# 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

Chris Robinson

INVESTMENT ANALYST



www.tattoninvestments.com Twitter: @TattonIM

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

## September 2017 market returns

| Asset Class | Index | September | Q3/2017 | YTD | 12 Months | 2016 |
|---|---|---|---|---|---|---|
| Equities | FTSE 100 (UK) | -0.7% | 1.8% | 6.6% | 11.2% | 19.1% |
| | FTSE4Good 50 (UK Ethical Index | -1.2% | 0.7% | 2.8% | 6.7% | 12.6% |
| | MSCI Europe ex UK (Euro-Zone) | -0.8% | 3.4% | 13.4% | 18.8% | 15.6% |
| | S&P 500 (USA) | -2.0% | 1.2% | 5.2% | 14.8% | 33.5% |
| | Nikkei 225 (Japan) | -2.1% | -1.1% | 3.3% | 9.8% | 26.0% |
| | MSCI All Countries World | -2.0% | 1.5% | 6.4% | 12.8% | 26.7% |
| Bonds | FTSE Gilts All Stocks | -2.6% | -0.5% | -0.1% | -3.6% | 10.1% |
| | £ Corporate Bond Index | -1.9% | 0.2% | 2.9% | 0.3% | 11.8% |
| | Barclays Global Aggregate Bond Index | -4.8% | -1.5% | -2.1% | -4.4% | 21.8% |
| Commodities | Goldman Sachs Commodity Index | -0.8% | 3.8% | -11.4% | -1.4% | 32.8% |
| | Brent Crude Oil Price | 5.5% | 16.3% | -6.7% | 13.6% | 81.8% |
| | LBMA Spot Gold Price | -5.3% | 0.2% | 2.3% | -6.2% | 30.2% |
| Cash rates | Libor 3 month GBP | 0.01% | 0.07% | 0.25% | 0.35% | 0.56% |
| Property | UK Commercial Property (IPD Index) | NO September Data point | | | | 2.6% |

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

## Bad news – good news

Did I state last week that September had been a good month for stock markets? Well, looking at the above table, one must assume I made a mistake. Let me set the record straight: It was a good month in global equity markets, just not from a £-Sterling perspective. As the UK's currency recovered some of its previous losses against other major currencies, naturally investment assets valued in those currencies declined in value, even if they rose in local currency terms. The same is true for overseas earnings of UK domiciled multi nationals and, with them dominating the FTSE100, the UK market's main representative index was down as well.

Last year, the experience was the opposite, as £-Sterling fell, investors' overseas assets rose in GBP terms, even if they were treading water in local terms. Overall then, was September a good or bad month for investors? I would say it was good, unless you desperately wanted to withdraw cash from your investments.

Good, because the rise in global risk asset markets has been somewhat reassuring for investors. Capital markets are seemingly not overly worried about the central bank's widely broadcast determination to gradually end the era of ultra-accommodative monetary policy. That tells us that, compared to the 'Taper-Tantrum' period of 2013 (the first time monetary policy tightening was even mentioned), market participants do not appear to view this a dead certain threat to further global economic expansion.

Those who now interject that it is £-Sterling returns that matter to them – after all, their future use of their investment savings will be in the UK – can relax; it's just one week into the month of October and the currency has already lost most of its September gains. Hapless Theresa May's PR disaster of a conference speech be thanked. Or, was it merely a stark reminder that, because of Brexit, the UK's medium-term perspective of a uncertain economic future remains unchanged, regardless of whether Mark Carney's Bank of England raises interest rates by a quarter percent next month?

Beyond this news, the rest of the week brought mostly calmer politics (Spain/Catalonia) and encouraging macro-economic numbers. Great to see the synchronised global uptrend to gain traction again in the US and Japan – too bad they are backward looking numbers. There are certain forward-looking indicators that construction around the world is slowing, as is consumer spending. This worries many – us included – given it was those two economic variables which have been crucial to the economic progress of the past years.

On the other hand, there is strong evidence that business confidence (just not in the UK) is growing stronger and business investment is finally returning – in some areas like Europe with such vengeance that it can easily compensate for softer consumer and construction demand. Should this continue, then the combination with tightening job markets should lead to wage improvements. That should stimulate at least consumer demand back to previous levels.

