17 November 2017

frenkel topping
INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Volatility continues – Global Threats Remain

KEY MESSAGES:

Market volatility continued this week following one of the worst weekly sell offs in 2017.

House Republicans passed their tax-overhaul bill. The Senate version will be voted on after Thanksgiving.

Economic data reflects the same path – lack of pick up in inflation in major economies, except for UK, which is witnessing stronger inflation levels but slowing wage growth.

USD fell, S&P 500 closed at 2,583. US 10-year Treasuries yielded 2.35%. Oil pared its weekly losses on expectations of a production cut extension by OPEC at its meeting this month end. WTI Crude closed at $56.01 a barrel. Gold closed at $1,285.5 an ounce.

Market developments during the week

The week saw huge swings in global markets, particularly in the U.S. as shares saw the biggest drop in two months after touching record highs a week earlier.

Last week we notified our clients regarding our decision to move 100% to cash and in hindsight, this looked to have been perfect timing to avoid the volatile environment markets saw this week. Our timely decision, meant that our Safety First funds avoided such volatility and protected our annual returns, which are exactly in line with our goals.

We continue to monitor events and look for suitable opportunities to redeploy our funds. Markets are currently sensitive to tax cut reform progress in the U.S., the Senate election in Alabama, and earnings reports. This week saw lofty valuations, the flattening of the yield curve and a selloff in junk bonds adding to global investor concerns.

Overall, almost all the asset classes saw a bounce-back from sell-offs towards the end of the week but risks to the downside remain in our view. Though global growth remained resilient and earnings forecasts strong, uncertainty surrounding the U.S. tax overhaul, the Middle East, the path for China's over levered economy, and the U.K.'s exit from the European Union kept investors cautious.

President Trump returned from his 12-day Asia trip to a domestic political landscape buffeted by a Congressional battle over tax cuts and a controversial Senate race in Alabama.

As regards the Senate election in Alabama, Republican Roy Moore is trailing his Democratic opponent in polling conducted by the Senate GOP's campaign arm, even though Alabama hasn't elected a Democratic senator in a quarter-century.

The National Republican Senatorial Committee found that Democrat Doug Jones led Moore by 12 points, 51% to 39%, in a survey of 500 Alabama voters. Moore won the Republican nomination for the Senate seat vacated by Attorney General Jeff Sessions, and the special election is Dec. 12. He has been facing allegations, specifically of sexual assaults. He has denied the allegations and has refused to withdraw from the race.

Senior Republicans called for Moore to quit the race, but President Trump was notably silent on the issue. Democrats are attacking on all fronts with the prospect that their candidate now has a shot to win a seat long considered out of reach in a state that Trump won by almost 30 points in last year's presidential election. The nonpartisan Cook Political Report on Tuesday moved its rating of Moore's contest with Democratic candidate Doug Jones, to "toss up." If Moore refuses to quit and losses it has serious implications for control of the Senate and Trump's ability to implement his agenda which has already proven challenging.

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.

17 November 2017

frenkel topping
INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Volatility continues – Global Threats Remain

However, the significant development this week that kept investors on their toes was US tax overhaul. House Republicans passed their tax-overhaul bill this week by slashing the corporate tax rate, lowering tax burdens for most individuals and adding an estimated $1.4 trillion to the federal deficit over the next decade. Goldman Sachs Group Inc. said in a note Tuesday the debate is moving faster than they expected, boosting the odds that tax reform will be enacted by early next year to 80% from 65%.

On the data front, one of the major releases was price data. The Producer Price Index rose 0.4% in October, far above expectations. The Consumer Price Index came in unexpectedly after having core CPI disappointing in six out of the last eight months. Now CPI seems to be making its way back to its trend level of 0.2% growth per month lending credibility to Fed's claim that the weak inflation seen earlier this year was due to transitory factors. Core Retail Sales disappointed.

