

WEEKLY INVESTMENT UPDATE

Geopolitics overshadow US Jobs results

KEY MESSAGES:

Geopolitical concerns returned, as Russian news agency reported that North Korea may test a missile this weekend. This dampened demand for risk assets and led a rally in safe havens.

Payrolls fell for the first time since 2010 by 33k, reflecting hurricane impact. At the same time, the jobless rate dropped to 4.2% and wage gains accelerated.

USD stabilized after hitting the highest point in more than 11 weeks. GBP fell 3% this week to \$1.30.

S&P 500 gained 1.2% to 2,549. US 10-year Treasuries yielded 2.38%.

WTI Crude fell 4.6% this week to \$49.25 a barrel. Gold closed at \$1,273.5 an ounce.

Market developments during the week

Just as positive economic releases were bolstering confidence in global economic strength, markets again changed course as geopolitical tensions returned with a Russian news agency reporting that North Korea may test a missile this weekend. This dampened demand for risk assets and led a rally in safe havens. The CBOE Volatility Index rose 10%, the most in a month, after closing at a record low Thursday.

Earlier in the week, global shares were on firm footing, amid strengthening economic data. US investors also considered the prospects that Congress will enact a pro-growth tax plan and ongoing speculation that President Donald Trump will opt for a Fed Chair who might pursue more aggressive policy tightening.

The US payroll report indicated a decline in hiring of 33k after 169k advance last month, reflecting major disruptions from hurricanes Harvey and Irma. Markets instead decided to look at the jobless rate that fell to a new 16-year-low and acceleration in wage gains. Unemployment rate dropped to 4.2%. Average hourly earnings rose by 0.5% month on month after a 0.2% rise; up 2.9% year on year. The spike in hourly wages bolstered the odds for tighter monetary policy, as the Fed has been expecting for inflation to pick up. The probability of a Fed rate hike in December rose to almost 80% following the report,

from about 75% on Thursday, marking a new high.

Auto sales surprised to the upside, as affected consumers began to replace flood-damaged vehicles. US Manufacturing data reflected an expansion at the fastest pace in 13 years. Factory index climbed to 60.8 from 58.8. A measure of new orders increased to 64.6, the strongest since February, from 60.3. While increased factory bookings and production may also reflect a bounce-back from the storm, the nation's producers had already been on firmer footing because of improving global demand and an increase in U.S. capital spending.

Currencies

USD stabilized after hitting the highest in more than 11 weeks.

The euro fell 0.8% this week to \$1.17.

GBP fell 3% this week to \$1.30.

The yen rose 0.6% at 113.2 per dollar. The yen recorded gains as the currency is seen as safe haven amid rising tensions from North Korea.

Equities

The S&P 500 Index headed for its first retreat in nine days. Apart from rising geopolitical tensions, investors also interpreted the jobs report as negative as a rise in average hourly earnings could lead

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to higher labor costs for large companies. The index gained 1.2% over the week to 2,549.

The Stoxx Europe 600 Index sank 0.4%.

The MSCI Emerging Market Index was little changed.

Foreign bond holdings in emerging markets have reached a record \$785 billion, with India taking the biggest share of the \$93 billion of inflows so far this year followed by Czech Republic and Egypt, where the overseas share of bond holdings surged to 27% from just one % at the end of last year. Foreigners hold 28% of the bonds in Europe, the Middle East and Africa, the biggest proportion in emerging markets, according to the Deutsche Bank analysts.

Germany's DAX gained 1.12% this week to 12,973. The DAX has picked up pace in recent weeks, up 8.6% since Aug. 29, about twice the gains for the S&P 500, as a rally in the euro sputtered. That's even as the country's elections turned out a worse-than-anticipated result for the incumbent government, while an illegal referendum in Catalonia raises the spectre of political risk once again in Europe. This is also reflected in Spanish sovereign debt yield, 10-year tenor, which have skyrocketed 18 basis points this week, to 1.78%.

Bonds

The yield on 10-year Treasuries advanced five basis points to 2.38%, after touching

the highest in more than 12 weeks. Bond buyers looked past the payroll decline and focused on the rise in average hourly earnings and higher participation rate.

Germany's 10-year yield rose two basis points to 0.48%.

UK 10-year gilts rose one basis point to 1.38%.

Commodities

West Texas Intermediate crude decreased 4.6% to \$49.25 a barrel. Oil took a downward turn, as concerns eased about Tropical Storm Nate's threat to offshore crude platforms and coastal refineries.

Brent for December settlement declined \$1.50 to \$55.50 on the London-based ICE Futures Europe exchange. The global benchmark crude traded at a premium of \$5.87 to December WTI.

OPEC nations pumped slightly more, 120,000 barrels a day higher crude in September as Libya's biggest oil field returned to production. Nigerian output increased by 20,000 barrels to 1.77 million barrels a day, just short of the 1.8 million barrels a day that could eventually lead to its participation in OPEC's effort to reduce output. Saudi Arabia boosted production by 60,000 barrels a day to 10.06 million barrels, while Gulf neighbor Kuwait lifted output by 50,000 barrels to 2.76 million barrels a day. The recovery in production puts OPEC back to levels reached in July,

when the group pumped 32.85 million barrels a day. The compliance rate of the 12 members who agreed to curb their supply dropped to 82%, from 88 % the month before, the survey showed.

Meanwhile, U.S. oil output rose by 14,000 barrels a day to 9.56 million a day last week, according to data from the Energy Information Administration.

Gold pared the week's losses to closed at \$1,273.50 an ounce.

