# Weekly Market Comment

## 2 February 2018

Lothar Mentel

CHIEF INVESTMENT OFFICER

Jim Kean

HEAD OF INVESTMENTS

Samuel Leary

FUND MANAGER

Isaac Kean

INVESTMENT WRITER

Chris Robinson

INVESTMENT ANALYST



www.tattoninvestments.com Twitter: @TattonIM

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

## January 2018 asset class returns

| Asset Class | Asset class index | Jan-18 | 2017 | Jan-18 | 2017 |
|---|---|---|---|---|---|
| | | in £-Sterling | | in US-$ | |
| Equities | FTSE 100 (UK) | -2.0% | 11.9% | 3.1% | 22.6% |
| | FTSE4Good 50 (UK Ethical Index | -2.1% | 6.7% | 2.9% | 16.9% |
| | MSCI Europe ex UK (Euro-Zone) | 1.1% | 13.3% | 6.3% | 24.1% |
| | S&P 500 (USA) | 0.6% | 11.3% | 5.7% | 21.8% |
| | Nikkei 225 (Japan) | -0.4% | 14.7% | 4.7% | 25.6% |
| | MSCI All Countries World | 0.2% | 11.2% | 5.3% | 21.7% |
| Bonds | FTSE Gilts All Stocks | -2.0% | 1.8% | 3.0% | 11.5% |
| | £ Corporate Bond Index | -0.7% | 5.0% | 4.4% | 15.0% |
| | Barclays Global Aggregate Bond Index | -3.7% | -1.9% | 1.2% | 7.4% |
| Commodities | Goldman Sachs Commodity Index | -1.6% | -3.4% | 3.4% | 5.8% |
| | Brent Crude Oil Price | -1.8% | 7.5% | 3.3% | 17.7% |
| | LBMA Spot Gold Price | -1.4% | 2.2% | 3.6% | 11.9% |
| Inflation | UK Consumer Price Index (annual rate) | N/A | 3.0% | N/A | 12.7% |
| Cash rates | Libor 3 month GBP | 0.0% | 0.3% | 5.2% | 9.8% |

**Source: Morningstar, returns from £ - GBP and US-$ perspective**

## Good news turns bad news - again

Globally, stock markets finished one of the best Januaries on record only to start February with their worst week for two years. Of course, from a UK investor or rather £-Sterling perspective January 2018 was not such a great month, which is why we are this month presenting the same asset classes from a £-Sterling and a US$ perspective, to illustrate the difference. The pound had gained against the US$ and also somewhat against the €Euro, when figures proved that the UK economy was doing better than widely expected. A stronger domestic currency makes overseas investments appear to have lower value, even if they had not changed at all in the local currency. That the UK stock market fell regardless is still a function of the currency, because so many of the big companies earn the bulk of their revenues overseas – which are now worth less than before.

We had been noting and writing for a while now, about our concerns over rising inflation expectations in the US leading to falling bond prices and rising yields and wondered when they may start to impact current stock market optimism. Well, it would appear that the push of US 10-year treasury yields above 2.7% and then soon thereafter 2.8% had US equity (retail) investors somewhat belatedly noticing the bond market sell-off as well.

That stock markets around the world fell a couple of percent over the week seems entirely a function of the slight exuberance of previous ‘goldilocks’ expectations, that companies could for the foreseeable future continue growing their revenues and profits at double digit rates, without inflation ever spoiling the broth. It was the combination of the good news of continued strong earnings announcements and a stronger growth in wages which put an end to such unrealistic expectations and soured the mood in the stock markets. The thinking is that if wages finally start to move upwards, then inflation pressures are not far away. This would mean that central banks have to raise interest rates quicker than anticipated by markets, which would lower the relative value of equity dividends over bond yields. Higher costs of wages and loan capital would also leave less profits for shareholders.

