Weekly Market Comment

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Source: Telegraph, 28 Nov 2017

Sudden, but not entirely unexpected

It has been a week full of surprises and sudden turns of events, with the main unchanged parameter continuing to be the consistent and synchronised progress in global economic growth.

For the UK public and economy, the most import development was the apparent breakthrough in the Brexit negotiation on the subject of the divorce bill. While many will be staggered and perhaps appalled by the many 10s of billions of £-Sterling being thrown around, it is important to note that this move does not constitute a caving-in by the UK's government to the EU27's demands. Instead, by agreeing that liabilities arising in the future from joint decisions of the past, will be honoured, both sides have accepted that it is sheer impossible to know now what they may be. On the other hand, it is abundantly clear to both sides that an unamicable Brexit would cost both sides 100s and not just 10s of billions of £-Sterling and €-Euros in lost GDP.

That then leaves the Irish issue to be resolved, but where there is a will, there should be a way. We have dedicated the next article to a more detailed discussion of the Brexit divorce bill approach, with a particular focus on the potentially positive impact on the near-term development of the UK economy should most of the Brexit trade uncertainties dissipate.

The next surprise from a current affairs point of view was North Korea's firing of another ballistic missile, with the potential to cross continents. Capital market action, however, judged it as another non-event and robbed "little rocket-man" Kim Jong-Un of the pleasure of causing any wider disruption. Instead, stock market investors took note of a rare episode of one major US stock market declining while the other two continued to rise. This one day unsynchronised fall of the tech and growth stock heavy NASDAQ, versus the Dow and S&P could be seen as an indication that investors finally begin to believe in a broader economic growth dynamic. This would decrease the attraction of those technology and growth stocks which investors have pushed up relentlessly over the past years in the belief that they will be able to grow healthily, regardless of anaemic general economic growth. If this episode heralds indeed a rotation from growth to value stocks, then this could provide stock markets with further upside potential, given value stocks like banks and many industrials have been unloved and are thus not yet displaying stretched valuation metrics. Please read our third article for more.

On the side of truly remarkable market events has been the disruption in the meteoric rise in the aggregate value of the cryptocurrency Bitcoin. We have written here before about these internet based value exchange mechanisms which lack most features of effective currencies, but are loved by the ‘net’ and regularly become object of speculative frenzy. Last time we reported at length, the Bitcoin had suffered a massive bout of hyper-deflation, which saw its value in US$ terms rapidly rise 100 fold from $10 to $1,000 only to subsequently decline back to $200. This time it has ‘only’ risen 11-fold since the beginning of 2017 – from $1,000 to $11,000 last week. Since then Bitcoin speculators appear to have lost their nerve and at times the cryptocurrency lost as much as 25% of its value within hours, before recovering almost back to where it was.

Does it matter if internet geeks create and subsequently destroy intangible or even imaginary value positions? Well, to a point, or as an old friend of us noted last week “when your Uber driver tells you he is getting a second mortgage in order to ‘invest’ in Bitcoins, then you know that a bursting of the bubble will cause collateral damage in the real world”. This would be the reason why there have been so many warning voices in the media about the Bitcoin mania recently. Together with last week’s volatility nobody should be able to say they didn’t realise that the value of Bitcoins is just as uncertain as winning persistently at the races. We will be watching the next stages of this mania unfold with interest but at a collective value sum of now over $100 billion it will matter how much of this was just theoretical book gains of historic Bitcoin holders and how much real cash has flown to push up the (crypto) value.

Back in the real world, stock markets took a breather after hitting new highs last week, despite the global economic dataflow evidencing once again a very healthy level of increasing business activity around the world. We point out in the last article this week, that this may well have to do with a slowly changing level of financial liquidity available in markets as central banks begin to tighten monetary liquidity conditions and businesses find more productive uses for their idle cash piles than general capital market investments. This would be good news for further growth prospects in the real economy, while capital market investors will have to get used to the thought that further returns may require a bit more investigative analysis of presented investment opportunities, rather than being able to simply rely on the general surplus of financial liquidity to lift all ‘boats’ more or less equally.

Breakthrough on the Brexit divorce bill

As widely reported, UK and EU negotiators reached a breakthrough this week around a way of settling the ‘divorce bill’. This issue has been by far the stickiest part of negotiations to this point, and appears to have been agreed in principle. All along, most estimates have put the likely gross amount of UK liabilities at around £100bn. However, the nature of the agreement reached means we likely won’t know the full extent of payments until years – even decades – after the UK’s official exit.

Until now, the size of the bill represented one of the biggest stumbling blocks to negotiations. It comes from the UK’s historic contribution commitments to the EU budget (including during the post-Brexit transition phase, the EU insist) as well as all other outstanding liabilities promised prior to the referendum. EU negotiators had insisted that no further discussions on post-Brexit arrangements could take place until the UK agreed to honour its past commitments in full. The UK government, meanwhile, balked at the idea of paying a large upfront bill to leave the union; the idea of even modest exit payments is still hugely unpopular with the British public.

