13 October 2017

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INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

US Inflation proves to be structural

KEY MESSAGES:

US Inflation reading slowed, potentially complicating Fed's debate over whether to raise interest rates once more this year by December.

USD slumped, GBP rose 1.5% to $1.33. S&P 500, Dow Jones, Nasdaq Composite Index, all hit record highs. 10-year treasuries yielded 2.29%. WTI Crude was $51.41 a barrel, 4.2% rise over last week. Gold rose 1.7% to $1298.8 an ounce.

European bonds gained on news that ECB is considering cutting their monthly bond buying by at least half starting in January and keeping their program active for at least 9 months. In the UK, the chances of a rate hike by BOE in November rose to 88% this week.

Market developments during the week

Global stock markets this week rose to record highs amid various economic releases reiterating global economic strength and multiple geopolitical developments including Catalonia crisis, rising tensions between US and Iran, upcoming elections in Europe and Japan. Particularly, US stocks climbed to record highs and 10-year treasuries rallied after a core inflation reading slowed, adding to evidence that economic growth continues apace without stoking price increases. The hurricane-driven boost to the US cost of living in September fell short of projections, as the September CPI rose 0.5% month on month. The less volatile core CPI rose 0.1% month on month, following 0.2% gain; up 1.7% year on year. Another Commerce Department consumer-inflation measure, preferred by the Fed, is running below the central bank's 2% target, with a 1.4% gain in the 12 months through August.

Separate reports on Friday showed US consumer sentiment unexpectedly surged to a 13-year high in October and retail sales rose last month by the most in more than two years as Americans replaced storm-damaged cars and paid higher prices at the gasoline pump. Excluding autos and fuel, sales still increased at the second-fastest pace since January. Overall sales surged 1.6% after a revised 0.1% decline in prior month.

Earlier during the week, the minutes of September meeting of Fed were published which indicated some Fed officials expressed concern that low inflation was more than a temporary phenomenon, triggering a slip in the dollar as investors interpreted the pronouncements as more dovish than had been expected. The Inflation Report was seen as potentially complicating the Federal Reserve's debate over whether to raise interest rates once more this year, by December. The Central Bank will see two more reports on that index, along with two more on the Labor Department's CPI, before making a decision. In the meantime, a weaker dollar and a solid job market could also feed in more strongly to price pressures across the economy.

Retaining the confidence in brightening prospects in the world's biggest economies, the International Monetary Fund warned policy makers not to get too comfortable even though it lifted its growth outlook for the US, the euro area, Japan and China from its last forecast in July. The fund projects the global economy will grow 3.6% this year and 3.7% next, in both cases an increase of 0.1%age point from its previous estimate. The recovery spans roughly 75% of world output, according to the IMF. The fund warned that medium-term risks are tilted to the downside, highlighting dangers from tightening financial conditions, low inflation in advanced economies, financial turmoil in emerging markets and protectionist policies. The IMF tweaked its forecast for US growth to 2.2% in 2017 and 2.3% in 2018 from 2.1% for both this year and next in its July estimates. However, the IMF's base case doesn't take into account fiscal stimulus from tax reforms backed by

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President Donald Trump and Republican leaders in Congress. Messages from Central Bankers also indicated an increasingly upbeat outlook for their economies.

As regards geopolitics, Nafta came into picture as Canada's Prime Minister Trudeau and Mexico's Pena Nieto decided to retain their trade unity and pose a united front for trade talks with President Trump, after US negotiators put forward a contentious proposal for a Nafta "sunset clause." This involved certain rules of origin, which determine how much of a product must come from Nafta countries to receive the pact's benefits. The rules of origin, particularly for autos, are among the most controversial subjects, as Trump aims to repatriate manufacturing jobs from Mexico by rewriting trade rules. Trump has regularly threatened to walk away from the pact. The fourth round of talks are scheduled to run through Oct. 17 and the parties have said they aim to wrap up a deal within the next few months.