Other releases included U.S. new-home construction rebounded in October rising, 13.7% to a 1.29 mln annualized rate, the fastest pace in a year, partly reflecting recovery efforts in the hurricane-stricken South. The report showed building permits for single-family homes also improved in October to an 839,000 annualized pace, the fastest since September 2007. Construction spending, which subtracted from gross domestic product in the second and third quarters, may add to U.S. economic growth in the final three months of 2017 on the heels of rebuilding efforts. A gauge of homebuilders' confidence surged in November to an eight-month high, indicating optimism about the outlook amid sustained demand, boosted by the steady job market and relatively low mortgage costs.

We also saw higher than expected weekly Initial Jobless Claims, a miss for monthly Import Prices and a worse than expected reading for the survey based Philly Fed Manufacturing Index this week. Overall, data suggests that GDP growth was over 3% in Q3 and is tracking near 3% during Q4, helping reduce economic slack.

Diminishing slack should provide comfort for the Fed to raise rates in December, a view highlighted by several FOMC members this week. We are now anticipating 4 interest rate raises in 2018.

Currencies

The Bloomberg Dollar Spot Index fell Friday, touching the lowest in more than three weeks. The greenback remains strongly linked to political developments in Washington; tax reform, Roy Moore, the continued investigations of Special Counsel Robert Mueller into Russian election tampering and calls for a Special Counsel Investigator to address the alleged Clinton scandals of the past.

The euro rallied as global equities took a battering earlier this week and is on track for its strongest weekly gain since Sept. 8. It's risen more than 1% since last Friday and stood at $1.18.

The British pound stayed unchanged over the week at $1.32.

The Japanese yen closed 0.88% lower at 112.5 per dollar, the strongest in more than four weeks.

Bitcoin closed in close to $8,000 just days after suffering a 29% crash. Its dominance may come under threat from planned offshoots with bitcoin diamond, bitcoin silver, bitcoin unlimited and super bitcoin among the proposed new splits. That follows the launch of the relatively successful, if even more volatile, bitcoin cash. Leaders of three of the world's biggest banks, however, have expressed skepticism about the stability and endurance of bitcoin.

Equities

The S&P 500 Index rose 0.03% to 2,583. The S&P 500 Index initially saw a selloff and later bounced back from a bout of selling that saw the Cboe Volatility Index spike to the highest since August.

However, a growing number of analysts opine that US equity markets are due a correction. A recent survey of global money managers from Bank of America Merrill Lynch also depicted equities are overvalued. The investors are divided over the likely impact of the White House's tax agenda next year, with one camp expecting it will yield no change to the economic outlook, and the other saying the reform will spur inflation.

The Stoxx Europe 600 Index decreased 0.2% Friday.

Canada’s S&P/TSX Comp. slumped 0.4% to 16,039.

FTSE 100 also fell a further 0.7% to 7,381.

Chinese stocks slumped, led by Shenzhen shares, as a warning by state media that one of the nation’s hottest stocks was climbing too fast triggered a selloff. For the week, the Shenzhen gauge fell 4.2%, its worst loss since May 2016. The Shanghai benchmark declined 1.5%.

Japan’s Nikkei fell 1.25% to 22,681. The equity retreat that appeared most strongly in Tokyo Thursday afternoon last week was over a week later.

The MSCI Emerging Market Index increased 0.95% to the highest in more than a week. Even with a rally that’s double the gains in U.S. stocks, emerging-market equities are still attracting bulls. Adding to good cheer in Asia on Friday was a Moody’s Investors Service sovereign-credit rating upgrade for India, where policy makers have mounted a new campaign to deal with the country’s non-performing loans. That spurred a rally in the rupee and sent equities soaring together with bonds.

Bonds

The yield on 10-year Treasuries fell five basis points to 2.35%. The Treasury yield curve measures the spread between short- and long-term debt issued by the U.S. government. It’s the extra compensation that investors demand to lock away their money for an extended period.

The spread between yields on nominal and inflation linked Treasury debt, known as the breakeven inflation rate and viewed as investors’ outlook for price pressures, predicts U.S. consumer prices will average only about 1.94% over the next 30 years. And a bond market inflation gauge the Fed uses to help guide monetary policy is at 1.77%, down from 2.07% in January.

