Weekly Market Comment

12 January 2018

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Source: Evening Standard, 9 Jan 2018

Bullish sentiment begins to ring alarm bells

The new year is starting up with a dynamic in global capital markets that even the bulk of the optimistic forecasts had not anticipated. This is somewhat at odds with the UK's domestic situation where another miscalculation by the government's leadership, resulted once again in the exact opposite effect to the one it aimed to achieve. Gloomy news of contracting Christmas sales volumes on the UK's high streets, the strained NHS buckling under a particularly severe winter cold and flu season and even worse than normal train commuter misery in the South East rounded the picture of a fairly miserable start the year. Had it not been for the reports of record manufacturing and export figures one might have thought the UK had de-coupled from the rest of the world.

The rest of the world is seemingly running into the opposite problem – things are beginning to run too well for comfort. The continued rally in equity markets and new highs in investor sentiment tells us and others that the last 'bears' must have capitulated, while the macro economic news-flow and a strong corporate earnings outlook provide further support to all who have started 2018 with new found optimism. The short but fierce bond market sell-off mid-week came therefore as a very timely warning signal to all that argue that the 2017 low volatility 'goldilocks' market environment will carry forward indefinitely. The oil price surpassing the $70/bbl threshold for the first time since 2014 despite little fundamental changes in the demand-supply balance may be seen as another sign that things may be getting out of hand.

We are therefore this week dedicating considerable space inside the Tatton Weekly to a fundamental assessment of corporate growth dynamics around the world and the theory and practice of translating those into valuation levels for stock markets. We find that US corporate profits are surprisingly still outgrowing the Eurozone's. However, the US stock market is also at potentially historical highs in terms of relative valuations. That is at least, if the recent growth dynamic was to show any signs of slowing. The economic data for the last quarter of 2017 tells us that all was going very well, with few signs of slowing – if it was not for concerns that it may not last because the dynamic might force central banks to remove the monetary life support of QE and ultra-low rates sooner than anticipated. This would explain the episode of the rapid rise in US treasury yields as the underlying bonds sold off, after rumours made the round that there may be waning demand for them by China and Japan.

It is therefore bond market development we have to monitor more closely right now than stock markets. Stock markets may be trading high, but at least they are supported by growing corporate results. Bonds on the other hand with their now extremely low future income streams from historically low yields are far more vulnerable to investor stampedes as they lack the coupon cushion of old while stock shine once again with growth and dividend prospects. Unfortunately, the two sides of the capital markets remain interlinked and a sudden and lasting rise in bond yields from a bond bear market has historically been bad news for stocks. Many reasons are given for this relationship, but the most important in our view tends to be that yields rise out of inflation fears, which arise from rising wages which undermine corporate profits. Put together with the experience that this usually happens when the economy overheats towards the end of an economic cycle and one can see the ingredients for a perfect storm for equity markets.

Before anybody feels tempted to panic, none of the above has happened or is happening and the reason why the economy and markets are currently so buoyant is the absence of any significant inflation pressure and only minimal yield increases thus far.

At the same time, we should not kid ourselves that, at current bond yield levels, only very gradual changes in real and expected inflation levels and similarly glacial monetary tightening by central banks as a consequence, will allow a normalisation of bond market conditions without undesired side effects. The dominating watch point for 2018 will therefore be wage dynamics and how central banks adjust their policy measures to a changing environment.

As we have said here before, in such a fragile equilibrium between economic optimism and bond market fear, we would not be surprised to see a return of the occasional bout of stock market upsets, with short but fierce correction cycles. While the global economy continues to expand and corporates reap the rewards we can reasonably expect stock markets to grind higher regardless. The higher they go, however, the more we need to be prepared to experience occasional stock market setback. Persistent equity downturns on the other hand only happen when the economic outlook decisively turns negative – for the moment we are witnessing the precise opposite - but we will have to watch further developments very closely – stay tuned.

Corporate earnings season outlook

The Q4 2017 corporate earnings results announcement season officially kicks off this week with companies set to release their final profit figures for 2017. The first major announcements come late on Friday with several major US banks including JPMorgan and Wells Fargo set to declare. In the run-up to the announcements market analysts jostle to publish their predictions for each company, the aggregate of which forms market consensus (regular readers of Tatton's Weekly will be familiar).