The stock market highs in the US, and other global markets in the past week, tell the same story, and so we will have to continue to manage currency exposures carefully across portfolios. For the moment, we are glad that we took the opportunity of closing our USD underweight position by selling some of our strengthened GBP holdings at the end of September.

## Tory Party shifts left?

For Theresa May and her team, Wednesday's speech at the Conservative party conference is one they won't forget for a while. As widely reported (and ridiculed) in the media, her address was marred by several PR disasters and as a result disappointed.

Naturally, media focus was on the seemingly hapless Prime Minister, and whether her career can withstand this latest embarrassment. Columnist Iain Martin was forthright in his assessment; "It is over."

Despite the focus on the speech delivery and its circumstances, not much has been made of its actual contents. She made vague gestures towards the "British dream" but left open what exactly that dream entails, as well as admitting her own culpability for losing her majority in June's election. More interestingly than this, both her tone and actual policy proposals signalled somewhat of a shift in the party's politics. The PM announced an additional £2bn of funding for affordable homes – with a plan to build 5000 extra homes each year for the next 5 years. She also promised to put a legal cap on energy prices if the energy regulator doesn't put an end to energy companies "ripping off" consumers.

Such redistributive policies and rhetoric around them wouldn't look out of place in Ed Miliband's manifesto. The FT's Sebastian Payne went as far as to say May's "British dream" was "reheated from Ed Miliband's ill-fated leadership of the opposition Labour party." Indeed, price controls and increased government infrastructure spending on social housing are policies to the left of even the last Labour government.

It's worth noting that this isn't the first time May has signalled a supposed leftward shift. Last year, shortly after her Premiership had begun, she used her Tory conference speech to announce that "government can be a force for good" and to warn the tax-dodging "international elite" that "we're coming after you." Even in the run-up to June's election, May's manifesto was slated in some parts of the right-wing press for its pledges to intervene in energy markets.

Now, much like all the other times, May's policies seem to be motivated by what she believes the disgruntled part of the UK electorate would want to hear. Last week, her counterpart on the other side of the House of Commons delivered a confidant and almost triumphant speech to his own party conference. At their conference in Brighton, the Labour party appeared much more at ease, effectively capitalising on public discontent and reinvigorated by the better-than-expected result this had given them at the snap election. A role reversal from a year ago.

Back when she first took over as leader, May made a tactical decision to respond to the "quiet revolution" of the referendum result with a shift away from the Cameron-Osbourne years. Tory HQ interpreted the Brexit vote as a rejection of not just the EU but the stagnating living standards associated with the previous government's austerity policies and the "international elite" too. With the Tories' major upset back in June and the unexpected popularity of Jeremy Corbyn's policies, it seems like this current leftward shift is likewise a tactical decision to gain some of the Corbyn's share of the 'disgruntled vote".

For us, the pertinent question here is: Is this shift towards increased redistribution permanent? It's no secret that May's position as leader is looking increasingly untenable; rumours abound that high-up Tory members have been working to displace her since the exit polls were announced on 8 June. If May loses her job, will her successor abandon this shift?

In our view, this is unlikely. As mentioned, the shift leftwards in policy seems to be more tactically motivated than down to the ideology of the leaders. Indeed, Mrs May served for six years in Cameron's cabinet, and her Chancellor Philip Hammond has a reputation for preferring a more lassez-faire, free market approach. The fact that current Tory policy has seemingly shifted towards redistribution isn't because the current Tory leaders are left wing, but because the entire British political discourse seems to indicate that this will appease the discontent masses that turned the Brexit vote.

Having said that however, whether the redistribution/leftward shift is here to stay depends somewhat who May's replacement might be. If any of the standard names win – Boris, Davis, Gove, Rudd – we believe the above scenario is likely. But, an outsider choice might change things. Right-wing backbencher Jacob Rees-Mogg is currently the betting agencies' third favourite for next Tory leader, after his recent surge in popularity has seen him become the darling of party activists. Rees-Mogg has been filling out conference halls all week with speeches calling for "real" conservative policies instead of the ones offered by May and her team, as well as the hard Brexit that has become his signature talking point. He argues that Corbyn's unashamed ideological certainty is what attracts voters, and so that's what the party should emulate rather than appeasement policy.

