



Weekly Market Comment

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Lothar Mentel

CHIEF INVESTMENT OFFICER

Samuel Leary

HEAD OF INVESTMENT COMMUNICATIONS

Isaac Kean

INVESTMENT WRITER

Duncan O'Neill

GUEST ECONOMIST

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www.tattoninvestments.com Twitter: [@TattonIM](https://twitter.com/TattonIM)

125 Old Broad Street, London EC2N 1AR. Tel: 0207 190 2959



This week's title picture of The Economist

From 'Trump Bump' to 'Trump Slump'?

When the globally renowned weekly paper The Economist, runs the above picture with the title “An Insurgent in the White House”, then you know that many very thoughtful people have become very concerned. So against my own advice from last week to ‘Keep calm and carry on’, I am afraid the new populist man in the White House is back on the pages of Tatton’s Weekly and the agenda of our investment deliberations.

The reason for this is not so much that I fear for world peace, but instead that the stock markets’ post Trump election honeymoon of complacency and the short-term damage he may inadvertently cause may be rapidly coming to an end. Over the past week, more surprisingly strong US economic data and company results reports helped to hold things together. However, the US\$ and the US stock market have continued to slowly weaken regardless.

Thus far, US stock markets and the majority of corporates, chose to focus on the potential positives of ‘Trumponomics’ and discount the negatives of his more outrageous campaign pledges as bluster or negotiating tactics. Since the introduction of his travel ban on a number of Muslim countries this appears to be changing. Yes, he can sign lots of impressive executive orders, but – the view so far is– if they require funding the legislative checks and balances of Congress will stop the worst nonsense. So no ‘Wall’ unless he can find the funding – despite his executive order to build one.

While this is correct, he can nevertheless cause substantial damage, as the travel ban has shown, and clearly does not shy away from aggressively executing even those campaign promises we were told not to take literally.

This brings his misconception that global trade is detrimental for the US economy into focus and the protectionist barriers he promised to erect at the US borders – he calls it ‘border adjustment’. Anybody who understands business basics will understand the impact of this plan to no longer allow non-US inputs to production, or non US merchandise, to be offset as costs against revenues. Under this plan, corporates

would have to treat anything imported that becomes part of what they sell to the public as obtained at no cost. The effect is that in accounting terms their value turns into straight profit despite the money the company had to pay for them. This means that all imports would be taxed at the rate of tax for corporate profits, while the same would not apply to domestically produced inputs.

A game changer and, who knows, perhaps even successful in rebalancing global current account deficits and surpluses that economists have been warning about ever since the US economy first entered deficit status more than 50 years ago! But at what price for the US and global economy!? Integrated global supply chains of US companies that have taken decades to build would have to be undone and the resulting collapse in global trade would very likely cause a worldwide recession.

In my view this is still a highly unlikely scenario, because the Trump administration's first and foremost objective is to boost US economic growth and not to kill it. But what if Trump is prepared to use the threat of tariffs (which he can impose without Congress) as a bargaining chip in a gigantic 'game of chicken' and after everything else he has done already, business and markets take him only half serious?

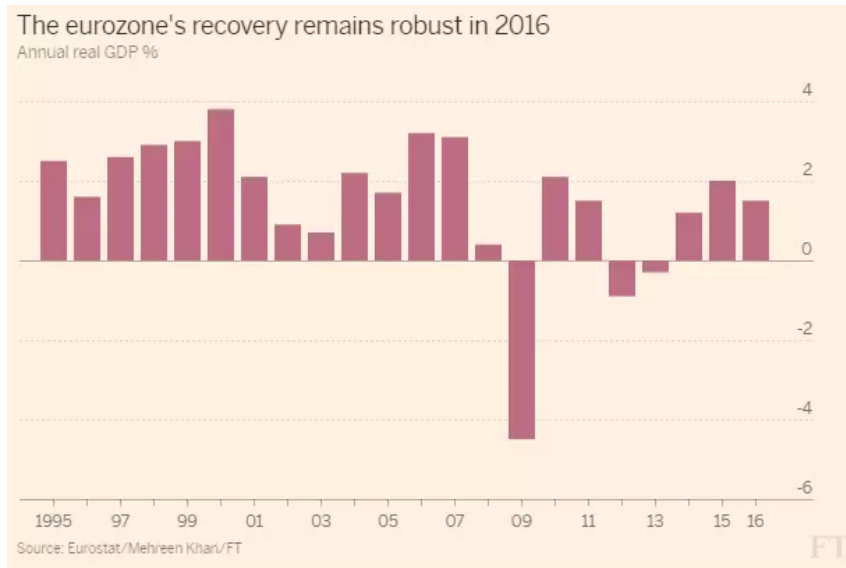
After very intensive discussions of Tatton's investment team and with external research providers, we have come to the conclusion that the 'Trump policy risk factor' is not yet appropriately recognised by markets that have just overcome almost a decade of Armageddon paranoia. The high valuations the US stock market has reached over the last 2 years therefore appear very vulnerable to a renewed shock in business confidence. Having outstripped equity returns over the past 5 years compared to all other developed markets by approximately a factor of 3 (!), we believe it is now prudent to take some profits on our US portfolio positions and reinvest the proceeds in regions which are less highly valued and less exposed to the immediate 'Trump risk'.