At the time of writing, market consensus is expecting Q4 earnings on the US S&P 500 to deliver just over 11% growth against the same period in 2016. This would see 2017 end on a strong note for US earnings, having already posted double digit growth in the first two quarters of 2017 (13.8% and 10.4% respectively). Despite Q3 being adversely affected by hurricane activity, earnings growth still came in at a respectable 6.4%. (*source: Factset*)

Analysts ordinarily start their estimates on an optimistic note and slowly revise down their expectations over the course of the quarter. However, this time around downward revisions have been conspicuous in their absence with cuts to predictions being the smallest in over six years. Many market commentators are citing tailwinds of strengthening US and global growth, higher oil prices, $ depreciation and strong margins as reasons to maintain their optimism. (fig. 1)

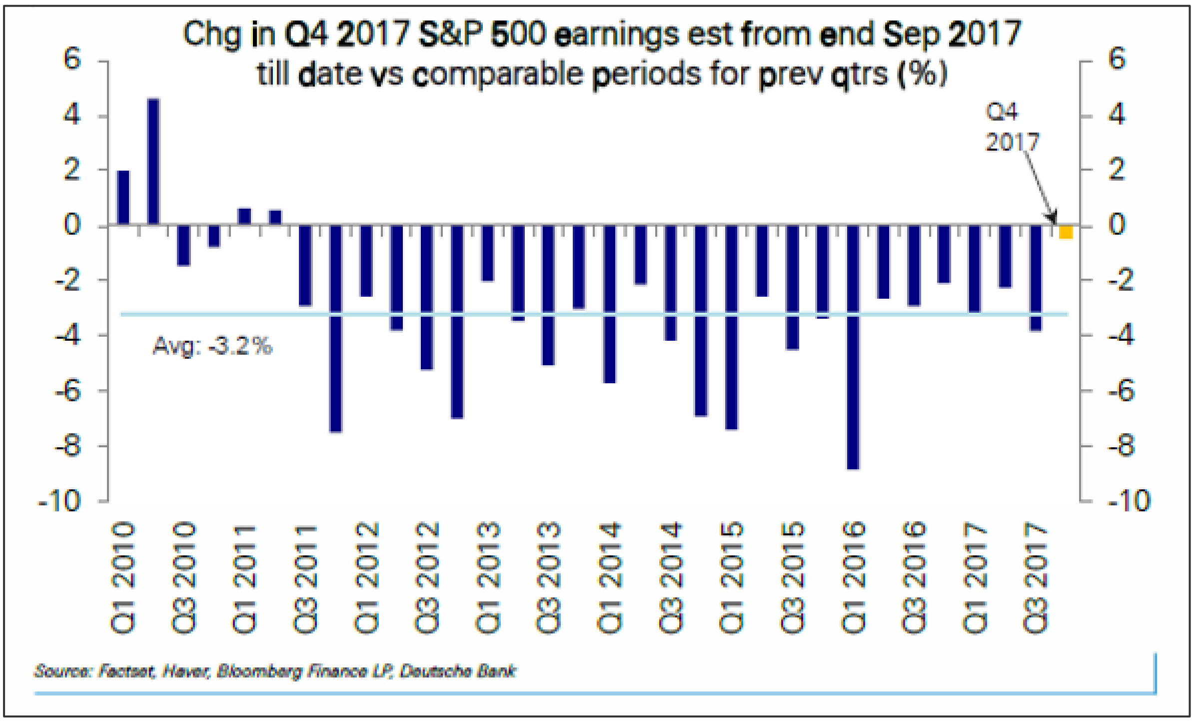


Fig. 1 – Source: Deutsche Bank

On the other side of the Atlantic the latest economic indicators released this week continue to offer encouragement on the outlook for European earnings. German and French industrial production figures and Eurozone retail sales have all beaten expectations. Furthermore, at 116, the European Commission's economic sentiment indicator is at its highest level since October 2000. (fig.2)

