Weekly Market Comment

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2016 asset class returns to 31 October

Asset Class	Index	October	2016 YTD
Equities	FTSE 100 (UK)	1.0%	15.3%
	FTSE4Good 50 (UK Ethical Index)	1.0%	9.5%
	Dow Jones Euro-Stoxx 50 (Euro-Zone)	5.7%	17.1%
	Standard & Poors 500 (USA)	4.5%	27.8%
	Nikkei 225 (Japan)	8.6%	26.5%
	MSCI All Countries World	4.3%	24.5%
Bonds	FTSE Gilts All Stocks	-3.9%	9.6%
	IA Sterling Corporate Bond Index	-3.1%	9.0%
	Barclays Global Aggregate Bond Index	3.4%	28.9%
Commodities	Goldman Sachs Commodity Index	4.8%	25.2%
	Brent Crude Oil Price	8.3%	61.8%
	Spot Gold Price	2.1%	44.8%
Inflation	UK Consumer Price Index (annual rate)		0.8%
Cash rates	Libor 3 month GBP	0.03%	0.5%
Property	UK Commercial Property (IPD Index)		0.1%

* **Source: Morningstar, all returns in Pounds - Sterling (£ - GBP)**

Are markets bracing for a 'President Trump'?

While the asset class returns table for the end of October show very strong Global investment returns for £-Sterling based investors, the first week of November had a distinctly different flavour, that of a sell-off.

UK's FTSE 100 index value development over the course of the week; Source: FT.com, 4 Nov 2016

At around 3-5% falls across global stock markets, not overly dramatic, but nevertheless – in the US - one of the longest succession of down days (nine) in decades. UK investors may have suspected that the spectacular High Court ruling creating yet more uncertainty about Britain's Brexit path to be the cause, but the negative momentum clearly emanated from US politics. With the US presidential election coming up, it was driven by the fear of a 'President Trump' becoming reality. Just as with the UK's EU referendum, what many thought to be unthinkable, has over the past week become a real possibility – Donald Trump being elected US President! The FBI's reopening of criminal investigations into Clinton's clumsy mixing up of her private and official email accounts on her Blackberry, while secretary of state under Obama, has cost her much of the lead over Donald Trump. Something which seemed unimaginable the previous week.

Given Trump's lack of governing experience and outsider status, his election would indeed mean far more uncertainty about the future direction of US policy than Hilary Clinton. Risk asset markets can't stand uncertainty; hence the stock market falls. Taking a step back and considering the post Brexit vote experience, a collapse of and lasting turmoil in global stock markets as a reaction to a (still not entirely likely) election of Trump is not my central case of probabilities. I believe that it is far more likely that after the initial shock - predominantly on the side of foreign investors - markets will refocus on the likely realities a President Trump would face. Just as President Obama was quite limited in what he was able to achieve under the constraints of Washington's administration apparatus, so would a President Trump.

The strengthening of the US economy, which was further evidenced by improving corporate profitability, rising employment, better business sentiment readings and the central bank indicating a December rate rise, is highly likely to bring market emotions quickly back to a very different reality. One of persistent, steady economic growth, which so far has withstood so many headwinds over recent years that an overpromising Donald Trump is unlikely to significantly derail it either – in the short to medium term.

Those who are fearful about the short term value development of their investment portfolios, should think back to all the doomsday market scenario predictions ahead of the Brexit referendum and take note that there is currently much less of this type of comment. Some have therefore even interpreted this pre-election stock market sell-off as a buying opportunity after having suffered from far too high cash positions since the immediate post-Brexit days.

Back in the UK, politics, the judiciary and the central bank did their best to compete with the noise coming from across the Atlantic. In combination they helped the battered British currency to regain some ground to the tune of around 2.5%. This surge of £-Sterling was the largest in a week since March. It showed markets' appreciation of Mark Carney agreeing to remain governor of the Bank of England a year longer than originally planned, no hints of another rate cut following the MPC meeting and the High Court ruling that the Brexit plebiscite could not be used to entirely side-line the elected parliament from any involvement in the process ahead.

