McLaren
wealth & asset management

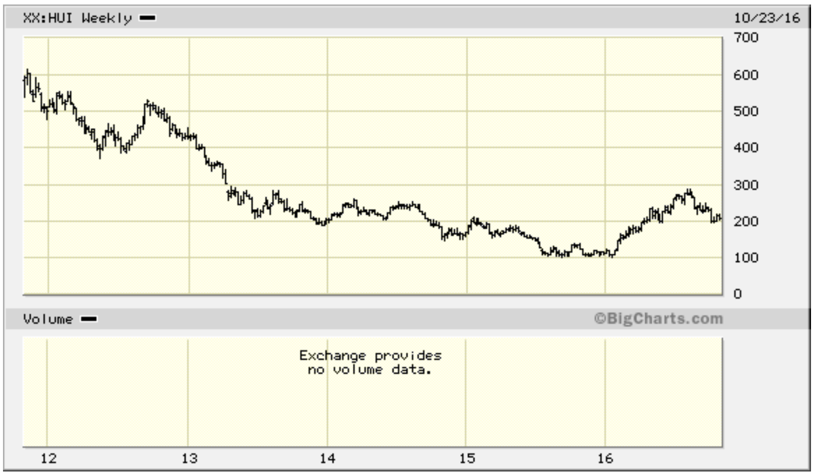
International Perspective & Independent Advice   Since 2004

Global Market Strategy – November 2016

Equities and Dollar weaken ahead of US election - Precious metals to move higher

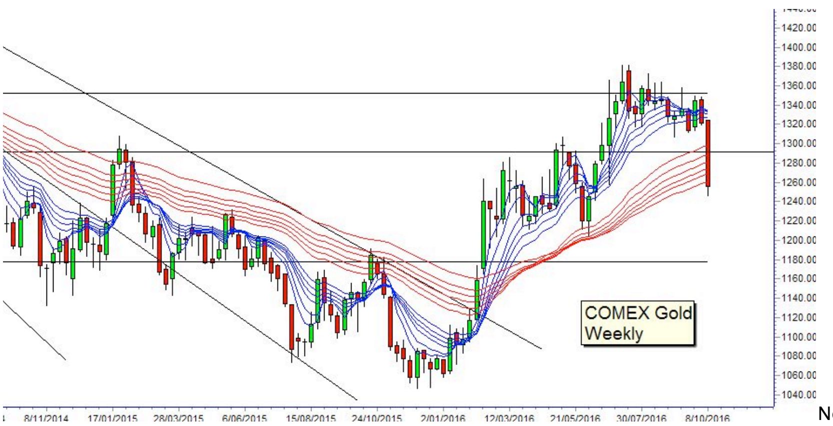
AT&T's planned takeover of Time Warner presages probably the final leg of the current seven year bull run for equities.

How long the final leg lasts remains to be seen, but if one quarter point interest rate hike a year is the scheduled action of the US Federal Reserve, the market advance could continue for a couple of years yet. Money is so cheap to borrow that if AT&T/TimeWarner-type mega-deals are in the offing, now is the time to do them, and consolidation will provide support for share prices. For gold and silver bulls however, the prospect of rising equity markets weakens the case for precious metals, certainly in dollar terms unless the greenback weakens, which is far from impossible. Since the 2011 high of $1931 per troy ounce, money has been withdrawn from gold and silver in order to run with the greater momentum which began in 2009 for equities. However, while there is a strong M&A case to help shares continue upward, there's a feeling of exhaustion and disbelief that the markets can move higher, at least in the US. Gold shares, as with many other shares in the western world, have marked time in October, and since gold miners have seen their shares rise by more than 100% since the start of 2016, the current pause for breath in precious metals is healthy. It is a feather in gold's cap that it has held its level at or around $1250 despite the dollar index's significant 2.6% rise during the first two weeks of October (helped by the pound's weakness thanks to Theresa May's 'hard Brexit' talk to hasten negotiations with Europe).



NYSE Arca Gold BUGS Index (INDEX), 5 years (Source: http://bigcharts.marketwatch.com)

Daryl Guppy, trader and the author of "Trend Trading, The 36 Strategies of the Chinese for Financial Traders" believes the dramatic $80 fall in gold from $1340 in early July is a smash-and-profit-grab which is providing a great opportunity for brave investors to take a position in the yellow metal or, for more leverage, silver. The more adventurous will take advantage of current gold levels, the more cautious will wait for gold to push through resistance at $1290.



