plumbing a fresh 2017 low at 2.01 per cent before stabilizing to 2.07 per cent. USD tumbled to its weakest level since the start of 2015. GBP advanced 1.5 per cent to $1.322, the strongest in 5 weeks.

Global stocks recorded declines while gold headed for a third weekly advance closing at $1,350.27 an ounce. WTI Crude was up 3.7 per cent at $49 a barrel.

Market developments during the week

Markets pursued a risk off approach with havens including gold and the yen rallied as North Korea tensions and natural disasters unsettled investors. The Trump administration is seeking to ratchet up pressure on North Korea after the country tested what it claimed was a hydrogen bomb on Sunday, following several successful tests of ballistic missiles with intercontinental range. The geopolitical threat lingers as it is widely anticipated that Pyongyang may test a missile this weekend to coincide with its founding day on Sept. 9. President Donald Trump stated it's not inevitable that the US will wind up in a war with North Korea over its continued development of nuclear weapons, though military action remains an option. The US is circulating a draft resolution at the United Nations that would bar crude oil shipments to North Korea, ban the nation's exports of textiles and prohibit employment of its guest workers by other countries, according to a diplomat at the world body. The proposal also calls for freezing the assets of North Korean leader Kim Jong Un. But China and Russia, both of which have veto power in the Security Council, have indicated resistance to imposing more sanctions on North Korea.

USD tumbled amid ongoing tensions with North Korea and growing probability that Fed may not go for a rate hike this year. New York Fed President William Dudley and his Kansas City counterpart Esther George were the latest US central bankers to lay out their views ahead of a policy-setting meeting later this month. Both reiterated the need to continue raising rates while conceding that low inflation remained a concern. Even so, investors have scaled back their expectations for an interest-rate increase in December to a roughly one-in-five chance, according prices of federal funds futures contracts.

The dollar's decline deepened as traders girded for economic damage to Florida from Hurricane Irma, set to make landfall on Sunday. Hurricane Irma remained on a collision course with southern Florida after devastating a chain of Caribbean islands, triggering the largest-ever evacuation in Miami-Dade County and threatening to become the most expensive storm in US history. Meanwhile, a huge earthquake shoot Mexico further spurring investor anxiety.

Despite risk off moves ruling the markets, inflows were seen surging in the first week after the summer break as investors piled into everything from gold and government bonds to equities and high-yield credit. Investors had a multitude of signals to react to in the first week of post-summer business as usual. While rising political risks including North Korean nuclear tests and American hurricanes sent some investors rushing to haven assets, fresh signals from the European Central Bank that it is prolonging monetary stimulus gave a boost to riskier securities. Global funds that invest in gold, equities and bonds netted inflows of $11.6 billion for the week ended Sept. 7, Bank of America Merrill Lynch said in a research report, citing

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EPFR Global data. Precious-metal funds added the most in 30 weeks, while bond portfolios posted a 25th straight week of inflows. Investors continued to shift funds from US equities to stock markets in Europe, Japan and emerging markets. A net $6.6 billion has been taken out of US equity funds since the beginning of the year, while European stocks are sitting on an inflow of $31 billion.

As regards the debt ceiling deadline, President Trump backed the Democratic Party's proposal to extend the US debt ceiling through to December, despite heavy opposition from legislative leaders in his own party. The agreement sets up what could be a major fight in December over government funding, Trump's proposed border wall with Mexico and Trump's decision to end a program that lets young undocumented immigrants stay in the US, as well as perhaps the debt ceiling. This concern reflected in markets as rates on Treasury bills maturing around the previous late-September debt-limit deadline plunged. They surged on securities coming due around mid-December. The yield on Treasury bills maturing Dec. 14 rose by about eight basis points, to 1.046 per cent.

Currencies

USD dropped for a seventh day, set for its longest losing streak since 2011, amid doubts about further Federal Reserve tightening and ongoing tensions with North Korea. The greenback tumbled to its weakest level since the start of 2015 amid fading expectations of another US rate increase this year.

Euro closed at 1.2, recording a 0.8 per cent rise over last week.

The British pound advanced 1.5 per cent to $1.322, the strongest in five weeks. Over the past month, the pound has been outperformed by almost all of its G-10 peers.

The Japanese yen fell 2 per cent to 108 per dollar.

Equities

S&P 500 index futures dropped 0.6 per cent to 2,461

Stocks in Europe struggled for traction as the euro extended its march above $1.20

FTSE 100 saw a 1 per cent decline to 7,363

Stocks in Asia touched a level not seen since December 2007 as a rally in Hong Kong-listed Chinese companies offset weakness in South Korea and Japan amid speculation of a Saturday missile launch by Pyongyang. The MSCI Asia Pacific Index climbed to 161.81. The regional benchmark has climbed almost 20 per cent this year amid a rebound in momentum in China.

Bonds

The Treasury 10-year yield has tumbled ten basis points this week to 2.07 per cent.

UK 10-year gilts yielded six basis points higher over last week at 1.97 per cent.

Germany 10- year bunds yielded six basis points lower at 0.32 per cent.

