November 2016 Newsletter

A Modern Stockbroker with Traditional Values

COLLINS SARRI STATHAM INVESTMENTS

Themes from November

Donald Trump was elected President of the United States, contrary to polling data right up to Election Day. Democratic contender Hillary Clinton lost not just the "Swing States" but part of the Democratic core vote, Michigan, Wisconsin and Philadelphia.

US bond prices fell sharply following the Trump win and Republican sweeps of the House and Senate. The 30 year US bond yield rose to 3% from 2.6%.

UK Government's Autumn Statement revealed a new £23bn National Productivity Investment Fund but a 2% rise in Insurance Premium Tax to 12%. The government reiterated its intention to cut UK corporation tax to 17%.

RBS failed the Bank of England stress test specifically the common equity tier 1 systemic reference point. The test scenario modelled a 31% crash in UK house prices. The bank needs to add around £2bn in capital.

Rolls Royce has offered €720m for the 53.1% stake it does not own in Spanish aerospace components firm Industria de Turbo Propulsores SA.

Unilever is to appeal a €590m adverse judgment in Brazil. Unilever shares dropped 10% over November.

LSL Property said 2016 revenues to end October rose 3% to £258m. The group underlying operating profit for 2016 will be in line with expectations.

Forthcoming UK Events

1 DEC	Nationwide Housing Prices/ UK Manufacturing PMI
2 DEC	UK Construction PMI
5 DEC	UK Services PMI
7 DEC	Halifax House Price Index
9 DEC	UK Balance of Trade
12 DEC	Consumer Inflation Expectations
13 DEC	PPI Output/ Retail Price Index/ PPI Input/ Output
14 DEC	UK Unemployment Rate/ UK Average Earnings
15 DEC	UK Retail Sales/ MPC Meeting Minutes/ BOE QE Decision
21 DEC	Public Sector Net Borrowing/ CBI Industrial Trends
22 DEC	GDP Growth Rate/ Current Account Q3
23 DEC	BBA Mortgage Approvals

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Topps Tiles boosted its annual dividend to 3.5p after reporting profit rose to £20m from £17m.

Case Schiller index of US property prices recovered the previous record levels of July 2006.

Performance of World Markets (30/11/2016)				
North America	**Value**	**Change**	**+/-(1M)%**	**+/-(1YR)%**
DOW JONES (Close)	19,123.58	981.16	5.41	7.44
S&P 500 (Close)	2,198.81	72.66	3.42	5.20
NASDAQ (Close)	5,323.68	134.55	2.59	3.83
Europe/UK	**Value**	**Change**	**+/-(1M)%**	**+/-(1YR)%**
UK 100 INDEX (Close)	6,783.79	-170.43	-3.12	6.32
CAC 40 INDEX (Close)	4,578.34	69.08	0.65	-7.14
EUROSTOXX 50 (Close)	3,051.88	-3.37	-0.11	-12.96
Asia/Far East	**Value**	**Change**	**+/-(1M)%**	**+/-(1YR)%**
SHANGHAI COMPOSITE (Close)	3,250.03	149.54	4.68	-5.44
NIKKEI-225 (Close)	18,308.48	883.46	4.91	-7.95
ASX 200 (Close)	5,440.50	122.80	2.97	4.57
HANG SENG (Close)	22,789.77	-144.77	-0.75	3.23

Companies Recommended November 2016				
UK	**Research Date**	**Recommendation**	**Share Price**	**Gain/ Loss***
Brown (N)	23 November 16	BUY	197p	+1.2%
First Group		BUY	109p	-6.4%
Greene King	18 November 16	BUY	759p	-9.6%

Halfords	18 November 16	BUY	325p	5.2%
Next	18 November 16	BUY	4996p	-3.4%
	23 November 16			

***excludes dealing costs, taxes, PTM levies.**

United Kingdom

UK GDP growth rose 0.5% between July and September, slower than the 0.7% from April to June. The growth was helped by services (+0.8%) growth, other areas contracted, industrial production -0.4% and construction -1.4%.