So, what happened? It seems that the government took advice from another politician, fictional US President Frank Underwood: “if you don’t like how the table is set, turn over the table” (House of Cards TV series, for the uninitiated). Rather than actually agreeing a final amount, whose payment would likely evoke anger in the home press, negotiators have worked out a payment scheme that allows room for manoeuvre as estimates of different obligations and receipts change. The government has recognised the EU’s total liability set yes, but it’s important to keep in mind that no way near that figure will be paid directly, and certainly not all at once.

UK negotiators argue that the final net amount paid will be around £40bn-£50bn, once various receipts and other deductions are taken into account. Why such a discrepancy in the figures? The differences in reporting – with the EU saying £100bn and the UK saying closer to £40bn – show a difference in priorities relative to their home constituencies. For officials in Brussels, the focus is on the gross amount, as making sure the UK honours all its previous obligations is the first priority. But then there are many ways to calculate the amount of funds that will actually flow back to the UK, be that continuing subsidies, ongoing long term joint projects or even EU pension payments to UK residents. For the UK therefore, the crucial issue is the net amount, which they hope to reduce as much as possible with a variety of accounting tricks.

Of course, both sides haven’t even come close to agreeing what the final net amount should be, but this is where the other breakthrough comes in. By agreeing to pay its liabilities as and when they are due rather than in one lump sum, the government has removed the need to settle an agreed net figure beforehand. Instead, the UK can make its case for certain receipts for years to come.

This has two crucial advantages. Firstly, it gives negotiators on both sides wiggle room to make more demands without holding up talks elsewhere. For example, the UK wants its share of EU assets to be taken off the bill – which France and Germany reject. If they are successful however, they may even ask the assets to be revalued over time, meaning that Britain’s payments go down as those assets go up in value.

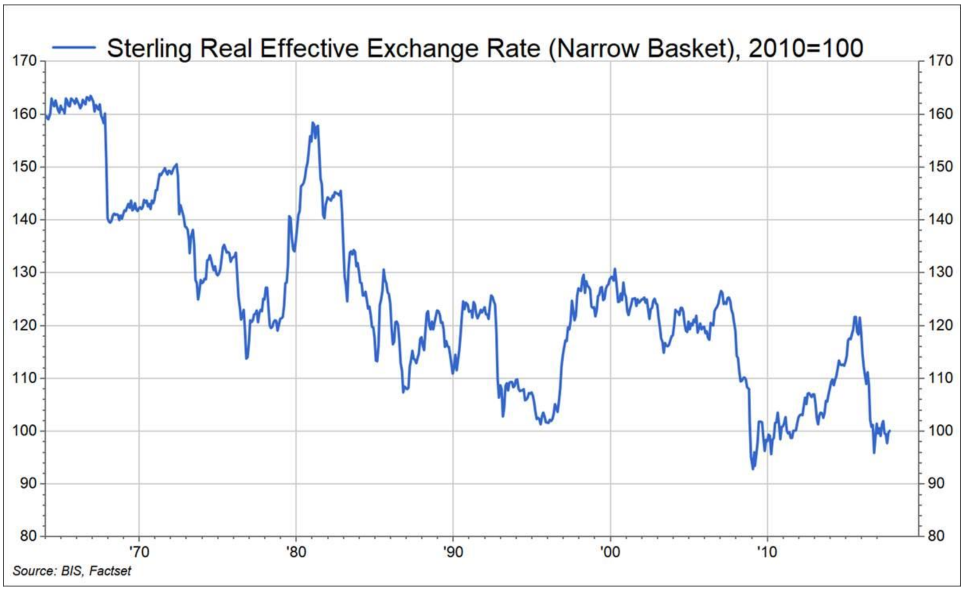
Secondly, and more importantly, this agreement allows each side to present the results as a win to their respective publics. Each side’s settlement figure depends largely on what they do or don’t include in the receipts column. Britain includes rebates in its calculations while the EU doesn’t, and assumes a higher rate of EU spending promises are ditched. The UK also uses a higher discount rate for its share of joint pensions liabilities. What this means is that both sides can start with the same set of liabilities but end up with very different net estimates. This helps both sides in the public relations battle; the government can rely on clever people at the treasury office to make its actual payments look relatively small, while EU negotiators can present larger figures to the other 27 EU countries.

So, what is the actual figure? In short, whatever you like. The question of ‘how much’ isn’t so straightforward when you allow for the (reasonable) methodological differences between the two sides. As the FT put it, “the UK has made the battle over the Brexit bill as much about presentation as hard cash.”

Regardless of what one thinks of the size of the bill, however, the fact that it will no longer weigh down talks can only be a good thing. Eight months after Theresa May triggered article 50 and began formal exit proceedings, progress can finally begin in earnest.

