27 October 2017

frenkel topping
INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

ECB Goes Lower for Longer

KEY MESSAGES:

ECB notified the extension of bond buying until next September at a reduced pace of €30 billion a month.

US Economy saw its strongest consecutive quarterly growth in 3 years. It grew 3% in Q3 2017. Bonds rose as speculation mounted about the next Federal Reserve chair, expected to be officially declared next week.

USD recorded a gain of 1% this week. S&P 500, Nasdaq, Dow Jones all gained on positive earnings report and progress on tax overhaul. US 10 year Treasuries yielded 2.46%. WTI Crude closed at $53.73 a barrel. Brent closed above $ 60 a barrel. Gold closed at $1,283.4 an ounce, 1.6% lower.

Market developments during the week

In the US, as investors witnessed the busiest days of the earnings season at the same time the political wrangling in Washington persisted at a breakneck pace. House Republicans adopted the budget resolution unlocking a process to cut taxes by the end of the year. The next step will be releasing a draft tax measure on Nov. 1.

President Donald Trump continued to string out his decision on the next Federal Reserve leader this week, giving mixed signals on his preference. By the end of the week, stakes of Federal Reserve Governor Jerome Powell being appointed were high, as President Trump seem to prefer him over others. The speculation is soon going to end in the coming week, as the Fed chair is expected to be announced on Nov. 3.

In Europe, ECB President Mario Draghi provided details on the central bank's plan to reduce stimulus, while promising to maintain near-zero rates for as long as necessary. It notified extension of bond buying at €30 billion through next September.

Regarding US macro data, there were a few impressive releases. The US GDP grew at 3% annualized rate in Q3, expanding at a faster pace than forecast. The gain follows a 3.1% gain in Q2, making these to be best back-to-back quarters since 2014. The expansion came in despite hit from hurricanes Harvey and Irma, as consumer and business demand remained resilient. Consumer spending grew 2.4% and business fixed investment rose 1.5%. However, if purely the final sales to domestic purchasers are seen, this measure rose 1.8%, the slowest since early 2016, after rising 2.7% in prior quarter. It appears the fallout from the hurricanes was mixed, probably depressing some figures while lifting others. Price data in the GDP report showed inflation picked up while still lagging the Federal Reserve's 2% goal. Excluding food and energy, the Fed's preferred price index, which is tied to personal spending, rose at a 1.3% annualized rate last quarter, following a 0.9% gain. The Fed's next rate decision is on Nov. 1. The central bank can point to evidence that growth is steady enough to allow them to keep raising interest rates, with investors expecting a quarter-point increase in December.

US Consumer sentiment also climbed in October to 100.7 from 95.1 in September, the highest level since the start of 2004 as households grew upbeat about the outlook for the US economy, as per survey by University of Michigan. The pickup in confidence was accompanied by an increase in spending plans. Buying conditions for household durables were the most favorable since 2006 and largely due to gains among low- and middle-income consumers. Core durable goods orders increased 0.7%, the fastest monthly increase since November 2016. New home sales jumped an amazing 19%, rebounding from the hurricane-slump and show the highest growth since 2007. Also, jobless claims have fallen below their pre-storm levels, and new-home sales unexpectedly

WEEKLY INVESTMENT UPDATE

ECB Goes Lower for Longer

rose in September due to increased activity in the South, according to government figures released this week.

Amid the strong indicators depicting growing resilience of world economies, markets seem to have forgotten geopolitical risks from North Korea, the Middle East are still omnipresent.

Currencies

The Bloomberg Dollar Spot Index rose 0.1% after increasing 0.7% on Thursday. It gained 1% this week recording sixth weekly advance in seven after the US House passed a budget resolution seen as advancing the prospects for tax reform.

The euro fell mid-week after ECB President Mario Draghi outlined the central bank's plans to halve its monthly bond purchases starting in January, but buy bonds for a longer time. It finally closed at levels similar to last week at $1.18 after dropping 1.4% Thursday.

The pound extended a 0.75% decline this week and closed at $ 1.32.

The yen rose 1.4% to 113.4 per dollar.

Equities

S&P 500 recorded gains of 0.7% this week and closed at 2,571 on positive earnings reports and progress of tax overhaul by Trump administration.

Most stocks followed gains. Particularly, technology shares rallied following stellar profit at Amazon.com Inc. and Alphabet Inc. that buoyed Nasdaq 100 futures. About $200 billion were added to the market value of Nasdaq 100 companies as the gauge jumped 2.8%. Encouraging earnings reports from US manufacturers pushed the Dow Jones Industrial Average to a new high.