President Trump declared a hardened stance toward Iran Friday, as he refused to certify that the Islamic Republic is in compliance with the multinational accord to curb its nuclear program. His decertification amounts to a rebuke, but not a rejection of Obama's signature foreign policy achievement. President Trump indicated the possibility of exercising the right to withdraw from the deal at a later date if his efforts to improve it fail, as he stressed 2015 agreement wasn't serving U.S. national security interests.

The move drew praise from Saudi Arabia, Israel, UAE and Bahrain. However, it set up conflict between the US and few of its other allies who responded swiftly with a joint statement from British Prime Minister Theresa May, German Chancellor Angela Merkel and French President Emmanuel Macron reaffirming their commitment to the deal, which they called a major step towards ensuring that Iran's nuclear program is not diverted for military purposes.

The Gulf country's exports have flooded back into Asian and European markets, roughly doubling to between 2.2 million and 2.4 million barrels a day since sanctions were eased last year upon completion of the nuclear deal. Shipments to Europe surged to about half a million barrels a day after the EU lifted its embargo. Iran's sales to China, its biggest buyer, swelled in August to the highest level since June 2016, according to Bloomberg calculations.

The administration's more confrontational approach, not immediately, does raise the risk of doing business for energy producers in Iran which currently exports 2.3 million barrels of crude daily, more than three times the amount of oil the US has sold abroad over the past year.

Domestically, Trump administration put in effort to undo major parts of the Affordable Care Act after the failed attempt to repeal and replace it fully. President Trump's directive indicated federal agencies to consider a number of steps that could erode many of the core tenets of Obamacare. A direct blow involved announcement that the federal government will no longer reimburse insurance companies for reducing out-of-pocket costs for poorer customers, as required by law. His executive order is expected to cause premiums to fall drastically for millions of Americans.

Currencies

The Bloomberg Dollar Spot Index slumped as much as 0.3% this week.

The euro rose 0.85% this week to $1.18.

GBP rose 1.5% to $1.33.

Yen fell 0.6% to 112 per USD.

Equities

S&P 500 Index rose 0.2% to 2,555. The Dow Jones Industrial Average increased 0.2% and the Nasdaq Composite Index gained 0.3%. All three indexes hit record highs.

The Stoxx Europe 600 Index rose 0.3%.

FTSE 100 rose 0.2% to 7,542.

The MSCI Emerging Market Index rose 0.5%.

Japan's Nikkei 225 rose 1%, finishing the week at the highest since 1996. The broader Topix index rose 0.5%.

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Bonds

US 10-year treasury yields fell seven basis points to 2.29%.

Germany's 10-year bund yield fell five basis points to 0.41%.

UK 10-yr Gilt yields rose one basis point over the week to 1.37%.

Commodities

WTI for November delivery closed at $51.41 a barrel. Prices are up 4.2% this week. Brent for December settlement climbed to $57.16, rising 2.8% over the week. The global benchmark crude traded at a premium of $5.45 to December WTI.

Positive sentiment in the oil market was boosted by reports of US crude stockpiles declining. US crude inventories fell by 2.75 million barrels last week. On demand side, Chinese crude imports last month jumped to the second-highest on record. China's overseas crude purchases averaged about 9.04 million barrels a day in September, up 13% from the previous month, according to Bloomberg.

With US oil inventories falling for a third straight week, the chief of the International Energy Agency predicted worldwide supply will soon be in sync with demand, provided OPEC maintains ongoing output cuts. The head of OPEC said a market re-balancing is progressing.

Gold rose 1.7% to $1298.8 an ounce.

In industrial metals, iron prices started to reverse their recent decline into a bear market after Chinese imports of ore broke through the 100-million-ton level, smashing the previous record. LME nickel has rallied almost 10% this week, and copper added 3.3% as data showed Chinese imports for the metal also rose.

Other major economies:

Euro area

The week was light on data releases from the euro area. The few economic indicators include French inflation that contracted slightly more than expected in September (-0.2% vs -0.1% expected). weaker than expected French Industrial Production, which contracted 0.3% after a 0.8% expansion last month and a larger than expected German Trade Balance figure.