Given the economic and corporate news-flow was very positive over the week, we interpret this sell-off as a temporary profit taking and also hope that it will quell recent US equity investor exuberance for a while longer. 5-6% global stock market growth in a single month (without being a recovery from a previous fall) has just all hallmarks of an overheating capital market environment which usually leads to nasty corrections in due course. If this current episode leads to 2018 not shaping up to look like 1987 than that would be a good thing.

Over the coming weeks we will be watching closely whether the usual automatic counterbalancing effects of higher yields will cool the economic upsurge enough to see fears of an overheating economy and thus a faster than anticipated pace of rate rises dissipate. Should this more gradual growth and normalisation path continue, then there is not much reason why companies should not be able to continue to grow their revenues and profits at a decent rate.

## UK blues

A great deal of UK news came out this week, and not much of it uplifting. On Wednesday, outsourcing firm Capita gave a profit warning and announced a dividend cut, which saw its share price tumble nearly 50%. After Carillion just two weeks ago, it felt like another blow in the ongoing story of government outsourcing to the private sector running into difficulties. To make things worse for the government, a leaked cross-departmental analysis of different post-Brexit economic growth scenarios found that the UK economy would be worse off under every one considered. And, to put the cherry on top, rumours abound that a fresh Conservative leadership challenge is imminent, after a press report that one senior government minister is preparing to resign and trigger a vote of no confidence against Prime Minister May from the backbenches.

The one (mildly) redeeming titbit came from Bank of England (BoE) governor Mark Carney's testimony to Parliament on Tuesday, where he noted that the drag on the economy from the initial Brexit shock was starting to recede. Overall, his comments were interpreted as being on the hawkish side, prompting markets to boost the probability of an August hike in interest rates.

Starting with the financially shaky Capita, readers may recall our article two weeks ago discussing the downfall of construction giant Carillion and the pitfalls of the private finance initiative (PFI) model in times of austerity. Back then, we noted a potential domino effect throughout outsourcing firms, especially for local NHS trusts. To be clear, Capita's issues are not the result of financial contagion from Carillion, but the heart of the problem is essentially the same. When writing up PFI contracts, due to the nature of the public-private relationship, the private companies have to make extremely long-term predictions about their future profit margins. This encourages management to take the upfront profit and overvalue future profits, leading to serious cashflow problems when times become hard.

So, is Capita going to go the way of Carillion? It's still too early to say. While there are strong parallels in terms of timelines on profit warnings, Capita is not a construction company and appears to address its issues much earlier rather than sticking the head in the sand. This makes the new CEO and turnaround specialist Jonathan Lewis' pronouncements on the company's dire financial situation potentially more impactful. Rather than letting the company rack up more debt while profits plummet, Lewis has announced a far-reaching shrink fitting plan for selling assets, cutting costs and raising cash early, which could well see it avoid collapse.

The company's debt leverage and – more importantly – profit margins are indeed better than Carillion's were. But, as mentioned, its problems are structural and common to all PFI firms, meaning fixes like this are only treating the symptoms rather than the cause. However, one difference now is that there seems to be more of a political will from the government to keep its outsourcing firms alive. Capita runs a great deal of local government services across the country (Capita's contracts are worth almost £500mn in Barnet council alone), and after the political fallout from Carillion's collapse, the government will be especially wary of any further PFI disasters. If Mr Lewis' plan fails to prompt a recovery, Whitehall may have to resort to drastic measures.

If the Conservative government is unable to save Capita, the consequences could be dire for them. As we pointed out a few weeks ago, the biggest threat from the continued collapse in PFI firms is bankruptcies in NHS trusts. That would be a hammer blow to a healthcare service which is already fast approaching breaking point, and would bring a mountain of political pressure on the government.

With a split leadership and embarrassing Brexit reports leaking, another snap election would be a strong possibility if that were to happen. The leaked Brexit assessment this week, titled "EU Exit Analysis – Cross Whitehall Briefing", revealed that the government's detailed forecasts for the three most likely outcomes – "no deal", "free trade agreement" and "soft Brexit" – all predicted a drop in economic growth over the next 15 years. The size of the growth drag varies from hardest to softest, at 8%, 5% and 2% respectively, but the downgrade to growth prospects is across all sectors and all regions of the UK – even when assuming some positive boosts such as a free-trade agreement with the US.

