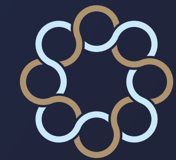


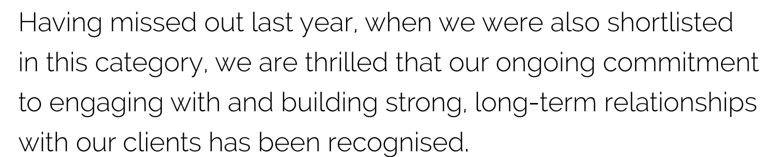
FINURA

PARTNERS

POINTS OF VIEW

FINURA PARTNERS AWARDED HIGHLY COMMENDED FOR CLIENT ENGAGEMENT

Following our announcement earlier this month that we had been shortlisted in both the Adviser Firm of the Year (London) and Best Client Engagement categories at this year's Professional Adviser Awards, Finura is delighted announce that on the 9th February we received Highly Commended in the Best Client Engagement category.



Having missed out last year, when we were also shortlisted in this category, we are thrilled that our ongoing commitment to engaging with and building strong, long-term relationships with our clients has been recognised.

Next up are the Corporate Adviser Awards 2017, where we have been shortlisted for Corporate Adviser Firm of the Year. The results will be revealed at the Grange St. Paul's Hotel on 28th February. To view the full shortlist, visit http://www.corporateadviserawards.co.uk/2017shortlist.

THE YEAR OF THE FIRE ROOSTER

2016 went down in history as a year of political shocks and seemingly-counterintuitive reactions. At times, indeed it was hard to fathom the year of the Red Monkey, as financial markets turned out to be much more resilient than was widely expected. So, what will the year of the Fire Rooster bring us in 2017?

For ancestors with no alarm clocks, the crowing of roosters provided a natural wake-up call. 2017 may turn out to be a year of awakening in monetary and fiscal policy, politics and economics. Below, we outline some of the issues that are causing anxiety and some of those that we think should be of less concern.

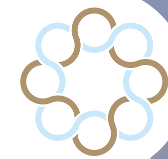
Developments that may cause concern in 2017

Pace of US monetary tightening

2016 ended with a more hawkish bias emerging from the Federal Reserve (the Fed), which now sees three rate increases in 2017, up from two previously. Markets are now pricing in the next US interest rate hike for June 2017. If the solid economic momentum is sustained and wage growth accelerates, the Fed could well tighten earlier than markets are currently expecting. Nonetheless, the pace and extent of the Fed's action will remain heavily influenced by both the trend in the dollar and the incoming administration's fiscal actions. The eventual pace of the tightening may provide us with insights with regard to the future inflation tolerance of the Fed. Later in the monetary cycle, we will receive similar signals with regard to attitudes in other central banks. During 2017 however, no major central bank apart from the Fed is expected to raise rates.

Inflation overshoot

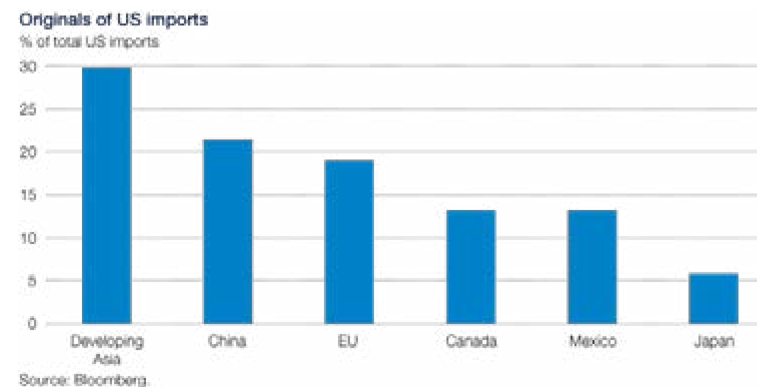
Inflation in both developed and emerging economies is projected to pick up in 2017, partly due to the recovery in commodity prices but also reflecting country-specific factors. Headline consumer price inflation (CPI) will likely reach 2.7% in the UK and 2.3% in the US by the end of 2017, with the former driven by the higher cost of imported goods (from the depreciation in sterling), and the latter due to faster growth in the economy and a tightening labour market. Throughout 2017, the Fed's pace of tightening will be a test of its inflation tolerance and also that of other central banks.