European equity-index futures also climbed. Spanish stocks continued to lag as Europe's worst constitutional crisis for decades comes to head. Catalan lawmakers Friday voted to set up an independent state while the government in Madrid was granted the power to seize control of the region.

FTSE 100 closed at 7,532, 0.04% down.

Japan's stocks rose, sending the Nikkei 225 Stock Average through 22,000 for the first time since 1996 and ending their seventh week of gains. Nikkei closed this week 1.4% up at 21,458.

The S&P/ASX 200 Index saw its first weekly slide in four after the government lost its majority.

Canada's S&P/TSX Composite Index climbed to 15,963 on Friday, surpassing the intraday record hit on Feb. 21 after outpacing its global peers since Sept. 8. Financials have accounted for more than half of the advance, with industrials, consumer discretionary and energy also contributing. Surging oil prices have partly contributed to this strength. Even with its recent gains, the Canadian index is way behind its US counterparts, which have hit a series of record highs this year. The year-to-date gain for the S&P/TSX is just 4.4% versus 15% for the S&P 500. Canada still lags most developed markets, ahead of only Israel and Australia, according to data compiled by Bloomberg.

The MSCI Asia Pacific Index advanced and is set to finish its fourth week of gains, though volatility is at record lows.

Bonds

The yield on 10-year Treasuries rose sixteen basis points to 2.46%.

Yields had touched the highest since March earlier on Friday, weighed down by a stronger-than-forecast US growth report and as speculation percolated that Trump might still choose economist John Taylor, who's seen as more hawkish than current Chair Janet Yellen. A move that would signal continuity for monetary policy in the US. Volatility seems to be returning in the bond market, as moves in US yields diverge from their European counterparts. The spread between 10-year Treasury rates and bunds has reached its widest level in six months. Investors are awaiting President Donald Trump's decision on a Federal Reserve chair that may sway the path of American interest rates.

As US Yields rise, emerging markets face a smash as the Carry-trade index headed for biggest drop since November. The strategy of borrowing in US dollars to invest in currencies tied to high interest rates has

27 October 2017

WEEKLY INVESTMENT UPDATE

ECB Goes Lower for Longer

been a favorite among investors this year, pushing the index of carry-trade returns to a three-year high last month. However, this week's jump in US Treasury yields is eroding the appeal of that trade.

A Bloomberg gauge of the carry trades in eight developing-nation currencies has tumbled 1.8% over the past week, heading for the steepest weekly drop since Trump's election as president in the week ending Nov. 11. Investors pulled a record $218 million from the biggest ETF that tracks emerging-market local debt on Thursday, the largest outflow since the fund was created in 2011. Investment funds tracking emerging-markets local bonds and equities also posted redemptions over the past week, analysts at Bank of America Merrill Lynch said in a report, citing EPFR Global fund flow data.

Germany 10-year bunds yielded five basis points higher than last week at 0.45 %.

UK 10-year gilt yields closed at 1.33 %, 4% lower than last week.

The 4.75% 30-year treasury gilts are currently trading at 137 down from 142, just seven weeks earlier.

Commodities

WTI for December delivery closed at $53.73 a barrel. It touched $53.93, the highest price since early March, in intraday trading.

Brent for December settlement jumped to $60.24 a barrel. The surge above $60 a barrel for the first time in more than two years came in amid enthusiasm that OPEC may extend its supply-restraint deal and indications that the situation between Iraq and the Kurds remains fragile. Brent price is up 4.3% this week. It traded at a premium of $6.51 to West Texas Intermediate.

Saudi Arabian Crown Prince Mohammed bin Salman this week backed the extension of production cuts by OPEC beyond March, fueling optimism. At the same time, crude flows from Iraq to Ceyhan, Turkey, remain below normal levels and a US spokesman said the Kurds and Iraqis haven't reached an official cease-fire.

Gold fell 1.6% this week to $1,283.4 an ounce.

Other major economies:

Euro area

The euro area maintained momentum as the economy saw orders rise though composite PMI slipped to 55.9 in October, IHS Markit reported. While the drop was slightly larger than economists had predicted, job creation in manufacturing rose to the highest level since data collection began in 1997. The manufacturing PMI rose to 58.6 from 58.1 in September, the highest level in over six years, IHS Markit said. The services PMI dropped to 54.9 from 55.8.

The main concern this week relating to EU was the ECB's decision on its bond buying program. The European Central Bank met market expectations as it reduced its bond-purchase program to €30 billion a month starting January from the existing €60 billion, but cushioned the effect by continuing to reinvest proceeds from maturing securities. The extension of the termination date of the program from March 2018 to September 2018 increases the overall spending commitments from €180bn to €270bn. Furthermore, the ECB also left the door open for further extensions of size and duration should the economy worsen in the euro area next year. The overall message was that the ECB are far less confident in the eurozone's economic recovery than markets had assumed`

Investors read the decision as dovish, sending the Stoxx Europe 600 Index up 1.1% on Thursday for the biggest gain in more than two months. The euro snapped a two-day rally following the announcement.

