



Investment Insight

Friday, 24 March 2017

Take the Ruff with the smooth: Ruffer manages a Total Return Fund we have long recommended to our clients and which has proven to be an important return generator in portfolios. The aim of the fund is to provide a smoother return profile for investors than that offered by equity funds for instance.

With the sands starting to shift this week in terms of investors' faith in Trump's ability to implement some of his policy plans, this week's **Inside Track** looks at Ruffer's views on how the market is behaving vis-à-vis Trump, European elections and other economic factors.

Trading places: Since 2015, the top 4 Chinese banks were worth more collectively than the top 4 US banks. However, there has been a noticeable reversal of this position recently as Chinese banks suffer from concerns over their loan books while US banks look set to benefit from Trumponomics.

In this week's **Pic of the Week** we take a look at how the market capitalisation of these banks has evolved.

Quoted...

"There are no traffic jams along the extra mile."
- Roger Staubach

The Inside Track

The investment objective of Ruffer Total Return International is to achieve positive returns with low volatility from an actively managed portfolio. Pervading this objective is a fundamental philosophy of capital preservation. The following are some comments from the most recent commentary from the management team.

February concluded with President Trump's first address to Congress after a month during which his tweet-led policies appeared to follow some of the more toxic rhetoric from the campaign trail. This speech returned to the more conciliatory tone from his November acceptance speech. Having struck a protectionist tone through much of his first five weeks in office Mr Trump reverted to more market friendly infrastructure spending (to the tune of \$1 trillion) and tax cuts to both middle income families and corporations. Whilst short on detail the address was far removed from his combative inauguration address. The lack of detail from Mr Trump's policies led to a month in which risk assets largely struggled for direction, albeit still moving in a positive trajectory.

In Europe investors have begun to focus on the deluge of elections taking place in 2017. [Most] pressing for the incumbents is the rise of Marine Le Pen. It appears likely that either technocrat Emmanuel Macron or scandal-plagued Fillon will defeat Le Pen in the second round of polling, with neither front runner likely to have full control of parliament. However, having been bruised by following pollsters twice in the last year, investors appear unwilling to take on much risk in the run up to the election. This is best illustrated by German bund yields, which continued to fall sharply, perhaps further supported by the demand for the highest quality collateral as new margin requirements come into force across Europe.

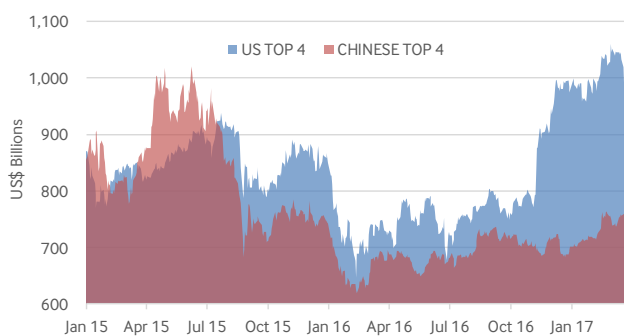
Whatever the driver, the move down in bond yields appears inconsistent with recent measures of economic growth in the eurozone, which continue to surprise on the upside. Both equity and bond markets appear oblivious to the prospect of further policy tightening in the short term, perhaps increasing the risk of a market wobble. It is for this reason that we have further pruned our equity weighting and marginally increased exposure to the yen as a protective move. The equities we own remain focused on cyclical and financial names principally to protect the portfolio against rising bond yields.

Our long term expectation remains that current policy will fail to deliver sufficient growth to offset the deflationary force of excessive debt in the global economy. Monetary policymakers responded to the financial crisis by cutting interest rates to record lows and injecting vast amounts of liquidity into the financial system via quantitative easing and other related policies. More recently the political context has engendered a shift to fiscal stimulus. In our mind this makes the inflationary denouement all the more likely.

Pic of the Week

JPMorgan Chase, Wells Fargo, Bank of America and Citigroup have collectively rallied 30% since Trump was elected, which recently brought their combined value to over \$1 trillion for the first time. By contrast, the top 4 Chinese banks were collectively worth more than \$1 trillion as far back as 2015. More recently, the sands have shifted and the US banks have now moved substantially ahead of their Chinese counterparts in valuation terms, despite the Chinese banks being more profitable. Our chart shows how places have been traded since the Chinese first assumed dominance in 2015.

Market Capitalisation of Top 4 Banks



Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	-1.3%	+14.4%	+4.5%	+8.4%
US equities	-1.3%	+15.5%	+5.0%	+11.0%
European equities	-0.9%	+10.5%	+3.3%	+6.6%
EM equities	+0.4%	+17.7%	+12.1%	-1.5%
Irish equities	-0.6%	+6.7%	+1.9%	+15.3%
Commodities	-0.3%	+2.2%	-3.4%	-10.1%
Hedge funds	-0.4%	+6.3%	+1.4%	+1.3%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+1.1%	+0.5%	+7.2%
Germany	+0.4%	+2.2%	+1.7%
USA	+2.4%	+2.7%	+1.9%
China	+3.3%	+0.8%	+6.8%

Currencies	Current	YTD Δ
EUR:USD	1.08	+2.5%
EUR:GBP	0.86	+0.9%
EUR:CNY	7.42	+1.2%
GBP:USD	1.25	+1.5%
Bitcoin	1,033.54	+8.6%

Week ahead: Key events

27/03 US Manufacturing
28/03 Ireland Retail Sales
28/03 US Consumer Confidence
29/03 Japan Retail Sales
29/03 US mortgage Applications & Pending Home Sales
30/03 Germany CPI & Eurozone Confidence Data
30/03 US GDP & Initial Jobless Claims
31/03 UK Consumer Confidence & Japan Jobless Rate
31/03 Germany Unemployment

Commodities	<i>Current</i>	<i>YTD Δ</i>
Gold	1,246.60	+8.2%
Copper	5,780.00	+4.7%
Oil	50.54	-12.9%
Wheat	421.50	+0.2%

Central Bank rates	<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
W: www.aria-capital.ie

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