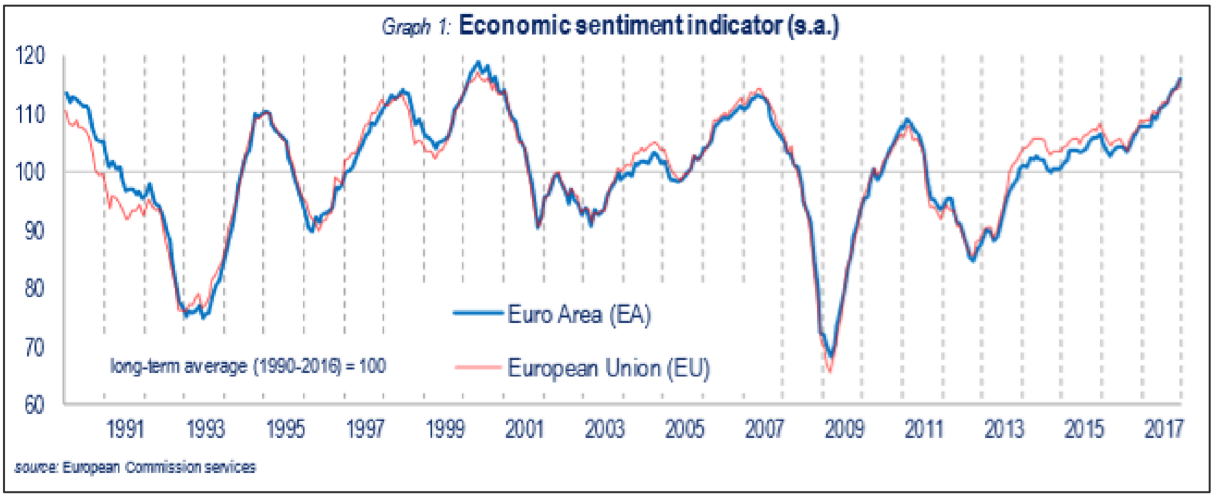
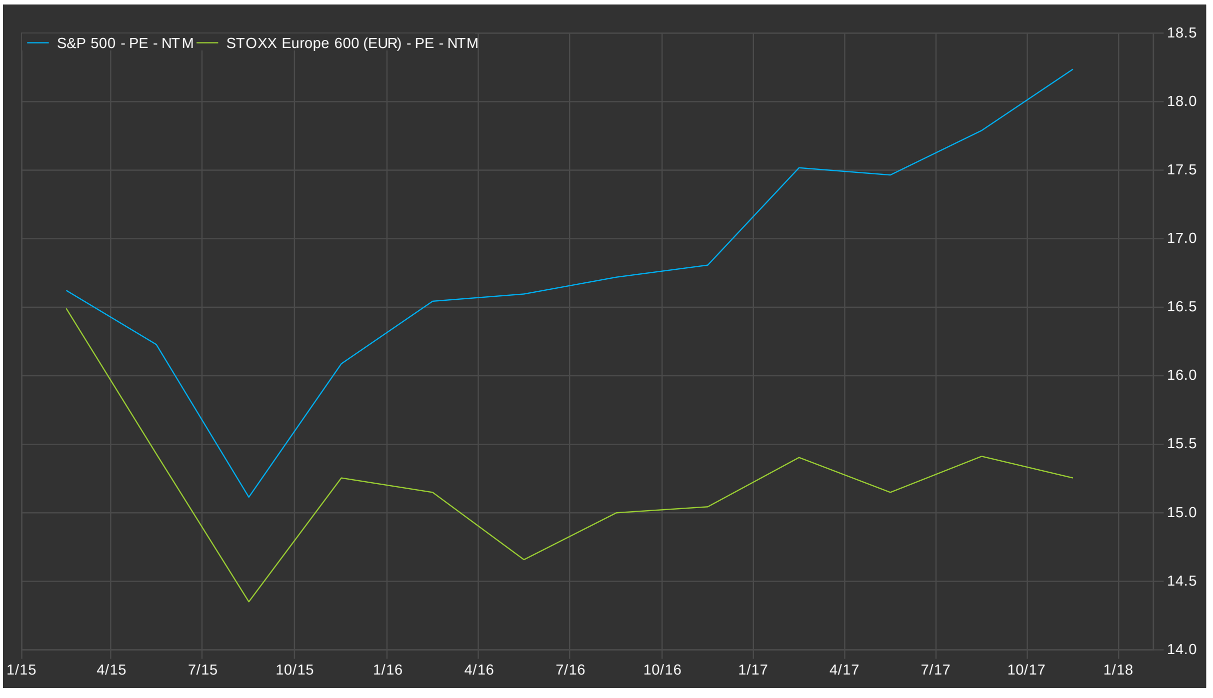


Fig. 2 – Source European Commission

Despite the strong economic backdrop, market expectations for the Eurozone's earnings growth are currently just over 10% for the calendar year. A good result as well, but slightly behind that of the US.

Strong earnings growth at a market level is not the only consideration at play. Although US earnings are expected to grow at a faster rate than their European equivalents; the price of the index relative to those earnings is far higher for the US. As can be seen below, the Stoxx Europe 600 Price/Earnings ratio has stayed relatively stable over the past three years (more on the topic of equity valuation metrics in the CAPE insight article). This compares favourably to the US, where



price moves have outpaced expected earnings growth leaving the current price/1-yr forward earnings ratio at a lofty 18x. (fig.3)

Fig. 3 - Source: Factset

European equity prices haven't experienced the same boost from tax cuts as their US counterparts this year. They've also had reason to pause for thought over renewed political uncertainties as October's independence referendum in Catalonia weighed on the performance of the Spanish market and Italian equities gave up a little of their outperformance as markets look ahead to the election later this year.

Furthermore, looking at market averages may obscure nuances in individual company and sector expectations. Although the enacted tax reform in the US only takes effect this year, analysts are expecting lots of noise to be added to this year's final results as companies write off taxes they've paid in advance or reduce the liability of taxes they're yet to pay. Adding to the complexity this time round are one-off repatriation charges, as the US taxes companies on retained earnings they've held offshore. Although the overall impact of the current adjustments is expected to net-off at a market level, we may see further dispersion in sector performance. The Technology sector is the primary holder of offshore cash reserves whereas utilities are likely to benefit most from having delayed paying their taxes.

Despite the absence of tax changes, European sector earnings growth is also expected to be widely spread. Market consensus expects the Energy sector earnings to have rebounded by a whopping 39% over 2017 as efficiency gains supported margins and the Oil price rose 27%. Telecoms, Healthcare and Utilities, on the other hand, are expected to see their earnings contract by 3.5%, 1.3% and 0.6% respectively.