Bonds in Europe gained, with Germany's 10-year yield falling to the lowest level in more than two weeks, after a report that the ECB officials are considering cutting their monthly bond buying by at least half starting in January and keeping their program active for at least nine months. Reducing quantitative easing to €30 billion ($36 billion) a month from the current pace of €60 billion is said to be a feasible option.

The IMF this week predicted the euro area will grow 2.1% this year before slowing to 1.9% in 2018, as the currency zone's prospects strengthen on the pickup in global trade, ongoing strength in domestic demand and diminished political risk. It estimated inflation of 1.5% this year and 1.4% next year.

Political risks are waning in Euro area. The euro enjoyed a relief rally as the Catalonian crisis calmed down and the Spanish central government appears to have regained control of the situation, at least for the moment. Mariano Rajoy, the Spanish Prime Minister, started the process of activating article 155 of the Spanish constitution, which allows the central government to suppress the autonomic government of a region and control it. As a condition to finally put article 155 into action, Rajoy has given the Catalan government 5 days to confirm whether Catalonia did or did not declare independence unilaterally, regardless of it being suspended for several weeks. Rajoy's move now puts the ball in Catalan president Carles Puigdemont's court, whose answer will determine the implementation of article 155 or not.

The upcoming Austrian elections are seen less likely to trigger any major impact in Europe's best-performing developed stock market this year. Investors see a partnership between the conservatives and the Freedom Party as broadly benefiting the Austrian Traded Index by helping bring about corporate and wage tax cuts that would slash companies' tax bills and boost domestic demand. The vote is due on Oct. 15.

Australia

Reports this week came as a relief to Australian authorities after recent regulatory

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measures constrained some borrowers curbing flow of money to some extent. Australia has held rates at 1.5% since last August, amid record household debt at 194% of income that's helped fuel Sydney and Melbourne's scorching property-price growth. Regulatory changes have made interest-only loans far less attractive and borrowers are forced to use more realistic loan to valuation metrics. Data showed balances in mortgage offset accounts and redraw facilities remain about 17% of outstanding loans, or more than 2 ½ years of scheduled repayments.

The RBA is also developing a top-down stress testing framework for banks in order to gain better assessment of sensitivity of the overall banking system to a change in parameters.

China

China saw its exports rise to 8.1%, just narrowly missing estimates of a 10% rise. Imports rose 18.7%, recording fastest growth since March, to result in a trade surplus of $28.5 billion. Trade surplus versus the US rose to a record $28.1 billion. The report reiterated confidence in robust external demand and a brighter global outlook. Still, the world's largest exporter faces uncertainty amid trade frictions with the US and North Korean nuclear tensions.

China's trade with North Korea slumped in September, amid United Nations sanctions aimed at deterring Kim Jong Un from pursuing his missile and nuclear-weapons program. Exports to North Korea fell 6.7% last month versus a year ago, while imports fell 37.9%. North Korea's deficit with China more than tripled in the first nine months of the year from the same period in 2016, to $1.07 billion.

Another positive news for the economy was the rise in growth outlook by IMF. The IMF raised its call on growth in China to 6.8% this year and 6.5% in 2018, up 0.1 point in each year compared with July.

Japan

Positive sentiment is spreading across Japanese assets, particularly equities. Even amid news of corporate scandals, the Nikkei 225 Stock Average shot to a level unseen since December 1996. Even as the Nikkei 225 marked a milestone, the scandal engulfing Kobe Steel deepened as the company said it falsified data on several products, wiping out $1.6 billion of its market value. The buoyant market is reflecting investors' expectation that Japan Inc. will boost annual profit targets during the upcoming earnings season. Foreign investors poured 201.8 billion yen ($1.8 billion) into Japanese stocks during the last week of September and became net buyers for the first time since July amid expectations for robust earnings growth as the reporting season kicks off in late October.

