Weekly Digest
4 September 2017
The weekly insight into world stock markets

Investec
Wealth & Investment

Autumn Leaves

There's a real "Back to School" feeling in the air today. At school we got the timetable for the year on day one of the Winter term, hoping to avoid double Maths every Monday morning. Teenage brains required more time to get into gear. No such problems these days, as I bound out of the house every Monday eager to start tapping out this weekly missive. Some weeks the subject can be a bit elusive, but right now there are almost too many things going on. With that in mind, I am going to lay out the key events investors should have marked on their calendars between now and Christmas.

I will start with monetary policy. Both the US Federal Reserve and the European Central Bank (ECB) are considering a tightening of policy. At the former it is a tap on the brakes, at the latter a lighter foot on the accelerator, but the important point is the change in direction. The endless provision of liquidity in the form of Quantitative Easing since the financial crisis has been very supportive for financial assets. It is impossible to say exactly how much it has added to valuations, but the general assumption is that, all other things being equal, what was a strong tailwind is now abating and potentially turning into a small headwind. The first date on the calendar is this Thursday, 7th September, when the ECB meets. The council has already reduced its monthly asset purchases from €80bn to €60bn, and consensus views are that the next move will be another cut to €30bn, but there is no clarity on timing. The expectation is that the ECB might announce their plans this week, but not for immediate implementation. However, against the current background of geopolitical uncertainty, it's quite possible that the ECB will defer any decision until its next meeting on 26th October. Meanwhile, the Fed has already laid out plans for slowly reducing its balance sheet by no longer reinvesting a portion of its maturing bond holdings. However, we are talking about less than $200bn of shrinkage over the first twelve months against an existing balance sheet of around $4.5 trillion, so very small potatoes. As for interest rate rises, the market has already kicked the next one out into 2018, and we are already witnessing the slowest hiking cycle that I can identify going back to the 1950s. The Fed's next meetings are on the 20th September, 1st November and 13th December.

There is going to be a lot of speculation ahead of all of these meetings owing to this liquidity turning point. However, we remain of the opinion that central banks will continue to err on the side of caution in that they will opt for too much growth and inflation against the risk of premature tightening and deflation – even if that does store up more trouble in the future.

Another big headline-grabber will be the expiry of the US debt ceiling on 29th September. In the worst case scenario in which no new agreement is reached this could lead to a shutdown of the US government, debt rating downgrades, and even recession. In reality, pragmatism tends to prevail, although not always without some nervous moments. The hype might be all the greater this time given the ongoing White House pantomime. However, a silver lining has emerged from the destruction wrought by hurricane Harvey. If funds need to be made available for relief and reconstruction, then more money will have to be found and the only way to do this will be to reach agreement over the budget. Pity the heartless member of Congress who blocks aid in the name of partisan politics.

Back on home ground, the Tory Party conference starts on the 1st October, and the government is under increasing pressure to come up with a more coherent plan for Brexit, the subject that will dominate proceedings. In itself this is not a major obstacle, but there remains an outside risk that the conference descends into civil war. The worst case scenario, from a stability perspective, would be a situation that led to yet another general election with the potential to usher in Jeremy Corbyn as Prime Minister. However, it is likely that Mrs May will survive, if only (as picturesquely described by Janan Ganesh of the Financial Times) to act as a "human shield" against all the flak aimed at the party.

After that on the 18th October comes the 19th Communist Party Congress in China. This quinquennial event will cement the position of President Xi Jinping as supreme leader, and it's uncertain what will happen thereafter. Domestically, there will be less need to keep the economic plates spinning - the Party likes to project itself against a strong growth background - while internationally Mr Xi might feel more empowered to flex his muscles. This could either be in military terms, particularly in the South China Sea, or in matters of trade. I have a sneaking suspicion that, policy wise, China is about as friendly as it could be at the moment.

I should also mention the German election on 24th September. The bookies have Angela Merkel nailed on as the winner, and her main opponent, Martin Schulz, failed to make an impression in last night's debate, so we expect no regime change. However, Mrs Merkel might well be emboldened to pursue a more integrated Europe alongside France's Emmanuel Macron, depending on her coalition partner(s).

Last, but by no means least, there is an undated wildcard in the form of North Korea. Markets remain relatively relaxed, but escalation in this arena is the worst thing that could happen for riskier assets.

Finally, the novel by Mark Twain featuring a total solar eclipse is A Connecticut Yankee in King Arthur's Court. This week, who is the only serving UK Prime Minister to die at 10 Downing Street?

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Head of Investment Strategy

FTSE 100 Weekly Winners

Ashtead Group	7.5%
Anglo American	6.0%
Micro Focus International	5.6%
Shire	4.7%
Randgold Resources Limited	4.5%
Associated British Foods	4.2%
Glencore	4.0%

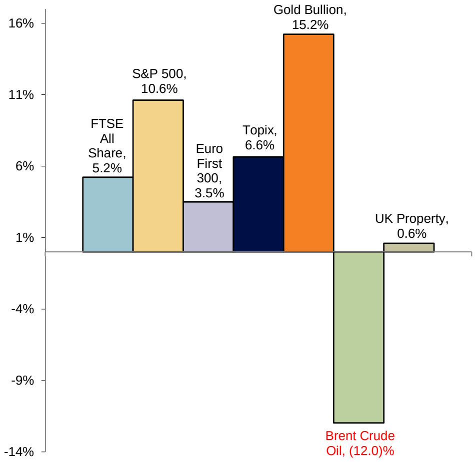
Source: FactSet

FTSE 100 Weekly Losers

Provident Financial	-4.8%
Pearson	-3.0%
ITV	-2.6%
St. James's Place	-2.6%
ConvaTec Group	-2.5%
Wm Morrison Supermarkets	-2.4%
EasyJet	-2.1%

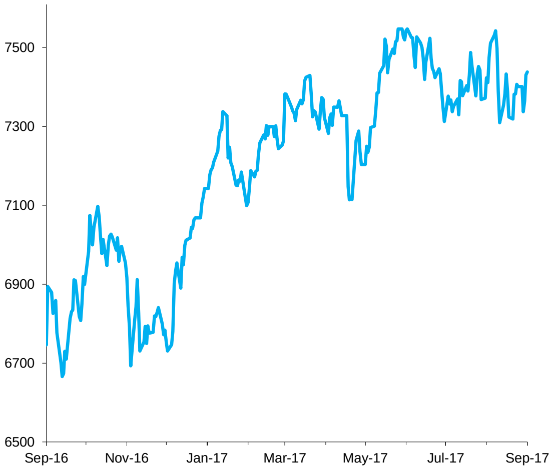
Source: FactSet

Year to Date Market Performance



Source: FactSet

FTSE 100 Index, Past 12 Months



Source: FactSet

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