According to BuzzFeed news, who reported on the leak, when asked why the Prime Minister didn't make the analysis public their government source replied, "Because it's embarrassing." Indeed, it is. It raises questions as to whether Parliament would knowingly vote for a deal which would harm Britain's economy.

This is especially true if the Prime Minister is deposed in the coming months, something which is looking more likely by the day. At the end of last year, the embattled PM looked to have gained some respite, after an apparent breakthrough in EU negotiations was reached. That proved to be only temporary however, and the spirit of that breakthrough unfortunately doesn't seem to have carried over into the new year. Now, according to press reports, the sharks are circling around Mrs May once again.

Were they to go in for a killing blow, it may not actually be the best time for her potential successor. As mentioned, we sense a strong possibility that the PFI scandal could spiral into a crisis, particularly if the contagion reaches the health service. Any Prime Minister that inherits a messy

Brexit negotiation and a time-bomb in the NHS the day they walk into office has their work cut out for them, to say the least.

For the moment, however, the biggest impact from the political side (and in particular Brexit) is its effect on the value of sterling. That brings us nicely to our final topic, the BoE. Governor Carney remarked on Tuesday that the UK was moving into “a more conventional area for monetary policy where the focus is increasingly on returning inflation sustainably to target”. The positive here is that the BoE sees Brexit’s economic drag slowly fading away. The (potential) negative is that it implies a more hawkish (higher rates) stance from the bank.

It’s hard to gauge exactly what the BoE’s thinking here is, but it’s possible that the central bank is taking note of the tightening phase being embarked upon by the world’s other central banks and is worried that they might fall behind the curve, causing sterling to tumble and inflation to shoot up even more. The flipside of this is that the weakness of sterling has been one of the main factors helping growth in exports, particularly in the regions outside of London and the South East. With sterling already on the up in recent weeks on the back of improving industrial production, raising rates too much too soon could choke off the positive growth there.

Underneath all of this lies the BoE’s difficult balancing act – if they raise rates faster than real wage growth can compensate for rising mortgage payments then they’re compressing consumer demand at a time when it is needed most, but if they raise them too slowly then inflation will eat away real wages anyway. Aside from this point, one of the things also stopping the bank from hiking faster is the stalling housing market. Rising interest rates will put a dampener on house prices which already look uneasy. Both of these are ones to watch but, given the difficulties described, we think that a November rate hike remains the most likely outcome. One year on from the first feeble hike, but exactly the same time it took in the US for monetary tightening to get started.

## Earnings season update– Q4 / 2017

We regularly cover the quarterly corporate earnings announcement season, since current and prospective earnings and dividends are, of course, the fundamental source of investment return from equities. A company’s earnings announcements therefore always influence its share price. However, this week has shown that the other factors in the valuation of the earnings can often overwhelm the current releases. We’ll discuss the valuation and its components in future weeklies. For now, we’ll take a quick look at progress of the current global earnings season.

As of Thursday 1st February, the earnings season was approaching half-way point in the US and about 30% elsewhere. JP Morgan and BofA Merrill Lynch (BAML) are the sources for data.

We’ll start with the financial analysts’ expectations (*e*) for year-on-year earnings growth for 2017 and 2018 as presented in the table (top of next page; from JP Morgan). For almost all regions earnings growth expectations have risen since last year, which means that financial analysts are expecting the wider global economy to continue to improve.

Now we’ll look at what the (partial) results are showing.