We have also decided to increase our underweight to the UK stock market where valuations are likewise beginning to look vulnerable after the strong post Brexit referendum relief rally. Clearly, the political environment in the UK is not in any way comparable to the US situation. Nevertheless, we observe a not dissimilar market complacency about what may happen to the UK's economic prospects in the short to medium term, should the now well-articulated plan of the UK's government not achieve a mutually beneficial and amicable new relationship with the 27 remaining countries of the EU, but a 'Crash-Brexit' instead. Furthermore, the rising inflation pressures on consumer spending and stalling residential property markets are likely to cause market valuation concerns fairly soon.

Against these not particularly optimistic potential scenarios, we remain encouraged by the overall very positive and finally synchronised upward momentum of the global economy as a whole. This should persuade even the most radical and determined politicians not to frivolously risk what has taken a long and hard eight years to rebuild. We are therefore for the time being maintaining overall equity allocations across our portfolios in line with the long-term allocations of the respective client risk profiles. The now increased risk of at least a short-term market tantrum resulting from Trump or Brexit upsets is in our view best reflected in a distinct underweight to the US and UK equity markets.

Eurozone's economic prospects improve

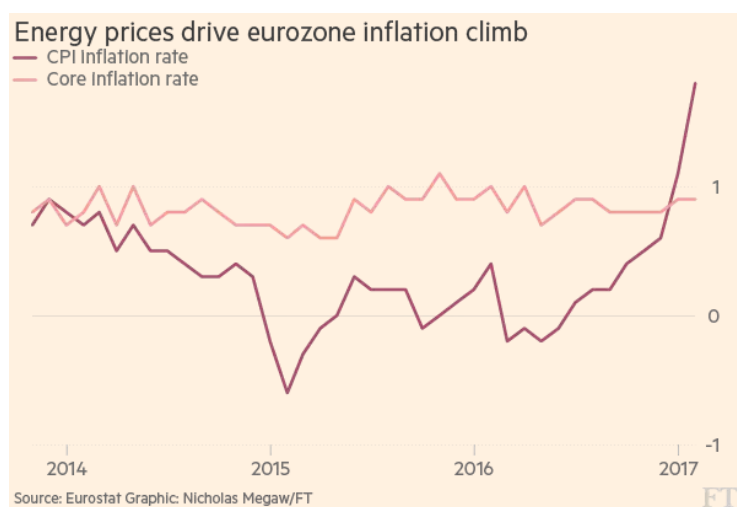
In the end, 2016 proved to be a decent year for economic growth in the Eurozone (EZ). In the final quarter of the year, GDP was better than initially forecast, helping to underpin the view that the EZ is beginning to shrug off some of the impacts of Brexit and the election of Trump.



Eurostat said that Q4 GDP across the EZ rose 0.5%, beating expectations and pushing the annual rate of growth to 1.8%. This puts the continental economy on par with the rate of growth in the US and within a smidgen of the UK.

As a result of improved growth, the harmonised unemployment rate for the EZ fell to 9.6%, below consensus estimates of 9.8%. Area-wide unemployment looks to have now fully unwound from the increases seen between mid-2011 and mid-2013, and is now at its lowest level since May 2009. Despite the positive trend, however, the unemployment rate is sitting above the trough level of 7.2% from early 2008.

On a country specific basis, German unemployment claims fell a further 0.1 percentage points to 5.9% for the quarter. Disappointingly, Italian unemployment remained unchanged at 12%.



There is growing evidence that the EZ economy continues to be resilient in the face of a more challenging political climate. When we observe the results of forward looking business surveys, we see increasing levels

of confidence. The important German IFO Index, which polls local companies, remains robust, but firms appear to be viewing President Trump's protectionist stance as a possible issue.

Encouragingly, economists appear to be becoming more upbeat that deflationary tendencies are behind us in the EZ, and the incoming data looks increasingly supportive of that view. Inflation across the continent surprised on the upside in January, with prices rising at an annual rate of +1.8% for the month, following a rise of +1.1% in December. We note that this was above economist's forecasts and was mainly driven by the volatile food and energy component. We note that the 'core' rate of inflation that removes those volatile items remained unchanged, but still positive at +0.9% YoY during January.

Moving forward, we expect headline inflation across the EZ to grind gradually upwards towards 2% (the ECB's target) over the next couple of months, driven by the ongoing base effects of higher energy prices. It is worth pointing out that this is the first time since early 2013 that inflation has managed to get anywhere near the ECB's long-term target of just under 2%. Once the headline rate reaches around this 2% level, it is possible that inflation will retreat back towards its previous trend (around +1%) over the course of 2017, once the energy price rise base effect filters out again.

