momentum

Viewpoint

Monthly market update

November 2016

global investment management

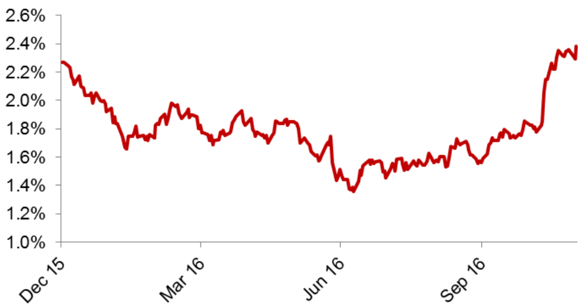
Contents

1. Market commentary

A year that witnessed political power ebb away from centrist politics and towards fringe populism and nationalistic ideologies culminated in the election of Donald Trump - the Republican Party's far-right, nationalistic, anti-trade and immigration, property mogul nominee. His triumph over Democrat Hilary Clinton, who many saw as the encapsulation of the political establishment, reflected the electorate's disenchantment with such politicians and the inequality that has resulted from their pro-trade and immigration policies of the past decade

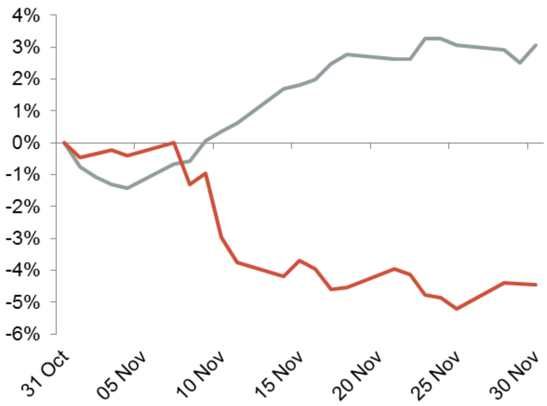
Financial market reactions to the result went largely against consensus predictions of what a Trump win might mean. Instead of a risk-off reaction and rush to safe-haven assets, quite the opposite materialised as investors focused on the potentially positive implications of the result. The strength of Trump's mandate, and his campaign rhetoric that referenced increased infrastructure and defense spending, significant income and corporate tax cuts, and deregulation across the finance and healthcare industries suggests that fiscal spending will be materially higher and policy more expansionary. This should in turn underpin growth in the US. On the back of such hopes, US equity markets climbed up 1.6% in the week following his victory, and the momentum continued over the month as markets shrugged off anti-trade rhetoric and a continuing commitment to build a wall on the border with Mexico. Indeed over November, the S&P index gained 3.6%, and the week commencing the 21st November saw the four major US equity indices (the S&P, Dow Jones, Nasdaq Composite and Russell 2000) all hit record highs. The story was similar globally, as developed market equities gained 1.4% over the month.

Figure 1: US 10Y Treasury Yields have now risen year-to-date



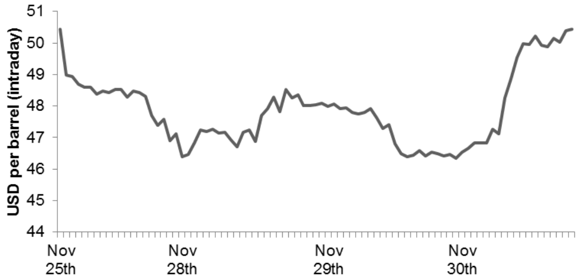
If developed market equity markets were major winners post the election, then the losers were emerging markets and fixed income. Fears over the impact of Trump's nationalist stance on trade between emerging economies and the US resulted in emerging market equities losing 4.6% over the month. Their currencies fared a little better, as the JPM Emerging Market currencies index, a barometer of the value of all emerging market currencies' against the US dollar, fell 4.4% over the same period. None fared worse than the Mexican Peso, however, which saw its value, which had become a somewhat perverse proxy for Trump's chances of victory, fall by up to 14.3% immediately following the result. Meanwhile, bonds sold off due to medium term predictions that Trump's aggressive policies would spark higher inflation and increase the US budget deficit – resulting in a US base interest rate rise becoming a near certainty. From the election to the end of the month, yields on US 10-year Treasury Bonds remarkably rose 53 basis points to 2.38%, their highest level since July 2015, while global government and corporate bond prices fell 1.7% and 3.0% respectively. Commodities were also impacted, most notably gold, the value of which is inversely related to that of the US dollar (which gained 3.1% over the month). As such the metal, which many had thought would provide an effective hedge in the case of a Trump victory, suffered, falling 8.1% to USD 1173.20 per ounce.