Political tensions continue to linger. The prosperous Italian regions of Lombardy and Veneto claimed victory in non-binding referendums in favor of more autonomy. About the Catalan crisis, there more clarity closer to weekend as Catalonia's parliament voted to declare independence and the government in Madrid gained the power to oust its separatist leadership. The

27 October 2017

WEEKLY INVESTMENT UPDATE

ECB Goes Lower for Longer

text submitted to vote included measures to ask all nations and institutions to recognize the Catalan Republic. Meanwhile, the Spanish Senate approved measures giving Prime Minister Mariano Rajoy the power to seize control of the Catalan administration via Article 155 of the constitution.

Spain's 10-year bonds dropped, with the spread against benchmark German bunds widening by seven basis points to 119 basis points. The country's benchmark stock index, the Ibex, fell 1.4%, all but erasing Thursday's gain when it looked like all-out declaration of independence might be avoided.

Australia

The Aussie dollar plunged to the lowest since July and stocks declined as much as 1% after the nation's high court ruled Deputy Prime Minister Barnaby Joyce is ineligible to remain in parliament as he was also a citizen of New Zealand when elected, violating constitutional laws. That means Prime Minister Malcolm Turnbull's Liberal-National coalition government loses its one-seat majority in the lower house of parliament, renewing a political turmoil.

Japan

Prime Minister Shinzo Abe's move regarding snap election paid him well as he won a chance to lead Japan through 2021. Japanese stocks jumped after Prime Minister Shinzo Abe's ruling coalition retained its two-thirds majority in an election victory Sunday that paves the way for continued easy monetary policy and fiscal spending. The Nikkei 225 Index gained 0.9%, headed for a record 15th straight day of gains. The benchmark Topix index meanwhile has rallied for 11 days, trading at a July 2007 high.

The yen fell 0.2% to 113.79 per dollar, the lowest level in more than three months when it was on the rise amid escalating geopolitical tensions. It has traded between 107.32 and 118.60 this year. While the Abenomics policy of monetary easing, fiscal stimulus and structural reforms has pushed down the currency, the BOJ has yet to reach its policy goal of boosting the annual inflation rate close to 2%. Even in September, Japan's inflation rate remained unchanged. Also, pressure is also growing for Abe to tackle Japan's swollen debt, increase stagnant wages and overhaul the labor market to replenish a rapidly aging workforce.

Canada

The Bank of Canada held rates unchanged at 1%, after consecutive hikes at the bank's last two decisions in July and September, and warned they will remain "cautious" when considering future hikes. The Canadian dollar dropped 1% after the statement, with investors pushing out odds for the next rate hike. A rate increase is now fully priced in by March, with another in September. Before the rate announcement, investors had been fully pricing in the next rate hike in January.

The Bank's decision was widely expected, particularly after last week's economic data indicating slowing retail sales. This week also wholesale sales data depicted a sharp fall, below expectations.

China

As US Inc are recording strong earnings, their Chinese counterparts are not behind. Chinese industrial profits jumped 27.7% in September, the most since 2011, underscoring resilience in the economy as authorities intensify their efforts to cut excess capacity and reduce pollution. Robust factory inflation, industrial output and consumer spending have been keeping the expansion on track this year. China is witnessing inflation that most of the world's major economies haven't seen in quite some time.

South Africa

South Africa's rand extended its decline amid worries of a rating downgrade after the country's finance minister on Wednesday signaled more borrowing. A downgrade could spur massive capital outflows at a time when policy tightening in developed nations is curbing demand for emerging-market assets. South Africa's assets took hit as foreign investors dumped the country's notes in the wake of government forecasts for higher public debt and wider budget deficits in the next three years. Foreign investors own 41% of South Africa's 1.97 trillion rand ($139 billion) of local-currency bonds. Inflows into the market have surged since 2011, when the

27 October 2017

WEEKLY INVESTMENT UPDATE

ECB Goes Lower for Longer

country's debt was included in Citigroup Inc.'s World Government Bond Index, which is tracked by investors overseeing more than $2 trillion. If the country loses its investment rating on its local-currency bonds, it would be excluded from the WGBI, leading to as much as $14 billion of outflows, according to JPMorgan data.