This should help the economy by clearing up the uncertainty around trading conditions – by at least clearing a path to a transition deal and thereby reducing the likelihood of a 'hard Brexit'. This is important, as that kind of uncertainty severely dampens investment into the UK. Since sterling's dramatic post-referendum fall, the UK's large current account deficit (exports minus imports) has become a serious drain on the economy. An increase in foreign direct investment (FDI) is the most sustainable way of financing that deficit, and so attracting foreign investment would be a great boon for the UK.

Surprisingly, FDI actually rose to its highest ever levels in 2016 despite the referendum result, but those figures are misleadingly skewed by the huge takeovers of two British-listed companies, and FDI into the UK is expected to fall dramatically this year. However, clearing away the Brexit clouds makes investment into the UK very attractive. Last year, foreign investors made more money off British assets than British investors did off overseas assets – despite the fall in £-sterling boosting overseas returns. This is the first time this has happened since 1997, and shows that foreigners do well off their UK investments.



Combined with the historically low value of £-sterling and highly skilled British labour force, this makes investing into the UK very attractive, which should boost FDI. And, the early signs are promising. Following the negotiation news, £-sterling rose to 2-month highs against the dollar, while the Bank of Montreal's Stephen Gallo said "It's a buy!" of the currency. If investment into the UK does increase, it might do wonders for the economy, particularly during what the Resolution Foundation called the worst decade for pay growth in 210 years. If this breakthrough does lead to a genuine improvement in negotiations, brighter skies could finally be on the horizon.

US tech sell-off negative or positive signal?

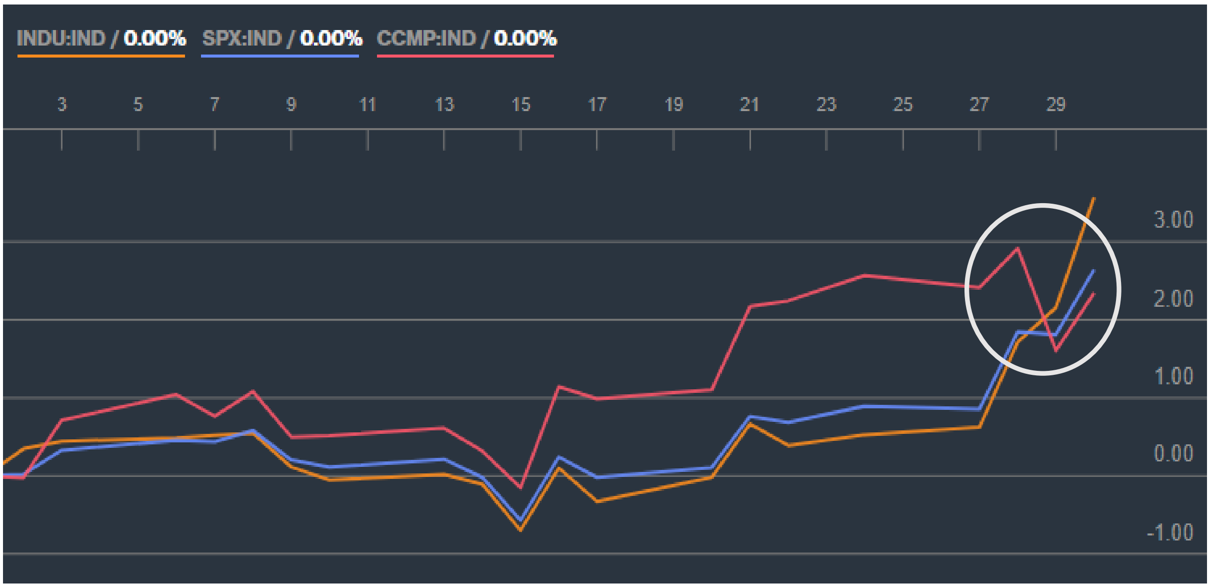
Last Wednesday, the NASDAQ stock market suffered a near 2% fall, while the S&P500 and Dow Jones booked gains. Given that the NASDAQ is heavy with growth oriented and tech stocks, this had many commentators suggesting we may be witnessing the onset of a major – and perhaps long overdue – sector rotation.

Following the 2008 global financial crisis, changing sector leadership has typically signalled distinct changes in sentiment. The first is fear and caution, when expectations of economic set-backs dominate, leading to a 'risk-off' environment. Here, 'cautious money' moves to companies with cyclically less sensitive long-term earnings streams but limited growth prospects, such as consumer staples like Procter & Gamble in the US, Unilever in the UK and Nestle in Europe, as well as utility companies. These stocks offer an attractive dividend that low-yielding investment grade bonds are unable to provide, while, at the same time, providing some growth upside. For these reasons, professional investors often refer to them as bond proxies.

The more 'risk embracing' money has, at these times, favoured so-called growth stocks, with the argument that, when growth across the entire economy is scarce, investors need to focus on those stock 'gems' that offer strong growth prospects. This is because their innovation potential makes them less dependent on the general economy.

