wealth & asset management

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Global Market Strategy – March 2016

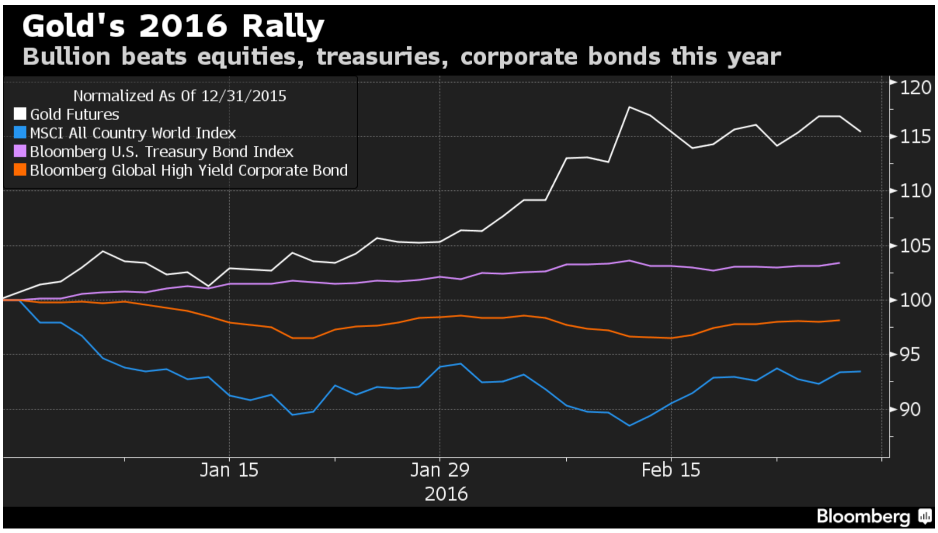
Brexit confuses markets - and the British
Gold holds firm above $1200 despite equity rally in late February
Analysts cut estimates for US first quarter earnings

The UK's Prime Minister, David Cameron, returned from Brussels last month, leaving the markets and the British people wondering not only what he had really accomplished but also why he should have taken it upon himself to entrust the public to decide the future of Britain's relationship with Europe.

The uncertainty over whether Britain will upset the unity of Europe or its capacity to trade with European nations by opting out of the Union, has driven the **pound** sharply lower against the euro, ironically boosting the shares of UK exporters. Indeed, celebrated fund managersTerry Smith and Neil Woodford have argued that if Britain did vote 'Out', the balance of probability is that nothing much will change for the business community. UK companies will still have commercial relations with businesses in Europe and vice versa, but for the moment markets are unsettled. The pound is at its lowest since 2009, and six-monthly volatility of the pound against the dollar has for the first time risen above 13, meaning it has become more expensive to insure against further pound weakness.

In contrast to the pound's demise there has been a pick up in the fortune of **gold**. Its price has rallied from five year lows in December, to $1235 currently. With the January / February equity sell-off recovered to a certain extent by a decent rally in the last two weeks, cash has been borrowed from gold investment to ride the momentum in shares, yet gold has held strong. This augers well for the precious metal, especially given a backdrop of 'low rates for longer', concern over world growth, and a poor corporate earnings season at a time when the price/earnings multiple on the S&P500 is already (expensively) above its long term average. Gold is 2016's best performing asset, following its fall last year to $1060 in anticipation of the US Federal Reserve embarking on what was seen to be a succession of rate increases to an eventual target level of 2%. Such has been the rapid turnaround in outlook, that in December analysts' forecasts of a 95% probability of 2016 rate hikes, have reduced now to a consensus of just 25% probability.

It is this change in sentiment and increased uncertainty, which has provoked speculators to raise their net-long position in gold to the highest in a year. SPDR Gold Shares, the world's largest bullion exchange-traded fund, has attracted $4.5 billion of new money so far in 2016, the most among all ETFs, according to Bloomberg. The economic outlook has pressured some analysts to rethink their approach to gold. Georgette Boele, a strategist at ABN AMRO Group NV, had been a bear and is now reversing her negative outlook. She has boosted her year-end forecast to $1300, from $900, and Overseas-Chinese Banking Corporation economist Barnabas Gan, one of the most accurate precious-metals forecasters, has said prices could reach $1,400 if equity risk aversion intensifies.

