



Market Commentary - February 2017

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Improving global growth momentum helped drive global equities higher over the month.

The Bank of England raised their forecast for 2017 GDP growth to 2% from their November estimate of 1.4%, although the forecast was based largely on a declining household savings rate as opposed to any expected strengthening of wage growth. Counter to this more optimistic outlook, retail sales fell for the second consecutive month in January, as higher retail and fuel prices started to impinge on household demand. Consumer prices are set to rise further through the remainder of the year driven by the pass through effect of weaker sterling and oil prices which have rebounded strongly from their lows of last January, the Consumer Price Index (CPI) rose to 1.8% in January. Perhaps of more concern was the sharp rise in the Producer Price Index (PPI) with input prices growing by 20.5% year-on-year in January, indicative of the fact that producers will have to increasingly pass these cost pressures onto customers through higher prices over coming months. Gilts performed strongly over the month, as the Bank of England indicated no rush to raise interest rates in their quarterly inflation report. MSCI UK All-Cap gained 2.5% over the month.

Revisions to the fourth quarter US GDP figures showed private domestic demand grew at a brisk 3% over 2016 although business investment was weaker than previously forecast. The manufacturing sector has rebounded strongly over recent months, aided by the rebound in commodity prices which has bolstered demand for new mining and oil exploration equipment. Although light on detail, the new President's plans to lower corporate tax rates and cut regulation has already shown signs of boosting business confidence with job layoffs falling close to record lows. Whilst we do anticipate cuts to corporate tax rates, there remains a tension between Republicans within the House of Representatives and Congress, many of whom are fiscally conservative, and Trump, whose spending plans are set to raise the level of government debt significantly over coming years. The CPI rose to 2.5% year-on-year in January, with the aforementioned base effects from higher oil prices helping to push inflation higher. Given the strength in the labour market and these inflationary pressures, the market is pricing in an even chance of the Federal Reserve raising interest rates in their March meeting. S&P 500 gained 3.7% over the month in Dollar terms.

continued

Despite the looming prospect of French and German elections, the Eurozone economy has entered 2017 in good shape. Most notably, German industrial orders grew at their strongest rate for 2 and a half years, whilst Purchasing Managers Indices (PMI) figures for January broadly exceeded economist expectations. Having been concerned with deflationary forces over recent years, the CPI for the currency bloc rose to 1.8% year-on-year in January, its highest rate for four years. The kickback in inflation has caused many to speculate that the European Central Bank (ECB) will curtail their asset purchase (QE) programme over coming months. MSCI Europe ex-UK gained 2.6% in local currency terms.

The Chinese Central Bank raised short-term interest rates early in the month in a move aimed at curbing capital outflows and speculation in the property market which has seen rampant price gains across several major cities over recent months. Survey data indicated that the manufacturing sector grew for the 7th consecutive month in January, boosted by government spending which remains firmly in expansionary mode. Growth in the Brazilian economy has been much in favour with global investors over the last year. The rebound in commodity prices, business friendly reforms and falling inflation have helped boost sentiment, with the MSCI Brazil index continuing its strong run gaining 4% in US Dollar terms over the month.

The Japanese economy grew at an annualised pace of 1% over the fourth quarter of last year, aided by strong growth in exports as the weakening of the Yen bolstered external demand. Strong business investment was a bright point for the domestic economy over 2016 whereas household consumption has remained weak and made no contribution to economic growth over the year. MSCI Japan gained 0.5% in Yen terms over the month.

Asset Class Performance – End February 2017 (in Sterling terms)

Asset Class	Dart Position	1 Month	3 Months	12 Months	Index
Cash		+0.02%	+0.06%	+0.36%	Bank of England Base Rate
Fixed Interest		+3.17%	+2.40%	+3.31%	iBoxx Sterling Gilts All Maturities in GBP
Equities - UK		+2.49%	+7.12%	+18.32%	MSCI UK All Cap in GBP
Equities - International		+3.84%	+8.00%	+35.00%	MSCI All Country World Index ex UK in GBP
Property		+0.68%	+1.94%	+0.82%	Financial Express UK Property Proxy in GBP
Alternatives		+0.02%	+0.06%	+0.36%	Bank of England Base Rate

Benchmarks are capital return which excludes income

Month to 28 February 2017

Treasury yields data supplied by Thomson Reuters

All other performance data supplied by Financial Express Analytics

Dart positions based on Dart mid risk strategy

 Overweight

 Neutral

 Underweight

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