15 September 2017

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Markets growing resilient to North Korea's provocations

KEY MESSAGES:

Investors largely shrugged off tensions on the Korean peninsula. Haven assets from the yen to gold declined and US Stocks rose even as North Korea launched missile over Japan following UN sanctions

USD gained, GBP rose 3% to $1.36 as BOE shifted to a hawkish stance. The S&P 500 Index rose 1.5% this week and closed at 2,498. European and UK equities fell. Oil hovered near $50 a barrel. Yields on 10-year Treasuries topped 2.2%.

Fed Policy makers meeting next week are expected to keep rates on hold, while announcing the start of a gradual process to shrink their $4.5 trillion balance sheet.

Market developments during the week

Fears that North Korea may launch another missile test on its founding day waned as the country choose to issue threats against the US ahead of a vote in the United Nations on further sanctions. North Korea threatened to sink Japan into the sea with a nuclear strike and turn the US into ashes and darkness for agreeing to the latest UN sanctions. This did not preclude the UN member nations to intensify the protest against North Korea as the United Nations placed further sanctions.

Tropical storm Irma proved less destructive than perceived. Irma's damages are expected to have ascended to around $50 billion versus the expected $200 billion.

Risks receded from markets initially on account of unwinding of worries relating to the two events. Interest rates and stock index futures were sharply up in the US, following a global broad risk on movement.

The sanctions that the United Nations approved on North Korea included reducing gasoline and diesel imports to the country by 56% and capping oil supply at current levels, while banning textile exports. In retaliation, North Korea launched a second missile over Japan that flew far enough to put the US territory of Guam in range.

However, it appeared that markets are growing resilient to North Korea's provocations and the responses of the US and its allies as witnessed by the diminished reactions in financial markets to the dictatorship's weapons tests. Global equities climbed to a record high this week as earnings and confidence in economic growth take foreground. The MSCI All Country World Index is poised for its third week of gains in four.

Thursday's US economic data lent support to those expecting a further run up in US bond yields as inflation topped estimates and traders increased bets on another rate hike in 2017. August inflation data ended a 5-month streak of underwhelming price pressures. CPI increased 0.4% month on month (est. 0.3% gain) after 0.1% rise the prior month; rose 1.9% year on year. Core CPI, which is less volatile, rose 0.2% month on month after rising 0.1%; up 1.7% year on year. The reading may soothe some concerns that inflation is slowing more broadly, though it will take more readings to determine whether the pickup can be sustained. Energy prices rose by the most since January and may reflect some impact from Hurricane Harvey. Economists have said headline inflation measures could remain elevated for several months as the data more fully incorporate the fallout from Harvey and Irma. The improvement, were it to persist, would make it more likely that the Fed will raise interest rates in December. Policy makers meeting next week are expected to keep rates on hold while announcing the start of a gradual process to shrink their $4.5 trillion balance sheet.

The US economy gave mixed messages this week. On the one hand, inflation ticked up, but on the other, consumer spending softened. Consumer prices rose 0.4% in

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August, pushing inflation to 1.9% year on year from 1.7%, however, retail sales, on the other hand, fell 0.2% over the same period. Still, as far as the decline in retail sales during August, we believe that most is likely related to the disruption in economic activity in southeast Texas due to weather conditions and lack of inventory. There were also downward revisions to the prior two months, making it more likely that consumption will be hard-pressed to match the 3.3% growth pace of the prior quarter.

The Hurricane concerns negatively impacted US consumer sentiment, as the University of Michigan survey data showed preliminary sentiment index falling to 95.3 from 96.8 in August. Americans expressed concern about the economic and inflationary impact of Hurricanes Harvey and Irma. The figures are the first to broadly capture the effects of Harvey and Irma, which caused more than $100 billion in damage and sparked a jump in claims for unemployment benefits. Ultimately, the decline in July makes sense given the disruption in economic activity related to the storm. We expect that both Harvey and Irma are likely to drag down GDP growth in the third quarter and as such, expect further volatility in the data going forward.

Meanwhile, President Donald Trump is stepping up efforts to promote tax cuts that he says will benefit the middle class and boost an already-tight labor market. Most consumers said the economy had improved of late, with just one in five expecting conditions to deteriorate in the coming year. Only 25% of respondents expected an increase in unemployment, which is hovering near a 16-year low. Investors await the new framework relating to overhaul of the US tax code that was promised to be released in the coming two weeks by Trump administration.