From our point of view, the two areas these developments will most affect investment values is through fiscal policy and Brexit negotiations. The fiscal side of things will drive valuations of government bonds as well as the health of the underlying economy. And, as ever, the state of Brexit negotiations will largely determine the value of £-sterling, as well as general business confidence.

If May's rhetorical leftward shift translates into actual concrete policy, we would expect fiscal expansion. However, news on Thursday that the Office for Budget Responsibility is set to downgrade its expectations for the government's budget – cutting the Chancellor's £26bn Brexit buffer he created last year by as much as two thirds – might just derail those plans. This government is still committed to reducing the budget deficit, albeit at a slower pace than Cameron and Osbourne, and so expansionary rhetoric might end up being curtailed by reality.

In terms of Brexit, the uncertainty over May's position can only mean more uncertainty over the negotiations themselves. When she first became leader, May seemed to be markets' friend for her ability to give some apparent clarity to the UK's Brexit position and thereby underpin £-Sterling valuations. That seems a long time ago now, with currency markets now showing little confidence in May's ability to get a good Brexit deal. Indeed, the renewed fall in the currency following her conference speech provided further evidence for this view.

Some had hoped that Theresa May would reassert her leadership of the UK's governing party, but it's now looks once again like she is a caretaker prime minister, who does not lead through strength but through necessity. Such weakness in government does not bode well for resolving the challenges ahead, the Brexit negotiations in particular.

The question is whether a leadership challenge would improve matters or make them worse. Judging by the acceleration in the fall of GBP on Friday, when news of a backbench rebellion broke, it seems that, for the time being, capital markets prefer a weak prime minister May to any of the alternatives discussed above.

## Abeonomics: Japan's resurgence

A sure sign that economic conditions are improving is when political opinion begins to move up in support of the incumbent government, leading that government seeks to capitalise by means of a snap election. This appears to be the case in Japan. Japanese Prime Minister Shinzo Abe has taken advantage of currently favourable opinion polls, and has called an early election (for 22nd October). Judging by the latest economic data, the upswing in support for Mr Abe's government and its economic policies is not without justification.

Mr Abe's three-pronged approach toward alleviating the relative economic stagnation of Japan finally appears to be gaining real traction. Monetary easing, fiscal stimulus and structural reform all seem to be gradually paying off in economic terms. Now, it looks like they're paying off politically too.

One of the general gauges for economic sentiment in Japan is the Tankan Index, which has now reached its highest level since 2007. The Tankan Index is a survey of Japanese business (carried out by the central Bank of Japan [BoJ], covering thousands of companies above a certain amount of capital. The (quarterly) Tankan index subtracts the percentage of companies reporting unfavourable business conditions from those reporting favourable, to generate an index reading from -100 to +100 – a figure above zero suggest a growing economy.

According to the latest metrics (as reported in the FT), the overall Tankan index (covering all industries and companies of all sizes) rose by three points to +15, the highest reading since September 1991. The reading for large manufacturers has actually risen by five points to +22, said to be fuelled by strength in chemicals and machinery, as well as the effects of a weaker yen feeding through to Japan's exporters.