European politics

The rise in populism, which contributed to the Brexit vote and President Trump's victory, took the world by surprise in 2016. In 2017, there is potential for anti-establishment/Eurosceptic

movements to gather pace across Europe, with key elections in the Netherlands, France and Germany scheduled for the year. A lesser but still notable risk event is the French presidential election to be held in April, as the far-right contender Marine Le Pen has promised a euro referendum if she wins. Although commentators ascribe a very low probability to Marine Le Pen winning, a key takeaway from 2016 is that we should remain sceptical of the consensus view.



Source: Bloomberg.

President Trump's trade policies

Donald Trump's election victory has increased the risk of increased global trade protectionism. So far, he has taken a verbally aggressive stance in remarks about trade with Mexico and China, including threats to impose 35% import tariff on cars that are not manufactured in the US. For the US, the initial impact on growth may be positive from potentially higher job creation and a reduction in trade deficit. However, there may be longer term costs, not only to the US but also globally, if growth in US trade partners slows and trade protectionism is reciprocated and then becomes ubiquitous. Meanwhile, emerging markets, especially in Latin America and Asia, could suffer as their export sectors are heavily reliant on US demand.

Capital outflow from China and instability in currency markets

In China, there are signs of a housing bubble and more stringent capital controls. This may further weigh on sentiment towards the Chinese currency, which has experienced considerable downside pressure since 2015, consequently on the secular slowdown in growth. Expected increases in US rates in 2017 and a stronger US dollar may also provide headwinds to the still-delicate recovery in emerging markets (EM), potentially causing higher volatility in EM currencies.

Issues that we think will give rise to less concern in 2017

Weaker global growth

In the final months of 2016, US business and consumer confidence indices reached their highest levels in over 10 years. In the eurozone, the composite Purchasing Managers' Index (PMI) (a survey of business activity) rose to the highest since May 2011, despite concerns about political developments and the banking sector.

In the UK, economic data continue to confound the widespread forecasts of a post-referendum hiatus in growth, and we remain optimistic that 2017 will see better-than-predicted economic momentum. Meanwhile, emerging markets should benefit from better demand in advanced economies, with Brazil and Russia exiting recession, helped also by the recovery in commodity prices.

Brexit induced UK slowdown/recession

The UK is now estimated to have grown by 2.0% in 2016, the fastest amongst the Group of Seven (G7) economies. This was in defiance of the significant and widespread downward revisions to UK growth expectations in the immediate aftermath of the EU referendum in June.

Momentum in the run up to 2017 remains good, with the composite PMI close to a one-and-a-half year high in December, reflecting better activity across services, manufacturing and construction. At one stage, City forecasts for growth in 2017 were as low as 0.3%. While the consensus has now risen to 1.2%, we believe this is still too low.

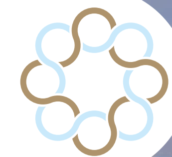
Deterioration in US labour market

The labour market has continued to tighten in the US, with employment creation averaging 180,000 a month in 2016, initial jobless claims dipping to a multi-decade low and wage growth accelerating to the fastest since April 2009. The outlook for the US labour market in 2017 remains favourable -according to the National Federal of Independent Businesses survey there is robust demand for labour and rising wage pressure. In addition, small and mid-sized companies cited increasing difficulty in filling job vacancies and an increasing requirement to raise workers' compensation.

