01 December 2017

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WEEKLY INVESTMENT UPDATE

Senate passes the Republican tax overhaul

KEY MESSAGES:

US Senate passed the tax overhaul bill. President Trump tweeted he looks forward to signing a final bill before Christmas. This is possible after reconciliation of differences between the two versions. US equities rallied on tax overhaul optimism, but Flynn's testimony contributed to some downside.

Sterling was at $1.35, up 1.5% this week. GBP movements in the coming week will be dictated by preparations by the two sides ahead of the mid Dec summit.

OPEC and partners nations agreed to a production cut extension beyond March 2018. WTI Crude recorded its third monthly gain closing at $58.39 a barrel.

Market developments during the week

There was enough fodder for market volatility this week. Particularly, the US stock market has lately come a little untethered from its foundation in earnings and economic growth and started turning all its focus on politics. The passage of US tax reform stole the glory off the OPEC production cut extension. The Dow recorded new highs, as Senate Republicans narrowly approved the most sweeping rewrite of the U.S. tax code in three decades, slashing the corporate tax rate and providing temporary tax-rate cuts. The 51-49 vote brings the GOP close to delivering a much-needed policy win for their party and President Donald Trump. After the vote, President Trump said on Twitter that he looks forward to signing a final bill before Christmas. Attention now shifts to a House-Senate conference committee that will be charged with hashing out the differences in the bills and preparing a final version for both chambers to consider.

As regards differences in the two bills, there's a lot to agree on. For example, they both would cut the corporate tax rate to 20% from 35%, though the Senate version would make that change in 2019, a year later than the House bill would. The House bill provides family credit sunsets after 2022, whereas Senate version provides all individual tax breaks expire after 2025. Pass-through business income is taxed at 25% in the House bill whereas the Senate bill provides a 23% deduction. Regarding Alternative Minimum Tax, the House bill repeals it entirely for both individuals and corporations whereas the Senate bill maintains it, but raises the individual exemptions until 2026. While the Obamacare Individual Mandate is contained in the Senate version, incorporating it in the House bill would not be an issue. It could be seen as a win-win for most Republicans, smashing the Affordable Care Act, as they've promised to do for years, while raising some $300 billion to pay for tax cuts. The Congressional Budget Office has said the savings would result because the federal government would no longer have to provide subsidies for roughly 13 million people who would no longer be insured. The House version cuts the mortgage interest deduction cap for new purchases of homes in half, to loans of $500,000. The Senate version does not provide a change to the current $1 million limit.

Before it goes to Trump, lawmakers will have to resolve differences between the two bills, a process that could begin Monday. Although both versions share common topline elements, negotiations on individual provisions inserted to win votes, particularly in the Senate, may be protracted and difficult. Both bills are expected to add more than $1.4 trillion to the federal deficit over 10 years, before accounting for any economic growth. The final product will end up being a central issue in the 2018 elections that will determine control of Congress.

While Trump administration moves ahead in its legislative agenda, concerns rose that

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Flynn's testimony could hamper it. Speaking in court as part of his plea agreement, Michael Flynn admitted he lied to FBI agents in January about conversations he'd had with Russia's ambassador to the U.S. But he testified Friday that he had fully informed members of Trump's transition team about the communications, and had been guided by them. The S&P 500 Index fell as much as 1.5% on news that Special Counsel Robert Mueller's investigation had pierced the White House inner circle. At a moment when political tumult is roiling markets, VIX surged almost 30% after rising every day this week.

Aside this schedule, House Republican leaders plan to pass a two-week extension of government funding to avoid a shutdown on Dec. 8 without Democratic votes to move the next deadline to the Friday before Christmas. In order to advance a spending bill, 60 votes will be needed, and Republicans have only 52 members. The spending bill is among a number of issues lawmakers are racing to wrap up before the end of the year. As the brink of a government shutdown gets closer, Democrats have leverage for their end-of-year priorities because their votes crucial. Among other things, Democrats seek to provide permanent legal status for undocumented immigrants brought to the U.S. as children. Republicans are contemplating funding for President Donald Trump's border wall, which Democrats oppose.