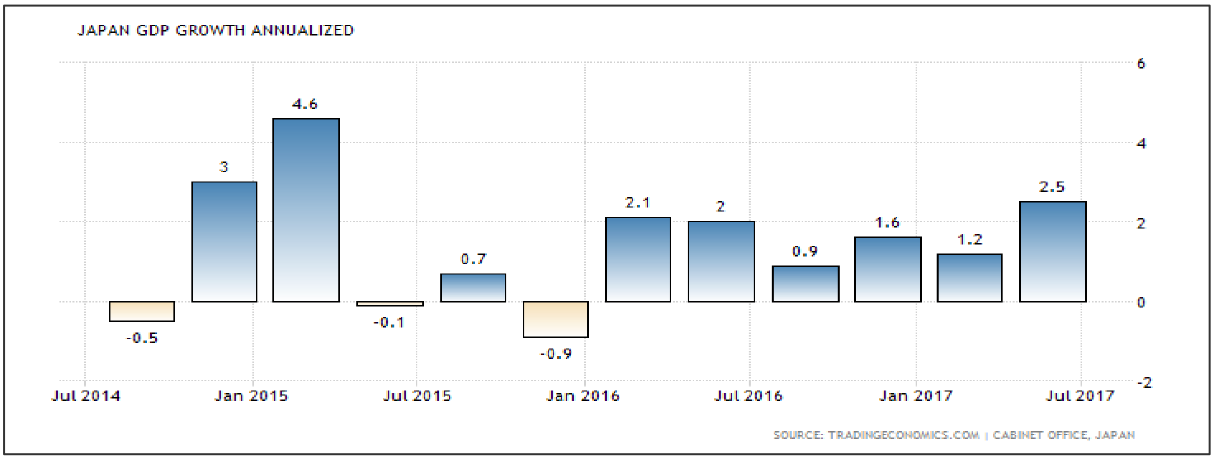
Other indices and measures also point toward continuing economic improvement in Japan. For example, Japan's manufacturing PMI increased to 52.9 from a flash reading of 52.6 (and 52.2 in August), the highest measure in four-months. And, while Japan's services PMI reduced slightly in September to 51.0 (vs 51.6 in August), it remains a positive reading.

The reduction in the services PMI could be the result of rising costs and expenses - increasing labour scarcity driving up labour costs and higher input prices - which may of course prompt companies to raise prices. For a country that has struggled with deflationary periods over the last decade, inflation, in any form, would be welcome.

More generally, the Japanese economy expanded at an annualised rate of 2.5% (perhaps a little weaker than earlier consensus estimates of 3% to 4.0%, but faster than the 1.2% (annualised) growth rate in Q1. The Japanese economy has now expanded in six straight quarters, the first period of sustained growth in more than three years. It's also the highest rate of growth since Q1 2015 (see graph below).

Japan's improving conditions should be viewed in context. Relatively radical economic policies, and the BoJ's monetary policy stance, are effectively all providing support for Japan's economic activity and growth. For example, the BoJ is operating extremely loose monetary policy, in the form of negative interest rates (-0.1%) and even controlling the yield curve through quantitative easing purchases, keeping yields of up to 10 years maturity at 0%. Notwithstanding, domestic consumption and investment is moderate, and inflation remains stubbornly low (0.4% to 0.7%). However, there are more and more voices suggesting that this may be about to (gradually) change.

GDP growth in Japan (annualised rate)




***Source: TradingEconomics, October 2017***

As we said a few weeks ago, one of the potential sources of (much needed) inflationary pressure can be tightening labour market conditions. Again, from the available data, Japan should be poised to experience at least some employment-led inflationary pressure.

The Tankan index shows companies of all sizes experiencing labour shortages, with the index for employment conditions weakening by three points to -28. Also, we note that Japan's unemployment rate remains at the very low level of just 2.8%, coming down from its highest ever level of 5.5% in 2002.

Whether this increasing scarcity of staff and general tightening of the labour market will translate into wage pressure (and inflation) is uncertain. Conventional economic theory (and experience) suggests that tightness in the labour market gradually tends to push up wage and price inflation, as employees start to use their improved negotiating position to demand better pay or leave for better paid job offers. However, the Japanese labour market has proven somewhat unique. The conventional thinking, expressed through the Phillips Curve (see our article about the US situation in the 22 Sep edition), seems generally hold in developed markets during "normal" economic cycles. But, this may not be the case with Japan.

Firstly, as discussed at the beginning, Japan is not in a "normal" economic cycle where demand and consumption are the primary drivers for employment and wage growth. Secondly, it would need to be understood if the present levels of unemployment are in fact generating labour scarcity and wage pressure, or whether productivity improvements (and non-demand/structural factors) are mitigating the potential wage pressures.

According to the IMF, unemployment has fallen to a 25-year low and the job-to-applicant ratio is also at an all-time high. But, as of yet, there is no evidence of higher pressure for wages from "regular" workers (full-time employees).