Terrorists threat continues to loom over UK as Friday saw London struck by an explosion at a train station with the police stating it was a terrorist attack.

Currencies

The Bloomberg Dollar Spot Index stood 0.6% higher on a weekly basis as a stronger-than-estimated inflation reading on Thursday now has a Federal Reserve hike by year-end as a coin toss. While the greenback rose initially, the US retail sales data by the end of the week and rising GBP led USD pare its biggest weekly gain in 7 months to 0.6%.

The euro closed at $1.2.

The British pound gained 3% to $1.36, the strongest in almost 15 months. The currency rose as the Bank of England shifted to a hawkish stance.

The Japanese yen closed at 111.05 per dollar. The currency is a haven in times of geopolitical tensions and is perhaps the most sensitive asset to look at for immediate reaction to North Korean acts. The currency soared as much as 0.6% against the dollar within about a minute after the news Pyongyang had launched another missile toward Japan. Yet within another three minutes, two thirds of the advance had evaporated. Hours later, it's barely changed from its New York closing level indicating the growing resilience of markets towards the North Korean tensions.

Equities

The S&P 500 Index approached the 2,500 level, heading for its best week in four months as technology shares gained. The index rose 1.5% this week and closed at 2,498.

The week saw investors rushing back to US stock funds, investors added the most money since June during the past week. They poured $1.9 billion into the securities in the week to Sept.14, Bank of America Merrill Lynch said in a research report, citing EPFR Global data. It was just the second week of inflows since June. Investors had been shifting funds from US equities to stock markets in Europe, Japan and emerging markets. A net $4.7 billion has been taken out of US equity funds since the beginning of the year, while European stocks are sitting on an inflow of $31.7 billion and Japanese equities $36.4 billion.

Stocks across Asia and Europe were a mixed bag.

The Stoxx Europe 600 Index fell 0.3%, the biggest drop in more than a week.

The UK's FTSE 100 Index sank 2.2% this week to 7,216.

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

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The MSCI All-Country World Index climbed 0.1%.

The MSCI Emerging Market Index gained 0.2%.

Bonds

The yield on 10-year Treasuries rose fifteen basis points to 2.20%.

US Treasury funds saw inflows of $2.2 billion, the biggest in 62 weeks, in keeping with the quest for yield, the bank said. Investment-grade bond funds received $4.8 billion of new money, the 38th consecutive week of inflows.

Germany's 10 year yield increased thirteen basis points to 0.44%, hitting the highest in almost four weeks.

Britain's 10-year yield rose thirty one basis points to 1.3%.

Commodities

Oil posted its biggest weekly gain since late July at 5.1% as Texas refineries recovering from Hurricane Harvey processed more crude and global demand forecasts brightened. West Texas Intermediate for October delivery closed at $49.82 a barrel. Total volume traded was about 20 % above the 100-day average. Brent for November settlement rose 3.6% to $55.68 a barrel. The global benchmark crude traded at a premium of $5.25 to November WTI.

OPEC and the International Energy Agency buoyed crude markets with higher demand forecasts that signaled the glut that's weighed on prices may contract further. Global demand will climb this year by the most since 2015, the Paris-based IEA said on Wednesday. A day earlier, OPEC raised its estimates for the amount of crude it will need to supply in 2018 on expectations of stronger consumption from Europe and China.

While oil has rebounded the past two weeks, prices have struggled to hold above $50 a barrel this year as rising US output stifles supply curbs led by OPEC members. The group and its allies are said to be discussing extending those cuts past the end of March by more than three months as the global glut drains slower than expected.

Declines in havens led gold fall 1.8% closing at $1,322 an ounce, a two-week low.

Copper fell 0.5%.

Other major economies:

Euro area

Major economic data releases from the euro area this week that help up gauge the performance of the union include quarterly eurozone employment data that was on an upward trajectory, underlining the continued improvement in labour markets on the continent. Eurozone Industrial Production figures recovered 0.1% in July, after a sharp 0.6% drop previously. Italian Industrial Production beat expectations marginally to expand 0.1% in July, leaving year on year growth at an impressive 4.4%. Italian Unemployment fell to 11.2%.

German Consumer and Wholesale prices were released with the former rising 0.1% as expected in August, while the latter rose significantly faster than expected. French Consumer Price Index inflation rose 0.5% in August, as expected. French Private Payrolls expanded 0.4% in the second quarter, slightly less than expected.

