Investment Insight

Friday, 29 September 2017

ARIA | CAPITAL

Fiscal responsibility: *As we approach Budget Day on Tuesday 10th October, doubtless political pragmatism will be an influencing factor in what is announced. But what fiscal measures should responsible politicians pursue? To some extent in an Irish context their options are limited by both our debt burden (and ongoing borrowing requirements) and parameters imposed by the EU. However, at an international level researchers and policy makers are realising that the fiscal tool kit is broader and the tools more powerful than they thought. In* ***The Inside Track*** *we look at what guidance the IMF offers on implementing responsible fiscal policy.*

The wisdom of Homer: *With the onset of darker mornings and falling leaves, there's no getting away from it, Summer's done. We could look to academia, to specialists in behavioural finance, to ascertain what impact, if any, the season should have on investor behaviour. However, maybe we can find even greater wisdom? Since antiquity Homer's writings on Western civilisation have inspired great works of literature, music, art and film. But who knew he had offered his wisdom on the seasons? In* ***Pic of the Week*** *we take a look.*

Quoted...

"There are two types of people, those that can't time the market, and those that don't yet know they can't time the market." – Anonymous

The Inside Track

How well will Ireland score when our forthcoming budget is evaluated for fiscal "smartness"? The IMF recently offered five guiding principles of smart fiscal policies, summarised as follows.

1. Fiscal policy should be counter-cyclical.
   Fiscal policy can be used to smooth the business cycle. That's known as countercyclical policy. In bad times, taxes are lowered and spending is increased to put more money in the pockets of companies and consumers; in good times, spending is reduced and taxes raised. Fiscal policy has a greater role to play in economic stabilization today than in the past, because central banks in many advanced countries have cut interest rates very close to zero and the limits of monetary policy are being tested.

2. Fiscal policy should be growth friendly
   Tax and spending measures can be used to support the three engines of long-term economic growth: capital (such as machines, roads and computers), labour and productivity. In many countries, there is a strong case for increasing public investment given low borrowing costs and substantial deficiencies in infrastructure. Advanced economies could reduce payroll taxation where it is high, make more intensive use of policies such as job-search assistance and training, and adopt targeted spending measures for vulnerable groups like low-skilled workers and the elderly. A range of policies can foster productivity, including improvements to the tax system.

3. Fiscal policy should promote inclusion
   Globalisation and technological change have been major drivers of growth and convergence between countries. At the same time, income inequality has increased within many countries. Taxes and public spending are powerful means to ensure that countries share the growth dividend among the population. Fiscal policy should also help people fully participate in and adapt to a changing economy. Better access to education, training, and health services, as well as social insurance, can make it easier for workers to bounce back from a job loss or illness.

4. Fiscal policy should be supported by a strong tax capacity
   Governments need a strong capacity to tax in order to carry out the policies that we have described. Taxation provides a stable and adjustable source of revenue that can be mobilised if needed. It is also a central element in determining the ability of a country to repay its debt.

5. Fiscal policy should be prudent
   The global financial crisis showed that public finances are exposed to large risks that are often underestimated. Bailouts of failing banks and a deep economic slump drove public debt in advanced economies to levels unprecedented in peacetime. Governments need to better understand the risks they are exposed to and adopt strategies to manage them.

Pic of the Week

Ah, yes, *that* Homer.

Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	-0.0%	+15.3%	+11.4%	+9.8%
US equities	+0.3%	+15.5%	+12.0%	+11.7%
European equities	+0.8%	+12.7%	+6.3%	+7.1%
EM equities	-2.7%	+18.2%	+25.1%	+1.5%
Irish equities	+1.5%	+12.9%	+4.7%	+15.8%
Commodities	+0.0%	-2.8%	-3.1%	-10.6%
Hedge funds	-0.1%	+5.7%	+4.2%	+2.0%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+0.7%	+0.4%	+5.8%
Germany	+0.5%	+1.8%	+2.1%
USA	+2.3%	+1.9%	+2.2%
China	+3.6%	+1.8%	+6.9%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.18	+12.1%
EUR:GBP	0.88	+2.7%
EUR:CNY	7.85	+7.0%
GBP:USD	1.34	+8.9%
Bitcoin	4,143.47	+335.2%

Week ahead: Key events

02/10 Eurozone Manufacturing PMI & Unemployment
02/10 US Manufacturing PMI & Construction Spending
03/10 Japan Consumer Confidence & US Retail Sales
04/10 Eurozone & US Services PMI
05/10 Eurozone Retail PMI
05/10 US Job Cuts & Initial Claims
05/10 US Consumer Comfort Index
06/10 Germany Manufacturing & UK House Price Index
06/10 US Employment

Commodities	*Current*	*YTD Δ*
Gold	1,284.21	+11.5%
Copper	6,390.00	+15.7%
Oil	58.35	-0.7%
Wheat	454.75	-2.2%

Central Bank rates	*Current*
Eurozone	0.00%
USA	1.25%
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

UNDIVIDED ATTENTION