Perhaps more importantly, the Japanese labour market is generally characterised by low wage growth, caused by structural factors such as limited labour mobility, life-time employment, and a strong preference for job security. In addition, pay negotiations tend to be set by reference to inflation, which can of course be self-defeating in Japan's present circumstances. For example, Japan's minimum wage is 798 ¥-JPY ($6.52) p/hr, lower than in many other developed economies and among the lowest relative to the average wage.

We observe that Mr Abe's economic policies have taken Japan a long way toward recovery. Now, a juncture has been reached. Either the dynamics of the Phillips curve concept are triggered and rising wages lead to a more self-sustained recovery, or more structural reform may be required to return Japan's labour market to the flexibility it displayed in the past. The difficulty at the moment is that we cannot be certain where we stand. Labour market dynamics can remain static for a long time until they change very suddenly, remaining very inelastic until the point workers realise their opportunity, after which the market becomes very elastic. Given the Japanese labour market is comparatively closed to migrant labour and has, in the past, reliably displayed the Philips Curve effect, we expect gradual wage rises to be recorded over the coming months, quite possibly further aided by public encouragement from the government that now is the time to seek better paying jobs.

## US tax reform plans – return of the Trump Trade?

Last week, we reported on the muted market response to Trump's relaunch of his tax reform initiative, and observed that it may be too pessimistic to price in no chance of reform success. One week on, this view appears to be becoming more consensual, and so many commentators are asking: Is the 'Trump Trade' back on?

The corporation tax reform elements in particular – if passed – would force investors to reprice the positive impact this could have on corporate profits, providing welcome support for currently extended equity market valuations.

When the prospect of tax reform seemed remote, and Trump's approval rating waned earlier in the year, it was the improving US economic backdrop on its own that kept investors content. The revived potential for tax cuts could be just the shot in the arm that markets need to push share prices higher in the last quarter of 2017.

The new market heights reached in US stocks over the past week lead us to believe that markets have indeed begun to ascribe a higher probability of success to Trumps tax reform plans. The catalyst may have been last week's announcement by the Trump administration that it had cleared the legislative calendar of the looming budget and debt ceiling deadlines and the "instruction" by US Senate Budget Committee to engage on the tax reform plans. This has enhanced the probability that tax reform will actually become law, even if it's a scaled-back version relative to the announced plan.

As a result, some economists have revised higher the odds of enacting tax reform in 2018, now at around 65%.

Another recent positive development – at least in terms of passing legislation – has been the consistently improving economic backdrop.

US employment data shows that vacancies have hit highs last seen in 2000, while detail in the inflation prints support the Fed's statements that recent softness could prove to be transitory. Additionally, this week's ISM (manufacturing) hit a new cycle high of 60.8 in September, its highest level in 13 years. There were increases in the new orders, production, and employment sub-indices. Construction spending rose in August, and prior months were revised higher.

As mentioned, bond prices fell as a result of better data. 10-year yields have risen 25 basis points off their recent lows (now around 2.3%). The US Dollar has also rallied, up about 2% versus broad indices and gaining up-to 4.5% against the Yen since early September. Over the past few weeks, companies whose fortunes are thought to be correlated to deregulation, tax cuts, production repatriation and even infrastructure have all risen versus the S&P, along with cyclicals like financials and small caps.

While we cannot predict how the tax reform negotiations will pan out, Trump's full plan could increase the S&P500 earnings per share (EPS) estimate by around 10-12%, according to Goldman Sachs. The biggest political hurdle to this scenario is how big a budget deficit increase officials are prepared to accept in return for the prospect of higher corporate activity levels that lower taxes are expected to bring.

A watered-down tax plan might still increase lift EPS by about 7%. According to Goldman's forecasts, this could equate to an S&P index level of above 2,650 at a forward PE ratio of around 17x, which is also 5% higher than today's level.

While Trump's plan includes the potential for cuts to personal taxes, economic studies find that corporate tax cuts also have a beneficial effect on wages. Undeniably, shareholders get a large proportion of the mechanical short-run benefit from cuts in the corporate tax rates. Still, economic research suggests that labour gains as much as 35% of the long-run benefits, to the extent that wages increase with investment.