In summary, earnings growth over the final quarter of 2017 is expected to be healthy for both the US and EU. This should help to support equity prices throughout 2018. However, with valuations in certain regions and sectors differing widely and expectations for sectors becoming more dispersed, we believe being selective and closely monitoring developments over the course of 2018 will be critical.

CAPE and the valuation fear

Over the past few months, the dominant fear of investors has been the 'valuation' worry. Equity valuations, particularly in the US, have endured such a long and dramatic upward phase that valuations are now overstretched and due a correction, goes the argument. Various data points supposed to back this up have been pointed to, including the flattening of the US yield curve and talk of the 'end of the cycle'.

Of late, the current level of one historically important metric in particular has generated a great deal of fear among investors: the cyclically adjusted price/earnings ratio – or CAPE. The CAPE ratio, as opposed to the standard price-to-earnings ratio, compares current stock prices with their inflation-adjusted average earnings of the last 10-years, rather than just the last 12 months of realised earnings (trailing PE) or the next 12 months' forecast earnings (forward PE). Popularised by Nobel-prize winning-economist Robert Shiller, the idea behind CAPE is to strip out the impact of cyclical factors or more fleeting influences in order to show equities' true earnings power.

Historically (going back over 100 years), CAPE has done a pretty good job of showing when US stocks were ‘cheap’ or ‘expensive’, with deviations usually indicating the direction prices will go over the next few years.

By the CAPE standard, US stocks are currently very expensive. But one could probably guess this from looking at price performance over the past few years alone. Indeed, the CAPE ratio has deemed US equities expensive pretty much uninterruptedly since 2010. Why we are writing about this again now is because just how ‘expensive’ they have become of late. Last week, the CAPE ratio passed the level it was on the eve of the 1929 financial crash, with the official measure (published on Shiller’s website) now sitting at 33.2.

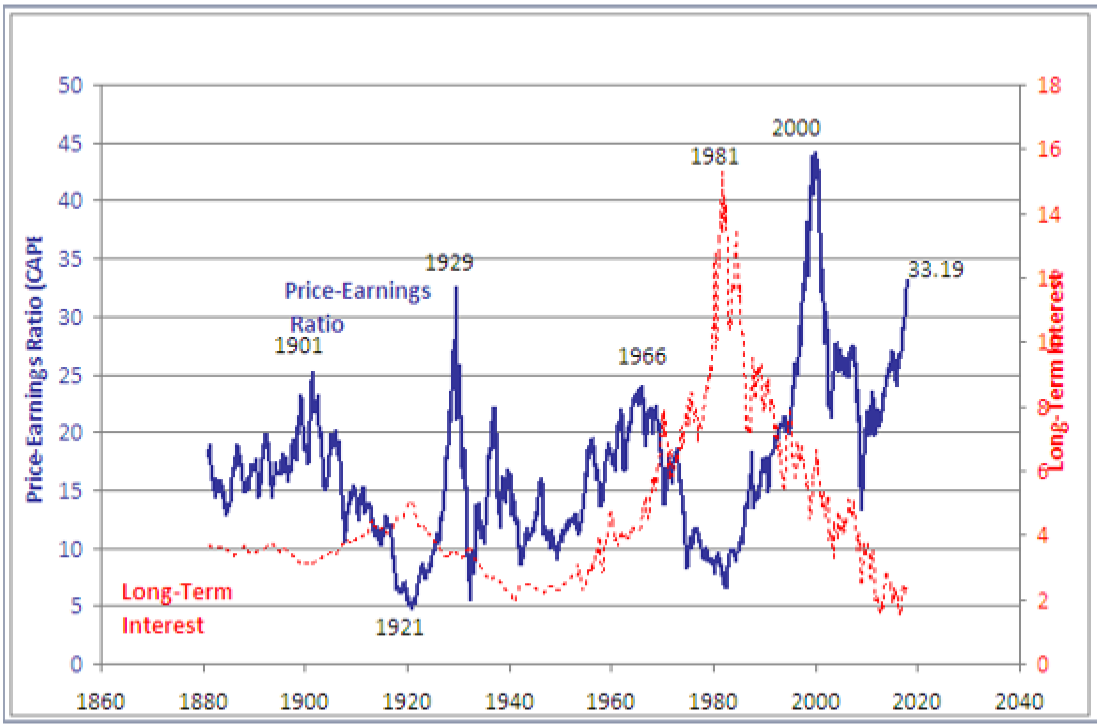
The reading clearly makes for a worrying headline. So far, responses to the news seem to veer between two extremes; either we’re staring at a market drop bigger than one of history’s largest or everything’s fine and the CAPE ratio has just become another defunct indicator for today’s markets. As ever, the truth more likely lies somewhere in the middle.

Like any indicator based on historical data, CAPE is hostage to the particular period being measured. In this case, the last 10 years happen to include the almighty dip in corporate earnings that followed the financial crisis and ensuing global recession. That distorts the base earnings comparison, leaving stocks at their current prices looking extremely expensive. despite no one expecting an earnings recession like that in 2008-10 imminently repeating itself.