The second possible sector rotation is one of optimism towards broad future economic growth, leading to a 'risk-on' environment. Here, investors buy shares in companies with low valuations whose dependency on the general economic conditions made them fall out of favour during the 'risk-off' phase. This rotation is more frequently referred to as a 'growth to value' sector rotation - one that has occurred on far fewer occasions since the financial crisis.

Over this year, we have written various articles on the valuation of the US stock market and how representatives of the growth investment style like the FAANG tech stocks (Facebook, Amazon, Apple, Netflix and Google) currently trade on arguably higher valuations than average. However, as noted, on Wednesday they suffered an unsynchrosnised fall (see chart below), as investors



1 month index development of major US stock markets, CCMP=NASDAQ;
Source: Bloomberg, 1 Dec 2017

cheered the latest US economic growth upgrade and switched their focus to the broader 'risk-on' allocation style.

An index tracking just the tech stocks fell 3.7% on the day, wiping over $60bn from the four stocks' market capitalisation (roughly equivalent to the UK's Brexit bill?). This may represent a small fall relative to the top ten's average 100% valuation gain year to date, but it provided a strong signal of changing sentiment. As with most scenarios, where one's losses are another's gains, this latest sector rotation was reminiscent of Donald Trump's election victory. Back then, we witnessed the last major 'risk-on' rotation, with the value stocks of the financial sector a major beneficiary of the rotation.

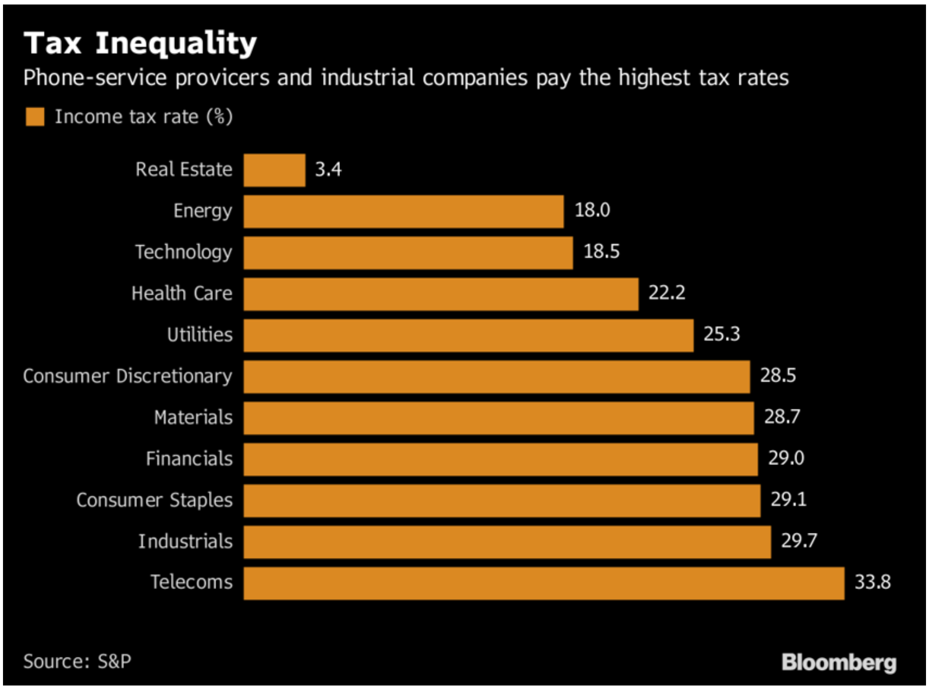
Why would favourable economic data trigger a sector rotation to financials and 'value' stocks?

The revised third quarter US gross domestic product (GDP) showed growth at an annualised rate of 3.3% - 10% higher than the previously expected 3% - thereby providing the highest reading since Q3 2014. Higher potential economic growth increases the expectations of rising interest rates and inflation, in turn leading to greater potential earnings for the banking sector. The Federal Reserve nominee Jerome Powell further stoked the rebound in financials by previewing potential lighter regulation for the sector in a congressional testimony.

As economic sentiment strengthens, risk appetite increases, which naturally leads to flows from traditionally lower risk asset classes (in this case bonds, bond proxy stocks and growth stocks) to perceived higher risk equities with 'value' characteristics. The government bond benchmark 10-year Treasury yield rose to 2.39% on Wednesday, as investors upgraded their investments by selling treasuries (note the inverse relationship between the direction of bond values and their yield). This was the first sign of a halt to the yield curve flattening experienced over the past quarter. As we wrote here last month, an inverted yield curve has historically often signalled an upcoming recession, and so this unilateral yield increase at the long (maturity) end of the yield curve will have been noted with relief by many concerned 'yield curve watchers'. Or, in more technical terms, this reinvigorated reflation trade led to the yield curve sitting at a more normalised trajectory, as the spread (difference) between short term and long-term yields widened.

