Investment Insight

Friday, 27 January 2017

ARIA | CAPITAL

Joe Six-Pack: *"The inauguration of Donald Trump is a historic event. The change of mood is symbolised as the replacement of Davos Man by Joe Six-Pack." So says Ian Heslop of Old Mutual Global Investors.*

*President Trump's election gave a shot in the arm to the bull market in US equities, but whether or not this can be sustained only time will tell. The first hundred days of the Trump presidency should provide investors with greater clarity as to what lies ahead as the Administration's plans are set out. In this week's **Inside Track** Ian shares his views on the upcoming Trump era and why caution is merited.*

Aristocrats: *Stocks that have consistently increased dividend pay-outs for at least 10 consecutive years, so-called Dividend Aristocrats, were the outperformers of the Europe 350 Index for the last number of years as investors sought an alternative to the ever reducing yield being offered by bonds.*

*How quickly times can change as it appears the aristocracy appears to be in decline. In **Pic of the Week** we take a closer look.*

Quoted...

"We learn about life not from plusses alone, but from minuses as well." – Anton Chekov

The Inside Track

Ian Heslop is Head of Global Equities at Old Mutual Global Investors and below are some of his thoughts post the inauguration of Donal Trump and, in particular, why a cautious stance should be adopted.

The inauguration of Donald Trump is a historic event. The change of mood is symbolised as the replacement of Davos Man by Joe Six-Pack. Trump's election on 11 November gave support to the bull market in US equities.

The market's positive reaction is based on Trump's pro-business tax stance and the anticipated effect of his planned massive spending on infrastructure. The change brings to mind the election in December 2012 in Japan of Shinzo Abe, also elected with a mandate to stimulate his national economy vigorously.

Donald Trump's rhetoric during his campaign may have appealed more to voters' fears than to their hopes, but investors' reaction since his election has been of hope rather than fear. Yet market sentiment can swiftly turn.

Here are four reasons why caution is warranted.

Firstly, Trump is unlikely to be successful in winning the support of Congress for all his spending plans. Congress, though also Republican, is far more fiscally conservative than he is. Failure to deliver on his rhetoric could lead to market disappointment.

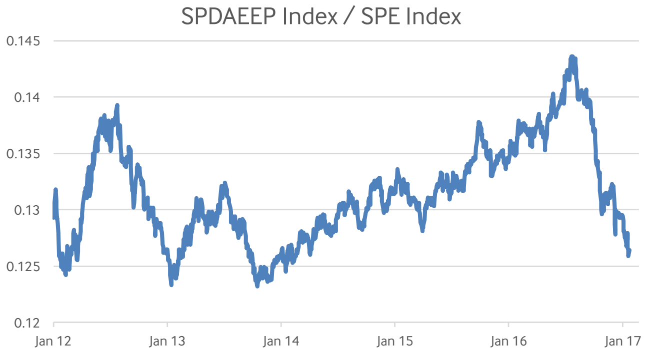
Secondly, spending on the scale Trump wants could be a double-edged sword, causing not only faster growth but also increased inflation.

Thirdly, Trump's protectionism could spark trade wars with damaging, recessionary effects.

Fourthly, Trump's presidency could heighten political risk. Trump's unfiltered use of Twitter, and his fluid approach to statements of policy is risky.

Pic of the Week

The following chart illustrates the relative performance of the S&P Europe 350 Dividend Aristocrats Index compared to the broader S&P Europe 350 index. The Aristocrats outperformed the broader market by almost 17% from Q4 2013 to Q2 2016. Since then, however, the Aristocrats have underperformed by over 12% - all good things come to an end.



Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	+1.1%	+18.4%	+2.6%	+9.0%
US equities	+1.5%	+20.6%	+2.6%	+11.7%
European equities	+1.3%	+9.0%	+1.7%	+6.9%
EM equities	+2.5%	+29.4%	+6.3%	-2.0%
Irish equities	-0.9%	+3.0%	+0.2%	+16.8%
Commodities	-0.1%	+5.7%	+0.9%	-9.6%
Hedge funds	+0.4%	+6.5%	+0.8%	+1.5%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+1.1%	0.0%	+6.9%
Germany	+0.5%	+1.7%	+1.7%
USA	+2.5%	+2.1%	+1.7%
China	+3.3%	+2.1%	+6.8%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.07	+1.6%
EUR:GBP	0.85	-0.7%
EUR:CNY	7.35	+0.1%
GBP:USD	1.26	+2.1%
Bitcoin	917.20	-4.0%

Week ahead: Key events

30/01 Eurozone Confidence Data
30/01 US Pending Home Sales & Japan Jobless Rate
31/01 BOJ Policy Rate
01/02 Japan & Eurozone PMI Data
01/02 US employment & Mortgage Applications
01/02 US FOMC Rate Decision
02/02 Japan Consumer Confidence
02/02 BOE Inflation Report & US Initial Jobless Claims
03/02 Japan & Eurozone PMI
03/02 US PMI & Durable Goods Orders

Commodities	*Current*	*YTD Δ*
Gold	1,188.65	+3.2%
Copper	5,922.25	+7.2%
Oil	56.24	-1.0%
Wheat	427.00	+4.7%

Central Bank rates	*Current*
Eurozone	0.00%
USA	0.75%
UK	0.25%

66 Fitzwilliam Square
Dublin 2
D02 AT27
Ireland

T: (+353 1) 685 4100
E: research@aria-capital.ie
W: www.aria-capital.ie

UNDIVIDED
ATTENTION