Other major economies:

Euro area

Economic data from the 19-nation euro area continues to indicate solid growth. A PMI for the region's manufacturing industry rose to 58.1 in September from 57.4 the previous month, London-based IHS Markit said on Monday. Services PMI for the region reached 55.8 as new orders rose at the fastest pace in more than six years. A composite Purchasing Managers Index for the euro area climbed to 56.7 in September, the strongest level in four months. While inflation in the region failed to accelerate in September, European Central Bank policy makers who will decide in October how to recalibrate asset purchases can take comfort from the fact that the buoyant expansion is starting to push prices higher.

With increasing size of order books, factories are scrambling to add jobs to keep

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up. Unemployment was 9.1% in August, according to a separate report from Eurostat. Economists had predicted a drop to 9%. Factory activity expanded in all major European countries, IHS Markit said, led by Germany and the Netherlands. Greece enjoyed its strongest growth since June 2008. Particularly, German factory orders rebounded in August rising 3.6% in August after a revised decline of 0.4% in July. Domestic orders rose 2.7% in August from the previous month, according to the report. Export orders increased 4.3%.

European Central Bank policy makers kicked off their debate about next year's monetary stimulus by focusing on how to balance the size and duration of monthly asset purchases. The Council reiterated that they intend to move extremely carefully to avoid rocking investors and undermining the recovery. Ahead of the next policy decision that is due on Oct. 26, ECB officials are showing differing preferences for the way forward with quantitative easing, which is set to run at €60 billion (\$71 billion) a month and total almost €2.3 trillion euros by the end of December.

Australia

Australia's central bank kept interest rates unchanged, as was widely anticipated. Governor Philip Lowe has been increasingly reluctant to follow developed-world counterparts and tighten policy. Policy makers remain concerned about the level of household debt, currently at 194%, weak wage growth and their combined

potential to spook consumers into cutting back spending.

Australia has held rates at a record-low 1.5% since last August, banking on macroprudential measures to cool house-price growth and looking for signs that a stronger job market will lift wages.

China

China reported a strong factory gauge as manufacturing PMI rose to 52.4 in September as against 51.7 in August. This gain reflects government's efforts to clean up the financial sector and the environment aren't damping economic growth yet. The non-manufacturing PMI stood at 55.4 compared with 53.4 a month earlier. A private-sector gauge, the Caixin manufacturing PMI, slipped to 51.0 from 51.6. the Caixin index covers mostly SMEs and hence a contraction is a concern.

Japan

Bank of Japan's quarterly Tankan survey indicated growing confidence among big manufacturers, underscoring Prime Minister Shinzo Abe's run of success on the economy as he heads into an election later this month. Sentiment among large manufacturers rose to 22 from 17 three months ago, the highest level since September 2007. A weak yen and a stronger global economy have fueled record profits in Japan, even as trade tensions and North Korea's nuclear program have clouded the outlook. While

Abe's Liberal Democratic Party is expected to win a parliamentary election set for Oct. 22, the margin will be important to his quest for constitutional revision.

Canada

Signs that Canada's economy is cooling increased this week with data on international trade that showed Canadian export volumes falling 1.9% in August, the third straight month of decline. The CAD fell to 5-week low upon the release. Still, the Canadian job market remains robust with a 10th straight month of job growth with 10k jobs added in September. Since the start of the year, the unemployment rate has fallen to 6.2%.

UK

This week has been a bad week for the pound, with a string of data overall being disappointing, negative headlines continuing to abound regarding Brexit, and now the PM having to fight off a rebellion from within her own party.

On the data end, the releases included Figures from the Office for National Statistics showed the U.K.'s labor productivity fell for a second consecutive quarter in the three months through June. Output per hour fell 0.1% in the three months through June after a 0.5% drop in the January-March period, according to the ONS. Growth was the slowest among the world's biggest economies in the first half of 2017, while over the long term, productivity

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on a per-hour basis is more than 15% below the G-7 average, the ONS said. The failure of productivity to recover to its pre-crisis trend has baffled economists for years. Possible explanations include the U.K.'s reliance on services, which lag manufacturing in terms of efficiency growth, the so called zombie companies that have been kept alive by loose monetary policy, and limits in the flow of people between firms since the financial crisis.

IHS Markit report on U.K. services activity for September that reported an acceleration and increase in price pressures. The services PMI increased to 53.6 last month from 53.2 in August. The report came in after investors were let down due to weaker numbers from manufacturing and construction earlier in the week. U.K. construction unexpectedly fell for the first time in more than a year in September as Brexit weighed on investment in commercial building as IHS Markit's PMI fell to 48.1. Crucially, it's also below the 50 level that divides expansion from contraction. Markit's manufacturing report also a decline, more than economists' expectations. However, it showed solid growth at the end of the third quarter.

A survey on Wednesday also showed that growth in new business fell to the weakest in more than a year and confidence declined. Some firms said that clients were holding off on major investment decisions because of Brexit uncertainty.

The all-sector PMI fell to a seven-month low in September, and Markit said it's now at a level that would normally be associated with policy loosening rather than tightening.

Sterling appears to face some volatility as expectations of possibility of Prime Minister May resigning gain momentum. Theresa May is facing calls to stand down following her disastrous speech at the Conservative Party conference this week. With Brexit dominating the U.K. political debate, any leadership contest would put the country's negotiating position further on the back foot.

Jason Granite
Chief Investment Officer
06 October 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% | 1.67% | 3.43% | 2.40% |
| FTIM Safety First 3 | 3.26% | 1.91% | 2.14% | 3.55% | 2.65% |
| FTIM Safety First 4 | 4.38% | 2.93% | 2.76% | 4.02% | 3.35% |
| FTIM Safety First 5 | 5.63% | 3.23% | 3.51% | 4.45% | 3.68% |
| FTIM Safety First 6 | 10.10% | 5.04% | 4.95% | 5.09% | 4.98% |

Date: 06 October 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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