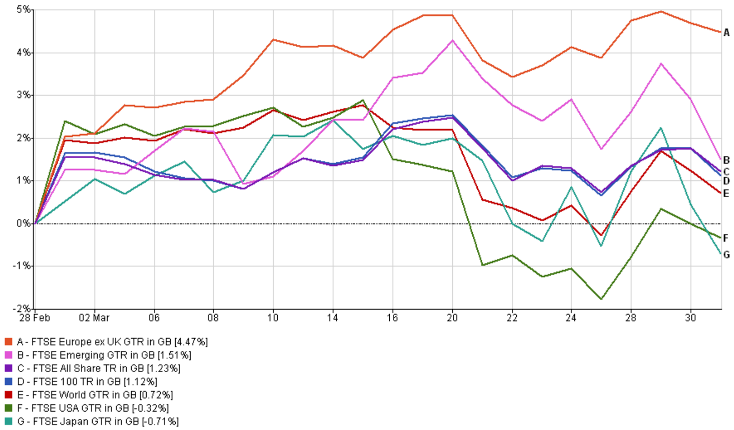
FINURA
PARTNERS

POINTS OF VIEW

MONTHLY COMMENTARY FROM PARMENION INVESTMENT MANAGEMENT

Markets were relatively hushed across March responding to political noise and often forgetting market fundamentals. We are all firmly tuned into the Trump saga no matter your opinion of the man, and markets are responding as the pantomime unfolds.

The confidence of growth and inflation embedded by policy promises is being questioned and this will continue to adjust top line macros the world over, feeding into every asset class such is the impact of the US in today's climate.



28/02/2017 - 31/03/2017 Data from FE 2017

Index

Index	March Return
FTSE World Index	0.72%
FTSE USA TR GBP	-0.32%
FTSE Europe ex UK TR GBP	4.47%
FTSE Japan TR GBP	-0.71%
FTSE 100	1.12%
FTSE all share	1.23%
FTSE EM	1.51%
FE UK property Proxy TR in GB	0.73%

*Past performance is not an indication of future returns. The value of investments and any income from them is not guaranteed and can go down as well as up.

United States

US stock markets finished marginally down for the month. Having continued their upward march at the outset to the month, to the sound of the Trump drum, they were put into a hasty retreat as confidence waned over the ability of the administration to deliver on promises. In particular the failure to get a replacement health bill past the republicans, let alone in front of the senate highlighted two points to market participants.

Firstly that amendments to key policies were not as easy as sending a tweet and if Obamacare couldn't be reversed then other more significant policy change may also be delayed or not realised at all. Secondly, without the funding cuts created from scrapping Obamacare there is not enough budget to implement the tax cuts markets have been frothing at the mouth over.

On the data front there was continued strong results out of the worlds largest economy, with improving jobs data, ISM manufacturing PMI's and consumer confidence. In between all this the FED raised interest rates by 0.25%. This was less of an event given markets had been fully pricing in this rise over the preceding weeks. What it does show is how much relevance the FED and markets pay to the commentary and guidance given by central bankers.

United Kingdom

The most significant event this month for the UK was the delivery of article 50. By now markets are further down the road in re-evaluating the speed of the negative impact of the divorce from our largest trading partner. Consequently both the FTSE 100 and the FTSE 250 finished flat on the month. There are still obstacles and hurdles to overcome, but this will need evaluation on a sector by sector and company by company basis. A current example that cropped up last month was the plight of the low cost regional airlines such as EasyJet and Ryanair who will likely need to relocate some headquarters to Europe to continue Europe to Europe routes. What we did see was a rise and fall in gilt yields, similar to that seen in the US, as confidence of inflation and global rate rises was checked.

