S4W – 01/02/2018

Trump – one year on.

Saturday 20th January marked a year to the day since Donald Trump was inaugurated as the 45th President of the United States. On that day "fake news" sprang into our consciousness and we were given a taste of the year to come with a public spat with the media over the size of crowds at the event. This note cannot begin to scratch the surface of analysis of the Trump Administration but for a quick snapshot of current thinking we would like to refer you to the picture on the cover of the Economist dated January 13th. It shows Trump throwing his toys out of the pram.

With US tax reform on the statute books many companies are choosing to reward their workers and customers. Announcements so far include Apple giving a $2500 stock bonus to all employees and Fiat Chrysler giving a cash bonus worth £2000 per employee. The latest Walmart announcement is perhaps of more significance as starting wages will be increased by just over 20% to $11.00 per hour. The multiplier effect of this largesse will be being watched closely by the FED for signs of a wider inflationary effect.

Europe and the Day of the MiFID

Some 400,000 members of the centre-left Social Democratic Party in Germany were handed considerable power this month. In a few weeks' time they will be asked to vote on January's agreement to conduct formal coalition negotiations in Germany. March sees the Italian general election so the European political landscape will continue to dominate headlines in 2018. In the meantime, the economic news in Europe continues to illustrate the strength of the recovery - to the extent that the language around it is changing from recovery to expansion.

Europe now has a new system of financial regulation. MiFID means "Markets in financial instruments Directive" and affects everything that is traded on a financial market. The laudable aim of this European directive is to avoid market abuse but its 7-year gestation illustrates the level of complexity of the legislation. Whilst the transition has gone smoothly it is in part because of regulatory reprieve in some areas. This has been a masterclass in EU watching. 17 of its members had not fully transposed the rules into National law as of the January 3rd deadline!

Domestic news

The cabinet reshuffle non-event created a brief flurry of (mostly negative) headlines but resulted in little real change. This opportunity to illustrate the Prime Minister's strength only served to highlight her weakness. French President Macron's visit to Britain allowed the headline writers to talk about something non-Brexit for a change: the potential loan of the Bayeux Tapestry but the respite didn't last long. The EU has now issued its demands for the temporary transition period post March 2019 amongst which is the expectation that the UK continues to follow its rules but not be involved in the decision making. Howls of protest will continue to reverberate.

The collapse of Britain's second largest construction firm, Carillion, leaves an unknown impact on the subcontractors that supplied the company. Some estimates put the size of the amount owed at about £1bn. It has also brought PFI contracts back into the political limelight emboldening Corbyn to go even further with his pledge to rework the public/private finance balance when funding long term infrastructure projects.

Markets:

The bull market has continued into 2018 with many markets hitting new highs but volatility has been creeping up. This month the S&P 500 index posted the longest period of expansion without a 5% pullback since records began in 1928, setting a new record into the bargain. Economic growth last

year has supported corporate earnings to the extent that many global equity valuations are roughly unchanged from 2017 (the US being the main exception). However, this very growth raises the spectre of higher inflation and a sharper Central Bank response than is currently in consensus expectations. The ageing bull market and historically high valuations mean that we have been de-risking portfolios in the second half of 2017 and we see no reason to change that stance as we enter 2018. Nevertheless, for those with a long-term investment time horizon, we still believe that equities, with their potential for pricing power and their ability to deliver both capital gains and income, are best placed to deliver long term returns, even allowing for inevitable market setbacks.

And finally…

HMRC has released a list of the weird and wonderful excuses used by tax payers who have missed the dreaded January 31st deadline. "I spilled coffee on it" seems fairly unremarkable, but "My business doesn't really do anything" begs an obvious question. Our favourite is "My wife has been seeing aliens and won't let me enter the house".

FTSE 100 >7,541.91 | DOW >26,149.39 | HANG SENG >32,642.02 | GOLD > $1,340 | £1= $1.43 | £1 = €1.15

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