Commodities

West Texas Intermediate for October delivery was at $49.08 a barrel. Total volume traded was about 13 per cent below the 100-day average. Futures were up 3.7 per cent for the week. Only about 8 per cent of US refining capacity remains shut following the storm, which halted about 25 per cent after it first made landfall two weeks ago, according to data compiled by Bloomberg. American crude stockpiles rose by 4.58 million barrels last week, the first gain since June.

While refineries, pipelines and offshore platforms resume operations after Harvey, Hurricane Irma, is approaching the US coast and is set to hit Florida on Sunday. Imports into the Gulf Coast region last week fell 41 per cent to 1.48 million barreks a day, the lowest in records going back to 1990, and nationwide crude output fell below 9 million barrels a day for the first time since February.

Brent for November settlement closed at $54.76 a barrel. Prices are 3.8 per cent higher this week. The global benchmark traded at a premium of $5.23 to November WTI.

Gold closed at $1,350.27 an ounce, the highest in almost 13 months. This was the third weekly advance ahead of a potential

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North Korean missile launch. Volume on the Comex in New York, the largest bullion futures exchange, hit a record in August as North Korean tensions and a weaker dollar boosted demand for the metal. Some 6.55 million contracts, worth almost $900 billion now, changed hands last month, more than when Donald Trump was elected US president or during substantial price spikes and slumps.

Copper led a drop in industrial metals. It fell 1.5 per cent to $3.10 a pound, the biggest drop in more than four months.

Other major economies:

Euro area

Euro extended its march to $1.2059 this week, the highest since Jan. 2015. In August, the euro spiked above the $1.20 mark for the first time in two years after Draghi avoided mentioning it in Jackson Hole. Draghi was questioned about the currency at least half a dozen times. While he admitted that there was broad concern in the Governing Council over the euro, he said the currency merely warranted monitoring, stopping short of stronger verbal interventions. Meanwhile, stock investors are making peace with the expensive euro. A robust economic recovery amid stubbornly low inflation in the euro region is helping propel the common currency's surge of more than 14 per cent against the dollar this year.

The ECB kept monetary policy unchanged Thursday, and deferred on providing clarity on tweaks to its asset-purchase scheme until October. Expectations are growing that adjustments next year will stay within the parameters of the program. The ECB upgraded its forecast for growth this year to 2.2 per cent, the fastest pace in a decade, and left it unchanged for 2018 and 2019. At the same time, the reduction in the outlook for inflation was small, much less than would have been warranted by looking at the 4.4 per cent appreciation in trade-weighted terms since the last forecasting exercise.

Australia

The Reserve Bank of Australia left benchmark interest rates unchanged at a record low of 1.5 per cent for the thirteenth month running, as expected.

Canada

The Bank of Canada surprised the market by increasing interest rates yesterday, sending the loonie more than 2% up against the dollar. The short-term interest rates in Canada are now 1%, considerably close to the Fed's 1.25%, which has been the most hawkish central bank from all of the major currencies so far this year. As a result, the loonie reached a 2-year high against the dollar.

The employment report was a good one as the national statistics agency reported the labor market is in its longest run of employment gains since the 2008-2009 recession. Signs are emerging that sluggish wages are also on the rise and companies are quickly running out of capacity. The country added 22.2k jobs in August, the ninth straight monthly gain, versus market expectations for a 15k gain. Annual average hourly wage gains hit 1.8%, the highest since October 2016. Separately, Statistics Canada reported industrial production has reached 85 per cent of capacity, the highest 2007. The data could add to expectations the Bank of Canada is poised to continue tightening to prevent the surge in growth from fueling inflation.

UK

GBP rose to a 5-week high against a weaker dollar as UK manufacturing data beat expectations. The currency headed for its third weekly gain against the dollar and hit $1.32, as the USD dropped against all its Group-of-10 peers. UK manufacturing rose 0.5 per cent in July, more than economists' expectations. The sector recorded a rise for the first time this year, boosted by a strong rebound in car production, and the trade deficit was little changed from a downwardly revised June. But construction shrank for a fourth consecutive month after a plunge in new orders in the second quarter. However, these figures do little to dispel concerns arising from slow progress of Brexit negotiations and the squeeze from rising prices take their toll.

Growth in the first half was the weakest since 2012 and surveys suggest the dominant services industry is continuing to lose momentum with the latest IHS Markit's

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gauge of services indicating Services PMI fell to 53.2 from 53.8.

UK house prices jumped in August at the fastest pace this year, adding to signs the housing market has regained some strength after its post-Brexit vote slowdown, mortgage lender Halifax said on Thursday. As per the report, house prices increased 1.1 per cent from July, the biggest one-month rise since December and building on July's 0.7 per cent increase.

Jason Granite
Chief Investment Officer
08 September 2017

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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%	2.07%	3.48%	2.39%
FTIM Safety First 3	3.26%	1.91%	2.54%	3.61%	2.65%
FTIM Safety First 4	4.38%	2.93%	3.13%	4.10%	3.36%
FTIM Safety First 5	5.63%	3.23%	3.99%	4.54%	3.72%
FTIM Safety First 6	10.10%	5.04%	5.44%	5.20%	5.01%

Date: 08 September 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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