



# Investment Insight

Friday, 17 March 2017

**Trust me:** Fidelity is one of the global asset management powerhouses. They make a virtue of not having a “house view”, instead allowing individual analysts to form their own views of the macro and microeconomic environment and make their recommendations accordingly. These analysts conduct over 17,000 company meetings throughout each year, so they really do have their collective finger on the pulse of corporate conditions.

Each year Fidelity surveys and compiles their analysts’ views, and this year they characterise the results as “remarkable”. Despite it being late in the economic cycle, corporate conditions are improving again. Technological disruption is intensifying, forcing companies to up their IT budgets, and in many cases to rethink their business models. In this week’s **Inside Track** we look at some more of the findings.

**Yes, Mr President:** As he comes face to face with the man whose remarks he described as “racist and dangerous” Enda Kenny’s visit to Washington DC this week is unlikely to be the one he has relished most during his leadership. As starkly illustrated in **Pic of the Week**, the US matters greatly to global economics and, disproportionately so, to Irish economics. Reciprocally, to some extent at least, the Irish vote matters to US politics. Therefore, prejudices notwithstanding, politenesses and shamrock, will be duly exchanged as both President and Taoiseach smile for the cameras.

### Quoted...

“Being Irish, he had an abiding sense of tragedy, which sustained him through temporary periods of joy.” - William Butler Yeats

### The Inside Track

Fidelity recently published its annual analyst survey, compiled on the back of over 17,000 company meetings. The following are some of the key highlights.

#### Widespread positivity

Positive corporate conditions in all regions and sectors. Management confidence has improved materially, turning from negative last year to positive this year, indeed hitting the highest level since 2014. Demand growth is back and the prospects for returns on capital have strengthened considerably. The long down-cycle in capex appears to have bottomed out, perhaps heralding a recovery in productivity. The relative strength of developed markets versus emerging markets continues, but the turnaround in sentiment in the latter is remarkable, driven by the recovery in energy, materials, utilities and industrials.

#### Inflation expectations are rising

Not surprisingly, inflation expectations seem to be edging up, albeit very modestly, and cost pressures are affecting some sectors. But leverage is not seen as an issue; balance sheets are robust and very few analysts expect rising default rates. Rising leverage in the US is mainly due to shareholder-friendly activities, not operational weakness.

#### Disruption is on the rise

Change to business models is everywhere, creating winners and losers in the process. IT spending is rising across all sectors. Major transformations are happening within sectors, affecting IT, consumer discretionary, telecoms, and utilities most. With technological innovation spreading and deepening in all sectors, IT comes out strongest, despite itself being disrupted.

#### Business trumps politics

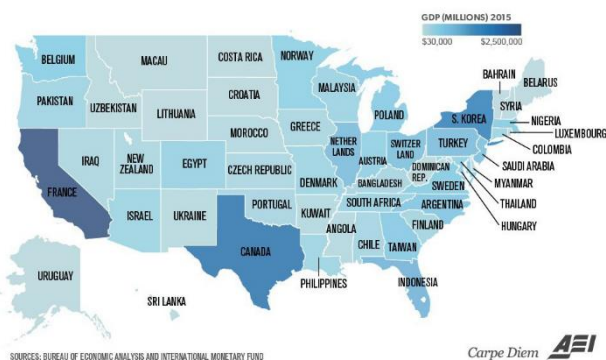
Business leaders are generally not adjusting strategic plans in response to political uncertainty. Except in cases where risks are realised, such as Brexit. Perhaps surprisingly, analysts generally do not see significant impact from political risk. There is little sign of uncertainty weighing on strategic investment decisions despite US policies, European elections, Eurozone cohesion or geopolitics. Brexit, however, is weighing on companies’ willingness to invest in the UK, and protectionism is viewed with suspicion everywhere, including in the US.

#### Risks remain

Disappointing economic growth and demand, especially in China, could change the outlook for companies. Larger-than-expected oil supply growth or demand weakness could lead to renewed oil price falls, undermining corporate conditions for energy and related sectors. Tighter monetary policy in response to inflation could hasten the turn of the economic cycle.

### Pic of the Week

Love ‘em or hate ‘em, you can’t ignore ‘em. Precisely why the US economy is so influential in the global economy is plainly contextualised when the map of US states has countries of equivalent GDP substituted for state names.



### Market View

|                   | Last 7 days | Last 12 mths | YTD   | 5Y Ann. |
|-------------------|-------------|--------------|-------|---------|
| Global equities   | +0.9%       | +16.1%       | +5.6% | +8.4%   |
| US equities       | +0.7%       | +17.4%       | +6.3% | +11.1%  |
| European equities | +0.6%       | +10.4%       | +3.6% | +6.1%   |
| EM equities       | +2.2%       | +19.3%       | +9.4% | -2.4%   |
| Irish equities    | +0.4%       | +8.4%        | +2.6% | +14.8%  |
| Commodities       | +0.5%       | -2.8%        | -2.8% | -10.3%  |
| Hedge funds       |             | +6.3%        | +1.4% | +1.2%   |

| Economic indicators | Bond yields | Inflation | GDP YoY |
|---------------------|-------------|-----------|---------|
| Ireland             | +1.1%       | +0.5%     | +7.2%   |
| Germany             | +0.4%       | +2.2%     | +1.7%   |
| USA                 | +2.5%       | +2.7%     | +1.9%   |
| China               | +3.3%       | +0.8%     | +6.8%   |

| Currencies | Current | YTD Δ |
|------------|---------|-------|
| EUR:USD    | 1.07    | +1.9% |
| EUR:GBP    | 0.87    | +1.6% |
| EUR:CNY    | 7.40    | +0.8% |

**Week ahead: Key events**

20/03 UK House Prices  
21/03 UK CPI  
22/03 US Mortgage Applications & Existing Home Sales  
23/03 Germany Consumer Confidence  
23/03 US Initial Jobless Claims  
23/03 US New Home Sales  
23/03 Eurozone Consumer Confidence  
24/03 Japan & Eurozone PMI Data  
24/03 US Durable Goods

|         |          |        |
|---------|----------|--------|
| GBP:USD | 1.24     | +0.2%  |
| Bitcoin | 1,209.71 | +27.1% |

| <b>Commodities</b> | <i>Current</i> | <i>YTD Δ</i> |
|--------------------|----------------|--------------|
| Gold               | 1,226.62       | +6.5%        |
| Copper             | 5,843.00       | +5.8%        |
| Oil                | 51.65          | -11.0%       |
| Wheat              | 437.75         | +4.1%        |

| <b>Central Bank rates</b> | <i>Current</i> |
|---------------------------|----------------|
| Eurozone                  | 0.00%          |
| USA                       | 1.00%          |
| UK                        | 0.25%          |

66 Fitzwilliam Square  
Dublin 2  
D02 AT27  
Ireland

T: (+353 1) 685 4100  
E: [research@aria-capital.ie](mailto:research@aria-capital.ie)  
W: [www.aria-capital.ie](http://www.aria-capital.ie)

# UNDIVIDED ATTENTION

**Important Disclosure.** Aria Capital Limited is regulated by the Central Bank of Ireland. Financial data provided by Bloomberg. All values are indicative only. This Investment Insight has been prepared for information purposes only. It does not constitute investment advice or an offer to buy or sell securities. No investment decisions should be made without seeking appropriate professional advice. This document may not be reproduced in whole or in part without Aria Capital's permission. © Aria Capital Limited 2017. All rights reserved.