

Investment Insight

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It's the economy stupid: As Robeco's Lukas Daalder reminded investors recently, "It's the economy, stupid: markets will follow data, not Trump".

In this week's **Inside Track** we share Lukas' thoughts on the recent strength in markets and the positive economic data that has been largely ignored in favour of political events.

They may be wrong, they may be right: For several years, Ipsos-Mori have regularly surveyed people in 25 different countries on whether things are going in the "right direction" or "wrong direction" in their particular country. The question people were asked was: "Generally speaking, would you say things in this country are heading in the right direction, or are they off on the wrong track?"

Interestingly, over time, the global average doesn't really change all that much – regardless of when they are surveyed, the majority of people seem to think their countries are on the wrong track. They may be right. In **Pic of the Week** we look at the latest findings.

Quoted...

"Inside of a ring or out, ain't nothin' wrong with going down. It's staying down that's wrong" – Muhammad Ali

The Inside Track

Financial markets will continue to follow hard economic data rather than the latest rhetoric of President Trump in deciding asset values, reminds Lukas Daalder, CIO of Robeco Investment Solutions, one of Europe's leading asset managers.

Equities have largely ignored all controversial policy statements by the new US leader, while bonds are more interested in what's happening in Europe, says Daalder, Chief Investment Officer of Robeco Investment Solutions. Echoing a phrase made famous by Trump's predecessor Bill Clinton during his successful presidential campaign in 1992: "It's the economy, stupid" is likely to be the prevailing force for investors rather than Trump, Daalder says.

So what is really going on?

Daalder says it boils down to markets focusing on what's happening in the real world of economics, rather than the heady world of politics. "Things become a lot easier to explain if we look beyond the Trump headlines and look at the other news, which has been sort of neglected lately," he says. "For one, there is the world economy. Economic data has steadily surprised on the upside, indicating a firming in underlying economic momentum."

"This improvement in underlying economic activity is also reflected in the quarterly earnings reports that have been published so far: the fourth quarter marks a decisive break with the previous four quarters, with earnings on track to show significant and broad-based growth. Gone is the fear of an earnings recession dragging the world economy down."

Europe is currently showing better underlying momentum than the US

"This clearly shows that as noisy and loud as Trump can be, as long as it does not have a direct impact on underlying economic growth and earnings, the stock markets have good reasons to generally ignore it. In other words: 'It's the economy, stupid!'"

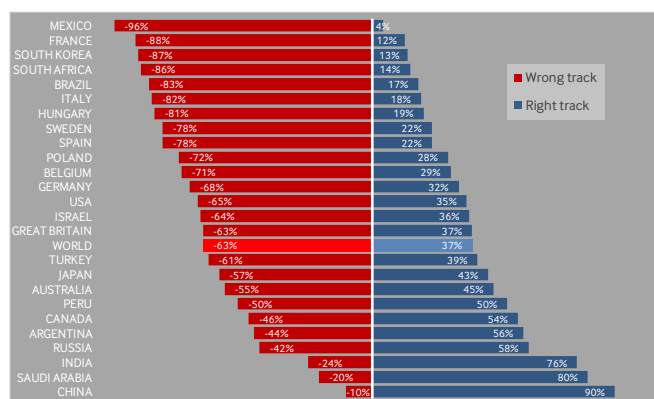
"This also explains the spread development in international bond markets: economic data from Europe shows that – despite popular belief to the contrary – Europe is currently showing a better improvement in underlying momentum than the US. According to December data, German factory orders (although notoriously volatile) are now 8% above the level seen a year ago, while headline inflation (1.8%) also surprised on the upside."

European political risks

There are still political risks though, with populist movements set to figure strongly in parliamentary elections due in the Netherlands in March, and presidential elections in France in April and May, Daalder warns. And then there is the ongoing Greek bailout saga which hasn't reared its head for a few years, but is indirectly linked to Trump and whoever takes power in Europe. "The French presidential election is shaping up to become the key event for financial markets," he says. "The anti-EU National Front party of Marine Le Pen is clearly leading in the polls, and although most polls indicate that she will be beaten in the second round of the presidential vote, it is difficult to deny that the counter candidates do not look very strong right now."

Pic of the Week

On average just 37% of people think their countries are heading in the "right direction", although as you might expect there is considerable variance between countries. China and Saudi Arabia appear to be the most enthusiastic while, perhaps unsurprisingly, Europeans, Mexicans, Brazilians, and South Koreans are the most pessimistic about future prospects. The following chart, based on a Ipsos-Mori's November survey, shows which countries are currently on track and which aren't.



Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	+1.1%	+22.1%	+4.3%	+8.8%
US equities	+1.7%	+21.8%	+4.8%	+11.5%
European equities	+0.9%	+15.9%	+2.3%	+6.5%
EM equities	+2.2%	+29.3%	+9.7%	-2.1%
Irish equities	+1.0%	+7.1%	+0.4%	+15.6%
Commodities	-1.0%	+2.5%	+1.1%	-9.4%
Hedge funds	+0.6%	+9.4%	+1.8%	+1.5%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+1.0%	0.0%	+6.9%
Germany	+0.3%	+1.9%	+1.7%
USA	+2.4%	+2.5%	+1.9%
China	+3.4%	+2.5%	+6.8%

Currencies	Current	YTD Δ
EUR:USD	1.07	+1.5%
EUR:GBP	0.85	+0.1%
EUR:CNY	7.31	-0.4%
GBP:USD	1.25	+1.2%

Week ahead: Key events

20/02 UK House Prices & Eurozone Consumer Confidence
21/02 Japan & EU Manufacturing PMI Data
21/02 US PMI Data
22/02 UK GDP & EU CPI
22/02 US Mortgage Applications & Existing Home Sales
23/02 Germany GDP & US Initial Jobless Claims
24/02 France Consumer Confidence & US New Home Sales

Bitcoin 1,036.84 +9.1%

Commodities	<i>Current</i>	<i>YTD Δ</i>
Gold	1,238.42	+7.5%
Copper	6,048.00	+9.5%
Oil	55.65	-3.2%
Wheat	461.25	+9.7%

Central Bank rates	<i>Current</i>
Eurozone	0.00%
USA	0.75%
UK	0.25%

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