Ten Years On; One Year On

Last Friday, an investment club in Sheffield was treated to something not witnessed in the last four years – a fully caffeinated Head of Investment Strategy. I am not usually short of a word or two, but I think I might have been more animated than usual. Regular readers might recall that several years ago I suggested that the UK economy's reliance on credit and low interest rates was similar to caffeine dependency. As I had then recently decided to stop drinking tea and coffee, I pledged not to indulge again until the Bank of England raised the base rate, an event that duly unfolded last Thursday, with a 0.25% rise to 0.5%. Thus on Friday morning I ordered a medium sized cappuccino at King's Cross. And very nice it was.

Now, I am not planning to become a caffeine junky, but the British consumer is going to have to get used to the fact that money has become more expensive. Indeed, if the Bank of England follows through on its latest guidance, interest rates are set to rise further next year. Initially, though, as I wrote recently, we see a limited impact on the UK economy. Last week's move takes us back to where we were in the summer of 2016; some 60% of mortgages are fixed-rate, so the increase will be delayed for most; many of those fixed-rate mortgages were taken out at rates higher than currently prevail, so can be refinanced at a lower rate.

Interestingly, the percentage of households in the UK with a mortgage currently stands at 24%, down from 35% at the turn of the millennium. Superficially that might seem to be good news, suggesting more equity and less liability in the hands of homeowners. However, it also seems to reflect the growth in the rental sector, which itself has, to some degree at least, been driven by house price inflation and the inability to "get on the housing ladder". It is not clear to me that anyone really knows exactly how changes in interest rate policy will be transmitted to the real economy. The experiment continues.

The Bank of England has, at least, got a big monkey off its back by delivering a rate rise. It was clear from the coverage of last week's move that the passage of time since the last rise – more than ten years – made this one such a big deal. Apparently, some of Arsenal Football Club's "Invincibles", who went on a forty-nine match unbeaten run in 2003-04, became more worried about not losing than winning. Sometimes in recent years it has almost felt as if the standing Monetary Policy Committee didn't want to be the one to raise rates after so long. Arsenal's run ended at Manchester United in the infamous "Pizzagate" match. I am not aware of any savoury snacks having been lobbed around the hallowed halls of Threadneedle Street last week.

This week takes us through the one-year anniversary of Donald Trump's election victory, so that offers an opportunity to reflect on the period. I certainly expect the day itself to be marked by a stream of tweets from Mr Trump highlighting all the great things that have happened during this time, and foremost amongst them is likely to be the performance of the stock market. The S&P 500 Index is up 21% since the close on election day last year, and the tech-heavy NASDAQ 100 an even more punchy 31%. But can The Donald really claim any credit?

In the immediate aftermath of his win, the dollar soared on expectations of more domestic-friendly policies and the potential for, for example, heavy infrastructure spending; banks and construction companies outperformed; growth stocks lagged. But following the inauguration, that trade went into reverse. Precious little in the way of new policy was forthcoming. Indeed, Trump appeared more obsessed with undoing the legacy of Barack Obama than implementing any of his own strategies. If anything, the President's interventions into the world of business were negative, as he complained about the profits being made in various industries. He has taken an unconstructive view of existing and proposed trade agreements. During the summer, his sabre-rattling against North Korea created a degree of uncertainty. And his responses to major domestic incidents have generally been deemed to be unsympathetic, to say the least.

All this would seem to suggest that equities have rallied despite him. It is really only in the last couple of weeks that we have seen some progress on tax reform being priced into the market. The truth is that he inherited an economy that was on the mend, not least owing to the fact that we were coming off a huge contraction in capital expenditure in the Energy sector following the collapse in the oil price. It really couldn't have got any worse on a sequential basis. Meanwhile, the global economy continued to recover, Europe was finding its feet again, China was supporting its economy ahead of the big Party Congress, and global trade was bouncing. It was all a gift to the winner. So take those tweets with a pinch of salt.

Most recently Trump has decided to put his stamp on the Federal Reserve, by pensioning off Janet Yellen and promoting Jay Powell to the chair. Nothing too controversial here, as Powell is seen as the "continuity choice". He voted with Ms Yellen on every occasion in the last five years. We would expect to see gradual policy tightening continuing as long as the economic background justifies it. Finally, the poem Halloween was written by Robert Burns. This week, what was the last imperial dynasty of China?

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FTSE 100 Weekly Winners

Paddy Power Betfair	9.5%
NMC Health	7.0%
Smurfit Kappa Group	6.4%
Croda International	5.5%
BHP Billiton	4.8%
Rio Tinto	4.8%
Anglo American	4.7%

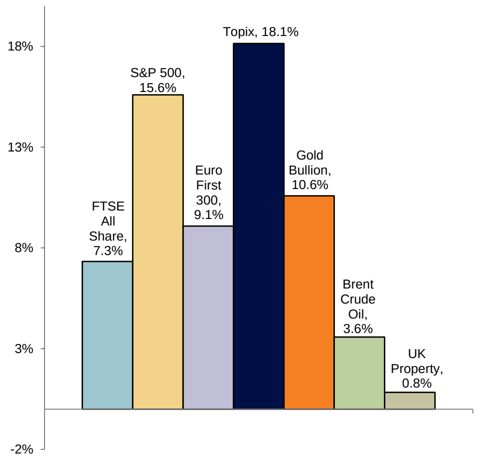
Source: FactSet

FTSE 100 Weekly Losers

ConvaTec Group	-8.8%
Next	-8.4%
Randgold Resources Limited	-6.3%
Marks and Spencer Group	-5.2%
BT Group	-5.0%
Imperial Brands	-4.3%
Wm Morrison Supermarkets	-4.2%

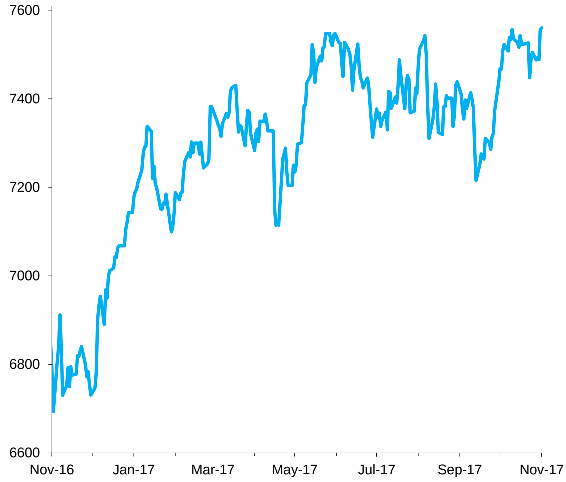
Source: FactSet

Year to Date Market Performance



Source: FactSet

FTSE 100 Index, Past 12 Months



Source: FactSet

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