Despite all the noise to the contrary from Downing Street, I am not entirely convinced that this ruling wasn't actually greeted with a sigh of relief. After all it provides May with an excuse to triggering Article 50 later than March 2017, which as I wrote before might be a good idea, unless she wanted the first 6 of the 24 months of negotiation time being wasted with avoiding becoming subject of the French and German election campaigns.

From my perspective, the slight strengthening of Sterling was by far the best news of the past week. It might well be seen as having 'stopped the rot' of the currency devaluation, which was beginning to become uncomfortable, given the UK's dependency on foreign savings to finance the country's current account deficit. It has reversed a little of the currency derived investment gains shown in the table at the top, but this would be a small price to pay if it meant that the UK can enjoy for longer the positive economic momentum the currency devaluation has brought us since the summer, without having to fear too much of a hangover from this sugar rush further down the line.

Central Bank policy update

The financial news feed has had a number of central bank updates to chew over this week. In the US, the Federal Reserve's (Fed) Federal Open Market Committee (FOMC) argued that the case for a rate rise has "continued to strengthen". In a statement after its meeting on Wednesday, the FOMC made the public aware that it now only requires "some" more evidence of progress in the US economy to warrant a hike in interest rates at its next meeting in December.

For now, the committee opted to stay put, leaving rates unchanged at their current 0.25%-0.5% level, despite acknowledging that growth had "picked up" and inflation had "increased somewhat since earlier this year". Standing still was the general expectation of markets, as, seemingly, is a rate hike at the final meeting of the year on 13-14 December. It's thought that one of the main sticking points that has barred the Fed from making a move on interest rates as yet is the ever-looming US Presidential election, given that a Donald Trump presidency, and the associated uncertainties that brings, remains a possibility.

In our view, even if Trump was to win, a rate hike from the Fed is still the most likely outcome. With the US economy looking as healthy as it does (the three months to September saw an annualised growth rate of 2.9%) and the apparent dissipation of deflationary pressures from the energy sector, it's hard to see how the FOMC could justify staying put much longer. As our own Lothar Mentel said on Bloomberg news on Monday, "It will be very hard to argue for the Fed to not hike rates, unless we get a big market upset if Trump gets elected. […] I'm not convinced that's necessarily going to happen".

Across the Pacific, the Bank of Japan (BoJ) opted to maintain all facets of its monetary policy in its meeting this week. The bank pushed back its 2% inflation target to 2018, changing its inflation forecasts for 2017 and 2018, from +1.7% to +1.5% and from +1.9% to +1.7% respectively. Despite the downward revisions, the BoJ's inflation expectations are still considerably higher than market forecasts of +0.6% and +0.9% for the two years, leading many to presume that further knock-downs to the bank's expectations are to come. We also note that the delay of achieving the 2% target until 2018 is likely to push it past the climax of Haruhiko Kuroda's term as Governor, which ends in April 2018.

Back in the UK, the Bank of England (BoE) had a rather eventful last week. On Monday, Governor Mark Carney announced he was to leave his post in 2019 – a year later than his original 5-year term was set to expire but 2 years short of the usual term-length for BoE governors. Then, on Thursday, the bank's Monetary Policy Committee (MPC) announced that inflation was set to overshoot its 2% target for the next 3 years, jumping to 2.7% next year and peaking at 2.8% the year after.

The Bank also revised its growth projections upwards, with the committee now expecting 1.4% growth next year as opposed to the 0.8% prediction made in August. Accordingly, the MPC pulled back on sentiments expressed during their August meeting that the adverse economic impact of the UK's referendum result could cause them to lower interest rates further.

There had been rumours that Carney, purportedly riled by comments on the BoE's workings from the government, was considering ending his term in 2018. However, Mr Carney "recognised the importance to the country of continuity" during Brexit negotiations and decided to stay.

Mr Carney, and the BoE more generally, had been coming under pressure recently. Last month, Prime Minister Theresa May used her Tory conference speech to bemoan the "bad side effects" of the BoE's historically low interest rates, before former foreign secretary William Hague opined in the Telegraph that central bankers had "collectively lost the plot."