We anticipate that the ECB will look through the rise in inflation as non-permanent and keep rates at their current all-time lows. ECB President Mario Draghi has consistently pointed out that he needs to see a "sustained adjustment" in the path of inflation before any change of monetary policy (under which it currently plans to monetise another €780 billion in bonds through purchases) is "contemplated".

The recent fall in the €-Euro appears to have helped underpin positive sentiment among exporters. As a result, the forward looking manufacturing Purchasing Manager's Index (PMI) was revised higher +0.1 point to a robust 55.2 (a level over 50 indicates further expansion). We believe this is another indication of strong growth momentum already underway in the EZ.

Overall, the EZ economy looks well-placed to benefit from the continued solid momentum across the world which for the first time in 5 years has become synchronised. After years of moving from crisis to crisis the prospects for the European economy are now looking bright, which makes many flourishing companies look relatively cheap in terms of their suppressed share price valuation. Interestingly, this doesn't just apply to exporters, but also the domestically focused sectors, as consumer demand in Germany and elsewhere has entered a positive uptrend. This makes European stock markets as well as the Euro as a currency a considerably more attractive investment target than the very highly valued USA equities and USD.

UK: 'Reflation' or the 'wrong sort of inflation'?

Some months ago, we observed that the removal of referendum uncertainty was having an unexpectedly positive effect on market and investor sentiment – seen in the fact that markets rallied and UK consumers carried on spending after the referendum. However, the UK is still in uncharted waters. While Q4 2016 growth surprised to the upside, we still have some way to go before the Government can declare victory.

It is perhaps somewhat ironic then that the most immediate challenge for the UK's economic progress currently is inflation. After many years of loose monetary policy and quantitative easing, we have effectively imported inflation via Brexit and its subsequent depreciation of £-Sterling. Once more, The Bank of England (BoE) faces a difficult set of policy questions over the next few quarters.

Amongst other considerations, the BoE will have to determine the extent to which inflationary pressure is due to £-Sterling's depreciation, and whether this is transitory and short-term. And, they will also have to

determine the extent to which the increase in inflation is more sustained and attributable to non-transitory currency factors. A real and sustained increase could, of course, mean a change to monetary policy - that is, an increase in the Bank/Interest Rate to combat inflation and maintain the value of the currency.

According to the BoE's latest Inflation Report, UK inflation remains below the BoE's target of 2%, coming in at 1.6%. However, the BoE also state that a consequence of weaker £-Sterling is that the higher imported costs resulting from it will boost consumer prices, and could actually cause inflation to overshoot the 2% target.

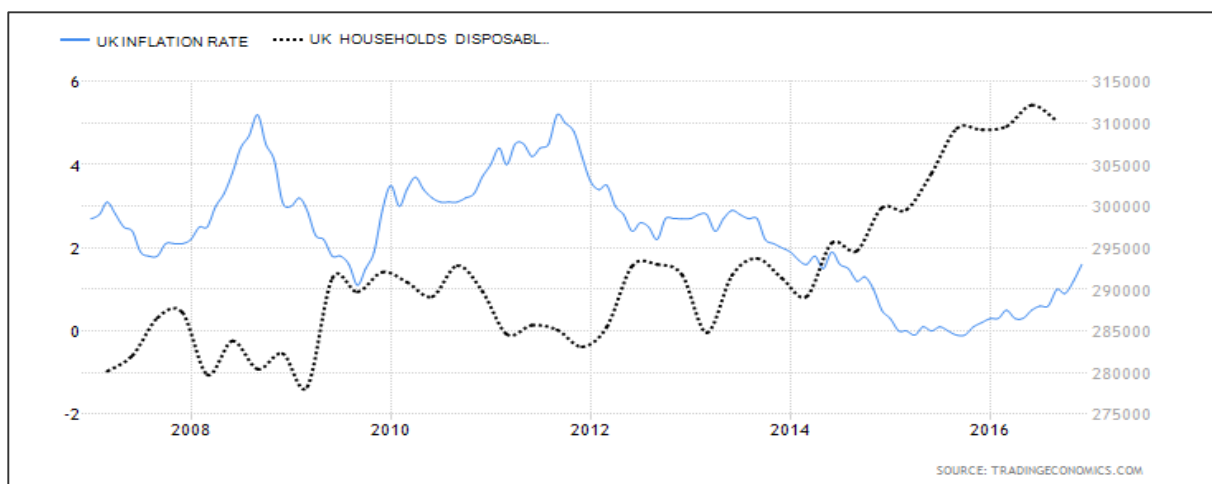
This effect is already becoming evident in the data. CPI inflation rose to 1.6% in December and further substantial increases are very likely over the coming months. In the Central Bank's projection, conditioned on market yields that are somewhat higher than in November, inflation is expected to increase to 2.8% in Q1 2018, before falling back gradually to 2.4% in three years' time.

