



Investment Insight

Friday, 15 September 2017

Watch the mousetrap not the cheese: The final few weeks of the Summer holiday period is normally a benign period for investment markets. However, it was anything but benign this year due to a combination of domestic US politics, geopolitics and somewhat expensive stock markets.

In **The Inside Track** this week we get a re-cap of events and their impact from the fund management team at Ruffer, who remain particularly cautious and see a number of similarities between the current market conditions and those investors were faced with in 2006-2007.

Crowded out: We discussed cryptocurrency last week, both its increasing traction as a legitimate investment asset and some of the associated risks. It won't be surprising, therefore, to hear that "Long Bitcoin" is currently the most crowded trade, at least according to Bank of America's latest, just released monthly Fund Managers Survey. Any of those who recently jumped onboard this trade will now be feeling very sore following Tuesday's condemnation by Jamie Dimon of Bitcoin as a fraud. Dimon's comments caused the value of Bitcoin to plummet quickly, as many of those investors rushed for the exit door at the same time. But what are the other crowded trades currently? In this week's **Pic of the Week** we take a closer look.

Quoted...

"I like denying another man his happiness" – Eoin O'Donoghue (Mayo footballer)

The Inside Track

Ruffer is a London based fund manager that currently manages about €24 billion in assets. The following are some recent comments from the investment management team on the atypically animated late-Summer markets.

With politicians largely on holiday and parliaments the world over in recess, investors could have been excused from thinking that, in sharp contrast to the earlier part of 2017, political developments could be safely ignored during August. Unfortunately no-one passed that message to Kim Jong Un, the North Korean leader. Repeated testing of missiles by North Korea provoked combative statements from the Trump administration with the result that August witnessed a sharp rise in the price of safe havens.

UK government bond prices surged as nominal yields fell, and the gold price rose 4% in US dollar terms. Equities were benign rather than weak, seemingly encouraged by the feeling that such geopolitical events have pushed out the timing of further US interest rate rises. Also the much-awaited central bankers' gathering at Jackson Hole late in the month failed to bring into view any imminent tightening of monetary policy from the European Central Bank or the Federal Reserve.

We continue to believe that in terms of US Federal Reserve policy there is too much focus on the path of interest rates at the expense of the issue of shrinking the US central bank's balance sheet. The latter process, by virtue of its draining of liquidity, could threaten higher volatility in asset markets. To that extent we are increasingly concerned that today's market conditions resemble those of 2006- 2007: against an apparently serene and calm market backdrop, with asset prices generally grinding upwards, there is a bubbling up of risks and rising valuations which investors are presently finding easier to ignore.

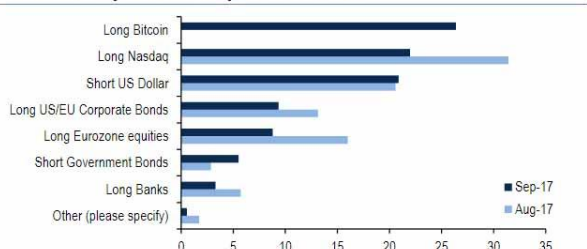
We, by contrast, seeing the mousetrap and not the cheese, prefer not to chase markets where low volatility will beget rising prices...until they don't. Natural disasters have also made their mark. Alongside the tragic human cost of Hurricane Harvey, comes the bill for clearing up. Discussions concerning the US debt ceiling, aimed at avoiding a government shutdown on 30 September, continue to crank up: while part of the administration is keen to link the release of flood relief funds with the debt ceiling decisions, it is also clear that more hawkish Republicans, while not wanting to be seen blocking rescue funds, have spotted the potential Trojan horse.

For all the sabre-rattling referenced above, the fact remains that the world's economies are presently growing at a decent clip, hence our equity selection remains tilted more towards cyclical stocks and financial names.

Pic of the Week

Each month Bank of America's fund manager survey identifies, amongst other things, what the most "crowded trades" are, and how they compare with the previous month. What a difference a month makes. As the chart shows, in the August survey "Long Bitcoin" did not even feature on the "most crowded" list. By September, it was the single most crowded trade. 2nd place went to "long Nasdaq" (up c. 20% YTD), while the "Short US Dollars" (-13% YTD) was third. As with any crowded trade, if there's a rush to the exit then investors get crushed, exactly what happened following Jamie Dimon's comments on Bitcoin this week.

Exhibit 14: What do you think is currently the most crowded trade?



Source: BofA Merrill Lynch Global Fund Manager Survey

Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	+1.4%	+17.1%	+11.0%	+9.3%
US equities	+1.3%	+17.4%	+11.5%	+11.2%
European equities	+1.7%	+12.8%	+5.1%	+6.2%
EM equities	+0.9%	+24.2%	+27.5%	+1.6%
Irish equities	+0.6%	+9.8%	+2.8%	+15.2%
Commodities	-0.5%	+0.1%	-2.6%	-10.9%
Hedge funds	+0.2%	+5.9%	+4.1%	+1.9%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+0.7%	+0.4%	+6.1%
Germany	+0.4%	+1.8%	+2.1%
USA	+2.2%	+1.9%	+2.2%
China	+3.6%	+1.8%	+6.9%

Currencies	Current	YTD Δ
EUR:USD	1.19	+12.9%
EUR:GBP	0.89	+3.9%
EUR:CNY	7.79	+6.1%
GBP:USD	1.34	+8.5%
Bitcoin	3,518.00	+269.5%

Week ahead: Key events

18/09 UK House Prices & Eurostat CPI
19/09 Eurostat Construction Output & ZEW Indicator of Economic Sentiment
19/09 US Retail Sales
20/09 Japan Trade Statistics & UK Retail Sales
20/09 US Mortgage Applications & Existing Home Sales
21/09 Bank of Japan Monetary Policy Meeting Decision
22/09 Eurozone & US PMI

Commodities	<i>Current</i>	<i>YTD Δ</i>
Gold	1,324.84	+15.0%
Copper	6,511.25	+17.9%
Oil	55.64	-5.3%
Wheat	446.75	-3.9%

Central Bank rates	<i>Current</i>
Eurozone	0.00%
USA	1.25%
UK	0.25%

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