Another factor that is helping the equities rise is the anticipated victory for the Abe administration in the upcoming election. Polls show Abe may keep two-thirds majority in the election. A victory by that margin would pave the way for Abe to win a third straight term as party leader next September, potentially enabling him to become Japan's longest-ever serving prime minister. It makes it easier to move forward with a consumption tax increase and a divisive plan to revise Japan's 70-year-old pacifist constitution.

IMF, this week, projected Japan will grow 1.5% this year, up 0.2 point from July, before downshifting to 0.7% in 2018, which is still 0.1 point higher than anticipated three months ago. Growth is expected to be driven by global demand and policies designed to keep fiscal policy supportive.

Singapore

Singapore's central bank left its neutral policy stance unchanged on Friday while giving itself room to tighten next year if necessary. The Monetary Authority of Singapore, the only central bank in a major developed nation to use the exchange rate as its main tool, stuck to its neutral stance of zero appreciation in the currency.

The MAS said economic growth will probably come in at the upper half of the 2% to 3 % forecast range for this year, but expand at a slightly slower pace in 2018. Prime Minister Lee Hsien Loong said in August that he expected growth of 2.5% pace for this year.

In a separate report on Friday, the trade ministry reported GDP rose at an annualized rate of 6.3% in the third quarter from the previous three months. GDP

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climbed 4.6% from a year earlier, versus median estimate of 3.8%. Services industry, which accounts for about two-thirds of economy, grew an annualized 1.5% in the third quarter from the prior three months. Manufacturing surged 23.1% while construction contracted 9.2%.

The economy is experiencing robust growth this year as global trade continues to rebound and the electronics sector shows a particularly impressive upswing. At the same time, a weak labor market is weighing on consumer demand with retail enduring a painful transition away from traditional brick-and-mortars to e-commerce. Employment contracted in the last two quarters.

UK

Slow progress of Brexit negotiations continued to spread uncertainty among Britons. Statement by EU's Brexit Chief negotiator that negotiations were in a deadlock on basic issues such as the divorce bill and EU citizens' rights lead GBP lower. However, the currency later rallied as the EU announced that it will begin to discuss trade negotiations with the UK. Donald Tusk sent a draft to the 27 states of the EU saying that free trade talks could open in December, depending on the Prime Minister's offer of what the UK pays when it leaves the union. Though the EU will commence trade talks later in the year, it has started internal preparatory discussions so that they are ready to start negotiations on trade and transition in December if they decide to.

Data releases included positive reports from the industrial, manufacturing and production sectors. Investors interpret the improvement in manufacturing production (2.9% year-on-year), construction output (3.5% year-on-year) and industrial production (1.6% year-on-year) could further encourage the Bank of England to hike rates before year end. The probabilities of an interest rate hike remain broadly unchanged, near 80% for early November.

The trade deficit in goods and services climbed to 5.6 billion pounds ($7.4 billion) in August, with the shortfall in goods hitting an all-time high. A much weaker pound was expected to boost exports after Brexit but, so far, only the higher costs of imports are being reflected in the current account balance. Perhaps, the increase in the trade deficit will favor a softer stance towards Brexit as a bad deal with the EU would surely damage further the trade balance.

As BOE approaches a hawkish meeting next month, markets are increasing bets of a rate hike. On Friday, statement by BOE Governor Mark Carney that there likely will be an interest rate hike in the UK soon as the central bank seeks to control inflation as the Brexit process continue further raised the probability of an interest rate hike in November to 88%. Just last week, the markets implied possibility was at 84%. Deadlocked Brexit talks and domestic political woes have not significantly undermined GBP level but a much-anticipated interest-rate increase next month could see sterling rally. The Bank of England reviews its benchmark bank rate on November 2.

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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%	1.77%	3.43%	2.39%
FTIM Safety First 3	3.26%	1.91%	2.32%	3.55%	2.64%
FTIM Safety First 4	4.38%	2.93%	2.98%	4.02%	3.33%
FTIM Safety First 5	5.63%	3.23%	3.79%	4.45%	3.66%
FTIM Safety First 6	10.10%	5.04%	5.31%	5.09%	4.94%

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.