A key element driving inflation is consumer spending, and it has been solid over the last few months (as has manufacturing). However, what is less clear is whether consumer spending – the powerhouse behind UK growth – is set to continue at current levels. According to most economists and commentators, the short answer appears to be no.

Firstly, renewed inflationary pressures will gradually reduce UK household's spending power. To date, wage increases have at least kept pace with the (subdued) levels of inflation. However, as inflation approaches 2+%, this is no longer the case (despite reductions in unemployment and a tighter labour market).

Secondly, we know that inflation can have a material effect on consumer spending; it reduces households' disposable income, thereby reducing overall consumer demand (see the illustrative graph below). Moreover, attempting to offset the effect of weaker £-Sterling on inflation through rate rises would come at the cost of higher unemployment and, possibly, even weaker income growth. Therefore, as expected, the BoE is taking a longer-term view of inflation and did not change monetary policy last week.

.UK Inflation relative to Household disposable income



Source: *tradingeconomics, February 2017*

Note: Graph used for illustrative purposes - disposable income is determined by many factors and there may not be an exact correlation between income and inflation.

In fact, as early as May last year, the BoE suggested that, over the medium-term, a depreciation in £-Sterling would drive inflationary pressures, and that these inflationary headwinds would eventually curtail consumer

spending. At the time, the Bank's forecasts of economic growth beyond 2016 hovered around a wide band, but illustrated a slowing of growth in 2017 and 2018 (to account for further uncertainty and inflation). The BoE have since upgraded their estimates for 2017 (from 1.4% to 2%), but the longer-term forecast remains low.

This view is now echoed in many market and independent forecasts. For example, Oxford Economics suggest that, while the UK economy continued to enjoy good momentum in Q4 2016, this was almost entirely reliant on the consumer. Even if £-Sterling remains low, manufacturing and exports cannot outweigh a likely slowdown in consumer spending, meaning activity is likely to slow through this year and into 2018. Like the BoE, Oxford Economics expect GDP growth to cool from 2% in 2016 to 1.6% this year and then 1.3% in 2018.

So, where does this leave investor sentiment and market appetite for the UK (in the short-term). Well, to a certain extent, the UK economy will be buoyed by the positive economic developments around the World (e.g., continued growth in the US and encouraging signs of a sustained recovery in the EZ). And, given recent history, economic growth of ~1.5% per annum is not to be sniffed at and provides a reasonable foundation for a post-Brexit UK economy in 2019.

However, until these and other factors are properly quantified and balanced, we assume the medium-term macroeconomic outlook for the UK is, at best, stable – albeit with scope for downside should prospects for a 'Crash-Brexit' increase, but also marginal upside should the BoE decide to ease policy in the face of an abrupt slowdown, and/or the arrangements surrounding Brexit become much clearer.

Also, just as inflation can corrode household spending, it will also impact market's assessment of asset values and returns. If nothing else, higher inflation must imply the use of higher discount factors for future income streams, which in turn means lower current (and future) asset values. The combination of relatively high inflation, slowing economic activity and general uncertainty may cause investors to reconsider their current UK allocations.

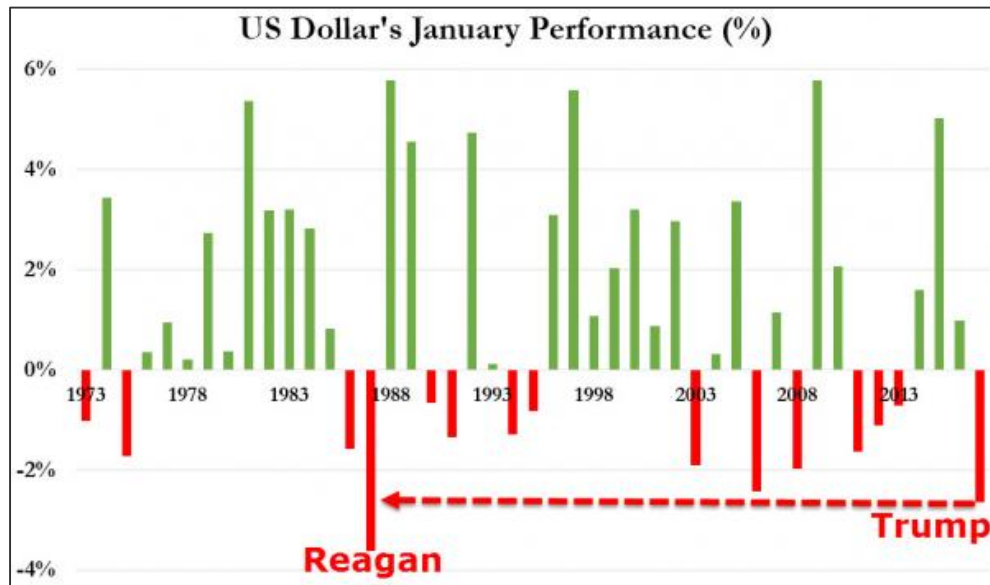
On a balanced assessment this puts UK stock market investments at a relative disadvantage to their European peers, who are starting from lower valuation levels, with less uncertain prospects and less headwinds from inflation.