On geopolitical front, North Korea tested a missile this week that analysts say may put the U.S. east coast in range. The launch demonstrated progress in North Korea's quest to obtain the ability to strike the U.S. with a nuclear weapon, a capability that Kim Jong Un has said he needs to deter an American invasion. Trump has threatened to use military force if necessary to stop North Korea's nuclear threat. However, markets depicted a sense of resilience shrugging off the initial reaction by end of the day. The benchmark Kospi index opened higher Wednesday, gradually climbing as much as 0.4%, before ending the day little changed.

In response, US demanded that China cut off all oil exports to North Korea. Later in the week, President Trump rebuked China for not being tough enough over North Korea's nuclear program and said the Asian country is backsliding on market-oriented reforms. Adding to strains in the relationship, the U.S. joined the European Union in rejecting China's claim that, under the terms of its accession to the WTO, it should have graduated last year to market-economy status, which would offer greater protection from anti-dumping duties.

Already, North Korea is being forced to bolster domestic food production as its access to foreign markets and currency is limited by United Nations sanctions imposed over its nuclear and missile programs.

The US-UK relations also came under the scan after British Prime Minister Theresa May condemned Trump's retweets of three unverified anti-Muslim videos posted by a right-wing British activist. After being lashed out by President Trump, Theresa May while repeating that Trump was wrong to retweet propaganda from a far-right British anti-Muslim group, said the close alliance between the two countries will endure.

On economic front, U.S. Manufacturing data depicted an expansion in November at a healthy pace as production surged and rise in number of orders signaled durable gains in the industry, figures from the Institute for Supply Management showed. Factory index eased to 58.2 (est. 58.3) from 58.7 in Oct. Employment gauge was little changed at 59.7 after 59.8. Factories are making further progress after hurricanes disrupted production schedules and delayed shipments in the immediate aftermath. The November report also showed factory inventories shrank at the fastest pace this year, a positive sign for production in coming months. Steady consumer spending, stronger investment in business equipment and improving overseas markets are underpinning the industry.

Another sign of decent level of consumer spending came after Commerce Department figures showed October month purchases rose 0.3%, after a revised 0.9% advance in September. Incomes grew 0.4% for a second month, marking the best back-to-back gains since early 2017. The figures, including the biggest rise in inflation-adjusted disposable income in five months, indicate American consumers are likely to

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drive growth this quarter as a pickup in business investment also helps lift demand. Inflation data in the report may add further support for a Fed interest-rate increase in December that's already widely anticipated by investors. Even so, inflation-adjusted spending grew 0.1% in October, less than analysts had penciled in, following a 0.5% gain in September.

Getting a boost from healthy spending, particularly this holiday season, US GDP for the third quarter was revised up to 3.3%, the fastest in three years. Steady hiring, rising stock and home prices, and low borrowing costs are underpinning purchasing power for households, whose spending accounts for about 70% of the economy.

Pending Home Sales also rose by substantially more than expected in October, rising 3.5% to buck the downwards trend seen in recent months. Meanwhile, New Home Sales data showed sales surging to their highest level in a decade, beating expectations by a wide margin.

A separate report on Thursday showed the labor market remains supportive for consumer spending. Applications for unemployment benefits fell by 2,000 to 238,000 last week, which included the Thanksgiving holiday, according to Labor Department data. That's close to the median estimate of 240,000 in a Bloomberg survey and below levels seen as consistent with a healthy job market.

Another report Thursday showed consumer sentiment was little changed last week near a 16-year high. The Bloomberg Consumer Comfort Index eased to 51.6 from 51.7, while the index reached a 10-year high in the South.

Currencies

Bloomberg's dollar index slid on Friday, its first retreat in a week.

The euro held steady over the week at $1.19

The British pound was at $1.35, near the strongest in more than two months. It surged 1.5 % this week.