As well as the positive surprise in economic data, the heightened expectations of fiscal stimulus (in the shape of a US tax reform towards lower corporate taxation) provided further fuel for sentiment. Economic growth expectations rose as the Trump administration made faster progress in the US Senate than had been anticipated.

Goldman Sachs wrote this week that the technology sector is unlikely to benefit from the reform, relative to other sectors, as it already enjoys a lower effective taxation rate (as shown in the Tax Inequality bar chart).



What's likely to come with the change in sentiment?

As the equity and bond market signalled this week, fiscal stimulus in form of tax relief is beneficial to the majority of US companies. This extra saving can be reinvested, potentially fuelling further growth. Whilst expansionary fiscal policy is providing a tailwind, tightening monetary policy in the form of interest rate rises could provide a headwind, as businesses face a higher cost of capital. The interest rate headwinds were outweighed by comments from the Federal Reserve, however, as they discussed the combination of lighter regulation and further economic growth.

Whilst investors have been cautious recently, but changes to fiscal policy and Federal Reserve announcements are likely to provide a further tailwind to the majority of US sectors as we head into 2018. This could indeed herald a more sustained rotation to the so-far underperforming value style of investing, as investors focus more on the 'middle' of the stock market, rather than the extremes. Despite the (on average) high valuation levels, this could provide further market upside, as there are many high quality value stocks that don't have particularly extended valuation metrics.

While the rotation into value also usually marks the beginning of the last up phase of a given stock market cycle, we would need to witness a significant rise in corporate bond default rates to signal that we have also reached the end of this last phase. On this front, there are currently no discernible signs, and the central banks' very benign rate-rise roadmap for the coming year makes it less likely to happen in the near-term.

Trump's (cold) trade war with China

One of the many reasons for international trading agreements and rules (like GATT under the auspices of the WTO[1]) is to ensure fair play. That is, where countries have a comparative advantage in trade, the rules exist to ensure that it is a genuine economic advantage and not simply the result of a country giving its exporters a "leg up" (via subsidy or otherwise).

However, sometimes the rules governing international trade are opaque, and the enforcement procedures overly-bureaucratic and time-consuming. Perhaps because of this, in the case of US trade in aluminium with China, the US President – and his bureaucracy – have decided to act unilaterally.

As we know, President Trump has been extremely vocal on trade issues, e.g., German cars, Canadian lumber etc. And, even if official policy doesn't match up to the rhetoric, the US administration is at least keeping up with the spirit of the President's approach to trade. For example, the US Secretary of Commerce Wilbur Ross stated this week that "*President Trump made it clear from day one that unfair trade practices will not be tolerated under this administration, and today we take one more step in fulfilling that promise*".

To that end, the USDoC initiated an investigation of anti-dumping duty (AD) and countervailing duty (CVD), relating to the import of aluminium sheet from China. In simple terms, dumping occurs when a foreign company (country) sells a product in another country at less than its *fair value*. In terms of CVD and the US model, CVD is described as financial assistance from a government that benefits the foreign production of goods (subsidy).

According to the USDoC, there is sufficient information to support an investigation into whether the price of common alloy sheet from China may be less than the normal value; that imports of common alloy sheet from China may be benefitting from countervailing subsidies; and, that the imports from China "*may be materially injuring, or threatening material injury to US industry*". In short, US producers are unable to effectively compete at these prices.

The USDoC have estimated that Chinese alloy imports to the US are well below fair or normal value (with a so-called dumping margin of up to 59% - see table below). Relatedly, the USDoC suggests that the import price is subsidised above any reasonable or maximum acceptable threshold. But, absent further information it is difficult to understand exactly where and how this alleged subsidy is applied.

Notwithstanding the current US trade deficit, the US has excelled at benefitting from trade; importing only those products which have a high *opportunity cost* in the US relative to other countries. Moreover, its economic officials will be as capable as any in finding potential anomalies in trade agreements (and prices). While we have previously indicated that some of the US' proposed trade policies appeared more political than economic, the USDoC's decision to investigate these particular imports may have some justification.

[1] General Agreement on tariffs and Trade & World Trade Organisation

US Department of Commerce analysis of Chinese aluminium exports (to the US)

ESTIMATED DUMPING MARGINS:

COUNTRY	DUMPING MARGINS
China	56.54 to 59.72 percent

ESTIMATED SUBSIDY RATE:

COUNTRY	SUBSIDY RATE
China	Above *de minimis**

* *de minimis* = less than 1% for developed countries, less than 2% for developing countries.

Source: US Department of Commerce, International Trade Administration (Fact Sheet)

The USDoC's investigation will proceed like any other trade remedy investigation in the US. If the USDoC finds that aluminium from China is being dumped on the US market, and/or producers are receiving unfair government subsidies – and, dumped and/or unfairly subsidized imports from China are causing injury to the US industry – duties will be imposed on imports to the amount of dumping and/or unfair subsidization that's found.