Currency devaluation cause and effect according to Trump

While US politics continues to steal most of the headlines, much of the real action is taking place in the currency markets. In the middle of increasingly rapid swings in currency rates, uncertainty over new US policies while solid US economic growth marches on, sits the poor US Federal Reserve (Fed – US Central Bank). Trapped between disparate factors, the Fed and its independence look increasingly under threat as it contemplates future monetary policy.

Trump and his advisers have become increasingly vocal over the past week about countries they believe are using "grossly undervalued" currencies to "exploit" the US. These comments appear to be aimed at China, Japan and, surprisingly, Germany, leading some to question if a series of trade conflicts is about to begin.

It would seem that the Trump administration is breaking with a long-standing bipartisan policy of supporting a strong dollar and pursuing a new policy of 'talking' the dollar down, in order to provide support to exporters and make life harder for importers. As a result of these comments, the US dollar experienced its worst start to a new year in almost 30 years.



Source: Bloomberg

The US\$ fell 2.7% against its peers during January, down just shy of the near 4% that then President Reagan engineered in 1987 in order to combat what was viewed as excessive Japanese imports. We should note however that, despite this rapid fall in the dollar, the US currency is stepping back from a 14-year high.

Now, Peter Navarro, the head of Trump's National Trade Council, looks to be repeating some aspects of the Reagan era by warning that the Euro acted like an "implicit Deutsche Mark", giving Germany a clear advantage over its trading partners because of its current low valuation versus the dollar.

German officials were alarmed at such statements, particularly given the country's large current account surplus (amounting to 8.5% of GDP) and trade surplus with the US. Mr Navarro said he thought that Germany is seeking to reduce the valuation of the Euro and was one of the main hurdles to a US trade deal with the EU.

German Chancellor Angela Merkel retorted that the country had no influence over the valuation of the Euro and that she "supported an independent European Central Bank". We would agree that Navarro's accusation is hard to justify, given Germany's central bank has been one of the harshest critics of the European Central Bank's €-Euro weakening QE programme and has actively called for an end to bond buying. At the same time German politicians have been pushing for higher interest rates - for the benefit of their nation of savers - which would also push the value of the Euro up.

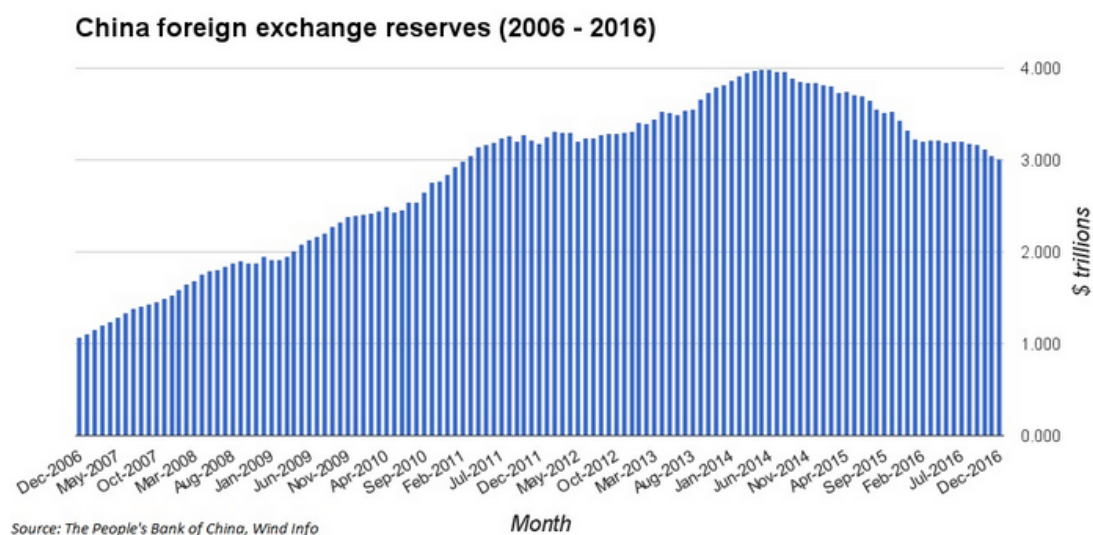
While it can be argued that Germany, as an export nation, does benefit when a low Euro increases their international price competitiveness, we cannot see a 'plan' on the part of the country to purposefully devalue the currency. It would seem that the country has 'benefitted' from a series of unfortunate events, like the debt crises in the periphery. It is, however, a bit far-fetched to argue that Germany insisted on fiscal prudence and refused to support common issuance of EU government Euro bonds because it was maliciously pursuing a Euro weakening strategy, rather than being concerned that it would have to bail out the rest of Europe.

