Global Market Strategy – April 2016

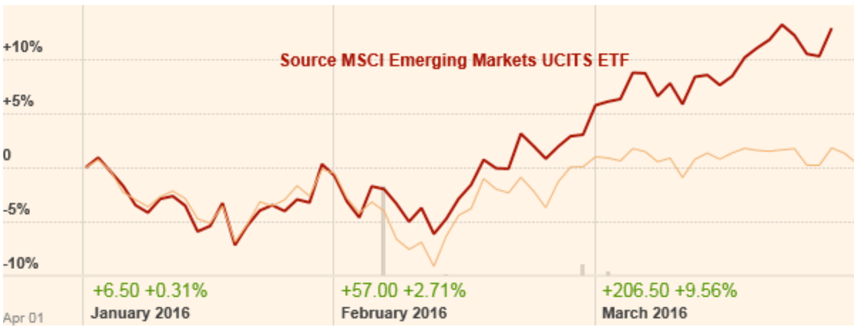
Stick with gold
Brazil and EM in focus

Gold had its best quarterly rally for 25 years during the first quarter of 2016, up 16% since the start of January.

With corporate earnings struggling to gain traction, the Fed is not going to raise rates in the immediate future, and probably not this year, but we will continue to experience the push-me, pull-me sentiment and blow-with-the-wind opinion from analysts attempting to work out precisely if and when rates will rise this year. This gives Todd Gordon of tradinganalysis.com reason to believe that healthy price moves already in gold in 2016 presage stronger prices for the remainder of the year. Gold miners fell 89% in 2011 but in the first 10 weeks of 2016, many of them rose 100% from their lows. Marc Faber, the Swiss economist and author of the 'Gloom, Boom & Doom' report, now feels gold miners are in a new bull market. The dollar will remain relatively strong, he said, when seen against the likes of the euro and the yen where negative interest rates are in play, however long term, Marc Faber sees the US dollar as weak, and in that twin environment - low rates and a weak dollar - gold, silver, platinum and palladium will all prosper.

Emerging markets have also had a great run since the beginning of the year. EM currencies have been rebounding, and there is some optimism that EM is in the cusp of a major recovery. Brazil is certainly in the spotlight, with President Dilma Rousseff apparently on the verge of being ousted by an internal uprising over her alleged part in a corruption scandal surrounding the Brazilian mining giant, Petrobras. The possibility of Rousseff being forced from office has buoyed Brazil's Bovespa market index. It was up 8.75% in February and 13.43% in March, largely on expectation that if Rousseff resigns, there will be a cut in interest rates to follow.

EM as a whole has rallied over the last quarter. Relief that the Fed appears to be regretting raising rates in December has helped, but so has the rally in oil prices, with so many EM nations being dependent on oil revenue for their well-being.

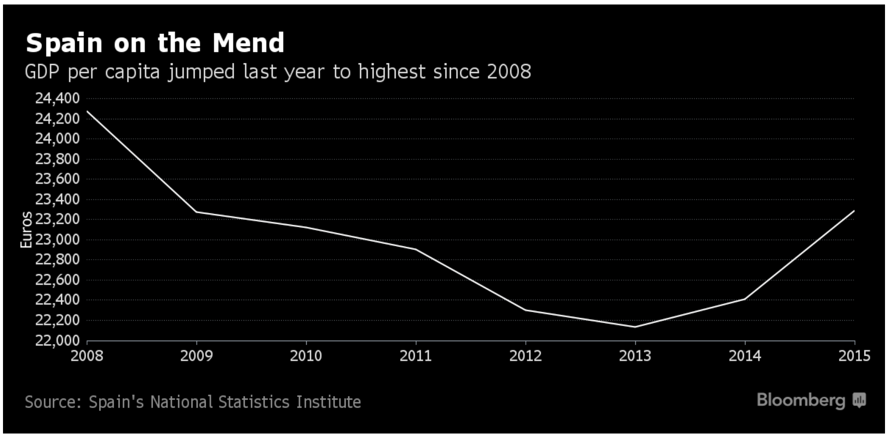


MSCI Emerging Markets ETF against the FTSE100, January 1st to March 31st 2016 (Source, Financial Times)

There are however reasons for not being too euphoric yet. When the MSCI index of developing-nation equities last increased more than 13% in May 2009, it declined the following month before resuming a rally in July, and while recent Chinese manufacturing data was encouraging, it is right to be cautious and question whether such equity advances are sustainable. After all, exports are still in recession for most EM countries, and perhaps more worrying, the level of trade in this bout of bullishness is the lowest of the previous six advances over the last five years, and company profit figures in EM are the lowest they have been over the last six.

Mohamed El-Erian, chief economic adviser at Allianz, reckons **equities** are now poised for a 10% fall, following an overshoot on the upside in their recovery since February. "It's tough to make money in the markets the old-fashioned way", he said in an interview with CNBC. "You cannot simply go long and stay long. No, this is a wide, rangebound market, overshooting on the downside, overshooting on the up, and investors have to accept that or be more nimble."

The Spanish have something to cheer about. **Spain**'s gross domestic product per capita rose to its highest level since 2008 last year in a sign the country's economy is improving. After plunging to the worst economic crisis since democracy returned in 1978, the nation is outperforming its main euro-area peers, predominantly driven by an increase in household demand.



However, the EU sees Spain breaching its budget deficit target again: 3.6 percent instead of the agreed 2.8 percent. This comes as lawmakers in Madrid struggle to form a working government following a fragmented election result which stripped Prime Minister Mariano Rajoy of his majority. While the second term Prime Minister has persistently called for a grand-coalition, his Socialist rival Pedro Sanchez is looking to form an alternative government to oust him. If no government can be formed by May 2nd, new elections will have to be called with a new ballot taking place on June 26th.

At least **property** prices are on the up, both in Spain and in the UK. Following a property market collapse in southern Spain which drove prices down typically between 40-60% during the post-financial crisis, there is a feeling confidence is returning among foreign buyers, although Brexit is causing many would-be buyers and sellers of property both in the UK and in Spain to have a 'Brexit Clause' written into their contract, giving them the option to pull-out of an agreed sale or purchase, should Britain leave the EU on June 24th, according to Nationwide.

Nationwide reports that the 5.7% year on year increase in UK house prices to the end of March was the 28th successive quarter that southern England prices have outpaced those of their northern peers.

Favoured investment plays:

Nil risk:	USD & GBP cash (in preference to Euro cash)
Cautious risk:	AAA Corporate / Government bonds (short duration)
Balanced risk:	Managed / Multi-asset funds / Long-Short Absolute Return funds
Market risk:	UK**, European equity**
Adventurous risk:	**Japan,** Asia**,** US equity
Speculative risk:	Timber, Water, Technology, **China,** India, Other EM

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (US) 18%, US smaller cos 1%, (Other) US equity 7%, UK smaller cos 7%, (Other) UK equity 17%, Iberia 1%, European Telecoms 1%, (Other) European equity 8%, India 1%, Japan 12%, China 4%, (Other) Asia 12%, Energy 2%, Pharmaceuticals 7%, Long-Short Hedge 2%.