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Global Market Strategy – April 2017

And the shares go marching on…

Henderson gave their first talk of the year recently in Marbella to the Federation of European Independent Financial Advisors (FEIFA).

As usual, they unveiled some interesting statistics: one third of grandparents in the UK now finance their children's education through school; one quarter of grandparents finance their grandchildren through university; the average millennial checks their mobile device 150 times a day; the average millennial is unlikely to sit a driving test (they don't see the need for a car, or cars will become automated by the time they need or can afford one); the chance of the far-right French populist Marie Le Pen being elected to the Presidency in France is the same as was the likelihood of a vote for Brexit in the UK.

Indeed, thanks to Wilders' defeat in the Dutch election, the Eurostoxx50 volatility index is at its lowest level since 1999, as suddenly the threat of further populist upsets in France and Germany, similar to those of the UK and US, appears much reduced. European equities rallied strongly following Wilders' loss, but they still as a whole trade at 1.8 times book value, compared to 3.12 times for the US, a difference of 1.32 times book value. Before the eurozone sovereign debt crisis in 2010, the gap between the two markets was just 0.4 times book.

Equities have performed well this year, no doubt, but high valuations in the US and concern over exactly what is going to drive them higher if the lacklustre corporate appetite for investment continues. Yet perhaps the wariness of big-corporate is unjustified, especially since US consumer sentiment has shot up to its highest level for 16 years, and small-business optimism in the US is at a 43 year peak. The paradox of statistics is reflected in the underwhelming 0.1% rise in US retail sales, in itself perhaps justifying corporate America's unreadiness to invest, and this punch and counter-punch of statistics keeps a lid on complacency, over-exuberance, the Fed and indeed the bond market.

Trump's frustration with Congress's reluctance to oust the perfectly good and necessary Obamacare obligatory healthcare insurance system in the US, helped put a dampener on the US equity market toward the end of last month, however, perversely, his inability to get his own way on that, may well hasten his intentions toward forcing through fiscal incentives to stimulate entrepreneurship and strong inward growth, and therefore the idea that equities could be propelled much higher is not out of the question, especially if stronger consumer confidence equates to greater job security, a gradual improvement in wage growth and stronger corporate earnings. Yes, statistics do point to the high probability of a 9.6% fall in the S&P over the next five years (no big deal if dividends are sustained to keep investors patient), but the stats also offer a 40% possibility of the market continuing to rise, and a 25% chance of it rising by more than 20% or more over the period.

If US equities are indeed set for a continual, gradual incline, then their by contrast undervalued counterparts in Europe, the Far East and Emerging Markets are due for outperformance.

In the immediate future the oil price could help equities. In mid 2014, oil traded at over $100 per barrel, yet despite falling below $30 at the turn of 2015/16, they rallied to the recent relative high of $58, before backing off to the current level of $53.

The technical charts point to a drifting now to $40 for the ICE Brent Crude Oil Front Month futures contract, above (chart courtesy of bigcharts.com).

Favoured investment plays:

Nil risk: USD cash (in preference to Euro cash)
Cautious risk: AAA Corporate
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: Water, Technology, **China, India, Other EM, Natural Resources**

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (US) 20%, Global Equity 16%, US smaller cos 2%, (Other) US equity 9%, UK equity 4%, Germany 4%, (Other) European equity 9%, Japan 6%, India 4%, (Other) Asia 16%, Pharmaceuticals 7%, Natural Resources 2%, Energy 1%