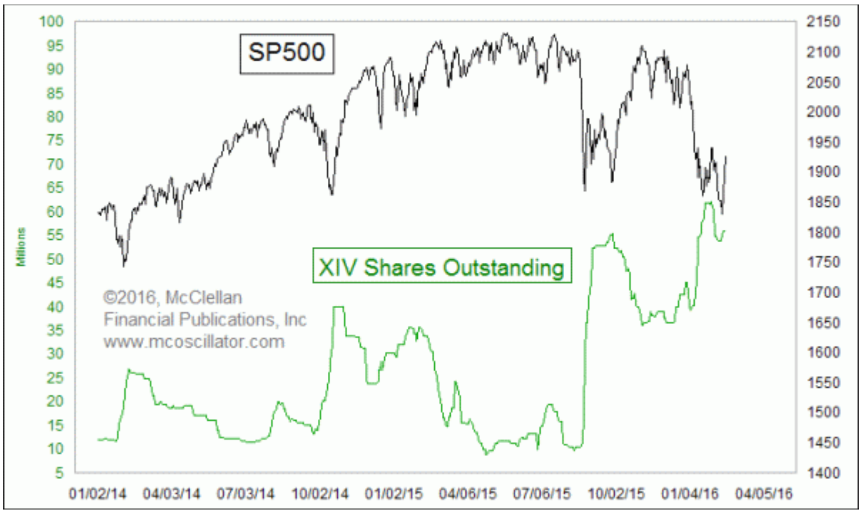


March 1st 2016

Risk aversion could well intensify if analyst expectations for US earnings and corporate revenue are anything to go by. At the start of this year, analysts were forecasting a return to growth of 0.6% for the first quarter. They have now slashed this forecast to a decline of 7.4% for first quarter corporate earnings in the US. The reevaluation comes following a newly expected earnings fall of 93% for US energy companies, double the projection just two months ago.

Hearteningly for equity investors on the other hand, technical analyst Tom McClellan has unearthed some interesting data which has positive implications for the direction of the S&P500.

He has spotted that the XIV ETF which tracks the inverse movement of the VXX (which itself is the tracker for the Volatility Index), looks to foretell a push higher in the S&P500 for at least a couple of months (see below). However, Robin Griffiths, chief technical strategist at ECU Group, takes this one step further by pinpointing the exact date he reckons the market rally will top-out on March 23rd, taking the current bear trend into 2017 before a sustained bull market kicks in for equities.



Upward momentum with the S&P500… (Source: Tom McClellan)

It is a fact that investment specialists are concerned that corporate earnings will not be what they need to be this year to justify a sustained stockmarket rally. Isn't it ironic that oil prices have gone so low now that they jeopardise market advances? More disposable income should mean greater available expenditure, however markets are concerned that oil companies are so highly leveraged they cannot meet their repayment obligations from lower than expected revenue, and this has a knock-on adverse effect on the banks. Warren Buffet, however, is unconcerned. Asked whether he's concerned about a market bear phase, Buffett said "not that much" because he's a more aggressive buyer of stocks when the market is going down. "We're almost always a buyer of stocks," he said. "It's hard to think about many months when we weren't a net buyer of stocks." Buffett reiterated his mantra that it's "crazy" to time the market. "In 10 or 20 or 30 years, I think stocks will be a lot higher then they are now." He said buying stocks based on what he buys or what any other big investor buys is not a good investment strategy. "A great strategy is just to buy stocks consistently over a lifetime…and not worry too much if they go up or down on any given month or year,"

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, **China,** India,

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (US) 15%, US smaller cos 1%, (Other) US equity 7%, UK smaller cos 10%, (Other) UK equity 15%, Iberia 1%, European Telecoms 1%, (Other) European equity 8%, India 2%, Japan 10%, China 4%, (Other) Asia 11%, Energy 2%, Pharmaceuticals 10%, Long-Short Hedge 3%.