Investment Insight

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ARIA | CAPITAL

A rare commodity: *Positive asset class returns have been a rare commodity so far this year…except for commodities. Most commodity markets started to stage a recovery in 2016 and enjoyed a reasonably good 2017. Agricultural commodities finally joined the party in the first quarter of 2018. Goldman Sachs' head commodity strategist said this week that "the strategic case for owning commodities has rarely been stronger". Cynics might point out that Goldman Sachs also predicted $200/barrel oil in 2008 and $20/barrel oil in 2015 and neither of those predictions quite worked out. Third time lucky perhaps. In this week's* ***Inside Track*** *we see what they have to say.*

Man versus machine: *"Robotics and automation" has been a very popular niche to invest in for the past few years. However, Professor Stephen Hawking feared that robots (or "Artificial Intelligence") may replace humans altogether as malign robots uncontrollably self-replicate. The stuff of sci-fi movies perhaps, or is it?*

The pace of industrial automation is accelerating across the developed world. Before AI threatens humanity, it may be a much greater threat to employment as more and more jobs, even those of investment managers, are tackled effectively by AI! In this week's ***Pic of the Week*** *we take a nervous look at the statistics.*

Quoted…

"Something we have to deliver today is not to be passed tomorrow. Late is too late." – *Emmanuel Macron*

The Inside Track

Jeff Currie, head commodity strategist at Goldman Sachs is currently bullish on the asset class. Here's how he sees it.

Robust late-cycle growth is depleting global supply chains, creating increasing positive carry. As inflationary concerns push interest rates higher, cross-asset correlations with commodities decline and the diversification benefits rise with higher rates. Rising geopolitical and trade policy risks only add to the inflationary mix in commodities.

The weak returns of the past decade are behind us. The global economy was operating below capacity in the 'recession/recovery' phase for over a decade and any early-cycle playbook warns of the poor returns in commodities when the global economy has slack in the system. Today it is operating near or above capacity.

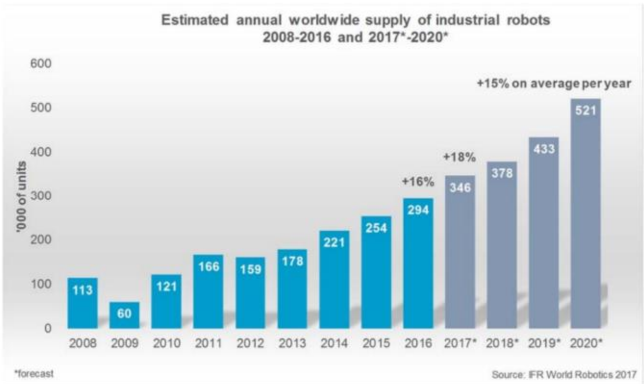
The structural story is a lack of long-cycle investment. Short-cycle investments in sectors such as technology and even shale oil and gas have attracted capital over the past decade at the expense of long-cycle investments in oil and commodities. Going forward, short-cycle projects are not sufficient to balance demand and commodity prices need to incent long-cycle investment.

Prices are high because inventories are depleted. While supply cuts pulled forward market tightness, inventories are now low and demand levels significantly exceed supply levels.

There is no precedent of supply from OPEC or any other producer overtaking demand this late in the business cycle, to replenish inventories before a recession occurs.

Pic of the Week

Data from the International Federation of Robotics reveals that the pace of industrial automation is accelerating across much of the developed world. Europe has a robot density of 99 units per 10,000 workers, with the Americas and Asia slightly behind at 84 and 63 respectively. In a league of its own is South Korea which in 2016 had 631 installed industrial robots per 10,000 employees, mainly due to the prevalence of high volume robots in the electronics and manufacturing sectors. What is particularly interesting is that the big uses of robots and AI to date have been the industrial and manufacturing sectors, the future is much more likely to feature the widespread use of AI in more "cerebral" sectors. Doctors, lawyers, accountants and investment managers beware!



Week ahead: Key events

07/05 Eurozone PMI
08/05 Japan Household Spending & US Retail Sales
09/05 UK Jobs Report & US Mortgage Applications
10/05 UK Residential House Prices & BOE Interest Rate Decision
10/05 US Initial Jobless Claims & Consumer Comfort Index
11/05 Germany Balance of Payments

Market View

	Last 7 days (€)	Last 12 mths (€)	YTD (€)	5Y Ann. (€)
Global equities	+1.5%	+2.6%	-1.3%	+10.5%
US equities	+1.3%	+2.1%	-2.0%	+13.5%
European equities	+1.9%	+2.1%	+0.3%	+7.9%
EM equities	+1.9%	+5.8%	-1.7%	+5.3%
Irish equities	+1.3%	-1.9%	-2.8%	+12.0%
Commodities	+1.8%	-5.0%	+2.5%	-6.2%
Hedge funds	-0.1%	-0.7%	-2.7%	-1.6%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.1969	-0.2%
EUR:GBP	0.8812	-0.9%
EUR:CNY	7.6001	-2.6%
GBP:USD	1.3585	+0.6%
Bitcoin	9,128	-37.0%

Commodities	*Current*	*YTD Δ*
Gold	1,313.95	+0.9%
Copper	6,785.00	-5.2%
Oil	73.05	+9.2%
Wheat	556.00	+30.3%

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

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+1.0%	+0.2%	+7.2%
Germany	+0.6%	+1.6%	+2.9%
USA	+2.9%	+2.4%	+2.2%
China	+2.2%	+2.1%	+6.8%

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