# Investment Insight

Friday, 1 September 2017

ARIA | CAPITAL

***Cheer up sleepy Jean:*** *Although investors are proving themselves increasingly inured to geopolitical news, many have understandably been distracted by the latest bout of North Korean war mongering. Some have used it as a welcome excuse to take a breather from "risk markets" and we have seen the resulting softness in markets over recent weeks. Of course the fact that, absent strong earnings growth, many equity markets look somewhat expensive, gives a bit of tail wind to the sellers. Meanwhile back at the ranch, it's not all so bad. There are several reasons for distracted investors to be somewhat cheered and some of this week's economic updates evidenced exactly that. Selling also eased and some markets clawed back a bit of what they've leaked. In* ***The Inside Track*** *we look at what's been happening.*

***Called out:*** *Once again this week Ireland has been "called out" by Donald Trump in the context of countries whose taxation policies, in Mr Trump's opinion, leave the US short-changed. We might wonder why, in a global context, Ireland appears to receive such frequent adverse attention from Trump, and part of the answer lies in our hi-tech exports. If Trump manages to bring about change to US corporation tax rates, it could have serious implications for Ireland. In this week's* ***Pic of the Week*** *we take a closer look.*

## Quoted...

*"One of the lessons of history is that nothing is often a good thing to do and always a clever thing to say."*
*– Will Durant*

## The Inside Track

Markets have been under pressure for much of the Summer, exacerbated by recent geo-political tensions. However, a variety of economic releases this week provided a reminder that, economically speaking, it's not all doom and gloom, something that may have registered in markets.

European inflation: Inflation data for August came in slightly above expectations +0.2% month-on-month. This brings German's annual growth rate to +1.8% year-on-year which is slightly ahead of expectations. Meanwhile, Spain's harmonised consumer price index also rose +0.2% month-on-month in August, lifting Spanish inflation to an encouraging +2.0% year-on-year growth level.

Eurozone economic confidence: August's Eurozone economic confidence index showed its highest reading since July 2007, coming in at 111.9. Improvements were broad-based across different sectors with industrial and services businesses as well as consumer optimism readings coming in ahead of expectations. While yesterday's reading for German retail sales undershot expectations,

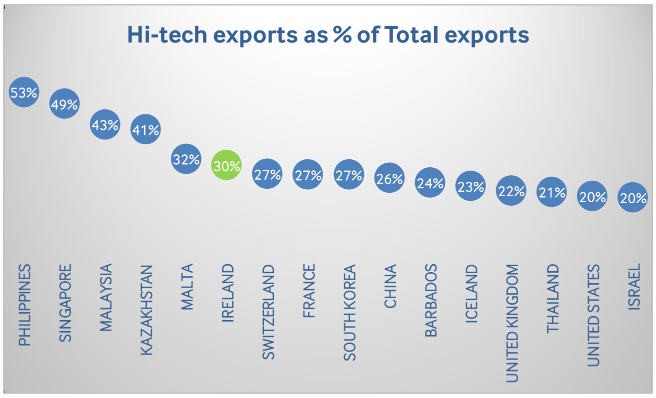
Asian manufacturing PMIs: August PMI data for China came out this week reporting a slightly stronger than expected outcome of 51.7, a further increase since July. Meanwhile, industrial production in Japan has slowed a bit to +4.7% year-on-year, but this is a nonetheless solid performance.

US employment: The ADP Research Institute's monthly employment gauge came in above expectations for August, showing an increase of 237,000. Today's official payrolls report should, if consistent with the ADP, beat expectations.

US GDP: This week, US GDP for the second quarter was revised upwards to 3.0% (from 2.6%). The revision has pushed quarterly growth to its highest level since the first quarter of 2015.

## Pic of the Week

Why is Ireland garnering a disproportionate (to our size) share of Donald Trump's economic vitriol? More importantly, what is at risk for Ireland if US corporation tax rates were to be reduced as Trump would like? To examine the situation, we looked at comparative economic data published by the World Bank that measures the importance of "hi-tech" exports to a country's overall export profile. As the chart highlights, outside of Asia, few have more export dependency on the hi-tech sector than Ireland does. Of course it isn't just corporation tax rates that influence this, but they are undoubtedly an important part of the equation. Hopefully Mr Trump's endeavours will be embraced by Congress just as much as his other endeavours haven't been!




## Market View

| | Last 7 days | Last 12 mths | YTD | 5Y Ann. |
|---|---|---|---|---|
| Global equities | +0.3% | +13.3% | +9.2% | +9.9% |
| US equities | +1.1% | +13.6% | +10.2% | +11.9% |
| European equities | -0.9% | +8.0% | +2.3% | +6.4% |
| EM equities | +0.5% | +21.7% | +26.2% | +2.8% |
| Irish equities | -1.4% | +7.3% | +1.6% | +15.9% |
| Commodities | +1.1% | +0.7% | -3.5% | -10.4% |
| Hedge funds | +0.2% | +5.1% | +3.4% | +1.9% |

| **Economic indicators** | *Bond yields* | *Inflation* | *GDP YoY* |
|---|---|---|---|
| Ireland | +0.7% | -0.2% | +6.1% |
| Germany | +0.4% | +1.8% | +2.1% |
| USA | +2.1% | +1.7% | +2.2% |
| China | +3.6% | +1.4% | +6.9% |

| **Currencies** | *Current* | *YTD Δ* |
|---|---|---|
| EUR:USD | 1.19 | +13.2% |
| EUR:GBP | 0.92 | +8.2% |
| EUR:CNY | 7.83 | +6.7% |
| GBP:USD | 1.29 | +4.4% |
| Bitcoin | 4,702.16 | +393.9% |

## Week ahead: Key events

04/09 Eurostat PPI
05/09 Eurozone Services PMI
05/09 Ireland CSO Unemployment & Industrial Production
06/09 Eurozone Retail PMI
06/09 US MBA Mortgage Applications & Services PMI
07/09 Ireland CPI
07/09 ECB Interest Rate Announcement
08/09 UK Production Index

| **Commodities** | *Current* | *YTD Δ* |
|---|---|---|
| Gold | 1,318.13 | +14.4% |
| Copper | 6,740.00 | +22.0% |
| Oil | 52.21 | -11.2% |
| Wheat | 435.00 | -6.5% |

| **Central Bank rates** | *Current* |
|---|---|
| Eurozone | 0.00% |
| USA | 1.25% |
| UK | 0.25% |

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