Not content with taking aim at Germany, the Trump administration also singled out both Japan and China, accusing them of pursuing policies of currency “devaluations” to gain trading advantages over the US.

Trump said that “they play the money market, they play the devaluation market, while we sit here like a bunch of dummies”.

Japan was quick to state that its “monetary policy was for the domestic purpose of beating deflation and isn’t done with FX in mind” and that US comments were a “little bit wide of the mark”. Again, while the side effect of Japan’s QQE programme may result in a weaker Yen, the country has been fighting a battle with deflation for over two decades, which has left the country with years of weak growth.

In the case of China, the country has spent vast amounts of its currency reserves over the last 2 years attempting to fight further falls of its currency. The People’s Bank of China (PBoC), at the start January, strengthened the Yuan reference rate against the dollar by 1%, in what looked like an attempt to scare off Chinese currency bears (those looking to profit from shorting the Yuan).



Trump’s real issue is that the US Fed will most likely heed his campaign demand for higher interest rates for savers by raising rates a few times this year. Not necessarily for the savers’ sake, but to protect the USD against inflationary pressures arising from near full employment. We can’t be sure that he understands this or believes economic advisers that this will increase the attractiveness of the USD for savers worldwide and thus the demand for dollars up further (Without Germans, Japanese or Chinese needing to do anything). Or perhaps he does understand and his outrageous claims are intended to intimidate currency traders, just as he used to get what he wanted as a property tycoon?

It must have been disappointing for the new president that the US Fed refused to fall into lockstep with his very optimistic economic outlook and in a fairly dovish turn left rates unchanged this week and even hinted that a further rate rise in March may be off the table. All the rate setters produced were a few minor revisions to their statement. The Fed noted that the economy was expanding at a “moderate pace” and job growth remained “solid”. We suspect that the Fed sees uncertainty over fiscal stimulus measures (Wall building, tax cutting, deficit spending) and the still mixed inflation data as good enough reasons to hold fire on rates for now, while keeping its options open in the near-term.

On inflation, the Fed said that market-based measures of inflation compensation “remain low” but noted that “measures of consumer and business sentiment have improved of late”.

Before		After	
Meeting	Prob Of Hike	Meeting	Prob Of Hike
03/15/2017	38.0%	03/15/2017	32.0%
05/03/2017	51.7%	05/03/2017	48.6%
06/14/2017	73.3%	06/14/2017	71.4%
07/26/2017	78.4%	07/26/2017	76.9%
09/20/2017	86.2%	09/20/2017	84.8%
11/01/2017	88.2%	11/01/2017	87.3%
12/13/2017	94.0%	12/13/2017	93.3%

Source: Bloomberg

For these reasons, the market now anticipates that a March rate rise is less likely, with a move in June seen as more probable. For now, the dovish Fed statement did not mention any uncertainty around fiscal policy nor ‘Trumponomics’ in general. Some investors expected the Fed to at least signal that March was a live possibility, if only to provide the market with a measure of confidence.

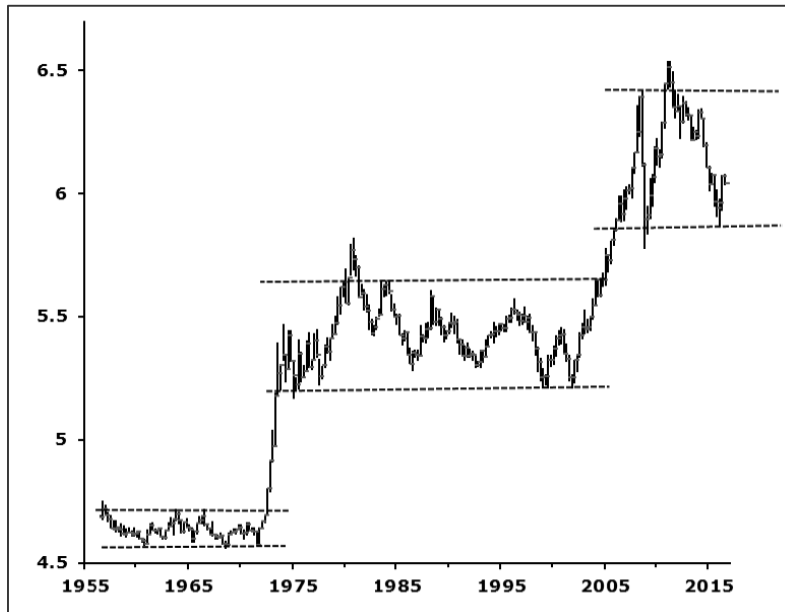
Set against the weaker dollar sentiment of the Trump administration, the Fed appears to be walking on a tightrope. We expect currency markets to remain highly sensitive to comments from the US, and countries around the world to react to Trump’s negotiating tactics. There may yet be a plan behind what currently appears to be ill-aimed blustering.

