

## Global Market Strategy – November 2017

*Trump nominates Jerome Powell to replace Janet Yellen*

*Bitcoin - embrace or avoid?*

*Emerging Markets have plenty of value*

US President Donald Trump has nominated Federal Reserve Governor Jerome Powell to the top job at the **US central bank**.

Powell is a former private-equity executive, banker and Fed advisor who favours continuing gradual interest-rate increases and sympathises with White House calls to ease financial regulations.

Market reaction has been muted. Powell is not an economist, so there is some reservation about the appointment. Generally though, there is a feeling this could be a master stroke by Trump, and that Powell could well prove to be the best Fed Chair ever.

Yellen will continue as chair of the Fed until her term ends in February.

The cryptocurrency **Bitcoin** has climbed past \$7,000 for the first time, breaching another milestone less than one month after it tore through the \$5,000 mark.

Spot pricing for Bitcoin climbed as much as 7.1 percent this week to a high of \$7,045 before pulling back slightly to \$6,977 in London recently. Bitcoin is up 640 percent this year and is now worth more than \$100 billion.

Jamie Dimon, head of JP Morgan, called Bitcoin a “fraud” worse than “tulip bulbs” in September, and there have been other notable investors who have expressed doubts about the future of what is, currently, an unregulated investment. Dimon said, “You can’t have a currency that is created out of thin air”, but admitted it could go to \$20,000 before it would “eventually blow up”. Brazil’s central bank governor, Ilan Goldfajn, has called Bitcoin a pyramid scheme, and Jordan Belfort of “Wolf of Wall Street” fame, called the fad the “biggest scam ever”.

Bitcoin initially fell dramatically when China announced it was banning the currency earlier this year. Ironically, it’s banning by the Chinese was then seen as choking much needed supply, and the thing has taken off.

The biggest concern is whether the rise in value is driven by a “greater fool” theory - that there will always be someone to pay more for the latest fashion, thus driving the price higher, sucking the investor in deeper, until he or she hopes they have the wit to sell out before a crash comes.... because there is nothing but a price monitoring machine behind it. Gold, to which Bitcoin is compared, has tangible assets, and its supply and demand is overseen and regulated. However gold is largely illiquid on a day to day basis - Waitrose don’t yet have checkout for gold bar transactions - so if paper currencies are becoming worth less, as they undeniably are, the argument is that Bitcoin provides a means of holding cash as real store of value and tradable worth.

Tom Lee of Fundstrat, was JP Morgan’s chief equity strategist, and his feeling is that Bitcoin is “cannibalising demand for gold”. The fact that the supply of Bitcoin is capped at 21 million, whereas the production and supply of gold and silver is at the discretion of those who mine it, is another strong argument for those who want to get behind Bitcoin.

Bloomberg has reported that in the third quarter of this year, 1,376 Americans **renounced their U.S. citizenship**, putting the annual tally on track to top 2016’s record, data from the US Treasury Department shows.

If this year’s fourth quarter mirrors that of 2016, when 2,365 people chose to expatriate, 2017’s annual tally would be 6,813, equally a 26 percent rise from 2016’s total of 5,411, which was itself a 26 percent jump on 2015.

The pace of Americans leaving the US started to accelerate in 2010, when the Foreign Account Tax Compliance Act (FATCA) became law. The act was intended to stem tax evasion of U.S. citizens living or working abroad by basically requiring foreign institutions holding assets for American expats to report those accounts or withhold a 30 percent tax on them.

## Bidding the U.S. Goodbye



The MSCI **Emerging Markets** USD Index has risen 51% in the last 12 months, so is the run over and done with?

Last month, Nick Price, leading fund manager of the top quartile Fidelity Emerging Markets fund stated that he “would certainly not be underweight emerging markets” since valuations “are not extended on an absolute basis”, and on a relative basis “the discount to developed markets remains wide”.

A weaker dollar has helped, however this has to some extent been offset by weakening currencies in South Africa, Brazil and Russia. Earnings have been the main source of equity gains during 2017; firmer commodity prices (not expected to continue) have also helped.

Mr Price stated, “EM continues to provide a very compelling long-term investment case. Growth potential is much greater in EM than in DM (developed markets), ... valuations are cheaper in the emerging world so there is a simple mispricing of assets. Putting all these factors together means that EM remains an important part of anyone’s broad equity exposure and I certainly don’t think it’s too late to invest.” As the chart below shows, EM equities have risen steadily for the past two years, in contrast to most developed market indices which have been rising since the financial crisis in 2008.



*MSCI Emerging Markets Index, GBP, 5 years (Source, [BigCharts.com](http://BigCharts.com))*

Investing in Emerging Markets is ‘speculative’. Speculative investors are defined as “those prepared to invest in areas where levels of asset price volatility may be substantial...this may result in a large loss of capital, as well the opportunity to make significantly higher returns.” Investment in precious metals is also speculative, and at present, the charts favour EM over gold and silver, as Nicole Elliott, technical analyst at the Financial Times, points out. During October, Ms Elliott drew attention to silver and gold’s chart patterns in September which depicted ‘three black crows’ - three consecutive weekly declines. Such a pattern indicates that the breakout for gold above \$1300, which drew forecasts of a dead-cert rally to \$1400, was a ‘false break’, and that gold would struggle to move above \$1300 for several months. Similarly, silver, which Ms Elliott sees as drifting steadily lower, possibly back to \$15, or lower.

### **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, <b>European equity</b>
Adventurous risk:	<b>Japan, Asia, Germany</b> , US equity, UK/European/US smaller company sector
Speculative risk:	<b>Water, Technology, China, India, Other EM</b>

**Disclosure:**

Nicholas Chappell has the following personal investment exposure: Technology (including new energy, all US) 30%, Global Equity 17%, US smaller cos 2%, (Other) US equity 8%, Germany 5%, India 4%, (Other) Asia 20%, Pharmaceuticals 14%

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