Europe

Europe successfully negotiated the first of its election hot potatoes with the avoidance of the far right Dutch party run by Wilders, although far-right populism remained strong, picking up more seats than previously held. Over to France next and the National Front party, headed by Marine Le Pen, who have been gaining in the polls. Rightly or wrongly markets have been fairly sanguine to the risk, (ignoring their mistakes over Brexit and Trump). Europe continued to rise driven by improving data points out of its weaker nations such as Italy and Spain. Across the month we saw improving employment prospects, increasing inflation and positive manufacturing PMI's. The only real disappointment came out of Germany with poor factory orders and retail sales results.

Japan

Poor retail sales figures followed up by falling CPI and household spending data pushed an otherwise benign month for Japanese equities into the red across the final few days. From a fixed income perspective the central bank commitment to a zero rate cap on the 10yr JGB government bond continued to hold the yield curve steady.

Emerging Markets

Emerging market equities performed well in March, flying in the face of the US rate rise that occurred half way through. Despite worry over the impact from a rising US rate environment, there is cause for optimism. Emerging market balance sheets look far stronger than in 90's both centrally and at the company level. Further, with rate rises

likely driven by strong US growth there will be an underlying tail wind to the exporters from the asset class. March served to strengthen this thesis but there are plenty of bumps to come, not least from the March visit of President Xi to Florida to listen to Trumps views on trade. The tweets surrounding punitive tariffs could escalate to a trade war which would undoubtedly cause volatility just as the emerging equity markets are gaining a foothold in recovery. Further tension surrounding North Korea could add further volatility into the mix but companies still remain well priced.

*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.

First published on 7th April 2017 by Parmenion Investment Management.

BEWARE OF MARKET NEUROSIS, AS CHALLENGING TIMES LIE AHEAD

When UK inflation figures were released on 21 March, and they had surged to their highest level in three years, commentators were quick to talk of an interest rate hike. Mark Carney, governor of the Bank of England, was forced to remind people not to overreact to a single data point, and instead be mindful of the bigger picture. As investors, it pays to heed this advice.

Markets can develop a neurosis when any part of the market is under stress, and that's true for some of the challenges we're currently facing. Interest rates are on the rise in the US, as is global inflation. Trump is coming under increasing pressure for what he will, and will not, be able to get through Congress, while the UK has begun negotiations to leave the European Union. Never has it been so important for investors to look beyond short-term volatility as we navigate significant change to the economic landscape.

Trump in the spotlight

With four months of optimism built into equity prices, markets have quickly become fixated on Trump's policies and whether he can implement his fiscal and tax-cut promises. His failure to pass the healthcare reform bill in Congress was not a good start, and led to the worst day of trading since he was elected.

So what lies ahead? For financial markets, the healthcare bill is only useful in that it gives an indication of Trump's political support and how the implementation of other policies might play out. The market really wants corporate tax rates to be cut, as this will feed straight through to equity earnings and will go a long way in justifying current share prices. Until we have a clearer view on whether or not this will happen, we can expect nervousness in the market.

Brexit negotiations

As we begin a two-year-long negotiation, it's difficult to see who the eventual winners and losers will be in the complex process of Brexit. In the short term, UK companies that export their goods and services are in the sweet spot, as they benefit from the weakness in sterling (making their products more globally competitive), while still operating under the existing attractive trade rules. We expect them to grow their profits, but uncertainty for their long-term prospects may cap their share-price gains.

The real question is whether or not the uncertainty hanging over the UK throughout the negotiations will deter investment by companies, both local and foreign. We know there are challenges ahead, but we are cautiously optimistic, especially given that valuations are much cheaper than many other regions in the world.

Outlook

So far, markets have held firm, but we do need to be prepared for a potentially turbulent time ahead. Of course, volatility can result in opportunity, and we're well positioned to take advantage of any short-term opportunities that may arise.