In terms of investment spending or Capex, economic studies found that lower corporate tax rates lead to a higher investment / GDP ratio, and also higher capital stock to output ratios (i.e. more capital assets) in the longer run.

It is true that lower taxes have an immediate negative impact on the amount of taxes collected overall, but experience has shown that there can be a positive, but indirect effect on longer-run revenues by boosting economic activity levels. This can come in the form of higher revenue volumes despite lower rates, but also a reduction in tax avoidance strategies by citizens and corporates.

Another interesting impact of tax reform is on market structure. Over the past decade, an estimated $2 trillion has gone from active to passive (tracker funds, ETFs), which means that investors have increasingly bought the market as a whole, rather than picking individual names.

However, we believe that there will be clear winners and losers from tax reform, which means investors should be able to benefit more from discriminating when selecting companies' shares.

Another important aspect is, as mentioned last week, the Trump administration's proposal to finally adopt a territorial taxation approach to global earnings and income – as the rest of the developed world has done for decades. This would mean that foreign income would either be exempt from US taxation, or bear a minimum tax rate regardless of repatriation, which might be lower than the domestic statutory rate.

Global technology superstar companies (Microsoft, Google, Amazon, Facebook, Netflix) have, in the past, refrained from repatriating overseas earnings to avoid double taxation. If some of the (by now incredibly large) retained cash positions outside the US found their way back into corporate investment, then this could have another significant stimulus effect for the US economy.

But it is not just global players who would benefit. Smaller, domestically focused companies, who in the past were unable to avoid corporate taxes through international tax arbitrage, may increase in investor popularity as well. If the corporate tax rate in the US was indeed to get closer to the international average of 22%, then their relative tax reduction benefit will likely be larger than that of the large cap stocks.

Recent stock market performance differences suggests that investors have already begun to price in some optimism regarding tax reform and are becoming more selective when investing.

If this all sounds very promising, then there is unfortunately also a proverbial fly in the ointment. Fiscal stimulus through tax cuts rather than through spending (e.g. infrastructure investment) only leads to higher investment and activity if companies and investors put the money back into capital investment, rather than just 'putting it into the bank'.

A couple of years ago, monetary easing in the form of (almost) interest-free capital failed to lead to meaningful additional capital investment. If this fiscal stimulus was promised back then, our expectations for success would have been very limited. However, while success is by no means guaranteed, there is a better chance that it may be different now. Firstly, confidence levels about the return on investment are now significantly higher in the business sector and, secondly, central banks' have already announced that they will gradually remove monetary stimulus over the coming months and years.

Even though there may be ifs and buts aplenty, in the environment of gradual economic improvement, tax reform may indeed provide the additional stimulus that turns US economic growth from 'not too bad' to 'really quite good'. Perhaps, in that case, there is justification for the Trump trade to truly make a return.

## India - from the ground upwards (by Chris Robinson)

I am writing this article from a unique perspective, after recently returning from India on what only can be described as an experience of a lifetime. For many, travelling through (chaotic) northern India may not appear as the best use of two weeks holiday. For me, my intrigue and wish to understand a country experiencing such economic, social and legislative change, combined with its history and natural beauty meant not only would I get a real insight, but also gain an appreciation of what I have become so accustomed to in the developed world.

I decided to travel the country on the British built railways across Royal Rajasthan, known for its palaces, forts and desert landscape. I went through multicultural Delhi and into the foothills, from the Himalayas to Shimla, the summer capital of British India and where the 1947 partition agreement was laid out by Mahatma Ghandi. This meant I would experience different cultures, the growing wealth gap and challenges its leaders continue to face.

Over the past year, we have written numerous pieces discussing India's trade agreements with Europe and the rest of the world, the growing tensions with China and Pakistan over the surrounding seas and territories (Arunchal Prudesh and Kashmir), as well as Narendra Modi's governmental reforms removing 'high-denomination notes' in an audacious demonetarisation initiative and, most recently, the far reaching tax reforms. The speed of change and impact on people's lives was clear to see across all the cities I visited.