In the US, the actual S&P500 earnings-per-share (EPS) is running at a rate of 12% year-on-year growth. 33% of companies in the S&P have already beaten expectations, with more than half still to report. If the level of beating expectations is maintained, the quarter will be the best in 7 years.

| | 2017e EPS Growth, % | | 2018e EPS Growth, % | |
|---|---|---|---|---|
| | Current | Jan '17 | Current | Jan '17 |
| MSCI World | 13.3% | 12.8% | 13.3% | 10.9% |
| S&P 500 | 11.2% | 11.6% | 16.7% | 11.9% |
| Stoxx 600 | 12.3% | 13.6% | 9.6% | 10.1% |
| Euro Stoxx | 11.6% | 12.8% | 9.7% | 10.5% |
| FTSE 100 | 22.1% | 20.8% | 8.1% | 9.6% |
| Topix* | 18.9% | 11.6% | 8.8% | 8.4% |
| EM | 23.3% | 14.1% | 13.4% | 11.8% |

Source: IBES, * for Year Ending March 2018 and March 2019

Revenues have been the main driver, with over 75% of those reporting beating "top line" expectations, growth at +8%.

It's been more mixed in Europe, with 52% of the Stoxx600 reporting companies beating expectations. Europe is slower to report, only a fifth of companies have reported so far so this could change. The Stoxx600 includes 167 UK companies. EPS growth is actually stronger than in the US, at +15%. Revenue growth is slightly slower than the US at + 7%. The euro had been strong heading into Q4 but then remained steady through the three months. It didn't weaken, and the export dampening consequence seems to have dented earnings growth a little, at least in comparison to dollar-based US companies.

However, comparing eurozone countries to the non-euro countries, it seems the euro-zone has done better relatively. The table below (from BAML) ranks the earnings "beaters":

**Table 6: 4Q '17 results by country**

| | EPS | | | | | | | Sales | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | out of | (%) | Beat | Hit | Miss | Surp. | No. | out of | (%) | Beat | Hit | Miss | Surp. |
| France | 6 | 84 | 7% | 83% | 17% | 0% | 9% | 10 | 88 | 11% | 60% | 10% | 30% | 2% |
| Spain | 5 | 28 | 18% | 80% | 0% | 20% | 11% | 5 | 28 | 18% | 80% | 0% | 20% | 2% |
| Finland | 7 | 17 | 41% | 71% | 14% | 14% | 14% | 7 | 17 | 41% | 43% | 29% | 29% | 0% |
| Germany | 7 | 72 | 10% | 71% | 0% | 29% | 5% | 7 | 73 | 10% | 14% | 29% | 57% | -1% |
| Netherlands | 6 | 26 | 23% | 67% | 0% | 33% | 6% | 6 | 26 | 23% | 33% | 50% | 17% | 0% |
| Italy | 2 | 29 | 7% | 50% | 0% | 50% | 4% | 2 | 29 | 7% | 50% | 50% | 0% | 6% |
| Switzerland | 9 | 45 | 20% | 44% | 56% | 0% | 2% | 11 | 47 | 23% | 73% | 9% | 18% | 2% |
| Sweden | 19 | 42 | 45% | 37% | 16% | 47% | -1% | 20 | 42 | 48% | 40% | 30% | 30% | 0% |
| Norway | 3 | 12 | 25% | 33% | 0% | 67% | -8% | 3 | 12 | 25% | 67% | 33% | 0% | 1% |
| United Kingdom | 4 | 113 | 4% | 25% | 25% | 50% | -7% | 7 | 114 | 6% | 43% | 29% | 29% | 0% |
| Denmark | 4 | 22 | 18% | 0% | 25% | 75% | -5% | 4 | 22 | 18% | 0% | 25% | 75% | -1% |

Source: BofA Merrill Lynch European Quant Equity Strategy, Bloomberg

The UK stocks, in the above, includes Capita. It's a tiny weighting so the UK surprise number is skewed because the table is not market-capitalisation-weighted.

In Japan, 754 companies (38%) have reported (their Q3 2018). 460 (61% of reporting companies) have beaten estimates, running currently at +14% year-on-year. That's not at the full year estimate of 18.9% (we've still got a quarter to go, and some of the uplift will occur because of base effects), but it is in line with the year-on-year comparison for this quarter. Revenues are stronger than the other regions, at +9% year-on-year.