Interestingly, political musings on the policies of central banks have not been peculiar to our island in the recent months. Not being one afraid to speak his mind, Donald Trump used his slot in the US presidential debates to criticise Fed chair Janet Yellen over the "political things" she is apparently doing, lamenting that she should be "ashamed" of creating a "false economy" through low interest rates. Indeed, it seems central-banker-bashing is gaining political traction in a number of quarters, with the policy of low rates coming in for particular ire.

Perhaps it's worth reminding ourselves, then, why it is that central banks are isolated as they are from the mainstream political process. The 1970s and 1980s – prior to the era of central bank emancipation – saw sustained high levels of inflation across the world's major developed economies. And, it was clear that the link between political leaders, whose motivations are inevitably tied up in short-term electoral considerations, and monetary policy, which is supposed to provide the stable framework in which the economy develops, was a compounding factor.

In any case, the word "independent" is perhaps a little misleading here. While the BoE may have been granted operational independence in 1997, for example, the policy goals (the target inflation rate) are still set by the government. Similarly, the Fed answers to the US congress, with the chairman testifying before lawmakers 4 times a year. Even the European Central Bank (ECB) and those following the 'Bundesbank model' of legally enshrined independence still have their leaders appointed by governments.

Even without such mechanisms, however, central banks are far from being outside the realms of public scrutiny. Central bankers can hardly get a word in without it being interpreted as an indication of policy direction, and the minutes of their meetings are usually made public. Besides, central banks have to contend with the largest real-time reactor of them all: capital markets.

One could even make the case that this intense scrutiny on central bank decisions has led to a kind of politicisation of central bankers. Gone are the days when grey technocrats – the Steady Eddies and Mervyn "boring" Kings of the world – could mumble their way through low-key press conferences provided they do the hard graft. Now, every meeting is an anticipated event, and a failure to effectively communicate can be every bit as damaging as a policy error. This is why we now have the 'rock-star' Mark Carney and the impassioned "whatever it takes" speeches of Mario Draghi; presentation is as key as policy.

Whatever the case, a removal of central bank policy from the political sphere does not mean that those central banks are wholly unaccountable. Central bankers will continue to face scrutiny regardless of the legal structures around them, but one thing is certain: those calling for a greater intervention into central bank policy should be careful what they wish for.

October's PMIs: Health check for the global economy

This week saw the worldwide release of the monthly Purchasing Managers' Index surveys, a chief indicator for the performance of 32 economies. The PMI survey for the manufacturing, construction or services sector is based on questionnaire responses from senior purchasing executives, carefully selected to provide a true representation of the structure of that sector. PMI surveys are widely regarded because of their high correlation with GDP development, thereby providing a timely and notably accurate prediction of GDP figures, which only come out much later. Moreover, the standardised nature of the surveys allows for direct comparisons between economies. Combined, the surveys can offer a global perspective, whereby a reading above 50 on the survey-based index denotes expansion, and below 50 denotes contraction.

This month's release showed that the global manufacturing PMI in October reached 52, its highest level since this time last year. The greatest acceleration was in the rates of expansion for output and new orders. These rates were buoyed by the improved performance of China, the US (which reached a one-year high), and the Eurozone, which achieved a 33-month record of 53.3. Bumper growth in manufacturing for many individual economies prompted global manufacturing employment to increase for the second straight month. Asia proved to be one of the biggest surprises to analysts, with China, India and Japan beating expectations.

With much talk about the possible decline of China, this month's readings have eased doubts over the heavyweight's health. The country's manufacturing PMI broke two months of flat readings, beating forecasts of 50.3 with a reading of 51.2, the highest for over two years. The surprise improvement was driven by internal demand, as the country seeks to gear its economy towards a domestic focus. Though, it was not all good news. As with many economies in October, China faced increasing inflationary pressures. Its Purchase Price Inflation (PPI) jumped more than 5 points to 62.6, the highest level in over five years. This has led some analysts to question whether this seeming recovery, driven by vast credit expansion primarily in property and infrastructure, can continue.

At the same time, India enjoyed a notable increase in its manufacturing PMI this month. With its sharpest monthly jump in nearly five years, its October reading was at a promising 54.4. Similarly, Japan welcomed its highest reading for a year, but again faced issues of inflation, as its input prices rose at the fastest rate for eight months.