Figure 2: Dollar value rises, leaving EM currencies in the dust



Away from Trump but staying with commodities: oil prices, which had taken a backseat for most of the month, rocketed by 8.8% to USD 50.47 per barrel on the last day of November as OPEC (the Organization of Petroleum Exporting Countries, who collectively account for a third of the world's oil supply), announced that they had reached an agreement to cut oil production by 1.2 million barrels a day as of January 2017. It was the first agreement of its kind since 2008, reflecting the desire of many oil producing countries to raise the price of oil and halter the erosive impact that low prices have on their budgets.

Figure 3: Brent crude oil prices jump following OPEC agreement



Moving into December and setting our sights on next year, it seems likely that uncertainty surrounding the future direction of US policy is likely to result in heightened market volatility for some time to come. We would not recommend selling into this volatility. We are outcome based investment managers, constructing well diversified portfolios in order to minimise the potential detrimental impact that specific global events could have on returns, in order to help clients stay invested. While some asset classes will no doubt be adversely impacted by the global trend of political disaffection and anti-globalisation, other asset classes, as we have seen, are likely to offer offsetting benefits. As always, we continuously aim to utilise opportunities to increase exposure to asset classes that are unfairly punished by risk events in striving to increase the long-term financial wellness of our clients, whilst making their journey to that outcome as palatable as possible.

Source: Bloomberg. Returns in US dollars unless otherwise stated. November 2016.

2. Market performance – Global (local returns)

Asset class/region	Index	Currency	1 month	Year-to-date
		To 30 November 2016		
Developed markets equities				
United States	S&P 500 NR	USD	3.6%	9.1%
United Kingdom	MSCI UK NR	GBP	-2.0%	13.2%
Continental Europe	MSCI Europe ex UK NR	EUR	0.0%	-3.7%
Japan	Topix TR	JPY	5.5%	-3.1% e
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-2.2%	8.0%
Global	MSCI World NR	USD	1.4%	5.0%
Emerging markets equities				
Emerging Europe	MSCI EM Europe NR	USD	-1.2%	14.8%
Emerging Asia	MSCI EM Asia NR	USD	-3.3%	7.7%
Emerging Latin America	MSCI EM Latin America NR	USD	-10.6%	29.9%
BRICs	MSCI BRIC NR	USD	-3.6%	13.5%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-4.6%	10.9%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-2.8%	1.2%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-2.0%	5.0%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-2.7%	5.4%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.5%	15.0%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-1.4%	8.6%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-1.2%	8.5%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-1.5%	2.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-1.1%	4.1%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-1.0%	7.1%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.7%	4.3%
Australian Government	JP Morgan Australia GBI TR	AUD	-2.0%	2.8%
Global Government Bonds	JP Morgan Global GBI	USD	-4.4%	2.2%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-3.8%	2.3%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-2.0%	-0.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-4.6%	8.2%

Source: Bloomberg. e denotes estimate

		To 30 November 2016		
Asset class/region	Index	Currency	1 month	Year-to-date
Property				
US Property Securities	MSCI US REIT NR	USD	-1.8%	2.5%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	0.8%	2.7%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-2.1%	6.1%
Global Property Securities	S&P Global Property USD TR	USD	-2.8%	2.5%
Currencies				
Euro		USD	-3.6%	-2.5%
UK Pound Sterling		USD	2.1%	-15.1%
Japanese Yen		USD	-8.4%	5.1%
Australian Dollar		USD	-3.0%	1.3%
South African Rand		USD	-4.3%	9.9%
Commodities & Alternatives				
Commodities	RICI TR	USD	2.0%	10.6%
Agricultural Commodities	RICI Agriculture TR	USD	-1.2%	1.8%
Oil	Brent Crude Oil	USD	4.5%	35.4%
Gold	Gold Spot	USD	-8.1%	10.5%
Hedge funds	HFRX Global Hedge Fund	USD	0.7% e	1.4% e
Interest rates				
United States		0.50%		
United Kingdom		0.25%		
Eurozone		0.00%		
Japan		-0.10%		
Australia		1.50%		
South Africa		7.00%		