The weakness in equities of the past few days is most probably not due to the earnings out-turn. The sharp move in bonds, especially in the inflation expectation component, could be seen as undermining the relative value of equities, as well as increasing the cost of capital and labour, which could lead to lower than the expected lofty growth rates in the first table. Interestingly, some work that we've been doing seems to show that earnings growth expectations tend to rise as inflation expectations also move up. Early January may have been a case of equity investors moving first, discounting more growth than equity analysts so the "surprises" are not really surprises. Thus, we get a profit-taking sell-off on the data releases rather than a valuation driven sell-off (buy the rumour, sell the fact).

If that's true, the equity market sell-off should be short-term. More on valuations in forthcoming weeklies….

## US healthcare revolution?

As already commented at the beginning, US stock markets came under pressure this week, with healthcare stocks as previous multi-year investor darlings hit particularly hard. The catalyst was the seismic announcement that the bank JP Morgan (JPM), Berkshire Hathaway (Warren Buffet's large insurance and consumer products conglomerate) and internet mail order giant Amazon will form their own healthcare company. The press announcement stated that its aim will be to reduce the "ballooning costs of healthcare" which act as a "hungry tapeworm on the US economy".

Investors immediately sensed the threat to the hitherto cosy healthcare services oligopoly and quickly disposed of the shares of UnitedHealth, Metlife, CVS and Walgreens Boots (yes, the same Boots on UK highstreets). On Tuesday, the healthcare sector was a sea of red. UnitedHealth alone accounted for almost 40% of the decline in the Dow Jones, a price weighted index. (See article on the disproportionate impact of high share prices on price weighted indices)

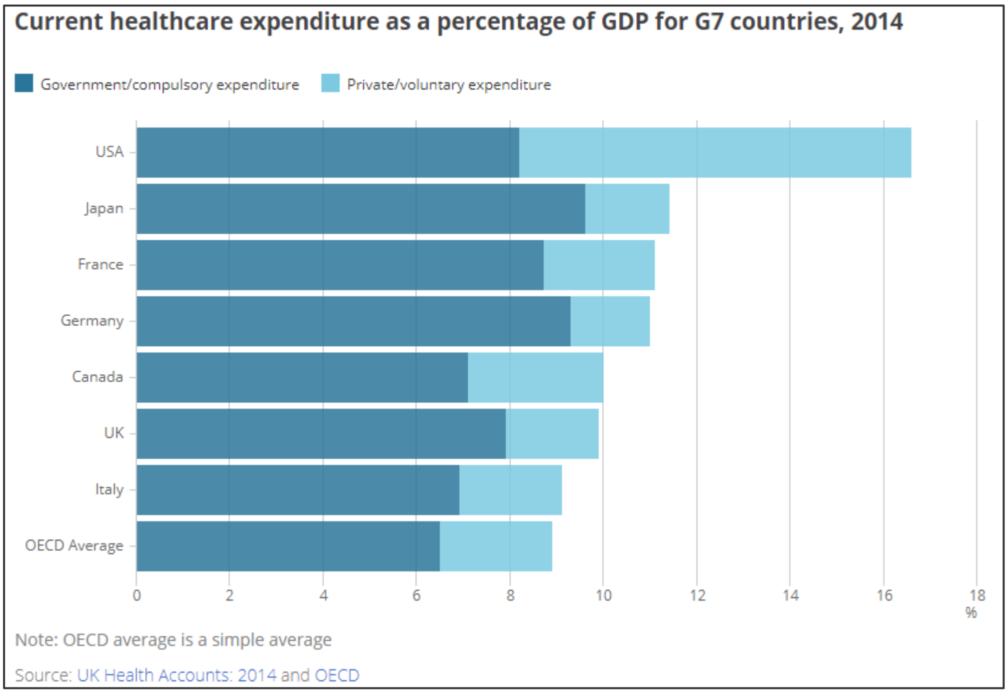
Is it possible that the healthcare sector now faces disruption (the 'Amazon effect') and possibly margin compression over the longer-term? Initially, this new venture aims to provide lower cost healthcare to the three firm's 1 million employees through the use of "technology solutions".