Germany, a bastion economy for the Eurozone, achieved a 33-month high in its manufacturing PMI, lifting the Eurozone to a combined 53.5 (incidentally, its own 33-month high). With unemployment at a record low this month, Germany appears to have returned as the major growth driver, but it was not alone in its strong performance. Spain's October PMI signalled a 0.6 to 0.7% quarterly GDP growth rate – one of the highest in the industrialised world. However, there was mixed sentiment among other economies, with Italy proving particularly worrying as growth continues to stagnate amid political uncertainty. With a mixed bag of performing economies, the October composite PMI for the entire Eurozone indicates a mere 0.3% GDP growth rate. That said, with recruitment showing a tentative acceleration and business confidence improving, better economic growth is not out of the question in the short term.

The US is also showing clear signs of improved economic conditions. Domestic demand appeared at the heart of the country's improved manufacturing figures, as manufacturing jobs increased again in October, combined with a marked upturn in new orders. However, rising commodity prices have introduced rising inflationary pressures. Cost inflation in October rose to its highest level in two years, as input and output prices rose solidly. Rising inflation has seen companies pass on higher costs to clients, in a move to offset these pressures. Moreover, some analysts have commented that an avoidance to increase labour forces, at least until the results of this election, continues to limit the country's capacity.

The UK, on the other hand, appears to have maintained a surprising level of positive momentum since the Brexit referendum. The construction industry reached a seven-month high, as housebuilding rose. In addition, the PMI services survey revealed that the UK's services sector grew at its fastest rate since January, whilst, at the same time, beating expectations. October was the third consecutive month of expansion in this sector, testament to a series of better-than-expected figures since the referendum.

With regards to manufacturing, the UK achieved a one year high in job creation, as the fall in sterling proved a welcome boost to British exporters. Moreover, what these surveys have shown is that Britain is enjoying growth of a more balanced kind. The weak pound has inevitably benefitted exporters within manufacturing, but services and construction growth have also shown surprising strength. Taken together, the surveys yield a composite output of 54.6, a near 1-point increase on September, with an expected quarterly real GDP growth of 0.4 to 0.5%.

However, as with any positive outlook, it must be taken with a pinch of salt. The advantages of a falling pound to manufacturing have been mirrored by increasing inflationary pressures. Rising prices for raw materials in the manufacturing and construction sector suggest that continued growth next year will prove more difficult. In fact, the PPI from the manufacturing survey rose to a 69 month high, the fourth highest level since the survey began in 1992. If this rate continues, the rising prices passed onto consumers may well curb consumer spending as well as corporate hiring. With this in mind, it would be premature to conclude that the UK industrial sector has already overcome any Brexit related headwinds.

Q3 company earnings present corporate sector in good health – even banks!

The US Q3 earnings season is shaping up to be much better than analysts and investors had forecast/expected. Going into the quarter, analysts were anticipating a year-on-year (YoY) decline of aggregate company earnings of -2.2% at the end of September. However, now that more than half of the companies listed on the S&P 500 Index have reported the consensus now expects earnings to grow at +1.6% (+4% excluding energy). While not entirely without precedent, nevertheless this is an important reversal of fortunes. So far this was driven by better results from the technology and financials sectors, while the energy industry is proving to be less of a drag on the back of the recovery in oil prices.

A total of 70% of the companies in the S&P500 have reported Q3 earnings and 75% of those have beaten earnings (Earnings Per Share EPS) estimates on average by around 5%. This is above the five-year average of 67% and also the 1-year average of 70%. This means that the overall blended growth rate for the S&P500 now stands at +4% excluding energy, which puts the index on course to post the first quarter of positive YoY EPS growth since the second quarter of 2015. On the whole, the upside to earnings surprises amounts to a $10.1 billion increase in earnings for the index since the end of September.

Encouragingly, it is not just earnings which are improving, but also sales. Top-line sales growth has risen +1% YoY (also +4% ex-energy) thanks to 58% of companies topping sales estimates. This percentage is above both the five-year (54%) and one-year (50%) averages.