The yen gyrated early in Asia trading at 112.8 per dollar, it is up 1.16% over the week.

Bitcoin plunged as much as 20% hours after a rally past $11,000 generated a surge in traffic at online exchanges that led to intermittent outages. The surge drew increased warnings it was in a bubble. Later, the reversal took it as low as $9,009. The heaviest selling came amid reports of service outages and delays on some of the largest online exchanges. While not uncommon, outages at online exchanges have earlier led to selloffs in cryptocurrencies.

The cryptocurrency is extremely volatile and susceptible to major dips, it's fallen by at least 25% on three separate occasions in 2017 already.

Equities

The S&P 500 index closed at 2,649, up 1.8% this week. The index capped its longest monthly winning streak since 2007 as technology stocks rebounded from their worst selloff in more than a year. The Dow Jones Industrial Average climbed past 24,000 on optimism of passage of tax bill.

S&P/TSX Comp. fell 0.1% to 16,092.

The Stoxx Europe 600 Index lost 0.7%, with almost all industry groups declining. A global rout in technology shares spilled into Europe this week, with the sector down about 4.5% since the close on Tuesday, on track for the worst three-day sell off since October 2016. The sell off sets the tone for what is usually a bullish month for European shares. While the Stoxx 600 has only ended December in the red eight times in its three-decade existence, it has lagged many benchmarks elsewhere in the world this year. The Stoxx Europe 600 Index is more than 6% away from a record it last reached in April 2015, missing out on the double-digit gains seen in Asian and U.S. markets this year.

FTSE 100 closed at 7,342, down 0.9% this week.

The MSCI Asia Pacific Index recorded its biggest weekly decline this year.

The CSI 300 Index of some of China's biggest companies has fallen 2.3% this week, poised for its biggest loss this year. The gauge had been the best place for a

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Chinese investor to put money in this year until the government signaled its concern about the pace of gains in high-flying shares like Kweichow Moutai Co. Taking the hint, money has flowed into beaten down small caps -- with the ChiNext gauge rallying 1.3% in the five-day period.

Japanese stocks trimmed an advance that briefly helped the Nikkei 225 Stock Average reclaim a 25-year high reached in November as it surged 1.2 %. The Topix index recorded weekly advance, second in a row.

Bonds

The yield on 10-year Treasuries surged eight basis points this week to 2.42%.

Germany 10-yr Bund yield fell a basis point to 0.35%.

UK 10-yr Gilts yielded 1.30%, down five basis points this week.

Commodities

West Texas Intermediate for January delivery advanced to $58.39 a barrel. The futures finished November 5.6% higher recording a third straight monthly gain.

Brent for February settlement climbed to $63.74. The global benchmark crude was at a premium of $5.36 to February WTI.

The main driver in oil markets was that the OPEC and partner nations outside the group agreed in Vienna on Thursday to prolong their deal to limit production beyond its previous expiry date of March 31. While OPEC and its allies including Russia didn't finalize details on how they would wind down output curbs that'll continue until the end of 2018, they pledged to be "agile and responsive" and review their progress on shrinking inventories at a meeting in June

The pact was even beefed up through the inclusion of Nigeria and Libya, two OPEC members originally exempted from the curbs. Since the pact started a year ago, global inventories have fallen and prices rose by more than $20 a barrel, but in a rare display of unanimity at an OPEC meeting ministers agreed the job wasn't yet complete. By keeping the 1.8 million barrels a day of cuts in place for a further nine months, the oil producers aim to return stockpiles to their five-year average without overheating the market and eliciting a new flood of shale oil.

In further sign of growing headwinds from rising shale output, reports emerged that U.S. output expanded to another record last week. The U.S. government reported a significant increase in domestic production in September, bringing the total to 9.48 million barrels a day, the fourth-highest monthly level since the early 1970s. Oil output surged in Texas and New Mexico, home of the prolific Permian shale basin. After US government forecast showed rising Shale output, another report by Researcher Rystad Energy AS depicted bullish Shale forecast detailing that American output may pass 9.9 million barrels a day by December. That would be 200,000 barrels above the U.S. government forecast.