Markets are now focused on the German elections that take place on September 24th. Although no surprise is expected and Merkel should consolidate a strong victory, some sort of market uneasiness could be seen over the next two weeks as data will be scarce and the euro remains in multiyear highs against the dollar and sterling.

China

Bitcoin, the most popular cryptocurrency plunged as much as 20% after online exchange BTC China halted new account registrations and said it would stop handling trades at month-end. China is said to have notified regional regulators that it aims to stop exchange trading of cryptocurrencies by the end of September. Bitcoin is now in a bear market and on its longest losing streak in more than a year.

On economic front, producer-price inflation accelerated to 6.3% in August, greater than estimates. The strong reading comes as government efforts to limiting capital outflows continues to bear fruit. The surprise strength gives support for global

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Markets growing resilient to North Korea's provocations

inflation spanning from metals to fuel and shows the effects of resilient domestic demand and reduced supplies of some commodities. China's authorities have been closing mills and smelters to cut excessive industrial capacity and help curb pollution, in turn straining production of metals such as aluminum and steel which led to soaring global metal prices. Another underpinning for better-than-expected factory prices comes from infrastructure investment, which is often used to buffer growth amid downward economic pressure.

Data released last week also showed a pickup in the consumer price index, which exceeded estimates with a 1.8% increase after rising 1.4% in July.

China's gauge of new credit showed money is still flowing through the economy, even as authorities continue to rein in some areas of shadow lending. Aggregate financing stood at 1.48 trillion yuan ($226 billion) in August, compared with an estimated 1.28 trillion yuan in a Bloomberg survey. However, broad credit growth is now on a downward trajectory. M2 money supply increased 8.9%, the slowest in records dating back to 1996. Economists forecast a 9.1% increase. Slowing money supply growth is evidence of the PBOC's quest to stem the riskier borrowing between financial institutions without choking off credit to an economy that's already cooling.

Canada

Economic releases include labour market data released Friday depicting positive results. The unemployment rate fell to 2009 lows at 6.2% and the number of jobs created jumped above expectations. However, the loonie fell after the release as the number of full time jobs created disappointed.

As regards the real estate market, Canadian home sales had their first increase in five months as tumbling prices in Toronto coaxed buyers back following government moves to cool the market in the city. Toronto sales jumped 14.3% in August from July, leading a nationwide sales gain of 1.3%. Toronto activity remains 36% below a peak set in March, the month before the Ontario government brought in measures such as a foreign buyers tax, the Canadian Real Estate Association said Friday. Toronto's rebound comes as benchmark prices fell 2.3% on the month, CREA said, and 7.5% over three months, the biggest such decline in records back to 2000. The realtor group, however, cut its sales forecast through next year, citing the tougher Ontario rules and the prospect of higher mortgage rates. CREA projects transactions will drop 5.3% this year, compared with a forecast in June for a 1.5% decline, and the number will fall another 2.3% in 2018.

Turkey

Turkey's central bank kept its main interest rates unchanged as expected on Thursday, citing the level of inflation as a reason for caution. The one-week repo, overnight lending and late liquidity window rates remained at 8%, 9.25% and 12.25% respectively, while the overnight borrowing rate was maintained at 7.25%. The central bank, in its statement, repeated its promise to tighten policy if needed.

Price gains accelerated to double digits last month surging to 10.2%, which the bank said showed that the past depreciation of the lira is still feeding into consumer prices. The currency has recovered more than 10% from a record low in January, after the regulator raised the cost of borrowing to the highest level in at least six years. The lira closed at 3.4509 per dollar. The yield on Turkey's two-year lira notes was at 11.62%. Earlier this week, President Recep Tayyip Erdogan's adviser Bulent Gedikli warned policy makers against a combination of high interest rates and an overvalued currency.

Egypt

Egyptian policy makers are weighing plans to raise 1.5 billion euros from the country's first sale of euro-denominated bonds before the end of November, Finance Minister Amr El-Garhy said. With local borrowing costs above 15%, Egypt is increasingly looking at international debt markets 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's financial dealings with the outside world turned positive last fiscal year after an

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Markets growing resilient to North Korea's provocations

influx of foreign investment following the flotation of the pound in November. The nation recorded a balance of payments surplus of $13.7 billion in the year ending June 30, compared with a $2.8 billion deficit a year earlier. Egypt saw about $16 billion of net investments in its debt and equities last year, versus an outflow of about $1.3 billion in the previous 12 months.