In another signal bond investors aren’t very worried by the risk inflation will erode their fixed-income payments, the yield curve continues to flatten. The spread between five- and 30-year yields fell on Tuesday to 76 basis points, marking its flattest since November 2007.

The U.S. gauge of high-yield debt was on course for its worst week since March before buyers came to the rescue on Thursday, though it still remains down from its high last month. Investors pulled more than $2 billion from global exchange-traded funds that track high-yield bonds last week as doubts mount about the sustainability of a rally that has compressed spreads to post-crisis lows.

Investors also drained cash from junk-bond funds at the fastest pace in eight weeks as doubts emerge over a risk rally that’s compressed yields to record lows. Funds that buy bonds of companies with relatively fragile balance sheets had $600 million in withdrawals in the seven-day period through Nov. 9, according to a Bank of America Merrill Lynch report citing EPFR Global data.

Germany’s 10-year yield dipped four basis points 0.37%, the lowest in more than a week.

Britain’s 10-year yield declined three basis points to 1.31%.

Commodities

Crude prices were negatively impacted early in the week on concerns over Russia’s readiness to extend output curbs. However, oil pared losses as Saudi Arabia moved to dispel doubts.

West Texas Intermediate for December delivery was at $56.01 a barrel, recording a 1.3% fall over the week.

Brent for January settlement was 62 cents higher at $61.98 a barrel. Prices are down 2.4% this week, its first weekly drop since the start of October. The global benchmark was at a premium of $5.81 to January WTI.

As regards demand and supply statistics, U.S. crude output gained this week to the highest in more than three decades, according to government data. Crude stockpiles climbed by 1.85 million barrels

17 November 2017

frenkel topping

INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Volatility continues – Global Threats Remain

last week to 459 million barrels, and production extended gains to all-time high 9.65 million barrels a day, the Energy Information Administration said Wednesday.

The IEA released its demand forecast for OPEC's crude next year at 32.4 million barrels a day, 1 million lower than the organization's own estimate and slightly lower than its output last month. If the agency is right, fuel stockpiles would start to expand again in the first half of 2018 and prices could fall below $60 again.

Looking at the current sensitivity levels, the OPEC meeting this month-end may result in significant price corrections if no extension is agreed upon. While OPEC Secretary-General Mohammad Barkindo sees no opposition in principle to continuing the supply curbs, the extension could be as short as three months or as long as nine months.

Along with recovery in oil prices, the commodities slump that was witnessed early in the week also reversed, particularly with the injection of cash by China's central bank into its financial system.

Gold closed at $1,285.5 an ounce, up 0.8% over the week. Copper dipped to $3.06 a pound, the lowest in more than five weeks.

Other major economies:

Euro area

Data releases remained the major source of investor moves in euro area assets this week. Final eurozone Consumer Price Index data for October showed headline inflation at 1.4% year on year, broadly consistent with the trend in recent months. The French final Consumer Prices that grew 0.1% as expected in October. German Wholesale Prices were released and were unchanged in October after a 0.6% spike last month. The German ZEW Economic Sentiment Survey, which rose to 18.7 in its latest index reading, although eurozone Industrial Production fell by 0.6% as expected, after a big 1.4% increase previously.

However, the common currency was buoyed by strong German and Italian GDP print. Germany's GDP came in above estimates in the third quarter, reflecting a 0.8% jump. The expansion was driven by exports and capital investment, and net trade made a positive contribution.