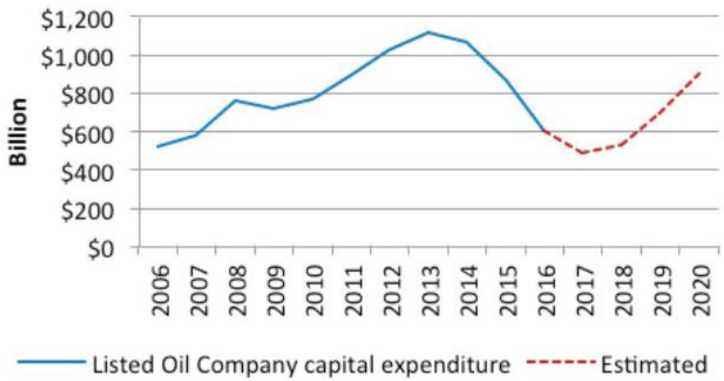
"As custodians of our clients' money, we look beyond the short-term conjecture and news agenda. Despite our expectation that over the coming months investors should be prepared for a degree of volatility, our primary focus will continue to be the underlying numbers and longer-term outlook."
Philip Smeaton, Chief Investment Officer

The price of oil

While short-term worries of oversupply still abound, it may come as a surprise to hear that oil could be presenting a longer-term opportunity. Although above-ground stocks are in plentiful supply, and the nimble US shale producers have returned to the market (keeping prices low), there are signs that the supply-and-demand balance may be recalibrating:

- When oil prices fell between 2014 and 2016, large-scale exploratory projects that are necessary for future production were also cut. As a result, there is a dearth of projects bringing oil to market, which could mean a shortage of supply in two to three years' time – probably enough to negate the supply growth we are seeing in US shale.
- Speculators that have been hoarding oil and waiting for prices to increase are now starting to bring that oil to market. This is pressuring prices in the short term but brightening the future picture.
- Demand for oil is not a problem, and continues to grow at approximately 1% per year. This is largely driven by record global car sales, as well as economic growth in Asia.

The chart below shows how companies have cut their investment in new projects, and forecasts an upswing in capital expenditure as oil companies are forced to invest in future exploration and oil production to meet demand. The reduction in capital expenditure since 2012 supports the notion that there may be a shortage in supply in the not-too-distant future.



Can the euro and sterling make a comeback against the US dollar?

Our clients have benefitted from our global exposure, giving them access to the US dollar, which has had a good year in the global currency markets.

Economic indicators in the UK, such as strong retail sales, low unemployment and decent economic growth data, would normally support a stronger pound. But accommodative monetary policy and the cloud of uncertainty created by the

EU negotiations will continue to hang over the currency, now compounded by a potential Scottish referendum. A similar conundrum faces Europe. There are some green economic shoots, but central-bank policy is likely to keep yields low at this stage.

We're nervous that the US dollar looks expensive, and ultimately we expect the imbalance to be corrected. But that's unlikely to happen any time soon.

Since 1/4/16, the US dollar has risen...

16% against the **£**

6% against the **€**

Source: Bloomberg as at 20th March 2017

First published on 5th April 2017 by Sanlam UK.

OUTRAGEOUS FORTUNE?

It is ironic, perhaps, that just as the authorities are in the midst aggrandising their growth numbers for 2017, the economy seems to be losing a bit of momentum. In its latest forecasts, published in the February Inflation Report, the Bank of England suggested that the economy will grow by 2.1% this year if interest rates are left unchanged.

And it seems that the Office for Budget Responsibility (OBR) is about to push its growth estimate in the same direction. The previous forecasts from both the Bank and OBR, both produced in November last year, homed in on the same growth number for 2017 – 1.4%.

I will not rekindle the debate as to why forecasts were reduced so dramatically in the first place. I am sure in years to come, economic historians will be quite damning of the forecasts made by institutions and factions on both sides of the Brexit debate; nonetheless, it is evident that the referendum result did not have the immediately depressing impact on economic activity that was widely predicted.