Sterling is also due for a rebound. At $1.2180 and 89.90 pence to the euro, the pound's collapse this year is massive. It fell 6% in October. On a trade-weighted basis it has fallen through the record low posted in the fourth quarter 2008 during the banking crisis. The pound is down 25% against the yen this year, most of the fall since June; this compares to a duration of 33 months for the yen to fall an equivalent amount against the dollar. Against emerging market currencies, sterling is down 25% against the South African rand (the same as the US dollar) and 32% against the Brazilian real. Hearteningly, according to technical strategist Nicole Elliott of the Financial Times, the 'gapping' that takes place on the sterling/dollar chart "signals that the end [of the slump in the pound] is nigh". Ms Elliott comments that the pound is as oversold now as it was in 1985 and 2009, however more worryingly for investors in UK equities, who in October saw the benchmark index reach an intraday high of 7130, mainly on currency weakness, any sterling strengthening will be bad news for UK shares, which is why lower hanging equity fruit is to be found in Asia (especially Japan and China), Europe (especially Germany and Spain) and EM.

Pound/Dollar exchange rate, 10 years (Source: CNBC)

No question that businesses now fear stagflation - rising inflation with no growth - but how to combat this? It is possible to guarantee real returns by buying 10 year index-linked bonds, but at what cost? Index-linked bonds have been in such demand that the real return on them is less than one percent, and the real return on cash is equally negative. So hold gold? Yes, since it is highly likely interest rates will stay 'lower for longer', but also hold equities for the chance of real growth via capital and dividend return. The smaller company equity sector while possibly holding more value, is a value trap. Weak growth is likely to suppress sentiment, which is allays wary for newer and smaller companies. Even Neil Woodford is having a hard time picking winners in the sector at the moment, however at least by choosing his funds you have access to his research team, indeed the principle of picking the best fund managers to best achieve diversification in the different sectors applies to all areas where value exists (it is better to be in the worst fund in the right sector than in the best fund in the worst sector); the trick however is to identify the right areas for asset allocation at any given time.

A ray light finally exists in southern Europe. Two days before the country went to the polls and re-elected Mariano Rajoy for a second term as prime minister, the Spanish unemployment rate was announced to have fallen below 20 percent for the first time in six years. The rate of 18.9% is still one of the highest in the western world but the jobs data added to the more upbeat picture for Europe's fifth largest economy which is on course to grow this year by 3.2%. At the high point of the jobs recession in 2013, following a housing bust in 2008 and an ensuing banking crisis, the unemployment rate reached 27%. Further reform of Spain's labour market, in terms of less bureaucracy and greater flexibility of worker movement, will be needed to make truly great progress for the unemployed.

Favoured investment plays:

Nil risk: USD 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, Germany,** US equity, UK/European/US smaller company sector
Speculative risk: Timber, Water, Technology, **China, India, Other EM**, **Gold and gold miners, Silver, Cocoa, Orange Juice, Sugar, Coffee**

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (US) 10%, Global Equity 9%, US smaller cos 2%, (Other) US equity 8%, UK smaller cos 4%, (Other) UK equity 4%, Germany 4%, European Telecoms 1%, (Other) European equity 9%, Japan 14%, (Other) Asia 15%, Pharmaceuticals 6%, Gold & Silver 10%, Cash 4%

McLaren Asset Management, S.L. & McLaren Wealth Management, EAFI, S.L. Regus Business Centre, Ricardo Soriano 72, 29601 Marbella, (Malaga), Spain

McLaren Asset Management is authorised and regulated in Spain by **La Direccion General de Seguros** as a **Correduria de Seguros** (clave J2464)
Registro Mercantil de Malaga, Tomo 3707, Libro 2618, Folio 72, Hoja MA74497. CIF B92598614 Correduria de Seguros inscrita en el registro de la DGSFP, Clave J2464. Contratado seguro de responsabilidad civil según Ley
Authorised to operate under passport in the United Kingdom (Financial Conduct Authority registration 482741, Certificate in Discretionary Investment Management, Diploma in Financial Planning, complies with 2013 Retail Distribution Review) and the Republic of Ireland
Member, The Personal Finance Society (UK)
Member, The Chartered Insurance Institute (UK)
Member, Federation of European Independent Financial Advisors

McLaren Wealth Management is authorised and regulated in Spain by **La Comision Nacional del Mercardo de Valores** as an **Empresa de Asesoramiento Financiero Independiente** (Independent Financial Advisor)
Authorised to operate under passport in the United Kingdom (Financial Conduct Authority registration 736267)

November 1 2016