Economic insight: The commodity ‘super’ cycle

In the long run, commodity prices don’t rise in real (inflation-adjusted) terms. That’s the lesson supposedly shown by the now infamous Simon-Ehrlich wager, a public wager made in 1980, where business professor Julian Simon bet biologist Paul Ehrlich that the price of five different raw metals wouldn’t rise in inflation-adjusted terms over the following 10 years. When 1990 rolled around, all five had fallen in real terms and Simon had won, proving once and for all that technological advances translate into falling commodity prices over the long term.

Ironically, Simon was perhaps more lucky than prophetic. Had the bet taken place in any of the other decades over the last century, the majority of the time Ehrlich would have won. In fact, even if the wager had taken the same timeframe, but simply included all important commodities rather than just the five metals it did, that famous lesson might have been reversed.

The moral of the story then, it seems, is slightly more nuanced. Commodities may rise or fall according to technological change or population growth (and in fact usually rise to meet inflation only every 10 years or so), but one thing remains fairly constant: they are cyclical. In an uncontrolled market, commodity prices will bounce around from boom to bust and back again, and there’s little an individual consumer or producer can do about it (see chart on next page).



Thomson Reuters Equal-Weight U.S. Commodity Price Index - This index is the old CRB Commodity Price Index; Source: Wells Fargo AM/ Bloomberg, January 2017

This is, perhaps, why commodities like oil lend themselves towards market control. Without an OPEC – or indeed the US government before them – to control supply and thereby manipulate prices, an unwelcome volatility ensues. The underlying reason for commodities being such dull long term investment is that they are a non-yielding asset – i.e. by itself it will not generate any form of ongoing income stream that investors can benefit from. Indeed, to hold commodities investors incur substantial storage charges. This is also the reason, why traditionally, commodities as investments, were shunned by investors; they aren't the stable sloggers whose general direction is upwards, but the erratic hellions who don't have a predictable long term rate of return. Commodities are therefore speculative assets – you might make a quick buck guessing when and where they'll turn, but holding them for the long term won't do you any good.

This was, of course, until the early 2000s, when the rising insatiable demand from emerging markets put the price of oil and other raw materials on a seemingly permanent upward trajectory. With the extreme growth of China and other developing nations came a growing need for materials to build their roads and buildings, and fuel the expanding 'factory floor of the world'. Suddenly, contracts on commodities became an asset to hold over the medium and long term. The 'super cycle' was born, and with it a build-up of investment into the infrastructure required to extract these materials.

The concept of the commodity super cycle is a reasonable one. A 2012 paper from economists Bilge Erten and Jose Antonio Ocampo found evidence of four of these cycles from 1865-2009. What it isn't, however, and what many investors took it to be, is a sure-fire guarantee that long term prices can only go up.

This is why the price of oil fell from \$115 per barrel in 2014 to just \$28pb only a year and a half later. The availability of cheap money from Quantitative Easing (QE) following the Global Financial Crisis (GFC), coupled with an unfounded confidence in the commodity super cycle, meant that investors flooded into commodities contracts and oil and mining companies shares rather than low-yielding government bonds. This inflated a pricing bubble that pushed up crude oil to \$125pb in 2012 and many industrial commodities to all-time highs. The inflated prices attracted ever more investment into the oil and mining sector until eventually supply massively outstripped the demand. When China (and others) finally started letting up on their building binge, prices had nowhere to go but down.

The unwinding of this bubble is what led us to where we are now. And, while commodity prices have seen a steady, if underwhelming, climb over the last year, they are still substantially below the highs of a few years ago. So, is it back to the shorter boom and bust cycles for commodities as used to result from less long lasting over- and under-investment in the commodities sector? Well, not necessarily. One of the unique features about raw materials is that, traditionally, both demand and supply are extremely inelastic. That is to say, both buyers and sellers are slow to react to price changes. For the consumer, this is because commodities are a necessity; it doesn't matter if the price of petrol doubles in a week, you still need to drive to work.

A similar point holds for the other side of the equation. For producers, increasing supply output to match rising prices takes a long time. A mine or an offshore oil rig can take years to become operational. This is what keeps commodities running in the circles they do – neither the supply nor the demand can catch up with the other in time, so we get violent price swings. Recent technological developments, however, means this may be changing. Not only are new technologies making materials easier to extract, thereby lowering production costs, but also making suppliers quicker to react.

