Weekly Digest

Week ending **4 September 2016**

A quiet end to summer is what the market needed

As we are now into September, the final month of the third quarter, it seems apt to reflect on a mixed summer. Clearly it has not all been plain sailing, with June in particular proving challenging for investors as they tried to navigate around the UK's Brexit vote. The result itself, while surprising and disruptive in its immediate aftermath, paved the way for a broadly risk rewarding environment through July and August.

Aside from the UK's decision to leave the European Union, the most significant changes over the summer have come from the US Federal Reserve (Fed). The markets' angst post the EU Referendum led to expectations of the next interest rate rise being pushed back into 2017. The production of strong economic data from the US over the summer, however, combined with recent comments from the Chair of the Fed, suggest that interest rate increases are back on the table for 2016. Indeed, the market is now anticipating between one and two interest rate hikes before the end of the year.

The old adage 'sell in May and go away; come again on St Leger's day' has thus far been a poor strategy for 2016, with markets up since the start of May. St Leger's day refers to the last classic horse race of the flat racing season. The St Leger festival takes place this week and as a result it seems relatively likely that market performance will be at odds with this saying in 2016. The global stock market had a relatively quiet May, experienced volatility through June before rallying though July and the first half of August. The past couple of weeks have seen the market trade broadly sideways again. The S&P 500 in the US, for example, has not moved up or down by more than 1% since 8 July, which is particularly calm. Over the period from the start of May to Friday 2 September, the MSCI World Index returned 3.8% in US dollar terms, with the US and UK markets following a similar pattern, albeit with higher local currency returns for the latter. Japanese and European stocks have had a more tumultuous period with both of these markets spending a substantial part of both June and July in negative territory. Both of these markets scraped positive returns in the last week and have generated returns of less than 2% in their respective local currencies. For context, global aggregate bonds have returned 2.2% in US dollars for the global unhedged index. While it is not impossible that some or all of these varied equity market gains could be given back by the end of this week, it seems unlikely from here and as a result 2016 looks likely to be a year where selling in May will not have been a profitable strategy.

Despite these positive returns post Brexit, it is pleasing to see that markets have marked time over the past couple of weeks. Periods of sideways returns are unexciting, of course, but becalmed markets are akin to a pause for breath and allow investors to take stock of the levels that markets have moved to and whether these seem fair, too low or too high.

At Momentum we do not invest on the basis of heuristics or 'rules of thumb' such as 'sell in May…', rather we use valuation analysis to identify markets that are attractively valued and that offer an attractive return for the amount of risk adopted by investing in that particular asset. This is part of our outcomes based philosophy and it enables us to take a suitably long time horizon for our investors and this, in turn, allows us to look through short term market 'noise' to identify genuinely attractive returns opportunities for our investors.

Source: Bloomberg. Returns in US dollars unless otherwise stated.

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The **Marketplace**

- US displays lacklustre jobs creation
- Global manufacturing data yields mixed results
- European equities rise despite political rumblings
- Japanese equities rise over prospects of increased monetary stimulus
- Oil weakens following stockpile data

Market **Focus**

Global

- Purchasing Managers' Index (PMI) data for manufacturing throughout August was released for several major economies last week. The highlight was the UK's manufacturing PMI, which recorded its largest monthly gain in the index's history, rising 5 points from its July reading to 53.3. Conversely US manufacturing PMI unexpectedly declined from 52.6 to 49.4. China's reading rose to 50.4, its highest level since October 2014, whilst the Eurozone's index dropped 0.3 points to reach 51.7. (A reading above 50 indicates an expansion in activity).

US

- Despite various releases of encouraging data for economic activity last week, the symbolic job creation number for August disappointed at 151,000 (versus expectations of 180,000), meanwhile the unemployment rate remained unchanged at 4.9%

- Such updates would theoretically hinder the data dependent Fed in increasing their base interest rate. However the market implied probability of a rate increase at the Fed's next monthly meeting was little changed following the release – dropping from 34% to 32%.

Europe

- Spain's caretaker Prime Minister, Mariano Rajoy, lost two consecutive votes of confidence in Parliament to deny him the opportunity to stand for a new term as leader. An October 31 deadline now looms for Parliament to choose a new leader, or else be dissolved for the third set of elections since December, when it last had a ruling government.
- Meanwhile in Germany unofficial regional election results suggest that Angela Merkel's Christian Democratic Party has lost more support to the anti-immigrant Alternative for Germany Party (AfD), which is now represented in nine of Germany's sixteen states.
- Despite these events, Continental European equities had a positive weak, up 1.6%, compared to less risky European government bonds, whose prices fell 0.6% over the week.