Firstly, the pace of life in Delhi is far from slow and represents the changing India I expected. As the second most populated city in the World, with over 26 million people, it has become a significant draw for the aspiring younger generation, trying to find a way to provide for their families and achieve a better quality of life. In the same light, I was also able to see why India is in such need of reform, with what can only be described as organised chaos on the roads and streets with free roaming cows, monkeys and dogs, open sewers combined with pungent street food creating a constant assault on your senses. One of Modi's priorities is the 'clean up India campaign', designed to cut emissions, clean the streets and teach the public the importance of health and wellbeing. Very little is discussed of such reform on the international stage, but the importance of education 'from the ground up' will make a huge difference to the country's growth prospects.

As part of my trip, I was able to stay in a couple of “Homestays”. These belong to the wealthier of Indian families, running other businesses as well as the gated accommodation (one of the families was the owner of a mine to put it into perspective). Speaking to the family, clearly a well-educated couple, gave me an insight into the perception of Modi’s reforms and what is needed to change India. For example, the removal of ‘High denomination notes’: The theory was brilliant, reducing the number of black market and corrupt dealings undertaken with these notes as well as increasing the government's ability to track transactions by encouraging bank accounts and debit cards. However, the execution was poor; the sudden removal actually resulted in the biggest money launder in the world, with fake notes exchanged easily for clean bank balances. It was a short-term embarrassment (not fully throughout), but it will have long run benefits, as evidenced by the Cash to GDP ratio which now sits at 9% from 12% (an indicator of government debt and its ability to repay debt).

It was my third city visit where I truly began to understand Modi’s struggles in changing this vast country. I was in Agra, home to the stunning Taj Mahal, discussing with my host the running of his ‘Homestay’. A hot topic was the new single tax system, Goods and Services Tax (GST). Similar to the UK’s VAT system, it was being hailed by many as a revolutionary step, allowing businesses to claim tax credits on the inputs they paid for. It aimed to provide four further benefits. Firstly, it would increase Government tax revenue as more products, services and producers entered the tax net. Secondly, it would reduce costs and increase efficiency by simplifying and unifying the tax system across states, in turn increasing the competitiveness of Indian firms. Thirdly, it would make paying tax easier for smaller firms, encouraging them to join the system. Consequently, this should increase the size of the ‘measurable economy’. Finally, and most importantly, it would join Indian states under one system, forming a single market.

As I was about to experience, the results tell a different story at the moment. The host complained of the difficulty to set up and register. Consequently, the Government obtained lower tax revenue (for now) and companies didn’t gain the tax credits until after purchasing goods had already lead to rising business costs and uncertainty in the short run. The host’s frustrations were obvious when he said “If you pay by card you pay Tax, if you pay cash you don’t?” - registering all the host’s transactions was a new and clearly not enjoyable experience for him… I paid by card.

Cleaner cities, transactional oversight and taxation are just three of the many changes Modi’s Government is trying to enact, which will no doubt provide long run benefits but are overshadowed by short run headwinds. This combination of unsuccessful changes and the recent economic growth data has not provided reassurance to the masses, with GDP falling from 7% in 2016 to 5.7% at the mid-year 2017. The importance of Modi as a once in a generation leader cannot be understated, he has gone against the corrupt and powerful in society to make these changes but poor execution has led to questioning of his position. The Gujarat elections will be an important indicator of Modi’s hold in the regions most affected by uncertainty.

This short-term noise is however overshadowing what is no doubt a path to great change for the better in India. China is the only other country to have grown as rapidly, and that was under a very regimental ‘socialist rule’ (control and order). India is known for its weak and often corrupt public administration and, as a true democracy, change has to be gradual, or risk losing the support of the electorate. As we know that has its benefits and weaknesses - even as a developed country.

India may be behind due to its chaotic streets, general infrastructure and lack of reliable administrative framework, but there is no doubt the younger generation will drive change and growth. For the first time, this generation can see the developed world through TV's, mobile phones and computers, and they strive for the lifestyles they see online that we have become so accustomed to. Sitting on two of the trains, I was able to meet a fashion designer from New York, a director of operations from Unilever and a product specialist from Procter&Gamble. Three multinational corporations using India to source cheap labour and mass production. This trend is likely to continue, and with investment comes greater earnings and quality of life for those employed by these manufacturers.