It is worth noting also that this is not an isolated case. The USDoC describes the enforcement of US trade law as a "*prime focus of the Trump administration*". To date in 2017, the USDoC has initiated 77 investigations, largely in response to petitions filed by US producers and suppliers. The initiation of two more investigations, under self-initiation by the USDoC, brings the year-to-date total to 79 – a 65% increase on the previous year.

Therefore, it is reasonable to assume that President Trump's policy of "restoring American competitiveness" is being taken seriously in some parts of the US administration (at least those authorities tasked with trade enforcement). However, some commentators have suggested that this recent move by the USDoC to "self-initiate" an anti-dumping investigation into the import of aluminium from China means the US is preparing for a trade war.

However, we do not believe this is the start of a trade war between the US and China. Even though the total value of this particular US import is significant (~ $600m, in 2016), it is incidental when measured relative to the US overall trade deal with China (~ £400bn). Furthermore, only earlier this month, the President and the US Commerce Secretary were lauding a $259 billion deal, facilitated by the USDoC, between US businesses and Chinese entities. The agreements, most of which occurred as part of the President's recent visit to China, will bring thousands of new jobs to America.

That said, there appear to be potential for further difficulties and protracted trade disputes between the two on the horizon. For example, China is seeking recognition as a "market economy" under the WTO, but the US is firmly opposed to China's bid (even suggesting that China is moving in the opposite direction under Xi Jinping).

Attaining market economy status would infer that China's costs and prices, for aluminium exports and otherwise, were all determined according to normal market economy conditions. This would make it very difficult for the US to bring and defend anti-dumping cases against Chinese companies (whether under domestic jurisdiction or at the WTO). The US would then also have to follow the investigative and dispute resolution processes established under the remit of the WTO - which it has heavily criticised.

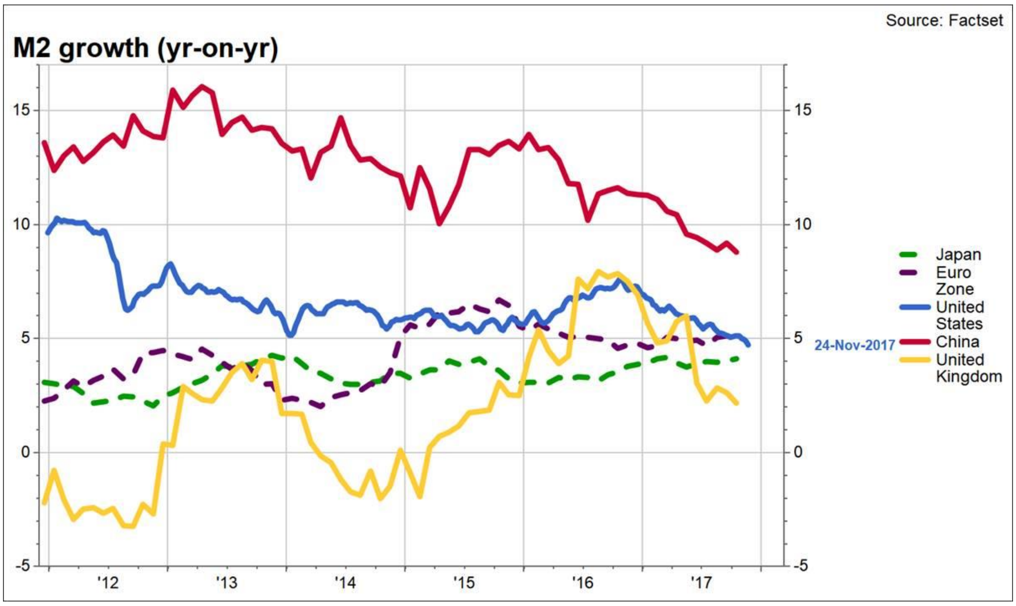
So, even though we do not anticipate any escalation or an all-out trade war, we might see something of a "cold trade war" between the two. That is, at least until the US achieves what its Secretary of Commerce describes as a "relationship that is more free, fair, and reciprocal between the US and China",

Insight article

Changing liquidity dynamics' impact potential on capital markets

As a worldwide investor on behalf of Tatton portfolio holders, we aim to link global developments we see to the financial assets – to understand which circumstances make those assets more or less valuable to investors. There's one fundamental link which is obvious enough: In order to buy an investment, an investor has to have access to money, and decide if the return is worth it.

