

April 2017

Market Bulletin

The Orchard Practice



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This month's update comes to you from Jupiter, manager of the Omnis European Equity Fund and Omnis Emerging Markets Equity Fund.

The Brexit clock starts ticking

When a letter signed by Theresa May was delivered to Donald Tusk (President of the European Council) at the end of March, it formally triggered the now-famous Article 50 of the Lisbon Treaty and started the Brexit clock ticking. In a little over 700 days the UK's membership of the European Union will automatically lapse, whether our government has agreed a deal with the EU or not. Businesses, despite being overwhelmingly in the Remain camp before the referendum, are generally being pragmatic in adapting and looking to take advantage of the changing circumstances. We are sure they will continue to do so regardless of the political shenanigans that may take place over the next couple of years.

No doubt the press will keep up a running commentary of the negotiations, but the process will be evolutionary. The most important date is 29 March 2019 when, whatever the progress with negotiations, our membership is guillotined and we will trade with the EU under World Trade Organisation rules (just as the EU, and we ourselves, trade already with the rest of the world). The closer we get to that point without having agreed a deal, the greater the risk that the investment markets for shares, bonds and currencies will be volatile.

The outcome of the French Presidential election (final run-off 7 May) and the result of the German general election (24 September) could influence negotiations in a significant way, as these are the two most important nations the UK will need to deal with and one or both of them may get new leadership with different priorities to the current incumbents. All this is something that investors will need to keep an eye on when it comes to assessing potential investment risks.

On the other side of the pond, the political picture is barely clearer. It seems as though President Trump has so far found that in the corridors of Washington being an anti-politics businessman doesn't get you very far when it comes to getting things done. Indeed, quite the opposite. There are various limited elements of policy which can be achieved by Executive Order at the stroke of the President's pen, bypassing Congress; they are still able to be challenged and held up in the courts. For example, Trump's Executive Order banning people entering the US from various Muslim countries is already blocked.

Most policy areas, however, such as health, defence, the economy and the fiscal budget, cannot be dictated by Executive Order and have to be painstakingly steered through Congress. To succeed you need to identify, understand and attempt to neutralise your opponents; seek core allies, build support and broaden alliances; know when to cajole or threaten, when to compromise or concede. If he is to bring any major part of his agenda into effect, Trump will have to learn the art of politics.



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All of this means that the global economic and political backdrop remains complex and fluid. Stock markets are still flirting with all-time highs and bond markets, which are usually havens of relative tranquillity, have seen unusual volatility over the past year. In such an environment it is especially important for investment managers to capture performance in the good times while trying to manage risks in more challenging conditions.

Past performance is no guide to future performance and may not be repeated. The value of your investment, and any income derived from it, may go down as well as up and you may not get back the full amount invested.

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The Orchard Practice
2 Penta Court Station Road
Borehamwood Hertfordshire
WD6 1SL

T 0208 953 8687
info@opfs.co.uk
www.opfs.co.uk