INVESTOR INSIGHT

Qtr 1
2017

A look at the markets by RSMR

in association with: in PARTNERSHIP

April 2017 Welcome

Welcome to this latest edition of our 'Investor Insight' which provides high-level commentary on the global markets and how these might be affecting your investments.

We hope you find this useful.

Ken Rayner
Investment Director
RSMR

The global economy: What's going on?

'Feel good' investors need hard evidence for their confidence.

In spite of the political shocks in the second half of 2016 with the UK's Brexit vote and the election of Donald Trump in the US, the global economy looks healthier with some stronger data emerging from western markets, including improving employment figures and Purchasing Managers' Index surveys.

> *"...the global economy looks healthier with some stronger data emerging from western markets"*

While this has led to higher stock market levels, the strength of the 'soft data', such as consumer confidence, which is largely a reaction to lower oil prices, has yet to be justified by the hard evidence of economic growth such as increased industrial production and retail sales.

There is usually a delay in companies' reaction to greater consumer confidence but, in this case, the continuing lack of progress is a growing worry for investors which may have led to renewed demand for quality growth stocks in markets such as the US and UK.

Overall, significant global uncertainty remains. We are living though a period of political upheaval with a far greater influence than in recent decades as populist parties, and unconventional policies, are more widespread and have the potential to deliver a more radical impact.

RSMR

The asset classes – a quick update

EQUITIES

So far 2017 has seen equity markets soar in spite of concerns about international relations and flat industrial data.

Greater consumer confidence has enthused investors and contributed to continuing global growth. This has led to global stock markets reaching all-time highs with some valuations at uncomfortable levels, particularly in the US.

With economic growth improving, the question for many investors is how long markets can push forward without requiring stronger evidence of improving industrial production and earnings.

Europe and emerging markets offer good value for investors although, in both cases, the economic picture is more fragile with European elections and a fluctuating oil price among the concerns.

These, and other global political and economic factors, will determine whether equities' momentum can continue or if values will fall.

FIXED INTEREST

Bond markets show how politics is influencing the markets and adding new uncertainty to economic forecasting.

At the end of 2016 we expected bond yields to increase following the US interest rate hikes and global rises in inflation that suggested it would be necessary to move interest rates up again.

Although there has been a US interest rate rise this year, there has been relatively little movement in yields. This means that bond markets are responding less to Federal Reserve (FED) policy changes and more to US and European political uncertainty.

As a result, the FED has retained a cautious outlook for 2017 which, allied to the political uncertainty, has kept US treasury rates 'flat-to-falling' in the first three months of this year.

Corporate credit remains relatively attractive when looking at the likely rate of interest payment defaults. The same applies to high-yield debt, which has always shown a stronger link to equities than government bonds. This means that growth forecasts are good news for this asset class.

PROPERTY

Real Estate Investment Trusts (REIT) and property securities are sensitive to interest rate movements and expectations.

Although the FED's interest rate rises in December and March were anticipated and had little impact on property values, it will be interesting to see how the sector reacts if the three expected rate rises go ahead this year.

Discussions about interest rates and monetary policy are likely to be key drivers of the property market's performance in the next few months, perhaps even more so than basic economic factors.

The effect of the UK's Brexit vote on the UK commercial property market continues to fade after the initial sharp negative reaction. All the suspended UK direct property funds have re-opened and there is almost a return to normality.

Even so, funds are holding higher short-term cash balances than usual and acquisitions have seen intense price competition.

RSMR
Global round-up

- A deal that satisfies the European Central Bank is likely to recapitalise Italian banks followed by a further easing of austerity.
- The Philippines have suffered political uncertainty after the election of strongman leader Duterte and the crowded market has seen foreign investors withdraw their cash.
- Indonesia still has excellent long-term potential due to its demographics and low-cost labour force.
- Currency change issues in India have been resolved and the mid-to-long term outlook appears more positive.
- Stronger commodity markets driven by the Chinese stimulus package have helped exporting Latin American countries and Russia.
- If tensions between America and China rise, China could change tack and support North Korea.
- The rise of populist parties in France, Germany and Italy will provide an uncertain political backdrop even though they are unlikely to win elections.
- Indian economic growth remains strong in spite of a decision to take higher value bank notes out of the economy.
- Eastern Europe is benefitting from the pickup in European economic growth.

> ***"Indonesia still has excellent long-term potential due to its demographics and low-cost labour force"***

So, what's next?

The UK economy has defied forecasts and continues to be surprisingly strong in spite of an economic environment likely to stimulate inflation and tensions over the impending exit from the EU.

UK growth is expected to be more than two per cent in 2017, maintaining an improving trend during the last 12 months. However, there is still a widespread belief that business will get more difficult as the UK moves closer to Brexit and more details are known of the precise terms of the UK leaving the EU.

The US has driven recent world stock market rises, more through expectation than delivery, as the promise of fiscal expansion and tax cuts to boost US economic growth have sent positive ripples globally, but in practice, it is unlikely to be that simple. Markets are higher than basic indicators suggest and there could be a short-term setback.

Recent data has shown a return to growth in China where, at the autumn Party Congress, President Xi will need to demonstrate strength ahead of political changes. This suggests that the economy will remain strong and the country will have to withstand any external foreign policy threats that could increase tensions with the US where a notoriously sensitive populist leader has been elected.

In today's complex investment landscape, investors should be cautious and hold pragmatic, diversified portfolios and accept that sudden events could require a rapid change of plan.

They also need to remember that, over time, a 'back-to-basics' approach focussing on fundamentals, confidence and valuation will win through with fewer errors.

About RSMR

Independent specialist research.

RSMR was formed in 2004 to meet a growing demand from financial advisers for specialist and impartial investment research.

The RSMR team is made up of individuals with expertise from across all areas of the financial industry – from asset management, strategy and fund research through to business development, strategic planning and market research.

We are best known within the financial industry for our 'R' fund ratings – this rating is given to investment funds that meet our stringent research criteria. We don't limit ourselves to just looking at performance – we also look carefully at the people, processes and capabilities that are required to make effective investment decisions.

We work in partnership with your financial adviser, providing the benefit of our broad industry insight and rigorous research. This quarterly market summary is designed as a 'snapshot' of the more thorough and lengthy commentary that we provide to your adviser on a quarterly basis.

OUR RESEARCH. YOUR SUCCESS.

Rayner Spencer Mills Research Limited is a limited company registered in England and Wales under Company Registration Number 5227656.
Registered Office: Number 20, Ryefield Business Park, Belton Road, Silsden, BD20 0EE.
RSMR is a registered trademark.