Also spurring demand concerns, America, being the world's major oil consumer reported its net oil imports, including crude and refined products, last week dropped to just 1.77 million barrels a day, the lowest level in data going back to 1990, as per the U.S. Energy Information Administration report. That puts the country on track toward its lowest monthly imports since before the Arab oil embargo of 1973. For OPEC, which for decades counted on the U.S. market as its top client, the situation could deteriorate further as rising oil prices spur shale production from Texas to North Dakota,

Saudi Arabia and Russia agreed to take the lead in nudging other signatories to conform to the self-imposed output limits. The decision showed the strength of the unprecedented alliance between the world's top two oil producers, Saudi Arabia and Russia, and confounded Wall Street analysts who'd predicted Moscow would be reluctant to keep going. Russia is increasingly playing an influential role at the OPEC even though it is a non-member. In the recent days, major moves in oil prices were witnessed as clarity emerged if Kremlin was supporting an extension.

Gold fell 1.2% to $1273 an ounce.

Copper fell 3.5% to $6,735 a metric ton.

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Other major economies:

Euro area

Economic releases this week reflected the jobless rate slid to 8.8% in October, the lowest in almost nine years. Yet November inflation edged up to just 1.5%. Core inflation, which excludes volatile items such as food, energy and tobacco, remained at a tepid 0.9% in November. The European Central Bank got a reminder that the improving economy doesn't guarantee a return of inflation to its goal, as unemployment unexpectedly dropped but consumer-price growth missed estimates.

Even with the region's economy set for the fastest growth in a decade and the most broad-based expansion since 1997, a sustained price recovery remains some way off. Despite inflation consistently undershooting expectations, policy makers have expressed confidence that economic growth and falling unemployment will eventually feed through to prices. When the ECB's Governing Council next meets on Dec. 14, it will be faced once again with a picture of solid economic growth and subdued prices pressures.

Supporting the dominance of euro area manufacturing strength, IHS Market report showed a PMI for manufacturing rose to 60.1 in November from 58.5 the previous month. Individually data releases include the jobless rate in Germany held at a record low of 5.6% while retail sales unexpectedly declined 1.4% from a year ago. France reported a surprise contraction in monthly Consumer Spending data, which fell 1.9% in October.

Spanish Consumer Price Index inflation missed estimates as it rose by 1.6% year on year, unchanged from last month. Further, the Spanish economy's strong third-quarter performance was boosted by investment, while data showed that the Catalan crisis damaged tourism in the region. Spain continues to outperform the euro area's average, taking the country to the forefront of the bloc's recovery. From a year ago, Spain grew 3.1 percent. However, the economy faces downside risks relating to the Catalan crisis. Catalans are due to vote in a regional election next month following an ill-fated declaration of independence. At the height of the crisis, which saw ousted Catalan leader Carles Puigdemont proclaim secession from Spain unilaterally, the Spanish government cut its growth forecast to 2.3% from 2.6% for 2018, citing political risks. Catalonia accounts for almost a fifth of the nation's gross domestic product, making it the biggest regional economy. Earlier this week, Rajoy said a return to the constitutional order after the Dec. 21 ballot could see a more benign scenario play out that could allow Spain to continue closer to 3%instead for a fourth straight year.

Chancellor Angela Merkel held her first meeting with Germany's Social Democrats in her prolonged bid to forge a new government. Officials within Merkel's bloc were also skeptical about the coalition as they began warning about a renewed tie-up and urged the chancellor to consider a minority government supported by parties outside a coalition. The SPD's next step is a Dec. 7-9 party conference, where it's expected to introduce a motion to hold open-ended talks with Merkel's bloc. Only 36% of SPD members back a rerun of the coalition with Merkel, though even fewer, 13%, support holding a new election, according to a Forsa poll published Wednesday. A Merkel-SPD alliance is more popular among the general public, with 40% in favor, according to Forsa.