In the coming years, India has significant challenges to overcome; cleanliness, infrastructure and educating the masses on the benefits of both. However, there is no doubt in my mind it is heading the in right direction. Overseas investment is likely to continue with such a young and competitive workforce and its geographical position and trade links to Asia and Europe mean it has an ideal location. For now, the 'assault on my senses' left me with an unforgettable experience, but if Modi continues to drive change it will be a different country next time I visit.

# PERSONAL FINANCE COMPASS

## Global Equity Markets

| MARKET | CLOSE | % 1 WEEK | 1 W | TECHNICAL |
|---|---|---|---|---|
| FTSE 100 | 7514.3 | 1.9 | 141.5 | → |
| FTSE 250 | 20149.9 | 1.4 | 275.0 | → |
| FTSE AS | 4123.9 | 1.8 | 74.0 | → |
| FTSE Small | 5815.0 | 1.8 | 102.6 | → |
| CAC | 5352.3 | 0.4 | 22.5 | → |
| DAX | 12945.5 | 1.9 | 240.9 | → |
| Dow | 22746.2 | 1.5 | 341.1 | → |
| S&P 500 | 2545.7 | 1.0 | 26.4 | → |
| Nasdaq | 6042.2 | 1.1 | 62.9 | → |
| Nikkei | 20690.7 | 1.6 | 334.4 | → |

## Currencies

| PRICE | LAST | %1W |
|---|---|---|
| USD/GBP | 1.31 | -2.55 |
| USD/EUR | 1.17 | -0.67 |
| JPY/USD | 112.84 | -0.29 |
| GBP/EUR | 0.90 | -1.87 |
| JPY/GBP | 6.65 | -0.94 |

## Commodities

| CMDTY | LAST | %1W |
|---|---|---|
| OIL | 55.5 | -3.5 |
| GOLD | 1272.7 | -0.6 |
| SILVER | 16.7 | 0.1 |
| COPPER | 302.9 | 2.5 |
| ALUMIN | 2171.5 | 1.9 |

## Fixed Income

| GOVT BOND | %YIELD | % 1W | 1 W |
|---|---|---|---|
| UK 10-Yr | 1.4 | 0.6 | 0.01 |
| US 10-Yr | 2.4 | 1.4 | 0.03 |
| French 10-Yr | 0.7 | 0.7 | 0.01 |
| German 10-Yr | 0.5 | 1.9 | 0.01 |
| Japanese 10-Yr | 0.1 | -17.6 | -0.01 |

## Top 5 Gainers

| COMPANY | % |
|---|---|
| ANGLO AMERICAN | 10.6 |
| GLENCORE | 7.7 |
| BARRATT DEVELOPM | 7.2 |
| RIO TINTO | 6.1 |
| MEDICLINIC INTERNATI | 5.5 |

## Top 5 Losers

| COMPANY | % |
|---|---|
| CENTRICA | -6.4 |
| AVIVA | -3.5 |
| BAE SYSTEMS | -3.1 |
| CRH | -2.3 |
| ROYAL MAIL | -1.9 |

## UK Mortgage Rates

| MORTGAGE BENCHMARK RATES | RATE % |
|---|---|
| Base Rate Tracker | 2.4 |
| 2-yr Fixed Rate | 1.4 |
| 3-yr Fixed Rate | 1.6 |
| 5-yr Fixed Rate | 1.9 |
| Standard Variable | 4.3 |
| Nationwide Base Rate | 4.5 |
| Halifax Standard Variable | 3.74 |

## Sovereign Default Risk

| DEVELOPED | CDS | DEVELOPING | CDS |
|---|---|---|---|
| UK | 23.5 | Brazil | 184.9 |
| US | 25.9 | Russia | 130.7 |
| France | 20.6 | China | 59.2 |
| Germany | 12.2 | South Korea | 70.6 |
| Japan | 37.8 | South Africa | 174.3 |

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