But that doesn’t explain the whole story. As John Authers points out in a recent FT article, even when one strips out the last earnings recession and begins the comparison from 2010, when earnings had already recovered, the ratio – at 27.3 - still comes out as high as Shiller’s CAPE before the 2007 crisis. Authers points out that the same is true for those who argue the CAPE ratio has been upward trending over time. Whatever way you spin it, US stocks do indeed look expensive relative to cyclically adjusted historical price to earnings multiples.

However, therein lies the crucial point. The CAPE ratio is a backwards looking indicator; it will only ever tell you information that is already known. But equity prices depend crucially on the uncertain future. The holy grail for equity valuations is the risk premium – the amount of compensation you should expect for tolerating the extra risk associated with equities. Measures like CAPE are an attempt to capture the spirit of this by characterising the kind of return dynamics that equities have previously exhibited. But one of the problems with doing this is that it doesn’t capture the kinds of structural changes which can affect return dynamics. CAPE’s historical data stretches back to 1880, when the US could still be considered an emerging market by today’s standard. Now, as the world’s largest economy, with much improved governance and stability, we should naturally expect that investors would pay extra for the same earnings stream.

Furthermore, the CAPE ratio largely ignores the effects of low interest rates and (in particular) bond yields. When bond yields are low – and expected to remain below their historical average for the foreseeable future – the premium investors will pay for the same equity earnings stream goes up, forcing up multiples with it. Unless there is a significant spike in bond yields, we should expect equity prices to stay elevated relative to historical earnings. Indeed, there are some who argue that CAPE levels should never be interpreted in isolation, but always in relation to the prevailing and expected yield levels



Source: Prof. Shiller's website: http://www.econ.yale.edu/~shiller

Of course, this doesn't mean we should ignore the CAPE measure altogether. As Shiller recently pointed out himself, those who use CAPE don't intend for it to be understood as the only tool to measure equity valuations. Nor is it an indicator of the immediate future for markets. A sharp rise in CAPE doesn't precipitate an immediate crash as much as just indicate either a general expectation that corporate earnings growth will be much better over the next 10-year period, or that earnings have risen much more dynamically in recent years than over the beginning of the 10-year period. Only if the expected growth does not materialise, or the previous growth levels cannot be sustained will CAPE truly signal overvalued stocks.

It has its place, however. That US equities look 'stretched' has become one of the main topics of conversations for investors, and the current CAPE reading gives ballast to that assessment even if it doesn't herald the end of the world. As we've pointed out in recent weeks, various factors – such as expected slowing economic and credit growth in the US – do make the US earnings outlook vulnerable.

If the recent trend of strong earnings growth continues into this year, the CAPE ratio could start to look less expensive, due to the changing base effects (poor years leave the 10-year series, stronger ones are added). Alternatively, if things go the other way and earnings growth breaks downward from trend, CAPE will see even more of a spike. In that case, US equities will become extremely vulnerable to a replay of Q1 2016, when US stock markets briefly fell by double digits until the prospect of continued earnings growth had re-established itself.

Poor UK Christmas sales vs booming exports

Last week, we discussed how external, rather than internal, demand was providing additional support to the UK economy. That demand split has become more apparent now, as the data indicates that manufacturing is benefitting from a strong export market, while, conversely, domestic demand is dwindling.

Economic growth overall remains positive for the UK, supported by a buoyant export market. The rate of growth is slowing further, however, due to negative real (inflation adjusted) wage growth, high levels of consumer debt and a softening housing market putting a cap on growth in domestic demand. This limits further improvements in the economy, given that consumer demand represents a significant proportion of activity (around 70% of GDP).

Interestingly, this dynamic of strong external but weaker internal demand may actually have a long-term positive effect, by rebalancing the economy away from being too reliant on domestic demand and giving a greater influence on exports. Current Brexit-induced pressures may merely speed up this necessary rebalancing process. But factors such as quality of academic education and vocational training, wealth distribution, levels of taxation, public service provision and infrastructure/investment spending also need to be moved towards the levels of global growth leaders to ensure a healthier economy in the future.

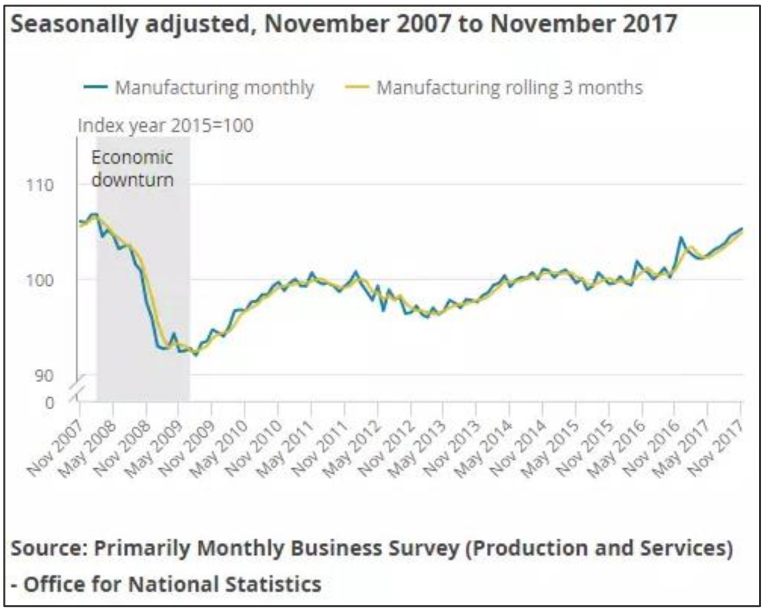
On the domestic side, Christmas did not provide the lifeline high street retailers were hoping for. Consumer spending in December fell 1% (inflation adjusted) compared to December 2016 – the fourth consecutive month, according to Visa's consumer spending index.