Australia

Australian property market depicted signs of slowdown, risking a further hit to consumer confidence. Dwelling prices rose 5.2% in the year to November, half the pace of six months earlier, as per recent report by CoreLogic Inc. In Sydney, which accounts for about a third of the value of housing nationally, prices extended month-on-month declines, the data provider said. The cooling in property market comes after regulators clamped down on interest-only mortgages typically favored by investors. Rising state taxes have also made housing more expensive for foreign buyers.

China

Taking a step ahead in the campaign to curb excessive leverage and maintain financial stability, Chinese authorities extended controls to the micro-lending sector by banning unlicensed micro loans and capped borrowing costs. The total interest rates plus fees charged on borrowing can't exceed the ceiling imposed

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by the Supreme People's Court, and lenders are barred from giving loans to those without income, China Business News reported, citing an official notice. The industry offers almost immediate unsecured loans over the internet, often at high interest rates. The step would escalate earlier moves to crack down on the sector and its estimated $152 billion of loans.

Economic releases included China's Caixin manufacturing PMI that showed a slide to 50.8 from 51 in November. The debt market has slumped under the strain of rising inflation and an official drive to curtail excessive borrowing. The benchmark 10-year sovereign yield recorded its biggest annual increase in four years surging 86 basis points this year to 3.92%. Later on Thursday, the rate dropped the most in five months, amid speculation recent losses were excessive.

Japan

Inflation in Japan sped up in October, but price rises are still less than half the central bank's target, despite the tightest labor market in decades. Core consumer prices, which exclude fresh food, increased 0.8%in October from a year earlier (estimate +0.8%). The unemployment rate remained at 2.8% (estimate 2.8 percent). The situation puts Japan on par with global peers facing similar issue of snail pace rise in inflation while labor market remains strong.

Even after soft readings for inflation, Japan's economy is on track to close out the year expanding faster than its potential growth rate. Global demand remains strong, driving double-digit gains in Japanese exports in recent months and helping to fuel business investment. Capital expenditure stood out in a slew of important data released on Friday, beating expectations with a 4.2% gain in the third quarter. A second reading of third-quarter gross domestic product, due on Dec. 8, may see the 1.4% preliminary result revised higher due to the better-than-expected capex data. The central bank's estimated range for the economy's potential growth rate is 0.5 to 1%.

South Korea

In South Korea, inflation unexpectedly slowed to one-year low at 1.3% in November, far below the 1.8% gain expected by economists and further away from the central bank's target of 2%. The economic growth was slightly stronger than the central bank's initial estimate. The economy grew 1.5% in the third quarter from the previous three months, according to revised central bank data, better than the previous estimate of a 1.4% expansion. Major contribution is from exports which expanded close to 10%.

The central bank is on a tightening course as it raised the benchmark interest rate from a record low this week. South Korea's won slid after rate hike and as the central bank assured it would keep an accommodative policy stance. Still, the slowdown in inflation is likely to make the central bank cautious when considering the next increase.

Egypt

Attempts by the region's central bank to lift the official foreign-currency controls involved the last string uplifted this week as a dollar shortage receded. The regulator removed limits imposed in 2015 for deposits and withdrawals by importers of non-essential goods. Deposits had been restricted to $10,000 per day and $50,000 monthly, while withdrawals were capped at $30,000. Caps on foreign-exchange transfers, limited to $100,000 shortly after the 2011 uprising that ousted former President Hosni Mubarak, were lifted in June.

Egypt's financial markets have been transformed by the decision to lift most foreign-exchange controls to tackle a burgeoning black market. The currency float, along with subsequent fuel subsidy cuts, helped Egypt finalize a $12 billion International Monetary Fund loan that bolstered investor confidence in the economy. Egypt has taken advantage of investor sentiment to boost its foreign-currency reserves to a record high, coupled with a surge in external debt.