Tighter policy in the UK and the eurozone

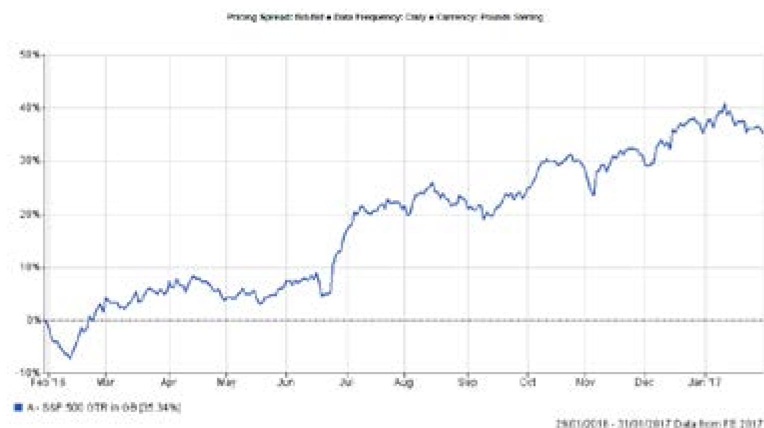
The UK's growth and inflation profiles have been similar to those of the US. While this may put pressure on the Bank of England to raise rates, it is likely to use Brexit uncertainty as the excuse to keep policy on hold, unless inflation overshoots the 2% more significantly than expected. Although economic activity in the eurozone has improved, subdued underlying inflation, continuing problems in peripheral economies and the banking system and rising political risk will constrain the European Central Bank from reducing stimulus too aggressively in 2017.

First published on 23rd January 2017 by Janet Mui, Global Economist, Cazenove Capital Management.



MONTHLY COMMENTARY FROM PARMENION INVESTMENT MANAGEMENT

A modest start to the year with a rise of 1.47% for the FTSE World Index. However, there were good performances from emerging markets (up 3.65% in sterling terms) and Japan up 2.8%. Modest rises were recorded for the United States and Europe at 0.87% and 0.74% respectively, whilst the UK actually suffered from a small fall of 0.17%.



The chart above is the trade-weighted value of the US dollar. It may be the most important factor in determining returns in the year ahead as explained below.

United States

The Dow Jones of 30 leading US companies has made 19 new highs since the Presidential election. "Animal spirits" have been revived with the election of Trump as the markets anticipate an expansionist programme of infrastructure spending, less regulation, tax cuts and reduced health costs for smaller companies. Whether all this will be achieved and by when is a moot point. Watch out for interest rate rises from the Federal Reserve, up to four are expected this year, as inflation is expected to rise as a consequence of the mentioned policies. It may be a bumpy ride this year.

United Kingdom

The UK economy continues to grow, with GDP up 0.6% in the final quarter of 2016. It appears that the consumer continues to spend and even business confidence turned positive.

However, in 2017 the effects of a weaker pound will begin to feed through to inflation with forecasts predicting a figure above 2%, with some commentators even expecting 4%. How a rise will affect the behaviour of both companies and the consumer remains to be seen.

On the UK leaving Europe, it appears the government position will be to leave the single market, the so-called 'hard Brexit option. At the moment before the triggering of Article 50 most likely in March, it is speculation as to how both the EU and the UK will approach the negotiations and the eventual deal to be struck.

Europe

Europe starts the New Year with improved sentiment with consumer inflation expectations rising. This is important for Europe, as much of the last few years have been trying to avoid deflation. It will also be pleasing to the European central

bank which has spent billions buying government bonds to inject monies into the banking system to encourage lending. Of particular note was the growth in 2016 of Spain with 3.2%, a rapt for the figure for 2015. However, the region is facing some headwinds with three elections in the coming year in the Netherlands, France and Germany.

Japan

With interest rises in the United States strengthening the dollar against the yen, a weak yen should boost Japanese exports and thus the earnings of those companies. However, with the abandonment of the Trans-Pacific Trade Partnership by the new Trump presidency, Japan may have to forge new trade deals.

Emerging Markets

After a good year in 2016, emerging markets may face challenges. As expected the dollar continues to strengthen with interest rates rises in the US, then EM may struggle.

