Views for 2017

Our Predictions

1. **Global reflation hopes and expectations show signs of becoming a reality.** Pro-growth stances synchronise across global economies, underpinned by an aggressive President in the White House which means the prospect of a reflationary environment may begin to take shape. This could result in a welcome reversal, particularly in developed economies where a low growth and low interest rate environment has plagued businesses and savers alike. We expect global growth to continue in 2017 with levels marginally above 3% GDP.

2. **Welcome return to inflation, just not too much.** Expectations are for inflation to increase globally, aided by a recovery in commodity prices, which would be a welcome change for developed economies. Optimistic markets may be unprepared for any overshoot and investors will need to be cautious of global inflation expectations. This could bring volatility in the form of more aggressive monetary policy tightening and a repricing of assets. We see core inflation in both the UK and US overshooting Central Bank targets of 2% in the short term, but falling back as the effect of higher oil prices filter though. We believe yield curves will continue to steepen globally but currently reflect over estimated inflation expectations. We can see yields on 10 year Treasuries at 2.75% and 10 year Gilts reaching 1.55% in 2017.

3. **2016 political shocks may continue to impact markets this year.** The volatility and potential market falls from shock political results involving Brexit and the US Election last year were largely dismissed by investors globally. Heading into 2017 much of the focus has been on the potential positive outcomes from each result and subsequently some markets and sectors have rebounded. Should 'Hard or Full Brexit' negotiations stall or Trump fail to deliver on his more well-received policies including huge fiscal stimulus then we are likely to see high levels of volatility and uncertainty as the 'feel good' factor becomes unwound from the markets. We continue to believe that FX is an asset class which can protect portfolios in such an environment.

4. **China to continue reforms with ongoing challenges.** Favourable demographics and the sheer size of consumer potential in the region has been a focus for many of the world's leading sectors and companies for some time. This potential can lead to periods of outperformance for the main indices in the region, especially services directly exposed to these favourable conditions. However, significant risks posed by debt levels, pollution and now potential sanctions Trump proposes to place cannot be ignored. We will be monitoring how this affects not only the region but also those in middle class America, who have become reliant on low priced imports. The leadership transition later this year will have a significant outcome for both domestic and foreign policy. We believe Xi Jinping will continue to support a more liberal China with potential for positive outcomes, although we are concerned at the growing rhetoric with the Trump Administration.

5. **Commodity prices to remain stable with periods of outperformance.** The recovery in the commodity sector has helped underpin many indices, notably the index of the UK top 100 companies, over the past 6 months. While we don't predict a repeat of the tremendous gains seen for mining and energy companies in 2016, we feel it is reasonable to say these assets may have found a more stable level than in previous years and modest gains within their relative price ranges could be a feature of 2017. We see Brent Oil trading in a price range between $45 and $65 per barrel. With Gold retracing some of its 2016 gains.

6. **Currencies will endure another volatile 12 months.** The current political and policy uncertainty leaves scope for far greater trading ranges within global currency pairs. The conditions in both the UK and US alone mean Sterling has the potential to drop to 1.10 against the Dollar but also reach 1.35 on the upside, a swing of more than 20%. Potential parity with Euro v Dollar may become a reality should the current political uncertainty and populist trends continue. Sterling is currently at record lows against a basket of main currencies not experienced in 138 years.

7. **Connectedness via the Internet of Things will continue.** As part of a Secular trend in Technological Advances, we see this theme driving innovation, company efficiencies and growth worldwide. Traditional industries will continue to experience disruption and mean both opportunities and threats for investors. Recent developments in drone technology, for example with their uses for delivery, have far reaching implications for distribution and transportation in years ahead. Our portfolios will continue to benefit from an overweighting to high growth holdings.

8. **Technical momentum will continue to highlight tactical opportunities.** The past 12 months have shown that in the face of historic shocks and uncertainties, investors can achieve returns. With the fundamental outlook for 2017 remaining extremely challenging and in the wake of successive 'shocks' and unprecedented wrong predictions we have to be prepared to capitalise on trends to provide shorter term profit as well as protection. We feel that technical supply and demand factors will become even more critical in determining the true risk/reward potential of positions as indices push up to and beyond the upper limits of fundamental valuation perspectives.

9. **Safe haven assets in a highly correlated world.** Monetary policy in a low growth, low inflation and low rate environment forced correlation in asset classes to over 90% at times in 2016. These conditions continued to undermine traditional asset class diversification which ultimately aims to provide downside protection and provide optimum risk rated returns. Equity markets surging in the later part of 2016 to record highs and global yields steepening alongside the threat of rising inflation, mean that determining what is 'safe' in asset terms is particularly challenging. We therefore see alternative assets like Gold and the Japanese Yen advancing in times of uncertainty and providing protection.

10. **Search for yield evolving again.** With over 60 % of government yields in negative territory for most of 2016 the search for yield drove 'Bond Proxy' equities to very elevated price levels. The traditional yielding assets artificially lifted to exaggerated prices through 8 years of loose monetary policies and central bank guarantees were no longer able to provide sufficient income yielding levels for investors. The change of central bank views towards the end of the year, in particularly in the US and UK, have forced this to unwind to some extent. Looking to the year ahead we feel little comfort in high yield credit in these countries but are more optimistic about Emerging Market Debt and potentially sovereign yields towards the latter part of 2017.