The biggest driver to the improved performance is the financial sector, but all eleven main index sectors helped contribute to the increase in earnings. According to data provider Factset, financials alone accounted for 36% ($3.6 billion) of the $10.1 billion rise in earnings. A total of 87% of companies in the sector managed to post EPS numbers above expectations, beating on average by 9.1%.

Bank of America, JP Morgan, Morgan Stanley and Citigroup led the way thanks to a rebound in each of their capital markets units. All the major banks reported improved trading conditions in their investment banking units, particularly fixed income and currencies trading. For us this shows that even in a low rate environment banks can earn a living, which may be slightly uncomfortable for European banks who all claim their poor results are caused by central banks' low rates policy.

The earnings season in both Europe and Japan is less advanced than in the US. 62% of companies listed on the Euro Stoxx 600 Index have beaten EPS estimates, which JP Morgan state is the highest percentage they have recorded since they began tracking the data. Their growth surprise averaged 5%. Earnings growth in the Eurozone on aggregate is up 2% YoY (+7% -ex-energy). An average of 46% of companies have printed sales above estimates, but revenues are still down -1% YoY (+2% ex-energy).

Over in Japan, 49% of companies listed on the main Topix Index have beaten earnings estimates, with EPS down -4% YoY. Top line sales on the surface appear to be relatively soft, with just 33% of firms beating expectations – which is the lowest percentage that JP Morgan has on record since 2009. However, the fact that overall revenues are down 7% is largely a reflection of the stronger Japanese Yen which has risen nearly 15% year-to-date versus the US dollar.

Looking ahead to Q4, analysts are currently anticipating a continuation of the positive trend in both earnings and sales. Q4 expectations currently stand at annualised +4.6% for EPS growth and sales growth of +5.2%. The aggregate estimates for all of 2016 are suggesting earnings growth of just 0.2% with sales rising 2.2%. For 2017, earnings are predicted to rebound much more strongly, rising 12% on the back of a 5.8% increase in revenues.

However, as Q3 has proved, the difference between what analysts expect at the start of a quarter and the reported actuals can be significantly different. We expect earnings in the coming quarters to be supported by the continued improvements in global economic growth, which should help underpin both market sentiment and provide the catalyst for further progression in markets.

UK autumn (budget) statement expectations: End of austerity, but not yet the dawn of fiscal expansion

The well-known economist John Maynard Keynes once said that focusing on the long-run may not be of much use because in the long-run we're all dead! While this statement may not appear immediately relevant to an overview of Government budgets, the statement was actually made in the context of public finances and monetary policy.

In fact, in the case of government finances, and budgeting to an economic forecast, the long run – and how to get there – is exactly what economists will be focusing on over the next few weeks. One of the key milestones being the Chancellor's Autumn Statement (Budget).

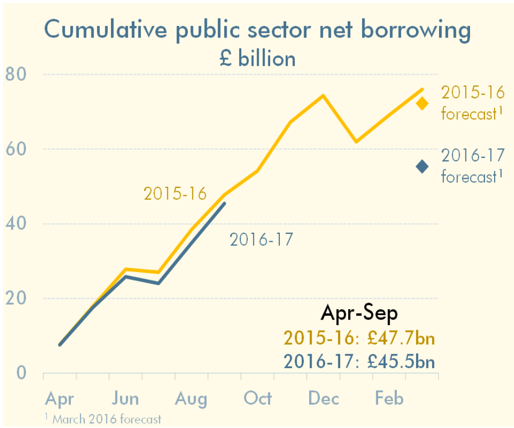
Last week the news on Brexit, £-Sterling, the Bank of England's Monetary Policy Committee (BoE's MPC) announcement provided a mixed data backdrop for the Chancellor's forthcoming statement. On the one hand, as result of the legal ruling on the process surrounding Article 50, there may be even greater uncertainty ahead - although £-Sterling was temporarily buoyed by the potential prospect of a watered down Brexit - gaining 2.5%. On the other hand, Q3 GDP and recent PMI data all surprised to the upside – giving the public "bean counters" and markets cause for cheer, albeit temporarily.