Though the eurozone recovery has been reflected in its stock markets, investors expect more as the economic fundamentals are supportive yet shares are still trailing the U.S. While the Stoxx Europe 600 Index has risen 5.7% this year, that's not even half the gains clocked by U.S. and Asian peers. The earnings outlook, moreover, is bright. The consensus forecast is for earnings per share for the members of Europe's benchmark stock index to jump by 35% in the coming quarter, compared with estimates for about a 20% average increase for the constituents of the U.S. Standard & Poor's 500 index. After a brief period of outperformance earlier in the year, European shares have lagged their U.S. counterparts, with the latter being boosted by hopes for wide-ranging corporate tax cuts which may or may not materialize. That has left European shares looking cheaper, relative to earnings. The Euro Stoxx index trades at about 15 times forward earnings, compared with 18 times for the S&P 500. Moreover, that gap has been widening this year.

With European Central Bank President Mario Draghi successfully starting to taper quantitative easing without triggering a market tantrum, the euro zone economy looks set to finish the year on a high. Those U.S. tax-cut hopes, meantime, are at the mercy of some frantic negotiations in the coming week. The relative discount on European shares may be become increasingly tempting for investors.

Another European asset, the Euro, is arguably starting to become a haven in times of perceived volatility. Just a few years ago, the common currency was almost a byword for political instability and faced threats to its very existence. It is now attracting buyers at times when risk assets around the world are being sold. Part of that is due to haven flows and investors unwinding carry trades. But it also reflects a market that is increasingly upbeat about growth and inflation in Europe even as central bankers remain reticent about dialing back stimulus. With European interest rates still hovering near record lows, the shared currency has yet to decisively break above the key $1.20 level.

17 November 2017

frenkel topping
INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Volatility continues – Global Threats Remain

Political risks in the euro zone rose.. German Chancellor Angela Merkel is struggling to form a coalition ahead of a self-imposed deadline at the end of this month. Developments are potentially throwing the future of Europe's longest-serving leader into doubt and pointing the world's fourth-biggest economy toward new elections. The euro fell.

A month of exploratory coalition talks ended in a dramatic collapse just before midnight Sunday as a dispute over migration policy led the Free Democratic Party, one of the prospective partners, to walk out on a deal.

Seeking to avert a crisis that would threaten her fourth term, Merkel and her Christian Democrat-led bloc reconvened Friday with the Free Democrats and Green party. After the chancellor initially set an informal Thursday deadline to wrap up a month of exploratory talks and move forward to concrete coalition negotiations, officials said several more days may be needed. Disagreements over risk sharing in the euro area, curbs on carbon emissions and immigration have made the three-party negotiations particularly difficult.

Japan

Japan's economy grew for a seventh straight quarter recording a 1.4% increase in Q3 GDP, its longest expansion since 2001, benefiting from government fiscal stimulus and massive Bank of Japan monetary easing. A recovery in exports and rising business confidence offset a decline in consumer spending.

Even so, inflation remains stubbornly low. Economists are watching closely for signs that the tightest labor market in decades is beginning to bring the needed higher wage gains and accelerate consumer price gains. In the meantime, external demand in the form of exports is playing a key role for growth.

China

In an effort to cool investor concerns on the credit health of the economy, China's central bank this week said that it will keep its prudent and neutral monetary policy, closely monitor liquidity and expectations, and deepen reforms in the interest-rates and currency market. The People's Bank of China aims to create an optimal environment to help stabilize the economic growth, while facilitating deleveraging, curbing bubbles and preventing risks, according to a quarterly monetary policy implementation report. The central bank will improve the coordination between the monetary and other policies and relax the restrictions on the market access of foreign financial institutions, the PBOC said. Separately Friday, the PBOC and other regulators published sweeping draft rules for asset-management products, the latest official step to curb risks in the financial system.

As government continues to focus on risky lending, Chinese industrial production and lending data sparked fears of weakening demand in the economy.

Industrial output rose 6.2% from a year earlier in October, versus a median projection of 6.3% and September's 6.6%. Retail sales expanded 10% from a year earlier, lower than forecast 10.5% and 10.3% the prior month. That's the slowest pace in a year. Stringent air pollution curbs have hit factory production and a slowdown in credit may weigh on the economy in the fourth quarter. Still, the world's second-largest economy is on track for its first full-year acceleration in seven years.

