

January Market Commentary

Another year seems to have flown by in the space of about five months. December, in particular, seemed to go past in a blur.

It was, however, the month when some progress was – finally – made in the Brexit negotiations. It was also the month when Scotland used its tax-raising powers to increase income tax, when Germany worried about Chinese spies using fake LinkedIn profiles and when yet more sanctions were heaped on the North Korean regime – which were predictably condemned as an ‘act of war’.

Half of the major stock markets we cover in this commentary rose in the month and overall 2017 was a good year for world markets: the Hong Kong market led the way with a rise of 36% and only the Russian index fell significantly during the year.

UK

The month didn’t get off to the best of starts in the UK as once again UK retail was facing problems. RBS announced that it would close one in four of its branches – totalling 259 and inevitably having an effect on the national high street – and Toys R Us narrowly avoided having to close its UK branches as it reached an 11th hour agreement with creditors and the Pension Protection Fund.

There was, however, plenty of good news for the UK in December, although wages continue to lag behind inflation, a situation which looks set to continue throughout 2018.

UK factory activity grew at its fastest pace for more than four years in November, with the Purchasing Managers’ Index hitting 58.2 – its best level for 51 months. Separate official data for 2016 showed that inward investment into the UK had also hit a record \$145bn, although this was boosted by some large takeover deals. UK manufacturing also expanded for the sixth month in a row, helped by record car production.

Unemployment was down again, falling by 26,000 to 1.43m, with the jobless rate remaining unchanged at 4.3%. In addition, the UK economy was shown to have grown at a faster rate than had previously been thought. 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%.

To cap a good month for those whose glass is half full, the UK was named the best place in the world for business by the US media group Forbes. In the annual ranking the UK leapt from fifth to first, scoring especially well on technological readiness and the education of its workforce.

How did all this translate onto the stock market? 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 market was up 5% in December, fuelled by the now-traditional ‘Santa rally.’ The pound also enjoyed a good year: it was largely unchanged against the dollar in December but rose 9% over the course of the year to \$1.3504.

BREXIT

As we noted in the introduction, December was the month when some progress finally appeared to have been made on the Brexit negotiations as the UK’s ‘divorce bill’ seemed to have been agreed. You don’t have to look far to find a high ranking official (on both sides) who will ominously mutter, ‘Nothing is agreed until everything is agreed,’ but – to use Churchill’s phrase – while this may not be the beginning of the end, it may just be the end of the beginning.

By the end of this year the UK will – in theory – be just 88 days away from leaving the EU. But over the course of the next 12 months there will unquestionably be plenty of twists, turns and bumps in the road for this section of the commentary to report on.

By the end of this year the UK will – in theory – be just 88 days away from leaving the EU. But over the course of the next 12 months there will unquestionably be plenty of twists, turns and bumps in the road for this section of the commentary to report on.

EUROPE

As we mentioned in the introduction, December was the month when Germany voiced its concerns over possible Chinese spying using the social/business network LinkedIn. The German intelligence agency BfV is worried about the Chinese using fake profiles to target up to 10,000 German politicians, business leaders and officials. China – which has denied similar accusations in the past – did not respond to the German allegations.

But there was better news of other EU/Far East relationships as a trade deal was tied up between the EU and Japan which will – subject to ratification by EU members – create the world's largest open economic area. The agreement is seen as a challenge to the protectionism of Donald Trump, with a joint statement saying that the EU and Japan are “committed to keeping the world economy working on the basis of free, open and fair markets ... fighting the temptation of protectionism”.

...And in a bid to track down those people who have been protecting their money from the taxman, the EU published its first blacklist of tax havens, naming 17 territories including St. Lucia, Barbados and South Korea.

What of European stock markets in December and 2017 as a whole? Both the German and French indices drifted down 1% in the month, but overall they enjoyed a good year. The German DAX index was up 13% in 2017 to end the year at 12,918 while the French stock market rose 9% to 5,313. An honourable mention also goes to Greece: the debt-ridden country staggered through another year and the Athens stock market duly rose 25% in 2017 to close at 802.

a trade deal was tied up between the EU and Japan which will – subject to ratification by EU members – create the world's largest open economic area.

US

There were two major pieces of news in the United States, 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. At the moment the Fed is targeting a range of 1.25% to 1.5% for US interest rates, but further rises are expected next year, with most forecasters expecting a base rate of around 2%.

The tax cuts – agreed by both houses of Congress – have been described as the biggest overhaul of the US tax system for 30 years, with corporation tax falling from 35% to 21% and the highest rate of individual income tax coming down from 39.6% to 37%. Democrats have argued that the cuts will only favour the rich, while the Joint Committee on Taxation has suggested they will add \$1.4tn to the \$20tn US national debt over the next 10 years. But right now what the President wants the President gets, and he wanted swingeing tax cuts...

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 for the Dow Jones index. Having started the year at 19,763, it finished up 25% at 24,719 having risen 2% in December.