The Chancellor's task is to navigate through all of these conflicting short-to-medium term developments and numerous data points, and establish a credible fiscal policy path. One that enables the UK to effectively manage the Brexit process, whether hard or soft, and the aftermath and to stabilise the UK's long-term (public) finances. Not an easy task.

Balancing the books in the current environment will be difficult. It has already been well reported that the new Chancellor will formally abandon the previous Chancellor's fiscal mandate of reaching a budget surplus in 2019/20. This is not surprising.

The current budget deficit has fallen to ~4% of GDP, but absent material improvements in short-term growth, the amount the government borrows to meet current and near term expenditure is set to increase again. If the OBR's (Office for Budget Responsibility) forecast is accurate (see below), a budget surplus by 2019/20 seems unachievable.

Public Sector Net Borrowing (PSNB)

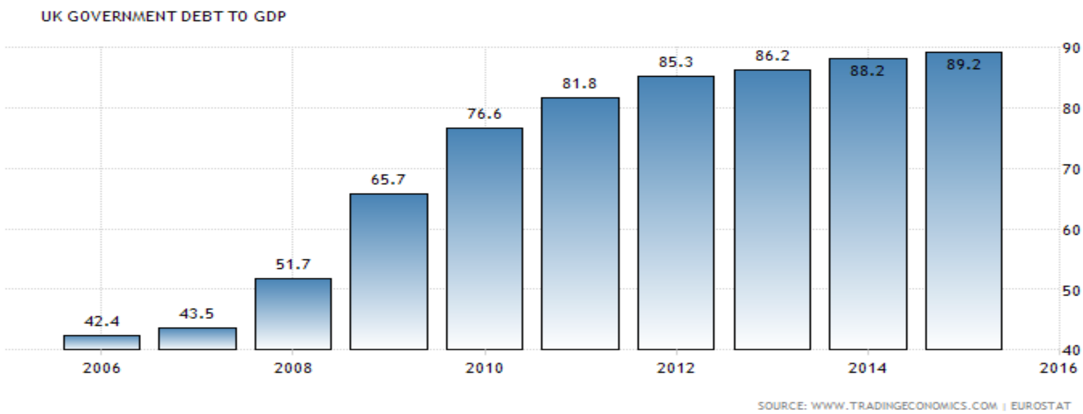


Source: OBS, Oct 2016

Current deficits are of course manageable in the context of typical economic and business cycles and the very low cost of government borrowing at the moment. Post Global Financial Crisis, however, the economic climate has been anything but typical, and this has generated a series of deficits- all of which are adding up to a significant level of debt.

To clarify, the difference between the money the Government receives and current (or day to day) spending is measured as the "current budget deficit" (~£45bn in 2015). However, the difference between the money it receives and current (or day to day) spending plus capital investment is the actual shortfall of tax revenues over expenditures. This figure is referred to as "public sector net borrowing" (PSNB) – £82bn in 2015 (and to Sept' 2016, it is ~£45bn).

Therefore, the deficit represents the difference between income and spending at one point in time while debt represents the total amount of money owed, accumulated over a period of time and quoted as a percentage of GDP. Looking at the UK's level of cumulative debt/GDP (see graph below), it hopefully becomes clear that the increase of public sector debt is not out of control. With Brexit headwinds a real risk ahead, the Chancellor is right to abandon the previous fiscal mandate. It may also be wise to repeal the other legislated fiscal target – that debt should fall in relation to GDP every year (until 2019/20) in order to retain fiscal flexibility.



So, if the Chancellor is currently constrained by short-term turbulence and long-term debt, what might we expect from the Autumn Statement (Budget)? In our view, neither more austerity, nor splurge and spend.

Economic consensus suggests weaker growth from 2017 (relative to the updated and more positive forecast for 2016), with higher inflation also eroding wage gains through rising prices. Fiscal policy targeting higher tax receipts, whether income or consumption related, would be counter-productive in the current economic climate as would stifle demand even more. We would therefore not expect any material changes to policy in these areas.

We do expect to see some business related changes to fiscal policy in the form of incentives and/or direct infrastructure spending. While Q3 GDP has surprised to the upside, this growth is largely due to consumer spending (65%), while manufacturing, construction and business investment have remained relatively subdued.