Source: Bloomberg. e denotes estimate

3. Market performance – UK (all returns in GBP)

Asset class/region	Index	Currency	1 month	Year-to-date
		To 30 November 2016		
Equities				
UK - All Cap	MSCI UK NR	GBP	-2.0%	13.2%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-2.1%	16.3%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-1.4%	-0.9%
UK - Small Cap	MSCI Small Cap NR	GBP	-0.1%	3.4%
United States	S&P 500 NR	USD	1.4%	28.6%
Continental Europe	MSCI Europe ex UK NR	EUR	-5.4%	10.8%
Japan	Topix TR	JPY	-5.1%	21.5% e
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-4.3%	27.3%
Global developed markets	MSCI World NR	GBP	-0.8%	23.8%
Global emerging markets	MSCI EM (Emerging Markets) NR	GBP	-6.7%	30.8%
Bonds				
Gilts - All	BofA Merrill Lynch Gilts TR	GBP	-1.4%	8.6%
Gilts - Under 5 years	BofA Merrill Lynch Gilts TR under 5 years	GBP	0.2%	2.3%
Gilts - 5 to 15 years	BofA Merrill Lynch Gilts TR 5 to 15 years	GBP	-1.0%	6.0%
Gilts - Over 15 years	BofA Merrill Lynch Gilts TR over 15 years	GBP	-2.6%	14.9%
Index Linked Gilts - All	BofA Merrill Lynch Inflation-Linked Gilts TR	GBP	-5.4%	21.0%
Index Linked Gilts - 5 to 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR 5 to 15 years	GBP	-2.1%	12.3%
Index Linked Gilts - Over 15 years	BofA Merrill Lynch Inflation-Linked Gilts TR over 15 years	GBP	-7.0%	27.0%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-1.2%	8.5%
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-4.9%	19.3%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-4.8%	24.3%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-2.6%	35.6%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-6.9%	17.9%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-6.4%	19.7%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-6.3%	23.1%
Global Government Bonds	JP Morgan Global GBI	GBP	-6.5%	20.5%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	GBP	-5.9%	20.6%
Global Convertible Bonds	UBS Global Focus Convertible Bond	GBP	-4.1%	17.3%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-6.7%	27.5%

Source: Bloomberg. e denotes estimate

		To 30 November 2016		
Asset class/region	Index	Currency	1 month	Year-to-date
Property				
UK Direct Property	UK IPD All Property TR	GBP	0.0% [e]	0.6% [e]
Global Property Securities	S&P Global Property USD TR	GBP	-4.9%	20.8%
Currencies				
Euro		GBP	-5.6%	14.8%
US Dollar		GBP	-2.1%	17.8%
Japanese Yen		GBP	-10.3%	23.8%
Commodities & Alternatives				
Commodities	RICI TR	GBP	-0.2%	30.3%
Agricultural Commodities	RICI Agriculture TR	GBP	-3.3%	20.0%
Oil	Brent Crude Oil	GBP	2.2%	59.6%
Gold	Gold Spot	GBP	-10.1%	30.3%
Interest rates				
United Kingdom		0.25%		
United States		0.50%		
Eurozone		0.00%		
Japan		-0.10%		

Source: Bloomberg. e denotes estimate

4. Asset allocation dashboard

🟢 Positive	🟡 Neutral	🔴 Negative

Asset class	View
Equities	
Developed equities	🟡
UK equities (relative to developed)	🟡
European equities (relative to developed)	🟢
US equities (relative to developed)	🔴
Japan equities (relative to developed)	🟢
Emerging market equities	🟢
Fixed Income	
Government	🟡
Index-linked (relative to government)	🟡
Investment grade (relative to government)	🟡
High yield	🟡
Loans	🟡
Emerging market debt	🟢
Convertible bonds	🟡
Alternatives	
Commodities	🟡
Property (UK)	🟡
Currencies	
GBP	🟡
Euro	🟡
Yen	🟡

For more information, please contact:

David Hansen
Distribution Services
E: david.hansen@momentum.co.uk
T: +44 (0)207 618 1806

Important notes

This document is only intended for use by the original recipient, either a Momentum GIM client or prospective client, and does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London EC4R 1EB.

Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.