China's aggregate financing and new loan growth data fell in October to the lowest in a year, raising concern that economic growth will decelerate as President Xi Jinping shifts his focus to containing financial risks after stoking output in the runup to last month's 19th Party Congress. The lending slump was partly caused by government-ordered production cuts at factories in an attempt to conquer pollution and also due to seasonal factors. Adjusted for that, broad credit flowing to the real economy was a touch higher than in September and remained at a level supportive of growth.

The People's Bank of China has also been guiding market interest rates higher. And amid concern over the debt campaign, the selloff in Chinese sovereign bonds has deepened, with the yield on 10-year notes slipping to 3.94% on Thursday, compared

17 November 2017

frenkel topping

INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Volatility continues – Global Threats Remain

with 3.99% on Tuesday, the highest close since October 2014.

The central bank boosted the supply of cash in the financial system by the most since January on Thursday, after the bond selloff started to weigh on equities. The People's Bank of China injected net 310 billion yuan ($47 billion) through reverse-repurchase agreements on Thursday, the biggest one-day addition since Jan. 18.

A government deleveraging campaign, faster inflation and expectations of monetary tightening down the road are undermining the case for holding bonds, just as a stabilizing economy and stronger currency boost the attractiveness of other Chinese assets.

In further attempts to boost the economy, the regulators eased access to offshore financing by Chinese developers. The nation reported the deepest slowdown in new home sales in almost three years on Tuesday, as local authorities have rolled out curbs to cool runaway prices and President Xi Jinping urged citizens to end their speculation on housing. Amid the slowdown, developers still face restrictions on borrowing in the local bond market, rising costs for domestic financing, including shadow loans, and a record $30 billion in onshore and offshore bonds coming due in 2018.

Canada

Major economic data releases were lined up this week. Canadian payroll employment fell for the first time in six months in October, according to data from the ADP Research Institute. The job tally declined by 5,730 last month following a September gain of 43,386. Still, Canada's labor market is robust, adding 25% more employees so far this year than it did in all of last year. The new figures come at a time when Bank of Canada policy makers are closely tracking the job market to determine if the economy is at full capacity.

Another important release that helped gauge economic strength was Canadian inflation data. Annual inflation decelerated to 1.4% in October, from 1.6% in September, eased for the first time in four months as gasoline prices fell. The economy showed few signs of price pressure, bolstering the view the central bank can afford to wait before it tightens policy further. The average of the Bank of Canada's three key core inflation measures was unchanged at 1.6%, remaining at the highest since January.

Just like its global counterparts, the Bank of Canada is facing the challenge of persistently weak inflation giving it a strong case to hold further interest-rate increases by the Bank of Canada, after it hiked to 1% this year. This week, the Central bank explained the reason to pursue a cautious approach to interest rate hikes saying one reason is the desire to avoid a policy reversal. Growth is set to slow after a burst in the first half of this year as an oil shock eased, while a stronger Canadian dollar and some one-time pressures are holding inflation below the Ottawa- based bank's 2% target for longer than expected.

President Trump reiterated concerns over US trade deficit on his Asia trip. One of the key agreements he has been touting as the one with negative impact on the U.S. job market and trade deficit is NAFTA. This week discussions over NAFTA resumed. The lead negotiators for the three Nafta countries joined the latest round of talks as the U.S. Chamber of Commerce warned that an American pullout would hit hardest some key swing states that President Donald Trump took on his road to power. Still, Trump and his trade deputies haven't backed down from the threat to withdraw the U.S. from the 23-year-old accord, which governs more than $1 trillion in annual trade and has shaped the supply chains of major companies.

Canada is open to discussing the Mexican proposal and to the idea periodic re-examination, but considers a full sunset clause as proposed by the U.S. to be a non-starter, according to a Canadian government official speaking on condition of anonymity. The talks are scheduled to wrap up by Nov. 21.

UK

The pound rose on Friday recording fourth straight day of gains.