This marks the weakest yearly performance of household expenditure since 2012. Consumers spent 0.3% less in real terms in 2017 than they did in 2016. An explanation for this could be due to the sharp increase in Brexit-related inflation, which squeezed wages despite unemployment sitting at a 42-year low.

Money spent in high street stores fell 2.7% in real terms in December (year-on-year), but online spending contributed a positive growth of 2%. The latest sales data reveals some interesting trends. Firstly, consumers are devoting more of their budgets to food and drink rather than spending on physical goods. Secondly, a second report from GfK suggests that attitudes towards Brexit are affecting spending patterns. GfK found that those who voted leave in the referendum increased their spending by 3.2% in the year to April 2017, while remain voter spending rose just 2.9%. The impact of these effects varies, however.

Outside of a few large shops like NEXT and John Lewis, sellers of physical items like Argos (owned by Sainsbury's) and Debenhams found it more difficult. This contrasts with the more solid performances of cheaper stores like Morrison's and Asda (the latter looks to have had the best Christmas of the big food retailers). Discounters like Aldi and Lidl also benefited from tighter consumer budgets and performed better, gaining further market share.

Set against this slowdown in domestic demand, Q4 2017 was surprisingly the strongest quarter for UK manufacturing for over three and a half years. The Markit Manufacturing PMI was 56.3 in December, just shy of the 51-month high of 58.2 in November (a reading over 50 indicates expansion).



The sector is enjoying its longest stretch of growth in nearly 20 years, thanks to rebounding commodity prices and strong global demand, along with support from a weaker pound.

Since the Brexit vote, manufacturing has seen the strongest growth of any sector, up 0.4% in November. This makes for 7 consecutive months of expansion. While the sector's competitiveness has been boosted due to sterling's fall, the real drivers have been the continued growth of the Eurozone economies, coupled with a recovery in global mining and exploration equipment investments, which have both boosted demand for UK export goods.

Contrary to what one may expect, domestic investment spending by businesses has been another key driver of growth. Production of both machinery and computer items gained 8% between end of June 2016 and Q3 2017. Some economists believe that the UK has become more attractive to foreign investors, as it takes less Euros, dollars, or Yen to employ UK based staff or capital.

Sadly, two highly important areas missed this growth: car production and pharmaceuticals. We think this could be explained by the rising complexity of modern mass automobile production, where JIT (Just in Time) supply lines may get engines from Spain, brake pads from Czech Republic and windows from France, all to be assembled in the UK. The Brexit uncertainty makes these delicate supply chains vulnerable to inner-EU 27 redirecting.

Likewise, with UK pharmaceuticals, any UK made drugs may need to be retested for sale in the Eurozone. This has seemingly restricted investment in the UK, with pharma firms opting to invest in new testing facilities in the Eurozone instead. UK pharma production is still 25% below its pre-crisis peak and the sector has shrunk by 7% in the time since the Brexit vote.

While an improving manufacturing sector is certainly good news, unfortunately, it only accounts for 10% of GDP, which means that the full impact of any growth is fairly limited in absolute terms.

Therefore, we expect the UK economy to do OK, but underperform relative to global peers – given Brexit uncertainties.

Cryptocurrencies: definitely cryptic, but not (yet) a currency?

Toward the end of 2017 one of the topics dominating the festive-season gatherings was Bitcoin. Firstly, the increasing valuation of Bitcoin had people wondering whether they were "missing out" on something, and (only) secondly, people began to discuss the basis of Bitcoin and other so-called cryptocurrencies.

It seems that cryptocurrencies are not widely understood. This is perhaps to be expected; the term crypto-currency would appear to relate not only to the fact that Bitcoin (and others) are not conventional currencies, but also to the arcane processes underlying the "production", exchange and valuation of cryptocurrencies.

Bitcoin: it looks real …

In order to understand and assess Bitcoin (and others), it needs to be considered relative to conventional currencies.

So, let's start with the concept of money more generally (and its primary functions). Money can be any accepted means of payment for goods, or the settlement of a debt; it is primarily a *medium of exchange*. Absent such a medium of exchange, there would simply be a barter style economy, trading one type of good for another (which is of course hugely resource and transaction-documentation intensive).