The area that has been most immediately and obviously impacted by the UK's exit vote has been the currency, which, depending on how you measure it, has lost around 15% of its pre-referendum value. Sterling is a notoriously volatile currency. While the past nine months have been a period of considerable weakness, this is far from being unprecedented. Between mid-2007 and late-2008 for instance, it depreciated by around 25%, to a similar level as that prevailing today. On the other hand, between mid-2013 and mid-2015, it appreciated by 15%. And during my career as a professional economist, I can remember the pound trading as high as 2.45 against the US dollar and as low as 1.05 – from where it subsequently appreciated by more than 40% over a period of about nine months.

While periods of severe currency volatility are not uncommon, they can be damaging; however, the history of the pound since the start of the 1980s suggests that greater damage is done to the reputations of central bankers and economists than to underlying economic activity.

With regard to the performance of the economy in 2017, we are trying to gauge the extent of two different influences of sterling's recent battering. First, higher import prices generally, combined more specifically with rising energy costs, are feeding through to high-street pricing. Against the backdrop of only slow growth in average earnings, this implies that real growth in household spending could be squeezed. However, the system has many moving parts. It is likely that wages will increase faster in 2017 than during the recent few years, in addition to which, a lower savings ratio may absorb some of the shock of reduced real income growth. At the moment, it seems as though household spending has decelerated, but it would be foolish to extrapolate from a pre- and post-end-year spending period that is notoriously difficult to interpret.

Having said that, all other things being equal, you might think that higher inflation would be detrimental to consumption. True… but if inflation is expected to be even higher in the following period, then it is possible that households will bring forward future planned spending, even if current real incomes are being squeezed.

The second significant sterling effect will be on trade flows. A currency depreciation improves UK producers' competitiveness in both export and import markets. Again, this impact is not as clean as it initially might appear. Improved competitiveness takes time to feed through to real orders and sales, and in between times, the trade balance will almost certainly show the detrimental impact of the rising cost of imports.

Also, improved competitiveness resulting from a currency move can be partially offset by the rising cost of raw materials and energy used in the production process. Furthermore, some companies competing with overseas producers may choose to take some of the benefit of improved competitiveness through raising prices and markings rather than volumes. This might show through in higher export values, but it will restrict the impact on real GDP.

Economists are not good at anticipating turning points or even inflection points in the economic cycle. The history of forecasting reveals an alarming tendency towards taking the two most recent data points and extending into the future, with the aid of the indispensable 15 inch ruler. We have all fallen into this trap, one that the authorities, with their huge teams of economic analysts, have proven no better at avoiding.

For 2017, there are many unknowns working in varying directions and at differing speeds. In the past, I have tended to place a lot of faith in the intrinsic resilience of the economy. On this occasion, it would seem that even if the central growth forecast for 2017 is moving towards 2%, there are greater risks to the downside than the up. Even so, one of the aspects of the economy that could yet provide a positive surprise is capital investment. It has been universally assumed that capital spending would show persistent weakness in the period between the referendum and the actual moment of Brexit – reflecting the negative impact of uncertainty.

However, I think there is a likelihood that investment will be boosted by companies preparing to develop new markets outside the EU area. How quickly and with what strength this comes through remains to be seen. However, it may well be that even in 2017, companies undertake higher levels of productivity-enhancing investment spending than is generally expected.

First published on 15th March 2017 by Richard Jeffrey, Chief Economist at Cazenove Cpaital Management.

DIVORCE PROCEEDINGS HAVE BEGUN. THE FIVE EMOTIONAL RESPONSES TO BREXIT.

So we've finally done it. Article 50 has been triggered and the process of untangling our 40 year relationship with the EU has begun. Since the UK voted 52% to 48% to leave the EU on 23 June last year emotions have been running high, and they are likely to continue in that vein until a new settlement is proposed in 2019. Just like any separation, we are very likely to experience several different stages of emotion. The question is – what might they look like and how could they affect us as investors?

