

Current Update

January 2017

December Market Commentary

As we welcome 2018, this month we will include a brief annual review for 2017 as well as looking at the month of December. 2017 was a good year for most assets. Using our own classification system 'Enhancer' assets provided the strongest returns, 'Anchor' assets offered positive risk adjusted returns and although 'Diversifier' assets struggled at times, overall they added to portfolio returns. The positive Enhancer trend generally continued in December where there were particularly strong gains in UK Equities on the back of some progress in Brexit negotiations and economic indicators which were more positive than expectations.

In November UK factory activity grew at its fastest pace for more than four years, with official data for 2016 showing that inward investment into the UK had also hit a record \$145bn. The UK manufacturing sector expanded for the sixth month in a row and unemployment was down again, falling by 26,000 to 1.43m. In addition, revised figures from the Office for National Statistics showed that the economy had grown by 1.7% in the third quarter, compared to the original estimate of 1.5%.

The FTSE-100 index of leading shares started the year at 7,143 and ended it up 8% at a new record high of 7,688. The UK equity market was up 5% in December making it one of the best performing markets, and closing the gap on Europe, Asia and the US. Despite the interest rate increase in November, valuations of bonds have remained high and provided a positive return over the year. Government debt underperformed most asset classes, but long-term rates have remained lower than many commentators had expected at the start of the year. Sterling enjoyed a good year, largely unchanged against the dollar in December but rose 9% over the course of the year to \$1.35.

In Europe the most positive news in December was of a trade deal being agreed between the EU and Japan which will, subject to ratification by EU members, create the world's largest open economic area. The agreement is a challenge to the protectionism of Donald Trump's administration, with a joint statement saying that the EU and Japan are "committed to keeping the world economy working, based on free, open and fair markets... fighting the temptation of protectionism".

Broad European indices gained about 1% during the month and overall enjoyed a good year, up 13% in local terms. Euro strength against the pound boosted the return marginally for sterling investors to 1.7% and 14.5% respectively.

There were two major pieces of news in the US, with the Federal Reserve once again raising interest rates and a programme of major tax cuts being passed by Congress. The Fed raised rates by a further 0.25% – the third rise in 2017 – as it projected growth of 2.5% for 2017 and 2018, expecting the US economy to be stimulated by the President's tax cuts. The Fed is now targeting a range of 1.25% to 1.5% for US interest rates, but further rises are expected next year, with most forecasters



Market Returns 2017	1 Year
Anchors	
Cash + 1%	1.4%
Inflation Linked UK Bonds	-0.7%
Gilts	2.0%
Global Government Bonds (hdg)	1.1%
Enhancers	
Global Corporate Bonds (hdg)	4.6%
Global High Yield (hdg)	7.2%
Emerging Market Bonds (hdg)	5.3%
FTSE 350 TR Index	12.9%
FTSE UK All-Small Cap	18.6%
Global Equity (MSCI)	11.8%
European Equity (MSCI)	14.5%
US Equity (S&P)	10.6%
Japan Equity (Topix)	15.6%
Pacific Ex Japan Equity (MSCI)	29.9%
Emerging Market Equity (MSCI)	25.4%
Chinese Equity (Hang Sang)	28.0%
Indian Equity (Nifty)	28.9%
Diversifiers	
Commodity Index	0.7%
Gold	3.0%
Silver	-3.4%
Brent Oil	8.1%
UK Property	7.6%
Global Property Shares	12.7%

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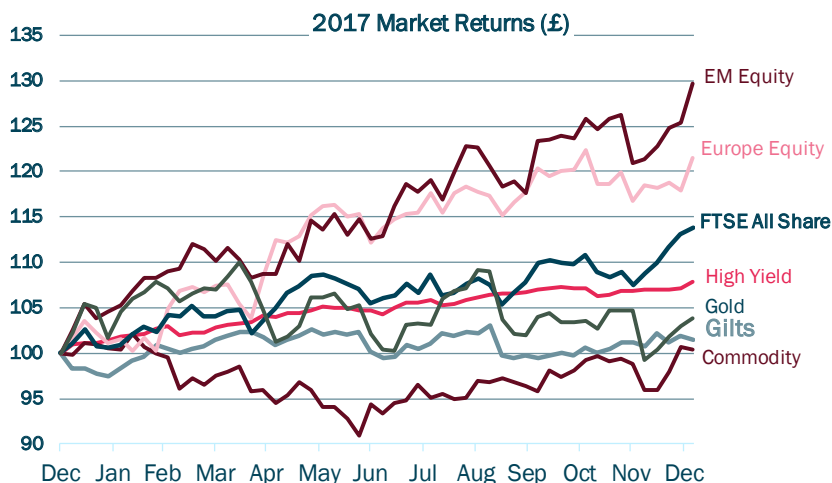
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expecting a base rate target of around 2%.