Money and currencies also provide for a *unit of account* (enabling price levels to be determined and accounts to be maintained), and represents an effective *store of value* (to the extent that it can be used to make purchases, or retained for future transactions). Clearly, there may also be other means of storing value (property, antiques, other assets etc.), and money as *store of value* can be impacted by many things, not least inflation. Therefore, in order for money to fulfil the *store of value* function effectively its purchasing power must be relatively stable or at least predictable over time.

While, historically, most currencies were based on the value of a physical commodity (usually gold or silver) in order to insure the stability of its value. However, over time countries and governments have developed and implemented the use of so-called *fiat* currencies. *Fiat* money is currency that a government has declared to be legal tender, but is not based in the value or quantity of a physical commodity (like Gold or silver). This became necessary, when economic growth outpaced the growth of available gold and silver, which would have led to persistent deflation if the money in circulation is fixed, but the volume required by an expanding economy increases steadily. Deflation, as we experienced once again in the aftermath of the Global Financial Crisis, needs to be avoided at all costs as it has proven to discourage consumption in the present for the expectation of lower future prices, which leads to economic depression.

The value of *fiat* money is essentially derived from the relationship between supply of money and its demand as determined by the size of an economy and the effectiveness of its deployment which itself is a function of the efficiency of the country's respective finance system. It is determined by Government macroeconomic policy, central bank policy and the dynamic of the respective economy to other economies of other counties, but,not the value of the material from which money is actually constructed (most recently in the UK, polymer).

Importantly, because *fiat* money is not a scarce or fixed resource (a commodity like gold), governments and central banks control the supply ("production") of money, and also have control over key variables likely to influence its demand – supply balance (e.g., interest rates).

Bitcoin emerged as a libertarian response to central and government control of money - and in response to the global financial crisis and alleged short-comings of the traditional banking and reserve system.

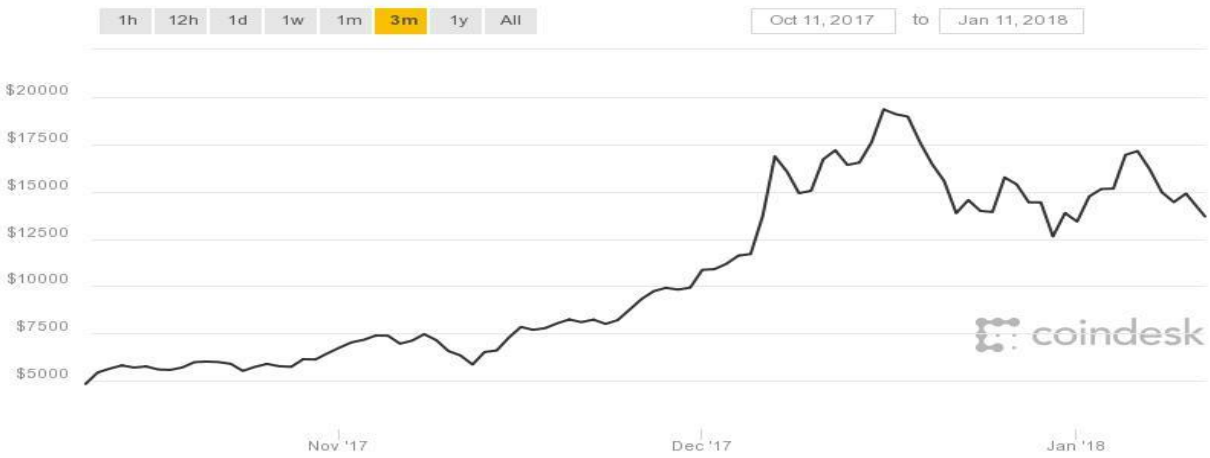
Bitcoin is not, however, a *fiat* currency, but neither is it a commodity-backed form of currency. Instead, it is a digital currency, created and stored electronically. No single entity (Government, authority, or otherwise) controls its "production" and supply, or value. Moreover, Bitcoins are not printed, like sterling and dollars. They are produced by people and, increasingly, businesses, who run computers and use software to "mine" Bitcoin(s).

In simple terms, it is a virtual currency and a decentralized payments network – a global peer-to-peer network, composed of thousands of users, which serves as an intermediary (like PayPal, Visa etc.). Bitcoin holders and merchants can transact without these and other 3rd party intermediaries.

As long as such a means of exchange of value fulfils the basic and defining principles of money as defined above – in particular relative stability or at least predictability of value in relation to physical goods and services as well as omni-availability and transparency, then it can be argued that it doesn't really matter much whether such a currency carries features like real asset backing or economy backing and government framework.

Unfortunately, it is these basic requirements of an effective currency which cryptocurrencies completely fail to fulfil. The value of a crypto "currency" is not derived from gold or government *fiat*, but just from the value that people (and markets) assign to it. The US$-dollar value of a Bitcoin is determined on an open market, entirely on the basis how much or how little holders of traditional currency desire to hold of the cryptocurrency. As noted, Bitcoin valuation has accelerated over the last few months (from ~ £802 to £13,000 over the year), with value swings of as much 20% in a single day. The exact opposite of a stable and predictable *store of value*.