FAR EAST

For once, the month in the Far East wasn't dominated by stories of North Korean rockets. That is not to say that tension in the area will disappear in 2018: North Korea may be sending a team to the Winter Olympics in South Korea, but in his Christmas message Kim Jong-un stressed the fact that the nuclear button “is always on my desk”.

In China, there was a small rise in bank base rates following the rise in the US, but for once it was Japan that was really making the news in the region. The country is enjoying its longest period of sustained economic growth since 1994 – admittedly, thanks to four years of economic stimulus from Prime Minister Shinzo Abe – and growth for the three months to September was revised upwards to 2.5%, well ahead of initial estimates of 1.4%.

In another sign of what we can look forward to in the near future, Nissan announced that it would start trialling driverless taxis from March next year. The plan is that passengers will be able to summon the cars using an app, with free trials due to take place in Yokohama.

There was more turbulence for crypto-currency Bitcoin as the South Korean authorities – worried about Bitcoin being used for money laundering – announced a crackdown on anonymous trading accounts and said they would close exchanges if necessary.

On exchanges that were very much open, 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, with the Japanese Nikkei Dow closing at 22,765 and the South Korean market at 2,467. Pride of place though, went to Hong Kong, the best performing market of those we cover in this commentary. The stock market there rose 3% in December to end the month at 29,919 – up 36% for the year as a whole.

EMERGING MARKETS

As we have already seen, December was a volatile month for Bitcoin, but this didn't stop crisis-hit Venezuela from grasping at a virtual straw as President Nicolas Maduro announced the creation of a new currency in a bid to ease the country's economic crisis. A new virtual currency – the Petro – will apparently be backed by Venezuela's oil, gas and diamond reserves. Opposition leaders poured scorn on the plan, pointing out that the President had already mortgaged the reserves several times over. It seems a fairly safe prediction that the country with the largest oil reserves in the world will continue to lurch from crisis to crisis in the coming year.

A country emphatically not lurching from crisis to crisis is India, with forecasts suggesting that it will overtake the UK and France to become the 5th largest economy in the world in 2018. According to World Bank data for 2016 India's GDP, at \$2.26tn (£1.69tn) was the 7th largest in dollar terms: the forecasts are that 2018 will see it overtake the UK (with GDP of \$2.65tn) and France (\$2.47tn).

This was reflected on the Indian stock market, up 3% in December (and 28% for the year as a whole) to finish 2017 at 34,057. The Brazilian market also enjoyed an excellent year, rising by 27%: in December it rose 6% to close the month at 76,402. The Russian market was virtually unchanged in December and ended the month at 2,109: this meant that it fell by 6% for 2017 as a whole, with the damage really being done in the first six months of the year.

AND FINALLY

2017 was, by any standards, a vintage year for the 'And Finally' section of this commentary. In March, we had the 'Temple of Heaven' – the public park in Beijing which installed facial recognition software to dispense loo roll because visitors were taking it home with them.

July brought us the Texan maintenance engineer, who on a bright and sunny day set out to change the lock on a Bank of America ATM. Unfortunately, while performing this routine task our hero (understandably he preferred not to be named) trapped himself inside the ATM. He was only rescued when a customer tried to withdraw \$100 and instead received a note saying, 'Please help, I'm stuck in here.' The customer naturally thought it was a joke, but on failing to spot any TV cameras and hearing a faint voice coming from the hole in the wall, decided to call the police...

So what of December? The month did not let us down...

Counterfeit goods now account for perhaps 4% of the world economy. So there was good news at the beginning of the month for HM Border Force and the Intellectual Property Office as they seized 82,320 pairs of fake Calvin Klein underpants worth a reputed £1.5m.

Along with the fake boxers, they also grabbed Gillette Mach 3 razor blades, Nike Vapormax trainers and 379 Barcelona and Borussia Dortmund football shirts. If that sounds suspiciously like your Christmas presents you may want to have a word with your relatives.

There was also good and bad news for the Royal Navy in December as it took delivery of its new £3.1bn aircraft carrier 'HMS Queen Elizabeth.' But the bad news was that she (the boat, not Her Majesty) was leaking and taking in the small matter of 200 litres of sea water every hour. BBC Defence Correspondent Jonathan Beale said the leak was "highly embarrassing" for the Royal Navy, but dismissed rumours that the aircraft carrier would be renamed Leaky McLeakface...

President Nicolas Maduro announced the creation of a new currency in a bid to ease the country's economic crisis. A new virtual currency – the Petro – will apparently be backed by Venezuela's oil, gas and diamond reserves.



T 01935 315611

E sarah@evawealth.co.uk

// www.evawealth.co.uk



Bay Tree House,
Lower Street, West Chinnock,
Somerset TA18 7PT

Eva Wealth Management is a trading style of Clarus Wealth, an appointed representative of Best Practice IFA Group Ltd which is authorised and regulated by the Financial Conduct Authority. Company Registered in England number 8025088. Registered Office: 21 The Old Yarn Mills, Westbury, Sherborne, Dorset DT9 3RQ