The tax cuts, agreed by both houses of Congress, are not “the biggest overhaul of the US tax system for 30 years” but they have been welcomed by investors as corporation tax is cut to 21%. There was also good news for the US economy, with the November jobs figures showing 228,000 jobs created against expectations of 200,000. The unemployment rate held steady at 4.1% as firms appeared to hire seasonal workers earlier than usual.

On Wall Street, 2017 was a good year. The S&P 500 gained 21% in local terms although the strength of sterling saw that decrease to 11% for UK investors. The US was up 1% during December with the currency broadly unchanged.

Japan continued to make the headlines in Asia with growth for the three months to September being revised upwards to 2.5%, well ahead of initial estimates of 1.4%.

2017 was an excellent year for all the major Far Eastern stock markets. China was virtually unchanged in December but ended the year up 7% at 3,307. Similarly, both the Japanese and South Korean markets were quiet in December, but closed 2017 up 19% and 22% respectively. The best performing market we invest into was India, up 3% in December (up 32% in local terms for the year – up 28% in sterling).

Within our Diversifiers category, property continued its positive year in December with both UK and Global indices positive for the month and finishing the year up 7.6% and 13% respectively. Gold and silver prices drifted down in December as investors appeared to favour Bitcoin and other crypto currencies. Except for oil and copper in December, commodities struggled in sterling terms throughout 2017.

All in all, a very positive year for investors. For our views on how 2018 will fare see the Rivers Current Focus January 2018

10 Key Events to Watch:

UK		Previous	Forecast
Wednesday January 10	Manufacturing Production (MoM) (Nov)	0.3%	0.4%
Tuesday January 16	Inflation Rate YoY (Dec)	3.1%	3.0%
Friday January 19	Retail Sales (MoM) (Dec)	1.1%	0.4%
Wednesday January 24	Claimant Count Change (Dec)	5.9K	3.2K
Wednesday January 24	Unemployment Rate (Nov)	4.3%	4.2%
GLOBAL			
Tuesday January 9	German Industrial Production (MoM) (Nov)	-1.4%	1.8%
Wednesday January 17	Euro Inflation Rate (YoY) (Dec)	1.5%	1.5%
Wednesday January 17	China GDP (YoY) (Q4)	6.8%	6.8%
Wednesday January 31	US Fed Interest Rate Decision	1.5%	1.5%
Friday February 2	US Unemployment Rate (Dec)	4.1%	4.1%

Key Recent Announcements:

UK CONSUMER PRICE INDEX (YOY):-

UK CPI (YoY) for the month of November was at 3.10% as compared to 3.00% in the corresponding period last year.

UK UNEMPLOYMENT RATE (OCT):-

UK Unemployment rate remain unchanged at 4.3% as compared to the corresponding period last year.

UK MANUFACTURING PMI (NOV):-

UK Manufacturing PMI for month of November is increase to 58.2% as compared to 56.6 in the corresponding period last year. A reading above 50 indicates expansion in the sector

UK GDP (YOY) (Q3):-

UK GDP for Q3 YoY came at 1.7% as compared to 1.9% in the corresponding period last year.



INTELLIGENT INTUITIVE INVESTING

UK	31-Dec-17	31-Dec-16
FTSE 100	7687	7142
FTSE 100 %Change	7.63%	
BoE Interest Rate	0.50%	0.25%
CPI	3.10%	1.8%
Govt, 10YR Yield	1.19%	1.38%
FTSE 350	4277	3932

Currency	31-Dec-17	31-Dec-16
GBP/USD	1.34	1.25
GBP/EURO	0.889	0.849

Commodity (\$)	31-Dec-17	31-Dec-16
Gold	1303.59	1159
Silver	16.9	15.9
Brent Crude Oil	66.4	55.6

Govt 10YR Bond	31-Dec-17	31-Dec-16
US	2.40	2.45
Japan (JGB)	0.04	0.08
Germany (Bund)	0.43	0.22

Global Markets (%)	31-Dec-17	31-Dec-16
Dow Jones	24,719	19,726
Dax	12,917	11,481
CAC	5,372	4,910
Nikkie 225	22,764	19,114
Shanghai	3,308	3,107
Sensex	34,042	26,796
Nifty 50	10,521	8,265

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