Economically, the same old saga was witnessed this week as well. UK employment fell in third quarter with pay growth lagging inflation again. The data

17 November 2017

frenkel topping
INVESTMENT MANAGEMENT

WEEKLY INVESTMENT UPDATE

Volatility continues – Global Threats Remain

showed the unemployment rate held at a four-decade low of 4.3% as the number of people in employment fell by 14,000. But employment fell by 14,000, the first decline since October last year and the biggest drop since June 2015. Basic pay in the third quarter grew at an annual 2.2%, lagging behind an inflation rate that averaged 2.8% in the period and is accelerating.

UK Inflation data showed price pressure broadly unchanged, with the headline Consumer Price Index remaining at 3.0% year on year, the same as last month. It held at a 5 1/2-year high, as cheaper fuel offsets rising food price. The pound fell as much as 0.3% after the release. Core inflation, which excludes volatile food and energy prices, held at an annual rate of 2.7% in October.

Consumer spending is already coming under strain from the squeeze on incomes, with data Thursday revealed UK retail sales recording their first year-on-year decline since 2013 last month with a 0.3% fall, despite solid growth in volumes from September, as households battled with fast-rising prices. Looking at the three months to October, which smooths out monthly volatility in the data, sales growth picked up to 0.9% from 0.7 % in the three months to September. Compared with a year earlier, however, sales volumes in the three months to October were just 1.1% higher than the year before, the weakest growth rate since May 2013.

Deadlocked Brexit negotiations only resulted in indications of further postponement with the EU stating negotiations on the U.K.'s divorce bill, the protection of rights of European and British citizens and the Irish border must make sufficient progress before leaders can allow talks to advance to trade and the potential transition arrangement. Brexit Secretary David Davis said there would be some clarity on the Brexit divorce bill in a few more weeks, as the U.K. side is going through European demands in search of a breakthrough in talks.

Theresa May wants that to happen at a summit next month, but time is running out and the EU says the U.K. has still not done enough. European officials have identified summits early next year where they could seek a breakthrough in Brexit talks, as the European side is bracing for a crunch meeting in December to end in failure. British officials fear the negotiations could fall apart if that doesn't happen at the next EU summit in December, although European officials are looking at possible dates in January or February to have another go. With 16 months before Brexit day, Britain needs to open the way to start discussions on the future trading relationship with the bloc to offer businesses, which are threatening to leave the country, some certainty in taking any investment decisions.

Risk reversals in sterling are now near the most bearish in more than a month. In the spot market, the pound has fallen 0.8 % this month, the worst performance after the Australian dollar and Norway's krone among Group-of-10 currencies. The three-month risk reversal covers the Dec. 14-15 European Union summit, where it looks increasingly unlikely that the EU will be ready to discuss trade with the U.K. That means trade talks could be pushed to March, just 12 months before Brexit takes effect in 2019.

The lingering uncertainties about Prime Minister Theresa May's political future also contribute to weakness in the pound.

Earlier in the week, the Sunday Times reported that 40 Conservative members of Parliament, just eight short of the number needed to trigger a leadership challenge, have agreed to sign a letter of no confidence in her. But many sources in her governing Conservative Party say now is not the time to force her out because despite backing Britain remaining in the EU, even if reluctantly, they think she is still the best option to deliver Brexit.

Politics and global financial markets are increasingly correlated and whilst politics remain volatile and inflation takes hold, it is becoming more and more difficult to find safe havens for lower risk investors.

Jason Granite
Chief Investment Officer
17 November 2017

17 November 2017

WEEKLY INVESTMENT UPDATE

Volatility continues – Global Threats Remain

frenkel topping

INVESTMENT MANAGEMENT

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%	2.25%	3.43%	2.37%
FTIM Safety First 3	3.26%	1.91%	2.86%	3.55%	2.62%
FTIM Safety First 4	4.38%	2.93%	3.61%	4.02%	3.31%
FTIM Safety First 5	5.63%	3.23%	4.52%	4.45%	3.64%
FTIM Safety First 6	10.10%	5.04%	6.13%	5.09%	4.91%

Date: 20 November 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.