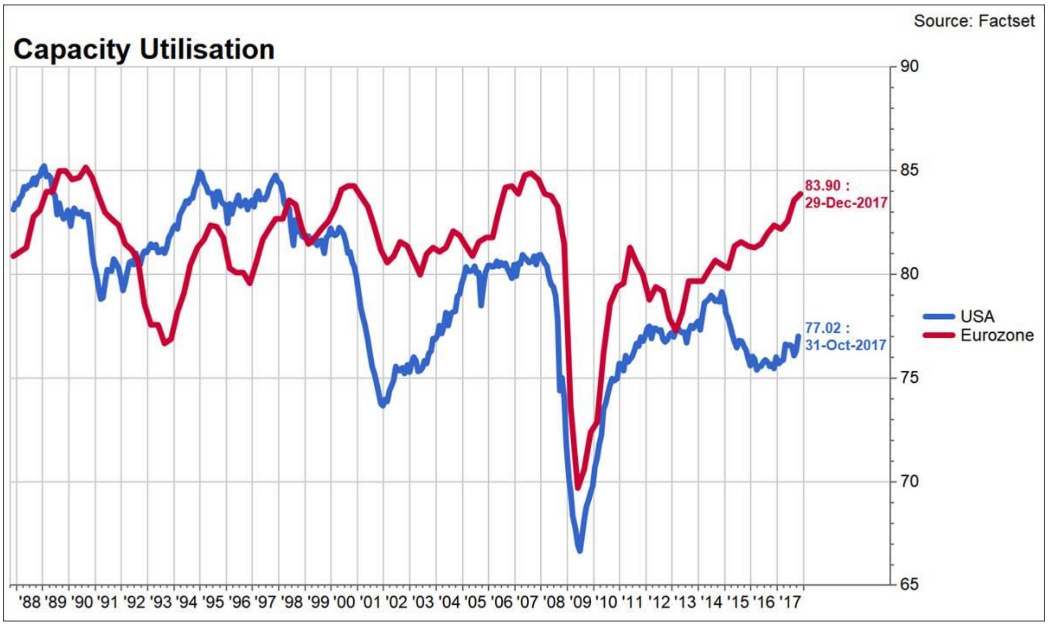
The access to money is called "free liquidity". It can be affected by ongoing cashflow, the cost of borrowing, and by the performance of the assets already held. As an indicator of how easy money is to borrow, the general growth of the money supply is a reasonable indicator. What's been noticeable in the past year is that, in major areas, money supply growth has been stable or slowing.



The chart above shows money supply (M2) growth in various major areas. Japan and the Eurozone have seen stronger private sector borrowing than the US, China and the UK.

After a big economic downturn, central banks flood the market with cheap money, meaning liquidity soars for those still solvent. In that period, an investor's risk aversion is generally quite high and "risk-adjusted" returns appear to be prospectively low. However, for those in need of capital from investment, the returns demanded by investors are prohibitively high. With low economic activity, businesses would rather reduce claims on themselves rather than increase them.

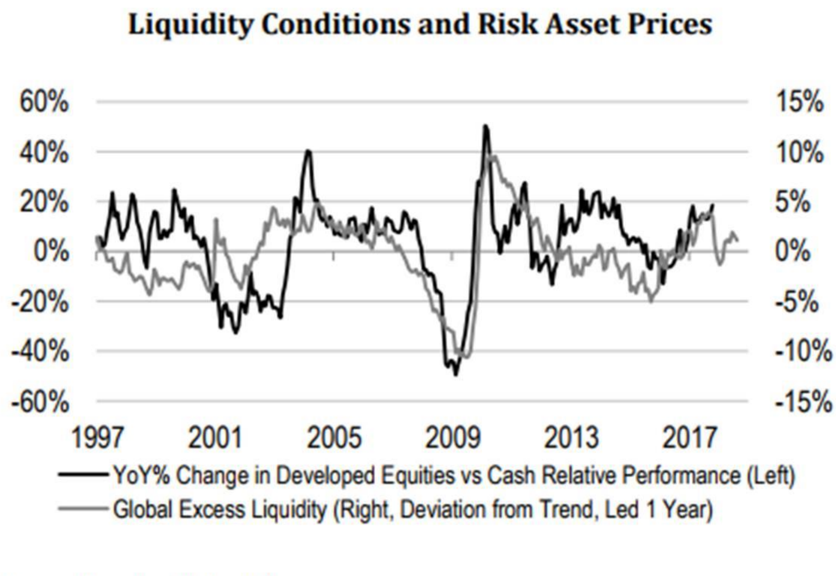
Investors are then left to choose between a fairly static set of investments. For the additional liquidity from the central banks, nobody offers anything new with a prospectively better return. In such a situation, valuations of the current investments go higher – bond yields fall, P/Es rise. Even as economic activity rises and cashflow improves, demand for investment capital from businesses can stay low, especially if they have spare capacity unused. However, the central banks have achieved their aim of making capital cheaper for those willing to invest into new business assets.



After the financial crisis nearly 10 years ago, we appear to be heading out of this phase. The data on capacity utilisation reflect what's happening in industrial production. Eurozone business demand for capital does appear to have responded to this tightness – bond and equity issuance is showing signs of strength. UBS says that bond issuance for this year is running stronger than any of the past 4 years. Thus, more opportunities are competing for the same available capital.

In the US, demand for capital has also risen somewhat. Commercial and Industrial loans data have headed into positive growth territory, albeit less strong than the EU. Nonetheless, growth forecasts keep getting revised up and surveys of "Capex intentions" have been positive.