The Chancellor has already hinted at help for the economy, but the market should expect only a modest fiscal stimulus, with a programme of new infrastructure spending to run to no more than low billions of pounds per year. We also expect further incremental support for the housing market, building on existing Government policies (and helping receipts through Stamp Duty Land Tax).

More generally, and to ensure the UK Government manages its (credit) ratings and underpins £-Sterling, we expect the Chancellor to aim for a balanced budget in future parliaments – not this one. We expect a “steady as she goes” approach with few, if any, giveaways now. More importantly, however, will be the potential for future action he might suggest, such as fiscal loosening that can be pursued at a later stage if the current rate of economic growth begins to falter.

In other words, the long-run picture is uncertain and this is influencing short-term policy, but the Chancellor will claim to have more room to manoeuvre – should it be necessary – than his predecessor had the public believe.

Commodities: a glimmer of optimism returns to the sector

There appears to be growing optimism within the commodities sector that what has been one of worst periods in the industry’s history may be coming to an end. While much of investors’ attention has focused on the fortunes of the energy sector, the attendees of the annual London Metal Exchange (LME) conference have been discussing the strong turnaround seen in industrial metal prices this year.

There has been a slow, but steady pace of global growth, particularly in China, where the government has rapidly expanded infrastructure spending. This, in turn, has helped boost demand for a variety of commodities and supported prices. Prices for zinc, nickel and aluminium have all recorded double-digit gains on a year-to-date basis and traders appear to be betting that prices could continue to rise.

Investors have amassed positions in industrial metals, estimated to be worth around $16 billion, according to Goldman Sachs. Following a torrid three-year period in which prices struggled to find a floor, confidence in the sector appears to be slowly returning following a moderation in global supplies and better demand. Prices of zinc have jumped nearly 54% this year, nickel is up 21% and aluminium has risen 16%, as mining firms have either reduced activity or idled production.

Zinc prices have been the best performing metal in 2016 after Swiss giant Glencore was forced to cut production in October of 2015. Zinc now trades at a five year high of $2,485 per tonne on the LME following a report that supplies of the metal would see its fourth deficit over the past five years.

The mini-renaissance in metals and bulk commodities prices could have further room to run as the demand side continues to improve. Incremental demand from China appears to have been a key reason for the jump in prices and the country's renewed push on infrastructure spending. It would seem that every Renminbi spent on domestic construction is more metals sensitive than one used in other parts of the economy.

The Chinese government is attempting to shift the country towards greater domestic consumption and reduce the reliance on exports. While this transformation is taking place and slows industrial output from the old industries, the government is seeking to maintain continued growth levels. The government has spent much of 2016 ensuring that the country's rate of economic growth does not fall below its 6.5% target by using the familiar lever of investment in resource heavy construction and infrastructure.

We see no reason to expect that growth prioritisation is likely to change in 2017, meaning resource demand levels should stay at least at the recovered levels.

The metals market could also see another boost in the long-term from the increasing popularity of electric vehicles (EVs). Mining giant BHP Billiton expects rapid growth in the EV market over the next few decades – or around 8% of a total fleet of 1.8 billion vehicles by 2035. In simple terms, the demand for copper (electrical wiring/batteries) is likely to increase as more EVs are sold. Today's internal combustion engine cars use about 20kgs of copper, while hybrid vehicles use 40kgs and pure electric cars require around 80kgs.

However, the flipside of the rise in the use of renewable energy sources and EVs is expected to have a negative impact on the demand for oil in the long-term. However, even in the shorter-term both Royal Dutch Shell and BP warned this week that investors should not expect a large rebound in oil prices during 2017 given they are likely to further reduce capital investments.

Both firms said they had planned for an oil price in the region of low $50s per barrel, which is around where prices are today. These statements suggest that compared to materials the energy sector is still continuing to adapt to "lower for longer" market conditions, as Investors remain concerned that global economic growth is not fast enough to absorb high levels of oil supplies.