Japan

- Japanese equities rose 4.1% over the week following comments from Haruhiko Kuroda, the governor of the Bank of Japan, that the bank would "not hesitate to boost monetary stimulus if needed" and that there is "ample space for additional easing". The yen also experienced a weekly depreciation of 2.0% against the dollar.

Oil

- Brent crude oil prices fell 6.2% over the week to USD 46.8 per barrel. The decline was triggered by inventory data showing that US crude stockpiles rose by 2.3 million barrels over the week commencing on 22 August, significantly above the 1.3 million projected increase.

James Klempster, CFA & Oliver Bickley

Source: Bloomberg. Returns in US dollars unless otherwise stated.

IMPERIUM CAPITAL momentum easton Asset Management

Weekly Digest Week ending **4 September 2016**

Asset Class/Region	Currency	Currency returns			
		Week ending 2 Sept. 2016	Month to date	YTD 2016	12 months
Developed Market Equities					
United States	USD	0.5%	0.4%	7.8%	13.6%
United Kingdom	GBP	0.9%	1.7%	14.2%	17.8%
Continental Europe	EUR	1.6%	1.5%	-2.1%	1.5%
Japan	JPY	4.1%	0.8%	-12.3%	-6.6%
Asia Pacific (ex Japan)	USD	-0.4%	0.2%	10.5%	16.5%
Australia	AUD	-2.3%	-1.0%	4.7%	10.3%
Global	USD	0.5%	0.9%	5.9%	9.6%
Emerging Market Equities					
Emerging Europe	USD	-0.2%	1.1%	14.3%	6.9%
Emerging Asia	USD	0.4%	0.2%	11.7%	16.7%
Emerging Latin America	USD	1.2%	2.1%	36.1%	26.0%
BRICs	USD	2.0%	1.3%	16.2%	18.0%
MENA countries	USD	0.0%	-0.5%	-0.7%	-6.6%
South Africa	USD	-2.0%	3.5%	20.2%	4.1%
India	USD	3.5%	0.8%	11.5%	14.9%
Global Emerging Markets	USD	0.3%	0.7%	15.4%	15.8%
Bonds					
US Treasuries	USD	0.3%	-0.2%	5.4%	5.4%
US Treasuries (inflation protected)	USD	0.3%	-0.1%	7.0%	6.2%
US Corporate (investment grade)	USD	0.2%	-0.2%	9.2%	9.4%
US High Yield	USD	0.1%	0.0%	14.4%	9.2%
UK Gilts	GBP	-1.3%	-1.0%	16.4%	16.4%
UK Corporate (investment grade)	GBP	-0.7%	-0.8%	14.2%	15.2%
Euro Government Bonds	EUR	-0.6%	-0.3%	5.8%	7.9%
Euro Corporate (investment grade)	EUR	-0.2%	-0.1%	6.0%	6.7%
Euro High Yield	EUR	0.2%	0.0%	7.7%	7.0%
Japanese Government	JPY	-0.9%	-0.5%	4.8%	6.4%
Australian Government	AUD	0.0%	-0.2%	7.2%	7.2%
Global Government Bonds	USD	-1.5%	-0.3%	9.8%	9.4%
Global Bonds	USD	-1.0%	-0.2%	8.5%	7.9%
Global Convertible Bonds	USD	-0.6%	0.2%	2.5%	3.7%
Emerging Market Bonds	USD	-0.2%	-0.1%	15.1%	16.6%

Source: Bloomberg

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Asset Class/Region	Currency	Currency returns			
		Week ending 2 Sept. 2016	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	1.5%	0.6%	13.7%	25.9%
Australian Property Securities	AUD	-2.8%	-1.6%	13.7%	20.0%
Asia Property Securities	USD	-0.2%	0.4%	7.4%	13.5%
Global Property Securities	USD	0.2%	0.5%	12.2%	20.6%
Currencies					
Euro	USD	-0.4%	0.0%	2.8%	-0.6%
UK Pound Sterling	USD	1.2%	1.2%	-9.8%	-13.1%
Japanese Yen	USD	-2.0%	-0.5%	15.7%	15.8%
Australian Dollar	USD	0.0%	0.7%	3.9%	7.6%
South African Rand	USD	-0.9%	1.6%	6.8%	-7.2%
Swiss Franc	USD	-0.3%	0.3%	2.2%	-1.1%
Chinese Yuan	USD	-0.2%	-0.1%	-2.8%	-4.9%
Commodities & Alternatives					
Commodities	USD	-3.0%	0.4%	5.5%	-8.0%
Agricultural Commodities	USD	-1.1%	1.4%	-1.5%	-1.6%
Oil	USD	-6.2%	-0.4%	25.6%	-7.3%
Gold	USD	0.3%	1.2%	24.8%	16.8%
Hedge funds	USD	0.0%	0.0%	0.6%	-1.5%

Source: Bloomberg

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