Bitcoin price index (Bitcoin to $-US)



Source: Coindesk, January 2018

However, the world of virtual currency is not just about Bitcoin. Other cryptocurrencies have also risen dramatically this year, including Ethereum, Ripple, Litecoin and Dash. Each have different characteristics, allowing users and markets to treat and value each differently. While Bitcoin sees itself as an alternative to fiat currencies, Ethereum is "crypto-fuel" that is not to be used as a currency. Ripple, meanwhile, is essentially software aimed at financial markets, such as FX.

As shown, Bitcoin (and others) would have to find a way of stabilising their ongoing value and achieve a wide acceptance for transactions before they can be considered as fulfilling that primary and core function of money.

For the time being it is the Blockchain technology that was developed alongside the cryptocurrencies for their account keeping in the form of highly transparent, decentralised digital ledgers, which currently represents the most tangible value of the entire crypto currency movement (we reported). Its advantages can be applied to any transaction recording, be they monetary (incl. traditional currencies), intellectual property rights (copyright management) or real assets (land registries). Due to its open code nature (the concept itself is not protected through property rights), holders of cryptocurrencies do not acquire a stake in this potentially quite valuable technology.

It can be reasonably assumed that the recent accelerated increase in valuations did stem from a healthy mix of speculation and perhaps FOMO ("fear of missing out") and not a widespread adoption of the the libertarian money concept of its mysterious inventor. With nothing except the potentially very fleeting interest of human beings - motivated by greed rather than the desire to create a truly libertarian currency alternative - determining the intrinsic value and direction of travel of cryptocurrencies must by definition be random. However, if the observation of manias amongst human societies in history is a more suitable approach to explaining recent Bitcoin value developments, then we can predict with some certainty that the long-term value of Bitcoins will be 0.

PERSONAL FINANCE COMPASS

Global Equity Markets

MARKET	CLOSE	% 1 WEEK	1 W	TECHNICAL
FTSE 100	7788.0	0.8	63.8	↗
FTSE 250	20893.2	-0.2	-39.3	↗
FTSE AS	4275.0	0.7	28.6	↗
FTSE Small	6048.7	1.2	73.1	↗
CAC	5518.1	0.9	47.3	↗
DAX	13257.7	-0.5	-62.0	↗
Dow	25764.9	1.9	469.0	↗
S&P 500	2783.1	1.5	39.9	↗
Nasdaq	6743.2	1.4	89.9	↗
Nikkei	23653.8	0.6	147.5	↗

Currencies

PRICE	LAST	%1W
USD/GBP	1.37	0.80
USD/EUR	1.21	0.94
JPY/USD	111.26	1.61
GBP/EUR	0.89	-0.13
CNY/USD	6.47	0.30

Commodities

CMDTY	LAST	%1W
OIL	69.1	2.2
GOLD	1331.0	0.9
SILVER	17.1	-0.6
COPPER	322.8	-0.1
ALUMIN	2175.5	-3.3

Fixed Income

GOVT BOND	%YIELD	% 1W	1 W YIELD
UK 10-Yr	1.339	7.6	0.10
US 10-Yr	2.559	3.3	0.08
French 10-Yr	0.860	7.9	0.06
German 10-Yr	0.588	33.9	0.15
Japanese 10-Yr	0.078	23.8	0.02

Global Equity Market - Valuations

MARKET	DIV YLD %	LTM PE	NTM PE
FTSE 100	3.8	22.7x	14.8x
FTSE 250	2.7	18.5x	14.7x
FTSE AS	3.6	21.4x	14.7x
FTSE Small	3.0	13.6x	-
CAC	2.8	17.5x	14.9x
DAX	2.4	17.2x	13.7x
Dow	1.9	23.2x	18.4x
S&P 500	1.7	22.7x	18.4x
Nasdaq	1.0	26.2x	21.6x
Nikkei	-	-	-

UK Mortgage Rates

MORTGAGE BENCHMARK RATES	RATE %
Base Rate Tracker	2.3
2-yr Fixed Rate	1.6
3-yr Fixed Rate	1.7
5-yr Fixed Rate	2.1
Standard Variable	1.6
Weighted Average Interest Rate (BoE)	4.55
Nationwide Base Rate	2.50
Halifax Standard Variable	3.99

Top 5 Gainers / Top 5 Losers

COMPANY	%	COMPANY	%
GKN	28.7	MICRO FOCUS INTER	-11.6
ANGLO AMERICAN	10.3	HIKMA PHARMACE	-9.9
ROYAL BANK OF SCOTL	9.6	SHIRE	-7.1
SMITHS GROUP	6.7	TAYLOR WIMPEY	-6.4
AVIVA	5.6	UNITED UTILITIES	-6.4

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

For any questions, as always, please ask!

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Lothar Mentel