Amazon and its considerable technological clout on its own would be scary enough, but joined with JPM's funding expertise and Berkshire's product and insurance knowledge, the new company could provide a formidable disruptive force beyond its initial aim and scope.

It would not be the first time and the first sector, where the application of the 'internet of things' to traditional good and services provision, severely disrupted sectors. That disruptive force has seen the profits of 'older' industries that fail to adapt fall and concentrate among fewer, primarily technology-led businesses.

Perhaps the combination of different skill-sets of these three giants might be an evolution of business practices for large scale projects like healthcare or infrastructure – i.e. different groupings of companies competing against other such groupings instead of competition between individual firms.

This announcement suggests that after the political class made a mess of the concept of Obama Care, companies are taking rising healthcare costs and its heavy burden on the wider economy into their own hands.




The prize at stake is considerable. According to the OECD the US now spends 17.1% of its GDP on healthcare, more than any other G7 nation (UK 9.1%, EU 10.1%). But that extra money does not appear to deliver better outcomes. Life expectancy in the US is 78.8 versus 81.4 in the UK.

The involvement of, and appeal to Amazon seems obvious. Amazon's staff numbers are growing, healthcare expenses are rising and they own the technological means for making health care more efficient. So, for them, this is initially just another business cost it can streamline. However, Amazon also has a history of turning projects that were originally intended to reduce their own internal costs into products and services that they can market on a mass scale. It has done it with Amazon Web Services and logistics costs (which is now Fulfillment by Amazon).

In the past, Amazon's efforts are mainly centred on medical/hospital supplies through Amazon Business, but the company has sought licenses to distribute medicines. Amazon's ambitions are never small, so this larger and more integrated partnership appears consistent with history.

While this project is to be "free from profit making incentives and constraints" for the big three, we suspect those will be lifted once the company gets off the ground, given the large profit opportunities. Only about half of the US population of 323 million has health insurance, and that market is already worth $1.5 trillion in total. With average profit margins at 65.9% for the sector (Source: CSI Market) the business potential is enormous.

However, they will face a not inconsiderable 'moat' of entrenched competitors. The systems and investments made by the sector over the past few years will not be easy for Amazon, JPM and Berkshire to disintermediate, but they have a greater chance than anyone.

Think online prescriptions, access to medical results, Big Data (analytics), Artificial Intelligence and records all accessed via a centrally hosted web portal and mobile apps, all of which can be scaled quickly across the US and potentially globally as well.

Perhaps this new company could also provide processes for the UK's NHS to better meet today's challenges of an aging population in more efficient ways.

We do not think these efforts are likely to cause immediate profitability compression of existing healthcare firms, but the sector is now on effective notice. The healthcare sector now has Jeff Bezos (Amazon founder), Jamie Dimon (JPM CEO) and Warren Buffet (Berkshire) all focused on shaking up the industry in the longer-term.

Amazon founder Jeff Bezos said "Success is going to require talented experts, a beginner's mind, and a long-term orientation". Given the nearly unlimited financial, technical and managerial resources at their disposal, it would be hard to bet against such a venture.

The Health care sector and its shareholders have had it good the past few years, with record high profit margins, low interest costs and an increasingly stable backdrop. It is the strength of the free market economy that high profit margins eventually attract new competitors, even when the barriers of entry are high.

Over the medium term the profitability of the incumbent sector giants will fall and so the returns of their shareholders. However, if the new entrants succeed in making health care accessible for a larger proportion of the US public, then the overall pool of healthcare related company earnings does not necessarily have to shrink. Furthermore, lower health care premiums for staff across all other sectors may lift their profitability as well.

## An India Update: Elections, Reform and Chinese Competition

In our article on China last week, we mentioned that India may look to lay comparable (infra-) structural foundations to those of China, so that it can succeed China in becoming the great low-cost manufacturer of the world over the coming decades. It is difficult to see this happening in the near term. However, if the country does tread this path, then it must continue to deliver economic, social and environmental reform and maintain a stable Government.