Denial

In the immediate aftermath of the EU referendum vote, we did denial very well. Even those in the Leave camp, couldn't quite believe the UK had voted in favor of exiting the EU. David Cameron's swift exit from Number 10 and the short but sharp leadership election that followed, gave rise to the now ubiquitous phrase "Brexit means Brexit". Whatever it really means, Theresa May's appointment as Prime Minister helped cement and give direction to the UK's overall approach – a clean cut divorce that will see us removed entirely from the rules of the EU.

Sterling, on the other hand, was never in denial. As it plummeted sharply in the immediate aftermath of the result, and then struggled to recover, investors were thankful that it cushioned other asset classes from the Brexit shock. Some commentators are now suggesting that sterling has bottomed out, and could start to make a recovery – just as we enter Brexit negotiations. Further denial? Time will tell.

Anger

On 20 March, when Theresa May confirmed that Article 50 would be triggered just over a week later, the EU reacted like a lover spurned. The immediate response from within the EU suggested that they wouldn't be in a position to start talks until May or June at the earliest, and reiterated that the UK would have to work to the EU's timetable and potentially foot a £50 billion bill.

This is the start of what could be a long, protracted and acrimonious separation. If headlines such as "EU tells UK-based airlines to move to Europe after Brexit, or risk losing major routes"* are anything to go by, we may well have to fasten our seatbelts. A bit like children in a divorce, British business could find itself at the centre of a tug of war, and we will be monitoring closely the effect of the changes on different sectors within industry.

Exacerbating the situation further, the Scottish Parliament has now voted in favor of holding a second independence referendum. While Theresa May has been quick to say "now is not the time", pressure from Holyrood is an unwelcome distraction for the government and adds to investor uncertainty over the future of the UK as well as the type of deal it may end up with from the EU.

Compromise

By the middle of this year, we will have begun the bargaining stage. No-one expects this to be easy. As the 'leaver', it will be easy to hang on every word uttered by EU chief negotiator Michael Barnier and the mainstream press will play its part in shaping public perception around the success, or otherwise, of the negotiations. Both sides have committed not to punish the other during the divorce proceedings, but the only way this will be achieved is through negotiation and compromise.

It is very tough to see who the eventual winners and losers will be in this complex process. In the interim period, UK companies that export their goods and services are in a sweet spot - they benefit from the weakness in sterling (making their products more globally competitive), while still operating under the existing attractive EU trade rules. We expect them to grow their profits, but uncertainty for their long-term prospects may cap their share-price gains.

Ultimately, we expect the UK to attract limited investment while the threat of shifting goalposts remains. The evolution of this will determine the long-term economic direction for the UK. In Europe, we think the risks are less to do with Brexit and more to do with the unity and integrity of the remaining 27.

Regret

For many people – even many of those who voted the leave the EU – the process of withdrawal will be met with regret. There will be times when we realise we are on our own again, and mourn for what we may have lost. Hopefully these feelings will be fleeting and there are a number of positives on the horizon, most notably the prospect of new trade deals, particularly with the US, India and Australia.

We believe the UK will ultimately reach an attractive deal with the EU. We are a large trading partner and our defense and intelligence services, the City of London and our diplomatic ties make us too valuable an asset to lose, even though that deal might come at a price.

Acceptance

Acceptance will come will come with a huge sigh of relief, but the timing is still anyone's guess. While there will be a deal on the table in just two years time, it may simply mark the end of the beginning and further negotiating and a transitional arrangements might follow.

The UK needs to ensure it remains relevant by investing in its own economy. For example, we are a hub for technology start-ups (London alone is ranked #1 out of 60 European cities for tech start-ups**) and proper support from government could mean this type of key-sector growth will secure job creation and tax revenues in the coming decades.

Of course, this doesn't mean we won't still feel sad for what we've lost, but we will have learned to accept the reality of the situation. Who knows, maybe things will even be better.

First published on 30th March 2017 by Matthew Brittain, Investment Analyst, Sanlam UK.

FINURA

PARTNERS

Level 2, Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU

T: +44 (0)20 3102 7730 **E:** enquiries@finurapartners.com **W:** finurapartners.com