Weekly Digest
27 November 2017
The weekly insight into world stock markets

Investec
Wealth & Investment

Old Misery Guts

A colleague who returned today from a week in Tenerife (average daytime temperature in the mid-to-high twenties) declared this to be the "most miserable time of the year". He should try being a Welsh Evertonian who is also an England cricket supporter. No doubt the days are short and the north wind brings a chill, but, as an equity investor, one generally does quite well during the winter months. I have previously written about this phenomenon in the spring under the "Sell in May…?" title. I find it interesting how much coverage there is of this well documented seasonal tendency for equity market performance at the beginning of the underperforming period, but so little on the positive side of the trade. One is always led to believe that equity investors are inherently optimistic by nature, after all.

As a reminder, according to the Stock Market Almanac website, investors in the Dow Jones Industrial Average over the period from 1946 to 2016 would have accrued more than 100% of their gains in the November to April period, with net losses over the summer. Reasons for this range include the rolling forward of index and stock price targets into the new year, seasonal fund flows and allocations into investment funds, and the declaration of dividends during the annual results season, for example.

While paying attention to such influences, we do not run portfolios on the basis of stock market aphorisms. For one thing it's impractical and expensive to churn in and out of markets twice a year. More importantly, averages are just that, and skewed by certain events that have had a disproportionately large effect. Last May I did highlight reasons why the market might struggle, and some of those are still valid, yet equities have continued to grind higher with only one little wobble during August when Kim Jong-un was launching missiles over Japan.

The relentless rise of the indices with limited volatility is one factor that makes a lot of people very nervous, and we are certainly venturing onto untrodden ground. Deutsche Bank observes today that in the ninety years of historical market data it holds, the S&P 500 Index has never put together a run of thirteen months of consecutive gains, something it will manage if it doesn't fall more than 1% between now and Thursday's close. If it achieves that record, then next up is the first ever full set of monthly rises in a calendar year. Unsurprisingly there is a feeling that markets are overdue a correction. Indeed we have been waiting for one all year, mainly with a view to being able to take advantage of a setback to increase our risk appetite from its current neutral level. That opportunity has not materialised, but at least we have been fully invested in equities relative to benchmarks all the way up.

There are no laws that decree how long any market cycle can last, and the current period is made more difficult to assess by the enduring influence of Quantitative Easing. The aggregate size of the big three central banks' balance sheets (US, Europe and Japan – sorry, Mr Carney) is expected to continue to rise throughout 2018, with Europe and Japan still growing while the US starts to shrink. If this liquidity is not all required to be invested in real economic assets – which has been the case so far – the balance will continue to be diverted into financial assets such as bonds, shares and property. However, under most current projections, this balance sheet expansion is forecast to stall and then reverse around the turn of 2019, which could finally create a headwind. Of course, this is just one variable, and a lot will also depend on how well the global economy is faring and how successfully companies are able to generate higher earnings and dividends. Currently the outlook is good, with little threat of a recession on the horizon in the important economies.

Unfortunately, the UK economy is bringing up the rear in terms of current performance, (although what happens in the UK these days has very little impact on the rest of the world). This was brought sharply into focus during last week's budget, when the Chancellor delivered the Office of Budget Responsibility's downgraded growth forecasts. The OBR now sees 1.5% growth this year, falling to just 1.3% next year and also in 2020. At least he cast off the "Eeyore" mantle and delivered possibly the most fiscally stimulative budget in a decade, which might have been as much a political initiative as an economic one. We continue to broaden our horizons in terms of investment opportunities, increasing our exposure to non-UK markets. One telling statistic is that just 1% of the FTSE 100's weighting is defined as Technology, compared to 23% for the US, 12% for Japan and 8% for Europe. This is a sector that investors cannot afford to ignore.

Finally, it is interesting to note that food delivery firm Just Eat is poised to enter the FTSE 100 Index after this week's reshuffle. Just Eat is officially listed as a retail company, although it is mobile and internet technology that has enabled its rise. Like last week's Black Friday event, this is another example of the changing nature of the retail landscape. One often debunked, but not implausible, theory for the name Black Friday is that it is the day of the year when the retail industry moves into profit - somewhat ironic given that the biggest generator of sales is Amazon, which is not currently much interested in generating profits from its retail activities. Finally, the date of the US Thanksgiving Day holiday was set as the fourth Thursday in November under President Franklin D. Roosevelt. This week, today is Lancashire Day, which commemorates the day in which year that the county first sent representatives to Parliament?

John Wyn-Evans
Head of Investment Strategy

FTSE 100 Weekly Winners

EasyJet	6.6%
Sage Group	6.0%
NMC Health	5.9%
Fresnillo	5.3%
Tesco	4.3%
Informa	3.7%
BHP Billiton	3.4%

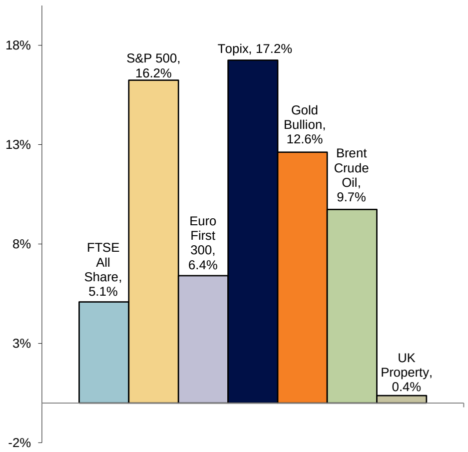
Source: FactSet

FTSE 100 Weekly Losers

Centrica	-14.8%
Babcock International Group	-12.3%
Mediclinic International	-6.3%
Compass Group	-5.5%
Johnson Matthey	-5.5%
ConvaTec Group	-4.8%
Persimmon	-4.5%

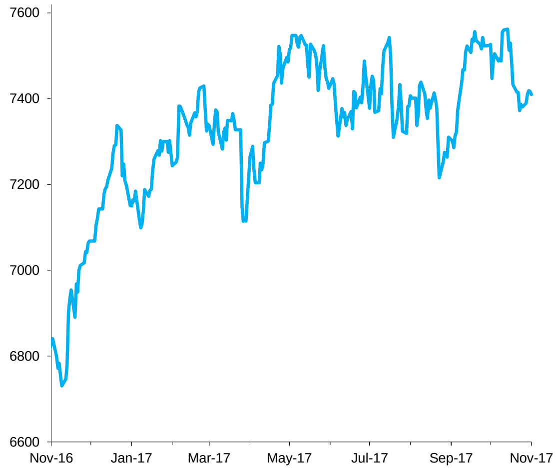
Source: FactSet

Year to Date Market Performance



Source: FactSet

FTSE 100 Index, Past 12 Months



Source: FactSet

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