

## *March 2017 Portfolio Review*

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Considering the political events of March, markets ended the first quarter of 2017 on a remarkably strong note with both stocks and share markets posting modest positive returns, with the stock markets of the Eurozone and Emerging markets clearly outpacing the rest.

Considering that equity markets are trading at potentially elevated valuation levels that already anticipate a significant amount of positive economic news in the near future, this may be seen as somewhat surprising. Market commentators' mainstream explanation was the 'Trump' and the 'reflation trade' inspiring investor sentiment. If that was really the case then there was every reason for markets to suffer a correction during March, because president Trump's change agenda was served a blow by his own party in the US Congress and the decline in oil and commodity prices made return of inflation expectations at least somewhat doubtful. On top of this the US central bank raised rates for the second time in 3 months which should have hurt bond valuations and finally the UK's government made the Brexit process fairly irrevocable by serving Article 50 notice to the EU.

Capital markets closing in the positive for the month informs us that compared to recent years investors have seemingly become a lot less easily scared. Or rather they may have come to conclude that what really matters is economic momentum and not political posturing. But whilst markets remain positive, there are still signs of stormy waters ahead.

For the near term, the US economy is expanding at fast enough a pace to not depend on additional deregulation and fiscal stimulus from the Trump administration. However, whilst fear of policy errors by Trump may be reducing on the back of his failure to get his repeal of Obamacare past the checks and balances the US founding fathers put in place, any fall in his approval ratings may also rob him of further momentum to push through other similarly contentious initiatives. It was also confirmed this week that President of China Xi Jinping will travel to the US next week to meet with President Donald Trump. Relations between the nations have been somewhat tense since the election, with US trade policy in the spotlight. Having advocated labelling China a currency manipulator, the Trump administration's attitude to trade negotiations appears to have softened but are still making protectionist noises ahead of the meeting.

Over on this side of the Atlantic, economic growth has reappeared across the Eurozone economies to the extent that even increased investment uncertainty across the UK cannot seriously change the current direction of travel of the economy on either side of the Channel.

As far as the medium to longer term perspective is concerned, the UK's exit from the EU remains another considerable market concern. It is all very well that both sides used reassuring language around the formal serving of the Article 50 Brexit notice. However, little progress can realistically be expected during 2017, at least until the general elections in Germany have taken place in the autumn. As we stand, rational scenario assessment currently leads to a higher probability of a 'crash-Brexit' than a mutually beneficial free trade deal.

For the time being, however, economic and market momentum appears strong enough, not to be derailed easily. Instead of a constant 'Armageddon Paranoia' the new market paradigm seems to be that real events turn out to be far less radical than they are initially portrayed. This is very encouraging, given one of the biggest deficiencies of the post Financial Crisis recovery has been the general lack of confidence amongst businesses.

However we need to be aware that the apparent willingness of Trump, China and the UK/EU to fundamentally change the terms of Global trade, and with it the framework that has brought growth and prosperity, is somewhat concerning. Bouts of volatility and market shocks are likely to occur during the year as a direct result of political risk, not only in the US, but also in Continental Europe, with its string of leadership elections, and in the UK, where Brexit negotiations wait in the wings.