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.

Russia

Bank of Russia reduced its benchmark to 8.5% from 9%, in line with most forecasts, and said further easing was possible during the next two quarters. Although annual inflation has swung between 4.4% in June to 3.3% in August, the central bank considers those readings to be consistent with its goal. Households' inflation expectations for a year ahead, which the central bank calls a "pillar" of rate decisions, fell to 9.5% in August. Policy makers might pause at their next meeting in October. Policy makers face less urgency to deliver stimulus after the economy grew last quarter at the fastest pace since 2013. The central bank improved its forecast for gross domestic product to grow 1.7-2.2% in 2017, compared with a gain of 1.3-1.8% it projected earlier. The ruble fluctuated after the rate decision, briefly erasing its decline, before trading 0.4% weaker at 57.735 against the dollar. The yield on Russian 10 year ruble bonds fell four basis points to 7.54%.

India

India's current account gap turns out to be the widest in 4 years showing a shortfall of $14.3 billion April-June or 2.4% of GDP. This could pressurize the rupee before an expected reduction in US stimulus in coming months as a smaller US stimulus would curb investment into emerging markets. Many, including India, have already seen global funds buying fewer of their stocks and bonds.

UK

UK Inflation matched 4 year high levels as it jumped 2.9% from 2.6% in July. The core inflation accelerated more than economists expected last month, reaching the most since 2011. Separate data showed that companies' input costs rose 1.6% in August, the most this year, while output prices rose 0.4%. September's Labour Market report showed unemployment falling to a fresh multi decade low of just 4.3%. Inflation is on the rise and unemployment has fallen, but wage growth remains stubbornly low as the average weekly earnings rose just by 2.1% and there are concerns about the outlook for Brexit. However, this didn't deter the BOE pursue a hawkish stance.

Bank of England officials are preparing markets for the first rate hike in more than a decade. Minutes from the bank's September meeting, released Thursday, warned that an interest-rate increase could happen within months if the economy performs as officials expect. The bank's monetary policy committee declared that some withdrawal of monetary stimulus was likely to be appropriate over the coming months. It puts the BOE on the same trajectory as the Federal Reserve, which is already tightening. The European Central Bank is also starting to consider how to wind down its stimulus measures.

GBP climbed to the highest level against the dollar since just after the Brexit vote and gilts slid as Bank of England policy maker Gertjan Vlieghe, a dovish member, stoked speculation of an interest-rate increase within months. Sterling surged more than 1.4% to break $1.35. The premium to hold call options on the pound relative to puts rose to the widest since 2009, as markets moved to price two rate increases next year. GBP strengthened as much as 1.2% to 87.94 pence per euro. The yield on two-year UK government bonds climbed 6 basis points to 0.44%.

Money markets are now pricing an almost 75% chance of a rate increase in November, with a 25-basis point rise fully priced for February and a second one by December 2018.

As regards the property prices, Central London continues to record decline in its property prices while resilient performance is being noticed in the property prices of rest of the UK, according to the RICS. The outlook for the capital is also subdued, with prime central London the only area in which prices expectations are negative over the next 12 months. RICS said 61% of respondents felt landlords would exit the market over the coming year in light of recent policy changes that mean many will pay more tax, while only 12% saw a greater number of entrants. The drop in supply will see annual rental growth grow 3% over the next five years, outpacing a 2% rise in house prices, they predicted.

Updates on Brexit negotiations were light with one of the progress being the passing of Brexit legislation that intended to withdraw the UK from the EU and translate elements of EU law to domestic statutes. The Brexit bill will formally end Britain's EU membership and overturn the supremacy of European law in the country. It is controversial because it hands sweeping powers to ministers to change legislation as they see fit, without full scrutiny in Parliament.

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%	1.49%	3.43%	2.42%
FTIM Safety First 3	3.26%	1.91%	1.98%	3.55%	2.67%
FTIM Safety First 4	4.38%	2.93%	2.58%	4.02%	3.37%
FTIM Safety First 5	5.63%	3.23%	3.38%	4.45%	3.73%
FTIM Safety First 6	10.10%	5.04%	4.50%	5.09%	5.01%

Date: 15 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.