The oil industry is a good example of this. The shale producers in the US now have the technology to set up and pack up shop extremely quickly and with much lower capital investment relative to their overseas competitors. Not only does this technology lower their ongoing production costs, but the marginal cost of setting up production is reduced massively. Where previous oil rigs took years to get flowing, they can do it far quicker. Effectively, shale has changed the game. The supply now has time to 'catch up' to price changes fast enough to cancel out corresponding changes in demand.

In plain terms, what this means is that, all things being equal, oil prices should start to converge to a kind of 'new normal' – and one that is perhaps far lower than that of previous years. The picture for other commodities is less certain, but we believe that a return to the extreme boom and bust cycles is (in the near term at least) unlikely.

The important caveat here, however, is the phrase 'all things being equal'. If OPEC decides to suddenly become as effective a market manipulator as they once were – by agreeing substantive supply cuts and the like – the equation becomes far less predictable. However, even if OPEC do try to exert some force on the market, a sudden surge in prices seems unlikely. Currently, the market is finely balanced: On the one side, the recent agreement of Russia and OPEC to production cuts applies upwards pressure to prices. On the other, the adaptive technology of the shale industry puts them in a firm place to capitalise on this upwards pressure. And, even if the production cuts were enough to counteract the effect of the shale producers, the market is still straining under the weight of close to record stockpiles, meaning a short-term spike is improbable.

Whatever the case, the dynamics of the oil market – and in commodities more generally – are changing. And, we believe this change will mean less of the extreme boom and bust cycles of old, for now at least.

This has meaningful consequence for global investment dynamics. For one, now that the unwind of the excesses of the 'commodity super cycle' has been flushed through the system, the headwind it generated over the past 2 years for connected industries like manufacturing has passed. Secondly more stability in energy prices and some other commodities subdues the extreme variability of one of the important variables and drivers of the cyclical nature of the economy. Reduced levels of uncertainty – at least in this aspect of the economy – are positive for growth. We cannot be quite sure yet, but this may be another reason for the more synchronised economic growth picture around the world we already cited earlier.

PERSONAL FINANCE COMPASS

Global Equity Markets

MARKET	CLOSE	% 1 WEEK	1 W	TECHNICAL
FTSE 100	7196.2	0.2	11.7	↗
FTSE 250	18414.5	1.2	223.7	↗
FTSE AS	3911.0	0.3	13.5	↗
FTSE Small	5252.5	0.5	27.1	↗
CAC	4836.0	-0.1	-4.0	↗
DAX	11668.9	-1.2	-145.4	↗
Dow	20052.8	-0.2	-40.9	↗
S&P 500	2297.4	0.1	2.7	↗
Nasdaq	5154.4	-0.3	-13.7	↗
Nikkei	18918.2	-2.8	-549.2	↗

Top 5 Gainers

COMPANY	%	COMPANY	%
BARRATT DEVELOPM	6.5	GLENCORE	-5.2
PEARSON	6.1	RIO TINTO	-5.1
POLYMETAL INTERNAT	6.0	CAPITA	-4.5
MICRO FOCUS INTERN	5.6	TESCO	-4.3
PADDY POWER BETFA	5.6	BHP BILLITON	-3.8

Top 5 Losers

Sovereign Default Risk

DEVELOPED	CDS	DEVELOPING	CDS
UK	30.7	Brazil	243.3
US	26.9	Russia	180.7
France	46.9	China	110.3
Germany	22.3	South Korea	46.9
Japan	30.4	South Africa	208.5

Currencies

PRICE	LAST	%1W	CMDTY	LAST	%1W
USD/GBP	1.25	-0.48	OIL	57.0	2.7
USD/EUR	1.08	0.75	GOLD	1218.7	2.3
JPY/USD	112.53	2.28	SILVER	17.5	2.0
GBP/EUR	0.86	-1.16	COPPER	263.0	-2.2
JPY/GBP	6.87	0.24	ALUMIN	1829.0	0.5

Commodities

Fixed Income

GOVT BOND	%YIELD	% 1W	1 W
UK 10-Yr	1.4	-8.1	-0.12
US 10-Yr	2.4	-1.8	-0.05
French 10-Yr	1.1	4.9	0.05
German 10-Yr	0.4	-10.6	-0.05
Japanese 10-Yr	0.1	19.0	0.02

UK Mortgage Rates

MORTGAGE BENCHMARK RATES	RATE %
Base Rate Tracker	2.3
2-yr Fixed Rate	1.4
3-yr Fixed Rate	1.8
5-yr Fixed Rate	2.3
Standard Variable	4.2
Nationwide Base Rate	2.25
Halifax Standard Variable	3.74

GLOBAL RESEARCH TEAM

Lothar Mentel – Chief Investment Officer

Lothar.Mentel@tattonim.com

Jim Kean – Head of Investment

Jim.kean@tattonim.com

Mark Murray – Fund Analyst

mark.murray@tattonim.com

Sam Leary – Strategist

Sam.leary@tattonim.com

For any questions, as always, please ask!

If anybody wants 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

