January 2017

Market Bulletin

The Orchard Practice

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This month's update comes to you from Octopus Investments, manager of the Omnis Multi-Manager Funds, Omnis Distribution Fund and Omnis Alternative Strategies Fund:

Markets continued to be generally positive following Donald Trump's surprise US presidential election victory.

Both the S&P 500 and FTSE 100 equity market indices broke through record highs before the year was out, enjoying what is fast-becoming a seasonal tradition, the 'Santa rally'.

The market is taking a very positive view of a Trump presidency, interpreting the more conservative aspects of his policies as being generally supportive of equity markets. The 'Trump trade' refers to selling bonds in favour of selective US equities: those set to benefit from the promised fiscal stimulus measures of tax cuts, lighter regulation and infrastructure spending. The question for investors is how much of the good news is already reflected in share prices?

The challenge for the US Federal Reserve (the Fed) is whether it can contain any inflation resulting from the Trump presidency and prevent the US economy from overheating. After holding fire on making any of the interest rate rises it had suggested would take place in 2016, the Fed finally announced a 0.25% rate rise in December. Janet Yellen, chair of the Fed, said the rate rise reflected the confidence it had in the US economy and the expectation of continued progress.

The price of US government bonds fell and yields climbed on the expectation of further interest rate rises in 2017. In our view, given the inflationary potential of 'Trumponomics', interest rates may move higher and faster than the Fed, or the market, is currently anticipating.

Uncertainty about what was going to happen to the oil price continued after November's agreement by members of the Organization of the Petroleum Exporting Countries (OPEC) to cut production. OPEC warned its members that the oil surplus could increase further in 2017, unless they implemented the agreement and continued to co-operate with each other. Investors took profits from oil sector shares that had risen sharply.

Sharp swings in market sentiment is a key risk over the coming months. The new US president's continuing use of Twitter, and the comments he makes, are impacting share prices. A negative tweet about the cost of aerospace manufacturer Lockheed Martin's government defence contracts sent its share price tumbling. A dig at the cost of the president's Air Force One had a similarly negative effect on Boeing's share price.

The positive effect Trump has been having on markets will be tested after his inauguration on 20 January 2017. His first 100 days in office will be important in helping markets ascertain what is in store. However, Trump is a proven pragmatist with no political experience and a certain amount of flip-flopping on policy is expected. It's going to be a volatile ride.

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