As commodities are priced in dollars their value will go down if the former rises in value. Another headwind may be the imposition of tariffs by the US. An example would be Mexico and a potential border tax. However, it is not all bad news. If US economy does grow, that is good for growth within EM.

Asia Pacific

The abandonment of the Trans-Pacific Partnership (TPP) by the United States is a blow to the Asia pacific region. Twelve countries signed up to the TPP in early 2016. The objective was to boost economic growth by reducing tariffs between the members and create a single market. Not only did the TPP include Japan but also Malaysia, Singapore, Australia and New Zealand and some countries in Latin America.

*All performance data quoted in this article is derived from FE Analytics

Any figures quoted are for illustrative purposes and should not be taken as a forecast or guarantee. Past performance should not be seen as an indication of future returns and clients may get back less than they have invested.

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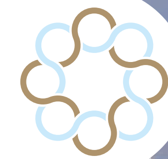

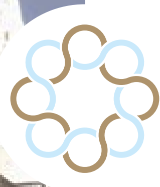

THE FUTURE IS NOT THE PAST AND HINDSIGHT IS NOT FORESIGHT

How does the powerful statement, 'The future is not the past and hindsight is not foresight', relate to the investment world? Quite a lot! Although in investment literature you will always see 'past performance is not a guide to future performance', looking at the past is often a large part of the job for an investment professional. Below we discuss why, the pitfalls of such an approach and what can be done.

Firstly, there are many occasions when the past is a good predictor of future performance. Let's say I buy a car well known for its reliability. My experience turns out that this is the case, and so when I come to replace the car I buy the same again. Unless I am unlucky there is a good probability that the second car will also be reliable.

Unfortunately, this is not necessarily the case for the investment world. Many professions and companies examine the past in order to avoid repeats of past failures. If we understand what happened and failed in the past, then perhaps we can plan an ideal outcome in the future. This is fine for a stable environment but not for a complex system like the economy and the stock market.

The study of the past can lead to hindsight bias (part of a growing study of behavioural economics). In essence, we apply a 20/20 vision of the past and convince ourselves that the past was more predictable than it actually was. Take for example extrapolating past stock market returns. Let's say the average return from the stock market is 10% over the past 10 years. Now let's assume a market crash and in three years' time, those returns have reduced to 8%. Which return would you use in future forecast? The 10% or the 8% figure.

The above is often found in the explanation of 'bubbles' after the event. Whether it be the crash of 1987 or the Great financial Crisis of 2007, many commentators will come forward post the event and explain why it happened, or even worse 'I told you so'. Investment professionals have little control over the outcome of the shares and bonds in their portfolio. They do not manage the companies but invest in them. After what you hope is thorough research with a good understanding of the finances and business model of the company, the investment manager has to make a judgment as to whether to buy or not at an agreed price. Things do go wrong, profit warnings, new management, product substitution and a whole host of other factors can make the original decision incorrect.

So if the future is not the past and hindsight is not foresight, is it worth looking at the past? Yes is the answer. From the study of history, there is perhaps the opportunity to learn from previous mistakes. Although we should not expect as investors the same conditions to exactly repeat themselves, similarities often occur. For example, technological change, whether it be the railways or the internet, can be disruptive to existing business models. Another example is a study of the mistakes that were made by politicians and economists in the

past, and can we avoid them in the future? A good example of this was post the Great financial Crisis in 2007. Central banks know from the past that lack of liquidity to the banking system will cause a recession. This is what happened in the 1930s. This time money was pumped into the system to maintain confidence and growth. Just two examples of why it pays to have a sense of the past. Perhaps the last word should go to Mark Twain who is reputed to have said 'history doesn't repeat itself but it often rhymes'.

"The above article is intended to be a topical commentary and should not be construed as financial advice. If a client wishes to obtain financial advice as to whether an investment is suitable for their needs, they should consult an authorised Financial Adviser. Past performance is not an indicator of future returns."

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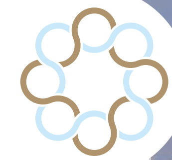

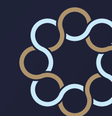

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