Interestingly, when I wrote previously about India, after visiting Delhi, Agra, Udaipur and the Himalayan Hill towns, Prime Minister Narendra Modi was facing his biggest electoral challenge in the local elections of Gujurat and the northern state of Himachal Pradesh. In Gujurat, Modi's BJP party took a majority of 99 seats of the 182 available, down from the 115 previously. More significantly though, the BJP beat Congress to claim the hill towns of Himachel Pradesh – a significant victory, considering that many were worried Modi's reforms were having a negative impact in rural communities.

As Modi enters his final year before an election, Indians are reflecting on the BJPs success in delivering what was laid out in his election winning pitch – economic growth and new opportunities for millions of employment-seeking youths.

Economic growth is an area up for debate, with figures indicating that GDP is likely to grow at 6.5% in the year to March 2019 - the slowest in four years(!). Much of this is being put down to the adjustment in the Indian monetary system following the changes in currency denominations, taxation and greater tracking of transactions. These short-term disruptors, as written about previously, aim to provide significant long-term benefits. Even so, other economic indicators are signalling a potential turnaround, with the Manufacturing PMI expanding at its fastest rate in 5 years to 54.7 (above 50 signals expansion), new orders rising for a second consecutive month (and at its fastest rate since October 2016) and job creation at its strongest since August 2012.

If this is a tailwind to economic growth, then the government will still need to overcome a fiscal headwind. Currently, the government is breaching its original fiscal deficit target of 3.0% of GDP by 0.3%, due to shortfalls in revenue collections following the tax reforms.

This week India's finance minister set out his 5th and final budget of this Government, tasked with balancing populist spending policies against limiting the mounting fiscal pressure. In a television interview with Times Now, Modi discussed the common man wanting "honesty, and not freebies". However, as the opportunity arose to put the BJP ahead of competitors, the proposed budget demonstrated that the BJP weren't holding back.

The biggest and most significant development is the launch of a health insurance scheme for 100 million of the poorest in society. This is a major reform, since health care expenses at times of severe illness or accidents are the single biggest driver of over indebtedness of poorer families. The second most influential reform was within farming; government agencies have now been set a price floor of 1.5 times the cost of production when buying crops. In the past, only gradual price increases were enforced to control inflation for the consumer. However, with this under control, farmers will now benefit from increased pay and working conditions, as well as direct-to-consumer sales.

Other reform projects include record infrastructure spending on roads, rail and aviation. This includes 35,000km of highways (I understand from experience how bad the roads can be), building escalators at all rail stations, further metro extensions, connecting 64 airports and the expansion of existing airports. Infrastructure remains one of the most crucial factors for India's development, as discussed in previous articles. The final infrastructure development is the supply of water to all households in 500 cities.

For all the positives, this does come at a cost: less financial discipline by the BJP. The budget deficit is likely to come in nearer 3.5% of GDP in 2018, and the expected corporate tax breaks were not offered. Whilst domestic demand and investment has led to growth for India, the lack of private international investment during Modi's tenure has also come into question. Modi has not covered himself in glory on the international stage by introducing import tariffs, mainly targeted at Chinese goods, but also impacting global producers.

For example, the latest battleground is within the solar panel manufacturing space, where regulators have enforced a 70% import duty on products and materials. This is likely to impact the industry, with installation businesses and the end consumer noticing price rises.

It has also annoyed the US, who have launched a successful challenge at the WTO against New Delhi's requirement for local materials to be used under a government solar power scheme. There is no doubt that Modi's focus on internal production has its benefits, but with growing international trade, it is also important the country maintains trade relationships.

The final focus for Modi is maintaining regional stability, following recent tensions with China and Pakistan during his tenure. Although tariffs are likely to frustrate the Chinese, many Indians will be looking to Modi to maintain the country's strength in its competition with China. An indirect method is collaboration with Japan, also a country suffering from China's strategic growth in the region. A recent collaboration between India and Japan to prepare a joint mission to the moon and develop satellites is likely to protect India and prove Modi is strategically smart, improving regional stability.