Development of the gold price since 2012; Source: FactSet

Finally, the other big commodity riser in 2016 is gold. In sterling terms, gold prices have jumped over 44% in 2016 (of which roughly 20% is due to the depreciation of £-Sterling since the Brexit). Gold is sometimes called the 'currency of fear', as it is generally perceived to be a safe haven asset and long-term store of wealth. Prices therefore tend to rise in times of market stress or fears around economic growth or financial stability. Much of the move this year appears to reflect this, as at the start of 2016, investors were concerned about slowing growth prospects in China. However, as noted above, the government took steps to boost the country's economic fortunes and gold prices stabilised.

As October began, gold prices started falling, as the prospect of further US interest rate increases rose and as fears around global growth waned – due to stronger data on both the economic and corporate front. We expect that, as economic momentum continues to improve, gold prices will likely fall (suggested by a drop in speculative net long positions) and industrial commodities could make further headway, as China continues its aggressive investment spending push. Oil prices, meanwhile, may remain trapped within the current range, at least until the global demand and supply situation becomes more balanced. Overall, the backdrop looks much healthier and the prospects for certain commodities are rosier than they were at the start of the year.

PERSONAL FINANCE COMPASS

Global Equity Markets

MARKET	CLOSE	% 1 WEEK	1 W	TECHNICAL
FTSE 100	6790.5	-2.8%	-196.1	↘
FTSE 250	17283.7	-2.0%	-361.1	↘
FTSE AS	3696.2	-2.3%	-87.8	↘
FTSE Small	4909.5	-1.6%	-80.1	↘
CAC	4411.7	-2.7%	-121.9	↘
DAX	10325.9	-3.7%	-391.2	↘
Dow	17930.7	-1.3%	-239.0	↘
S&P 500	2088.7	-2.1%	-44.4	↘
Nasdaq	4679.1	-3.3%	-157.3	↘
Nikkei	17134.7	-1.2%	-201.7	↘

Top 5 Gainers / Top 5 Losers

COMPANY	%	COMPANY	%
PADDY POWER BETFAI	5.4	STANDARD CHARTER	-10.1
EASYJET	3.8	BP	-9.3
POLYMETAL INTERNAT	2.3	HIKMA PHARMACEU	-7.9
FRESNILLO	2.0	SHIRE	-7.7
DIXONS CARPHONE	1.5	SMITH & NEPHEW	-7.6

Sovereign Default Risk

DEVELOPED	CDS	DEVELOPING	CDS
UK	19.0	Brazil	493.9
US	19.3	Russia	304.2
France	26.0	China	26.0
Germany	12.5	South Korea	12.5
Japan	49.0	South Africa	49.0

Currencies / Commodities

PRICE	LAST	%1W	CMDTY	LAST	%1W
USD/GBP	1.246	2.30%	OIL	46.4	-8.2%
USD/EUR	1.109	1.6%	GOLD	1303.3	2.7%
JPY/USD	103.18	-1.8%	SILVER	18.4	4.4%
GBP/EUR	1.123	0.7%	COPPER	4918.0	3.0%
JPY/GBP	128.50	0.5%	ALUMIN	1813.5	2.3%

Fixed Income

GOVT BOND	%YIELD	% 1W	1 W
UK 10-Yr	1.09	-0.05	-0.06
US 10-Yr	1.81	-0.02	-0.04
French 10-Yr	0.47	0.00	0.00
German 10-Yr	0.15	-0.08	-0.01
Japanese 10-Yr	-0.06	0.14	-0.01

UK Mortgage Rates

MORTGAGE BENCHMARK RATES	RATE %
Base Rate Tracker	2.4
2-yr Discount Rate	1.5
2-yr Fixed Rate	1.6
3-yr Fixed Rate	1.9
5-yr Fixed Rate	2.4
Standard Variable	4.3
Nationwide Base Rate	2.25
Halifax Standard Variable	3.74

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For any questions, as always, please ask!

If anybody would like to be added or removed from the distribution list, just send me an email.

Please note: Data used within the Personal Finance Compass is sourced from Bloomberg and is only valid for the publication date of this document.

The value of your investments can go down as well as up and you may get back less than you originally invested.

Lothar Mentel