Atul Lele, once a highly-rated Credit Suisse strategist now at Deltec Group in the Bahamas, got a mention from John Authers of the FT this week. He showed the following chart which looks at



Sources: Bloomberg, Shiller, Deltec

global inflation-adjusted money supply as a ratio of industrial production (his definition of excess or “free” liquidity), and compares it to equity market performance:

As the global real economy recovers its “animal spirits”, we are seeing a pick-up in bond and equity issuance, and we should expect more. At the same time, money supply growth is getting somewhat slower as central banks become wary of inflationary pressures. This probably means that the upward rerating of valuations is close to an end. Rather than further cash flowing into risk assets, investors will swap their existing holdings around for those with higher return potential in a more vibrant and less threatening economic environment. Both stock and bond markets are likely to average relatively little upside from here for a while, with further gains only emanating from actual increases in corporate earnings, rather than ever increasing valuation multiples. Bonds look vulnerable to potential losses which, if sharp enough, could knock equities back as well.

One other potential outcome (as made by our friends at Absolute Strategy Research) is that the period of low volatility may also draw to a close quite soon. Indeed, the sharp swings between tech and financials this week may be a sign of things to come.

To be sure – and before anybody is tempted to ‘run for the hills’ - these liquidity effects are unlikely to materially impact markets over the shorter term, where sudden sell-offs with subsequent recoveries will continue to constitute the main equity investor concern. Only once all the idle cash on the side-lines has been mopped up will the liquidity constrain headwinds begin to blow more strongly. At the moment, the 2018 outlook pieces by reputable capital market research institutions suggest the second half of 2018 may be the point to watch.

PERSONAL FINANCE COMPASS

Global Equity Markets

MARKET	CLOSE	% 1 WEEK	1 W	TECHNICAL
FTSE 100	7,326.7	-1.1	-83	↘
FTSE 250	19,952.9	0.0	8	↘
FTSE AS	4,033.8	-0.9	-36	↘
FTSE Small	5,771.0	-0.2	-10	↘
CAC	5,372.8	-0.3	-18	↘
DAX	13,024.0	-0.3	-36	↘
Dow	24,272.4	3.0	714	↗
S&P 500	2,647.6	1.7	45	↗
Nasdaq	6,365.6	-0.7	-44	↘
Nikkei	22,725.0	0.8	174	↗

Currencies / Commodities

PRICE	LAST	%1W	CMDTY	LAST	%1W
USD/GBP	1.35	1.4	OIL	57.4	-2.6
USD/EUR	1.19	-0.1	GOLD	1,273.2	-1.0
JPY/USD	111.91	0.4	SILVER	16.6	-2.8
GBP/EUR	1.14	1.5	COPPER	2.9	0.0
CNY/USD	6.61	0.1	ALUMIN	2,033.0	-3.4

Fixed Income

GOVT BOND	%YIELD	% 1W	1 W YIELD
UK 10-Yr	1.33	-0.7	0.08
US 10-Yr	2.42	-0.9	0.07
French 10-Yr	0.68	0.2	-0.02
German 10-Yr	0.37	-0.1	0.01
Japanese 10-Yr	0.03	-0.1	0.01

Global Equity Market - Valuations

MARKET	DIV YLD %	LTM*PE	NTM** PE
FTSE 100	4.0	21.5x	14.1x
FTSE 250	2.7	18.7x	14.6x
FTSE AS	3.7	20.6x	14.2x
FTSE Small	3.0	15.2x	-
CAC	2.9	17.2x	14.8x
DAX	2.5	16.8x	13.4x
Dow	2.0	22.1x	18.1x
S&P 500	1.8	21.7x	18.4x
Nasdaq	1.0	24.7x	20.9x
Nikkei	-	-	-

UK Mortgage Rates

MORTGAGE BENCHMARK RATES	RATE %
Base Rate Tracker	2.3
2-yr Fixed Rate	1.4
3-yr Fixed Rate	1.4
5-yr Fixed Rate	1.6
Standard Variable	2.0
Nationwide Base Rate	4.5
Halifax Standard Variable	3.99

Sovereign Default Risk

DEVELOPED	CDS	DEVELOPING	CDS
UK	23.5	Brazil	179.8
US	24.5	Russia	135.3
France	18.3	China	61.1
Germany	10	South Korea	68.9
Japan	32.5	South Africa	197.1

Top 5 Gainers / Top 5 Losers

COMPANY	%	COMPANY	%
MEDICLINIC INTERNATIONAL	7.3	Micro focus	-7.8
ITV	5.7	Glencore	-6.5
Dixons Carphone	4.4	ABF	-5.7
Easyjet	4.4	Rolls Royce	-5.4
BT Group	4.3	Randgold Resource	-5.4

* LTM = last 12 months' (trailing) earnings; **NTM = Next 12 months' estimated (forward) earnings

For any questions, as always, please ask!

If somebody 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