Canada

The loonie initially weakened this week, as Canada's current account expanded $19.3bn in the third quarter, and the asset deficit widened by $3.6b. Later, the currency gained strength after OPEC and

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Russia agreed to extend their current production restrictions until 2018 in order to prop up oil prices.

Another important release this week was the Bank of Canada's latest Financial System Review. BoC Governor Stephen Poloz, speaking after the release of the report, emphasised elevated risk in the housing sector, while also saying that it was too early to judge how the Bank's two rate hikes had affected the economy as a whole. Rising household indebtedness was highlighted as the most important vulnerability to the financial system, although Poloz did also express optimism that higher wages would offset the effects of BoC hikes.

Job market remained strong as unemployment rate in November fell below 6% for first time since 2008. Employers added another 79,500 workers during the month, bringing gains over the past 12 months to nearly 400,000, Statistics Canada reported. The increased employment is helping to fuel household spending, a separate report showed. Economic growth in the third quarter slowed to an annualized 1.7% on a sharp drop in exports, but the decline was tempered by stronger-than-expected consumption. The data indicates an expected slowdown for Canada's economy in coming quarters may be less severe than anticipated, raising the prospect of faster interest rate increases by the Bank of Canada. The Canadian dollar jumped as much as 1% on the reports.

UK

The week was scant on economic releases, political news was the source of asset moves. The major data release was a Nationwide report on U.K. house prices that indicated prices rose 0.1% in the last month. This slight increase comes as income squeeze hits confidence. The annual gain in property prices is 2.5%. That's within the range seen in 2017, though it's well below the pace of recent years. While there's been a lot of focus on the slowdown in the U.K. property market, particularly in London, a bigger issue for many is trying to afford their first home. Years of surging values have put ownership out of the reach, a situation not helped by weak wage growth. The Nationwide figures come just a week after the budget, which saw the government unveil its latest attempt to help aspiring first-time buyers. Nationwide said the measures would probably only have a modest effect on demand.

Political risk remains a primary driver for sterling. Even this week, GBP moves were dictated by progress in Brexit negotiations. In fact, the pound has been the best-performing currency among the Group-of-10 exchange rates over the past month due to Brexit optimism. It strengthened 0.9% on Thursday to above $1.35 and kept climbing on Friday. Report by the Times on Monday that U.K. and the European Union negotiators reached an outline deal on the Brexit divorce bill, clearing a hurdle in negotiations and ramping up pressure to find a compromise on the thorny issue of the Irish border led to a surge in pound. Now it's up to EU leaders to accept the offer or not and they will do that in the run-up to a summit in mid-December. Progress on the money leaves one major outstanding issue to be settled before talks can move on to trade: the politically sensitive Irish border.

Ireland, which essentially has a veto at this stage of talks, wants to avoid any kind of border on the island after Brexit and the European Commission is backing its stance. A policed frontier and customs controls will be needed somewhere, as the U.K. is leaving the single European market that allows the border now to be almost invisible. Prime Minister Theresa May has to come up with a solution that's acceptable to Dublin but also to the Northern Irish DUP party whose votes she needs in Parliament to govern. The Northern Irish party, this week, threatened to bring her down if she makes anything like the concessions that Europe is demanding. European Council President Donald Tusk threw his weight behind the Irish government on Friday, saying the European Union will be led by Ireland when it comes to assessing the U.K.'s offer on avoiding a border on the island after Brexit.

Only when the EU accepts the U.K.'s proposal on the Irish border can talks move on to the crucial issue of the future trading relationship. Theresa May goes to Brussels on Monday for a lunch meeting that was billed as the moment when she'll set out her offer to break the deadlock. The EU will

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assess the U.K.'s progress two days later, on Wednesday Dec. 6, in time to prepare a formal announcement on whether negotiations can move on to trade at a summit in mid-December.

If Theresa May does succeed informally moving negotiations on to substantive issues next week, and manage to hold her own Government together while doing so, it will undoubtedly be good news for sterling.

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%	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.