The woes have not reached a close as the ruling African National Congress prepares to replace President Jacob Zuma as party leader during a Dec. 16-20 conference. Two-month implied volatility for the currency against the dollar surged to the highest in more than 11 months on Thursday, a day after Finance Minister Malusi Gigaba rattled markets with a bleak budget speech. At 20%, it's by far the highest among major emerging currencies, with Turkey's lira next at 13%.

Turkey

Turkey's central bank kept its main interest rates unchanged. A move that was widely expected. The Governor Murat Cetinkaya has made it clear that liquidity must remain tight until there's a slowdown in price gains. Still, markets perceived this to be a hawkish indication because of the change in tone relative to earlier statements. However, the lira's reaction did not reflect this as it fluctuated between gains and losses. At close, it was trading 0.2% weaker at 3.7732 per dollar.

The central bank began tightening monetary policy late last year as the lira depreciated, eventually reaching a record low in January. Though the currency stabilized, the regulator has found it difficult to bring down the consumer inflation rate. It was 11.2% in September, compared with the long-term target of 5%.

UK

Some recent data emboldened the more hawkish policy makers, particularly inflation that reached 3% for the first time in more than 5 years in September. As economic data comes in support, sterling is priced in for a rate hike by Bank of England (BOE) next week. Such a price in may reflect buy the rumor sell the fact situation whereupon sterling may not move much upon a rate hike next week.

At an 88% probability of an increase in interest rate, markets expect it would be a quarter-point increase and such a move would only reverse the emergency cut of the same margin made straight after the UK's Brexit vote. Analysts are not convinced that any rate rise will be the start of a series.

Further bolstering the case of rate hike came in the UK's GDP figures that showed the economy grew above expectations in Q3. It expanded 0.4%, ahead of forecasts as per new early estimates from the Office for National Statistics. The result brings the year-on-year growth rate to 1.5%, in line with the previous quarter. The vast services industry was behind the bulk of Britain's economic expansion in the third quarter, but manufacturing also contributed, helped by a rebound in car production.

Other report from the Confederation of British Industry suggests UK Retail Sales plunged at the fastest annual pace in eight years at minus 36 in October from a positive 42 in September. Sales for the time of the year were slightly below the usual seasonal rates, it said.

Also, worries about the housing market could exacerbate the weakness in consumer spending seen this year. The rate hike by Bank of England could impact on spending habits, particularly for those concerned about the cost of their mortgage.

Releases from the BOE continued to warn regarding inflationary pressures. A recent research report from the central bank, published earlier this week, showed that the drop in the pound after Brexit could lift inflation significantly above target for much longer than the initial estimates pointed out. As a result, the case for an interest rate hike is now stronger than ever. Another source was a Bank of England blog that indicated currency depreciations in practice have almost double the effect on raising prices than the central bank's main models predict, even if there is no pass through to wages and domestic costs.

On Brexit front, the UK awaits more details from the EU in relation to the second stage of the Brexit negotiations which will include discussions about a trade deal and a transitional arrangement. As British Prime Minister Theresa May stuck to earlier vague concessions last week at Brussels summit about honoring commitments and insisting

WEEKLY INVESTMENT UPDATE

ECB Goes Lower for Longer

a “Brexit bill”, which the EU reckons at around 60 billion euros ($70 billion), must be part of a package deal on what Britain’s relationship with the EU will be once it leaves in March 2019. Sticking to their own script, the other 27 states gave May until the next regular summit in eight weeks to improve offer officials estimate at about €20 billion euros if she wants them to start discussing future trade ties. Miss that deadline and, the EU says, time will be running out for any deal.

Upcoming events

Fed’s rate decision is on Nov. 1

Bank of England rate decision on Nov. 2

Bank of Japan’s policy meeting next week

President Trump’s choice of Fed chair on Nov. 3.

U.S. October payroll report on Nov. 3

Jason Granite
Chief Investment Officer
27 October 2017

27 October 2017

frenkel topping
INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

ECB Goes Lower for Longer

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%	1.86%	3.43%	2.37%
FTIM Safety First 3	3.26%	1.91%	2.40%	3.55%	2.62%
FTIM Safety First 4	4.38%	2.93%	3.07%	4.02%	3.31%
FTIM Safety First 5	5.63%	3.23%	3.87%	4.45%	3.64%
FTIM Safety First 6	10.10%	5.04%	5.39%	5.09%	4.91%

Date: 27 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.

Frenkel Topping Investment Management Limited - Frenkel House, 15 Carolina Way, Salford, Manchester, M50 2ZY

Frenkel Topping Investment Management Registered in England No: 05010380.

Frenkel Topping Investment Management is a subsidiary of Frenkel Topping Group Plc and is authorised and regulated by the Financial Conduct Authority No: 409409.