On the face of it, India looks well positioned to benefit from Modi's modernising reforms. Unless growth slows further in the coming year – which seems unlikely, it is questionable how much the rural voter will vote against the BJP. On the ground, there is no doubt that infrastructure and health care reforms, all visible to the poorest of society, combined with strategic alliances to counter Chinese and Pakistani competition, will make a difference to the average voter and boost Modi's chances of re-election.

# PERSONAL FINANCE COMPASS

## Global Equity Markets

| MARKET | CLOSE | % 1 WEEK | 1 W | TECHNICAL |
|---|---|---|---|---|
| FTSE 100 | 7457.3 | -2.7 | -208.3 | ↘ |
| FTSE 250 | 20012.9 | -2.9 | -602.7 | ↘ |
| FTSE AS | 4094.8 | -2.7 | -114.7 | ↘ |
| FTSE Small | 5833.0 | -2.0 | -118.5 | ↘ |
| CAC | 5375.6 | -2.8 | -153.6 | ↘ |
| DAX | 12803.1 | -4.0 | -537.1 | ↘ |
| Dow | 25886.6 | -2.7 | -730.1 | ↘ |
| S&P 500 | 2797.0 | -2.6 | -75.8 | ↘ |
| Nasdaq | 6852.4 | -2.4 | -170.6 | ↘ |
| Nikkei | 23274.5 | -1.5 | -357.4 | ↘ |

## Global Equity Market - Valuations

| MARKET | DIV YLD % | LTM PE | NTM PE |
|---|---|---|---|
| FTSE 100 | 3.9 | 20.4x | 14.2x |
| FTSE 250 | 2.7 | 17.7x | 14.5x |
| FTSE AS | 3.7 | 19.3x | 14.2x |
| FTSE Small | 3.0 | 11.1x | - |
| CAC | 2.8 | 17.4x | 14.8x |
| DAX | 2.5 | 17.1x | 13.4x |
| Dow | 1.8 | 23.8x | 17.7x |
| S&P 500 | 1.7 | 23.0x | 18.1x |
| Nasdaq | 1.0 | 26.7x | 21.5x |
| Nikkei | - | - | - |

## Top 5 Gainers / Top 5 Losers

| COMPANY | % | COMPANY | % |
|---|---|---|---|
| BAE SYSTEMS | 2.5 | BARRATT DEVELOP | -6.9 |
| SMURFIT KAPPA | 2.2 | BARCLAYS | -6.6 |
| 3I GROUP | 2.1 | CRH | -6.3 |
| JOHNSON MATTHEY | 1.6 | BERKELEY GROUP | -5.2 |
| SKY | 1.3 | ROYAL DUTCH SHELL | -5.1 |

## Currencies / Commodities

| PRICE | LAST | %1W | CMDTY | LAST | %1W |
|---|---|---|---|---|---|
| USD/GBP | 1.41 | -0.21 | OIL | 68.0 | -3.6 |
| USD/EUR | 1.24 | 0.14 | GOLD | 1329.6 | -1.4 |
| JPY/USD | 110.39 | -1.64 | SILVER | 16.7 | -3.9 |
| GBP/EUR | 0.88 | -0.31 | COPPER | 317.3 | -0.8 |
| CNY/USD | 6.30 | 0.43 | ALUMIN | 2225.0 | -0.7 |

## Fixed Income

| GOVT BOND | %YIELD | % 1W | 1 W YIELD |
|---|---|---|---|
| UK 10-Yr | 1.567 | 8.5 | 0.12 |
| US 10-Yr | 2.835 | 6.6 | 0.18 |
| French 10-Yr | 1.009 | 10.5 | 0.10 |
| German 10-Yr | 0.759 | 20.7 | 0.13 |
| Japanese 10-Yr | 0.086 | 10.3 | 0.01 |

## 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 |
| Weighted Average Interest Rate (BoE) | #N/A |
| Nationwide Base Rate | 2.50 |
| Halifax Standard Variable | 3.99 |

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

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/FactSet 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