The UK support services sector hit lows over November. 2016 has seen profit warnings across the sector (Capita, Carillion, Interserve, Serco) as post Brexit delays decision making. Ahead of the Capita pre-close update on 8th December, HSBC cut Capita to "hold" with a target of 450p taking 7% off the shares.

Despite positive results, over November from UK sensitive companies **Easyjet, Greene King, Topps Tiles** shares have moved lower on concerns over higher costs, the increase in National Living wage and the impact of the weak pound on imported goods.

UK mining and banking stocks rose on the Trump win (due to higher copper, iron ore) and higher US bond yields (which boost net interest margins). At one point the UK mining sector added c. 20% from November 7th – 12th. Investors switched into defense companies on the assumption of increased NATO spending.

However drops in large cap telecoms (Vodafone/ BT), media, pharmaceuticals (Astra Zeneca, GSK), food producers (Unilver, Compass) and leisure stocks (Whitbread) suggest investors have rotated into equities more exposed to the economic cycle.

China/Japan

China might benefit from a Trump Presidency. That is the main take-away from the 4.7% gain in Shanghai stocks over November. Partly this reflects Donald Trump's insistence on withdrawing the US from the Trans Pacific Partnership (TPP). China is the main beneficiary of the TPP falling apart (it was not included in the TPP). The TPP aimed to slash tariffs, and boost trade between Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile & Peru, the point being to create a single trading zone (along the lines of the EU/ numbering about 800m people). It came to represent a focal point for the populist anti-globalization movement now boosted by the Trump election.

Tokyo stocks rose over November as the Yen weakened sharply from ¥105 to ¥113.3 v USD

source: www.xe.com

Europe

Following the US election result, considerable

United States

Frankly we view the incoming Trump Presidency

fresh uncertainty has descended on the EU resulting a sharply lower Euro v US dollar. These concerns are centered on :-

a) The US commitment to the NATO security shield in the event the EU/ UK baulks at renewed US pressure to increase its defense spending to above 2% GDP.
b) A re-set of the US/ Russia relationship – Vladimir Putin requested a re-set with Donald Trump. An improved US/ Russia relationship is a problem for EU interests.
c) Uncertainty over the Italian referendum on changes to the Senate (3rd December)
d) Forthcoming EU elections in the next 12 months in the Netherlands, France and Germany. The worry is a more energized EU voting public shifting to right wing/ anti EU politicians.
e) Negotiations with the UK over "Brexit" terms are likely to be underway from March 2017.

Arguably there are significant uncertainties/ headwinds facing the EU over the next 12 months but the good news is recent GDP data has showed the Eurozone accelerating Q3 GDP was 1.6% ahead of 1.5% expectations. The Eurozone is expected to grow by 1.6% in 2017 according to the OECD.

Eurozone inflation is estimated by Eurostat to have jumped to 0.6% from 0.5% in October (30th November 2016).

Looking ahead 2017 will be a year when the Eurozone's traditional political stability will be tested.

with concern. This is due to his lack of government experience, temperament and tendency to switch positions on a whim. Following a positive victory speech, the President elect reverted to early hours tweets attacking critics. The cabinet appointments have awarded loyalists, not expertise, the plan to put the Trump business under the control of his children, is certainly not an arms' length arrangement. There will be issues with this President. Still the people have spoken.

The US election spoke volumes about growing inequality, worker resentment and the impact of globalisation on the working and middle class. It was a vote for change, a repudiation of the achievements of the Clintons and the Obama Administration. This is a cruel verdict, given President Obama started his term with America losing 0.5m jobs per month and near Depression conditions. It ends with the US having enjoyed seven years of growth.

The OECD backed the Trump plan to boost infrastructure spending predicting it would combat US inequality and boost US GDP growth by 0.25%-0.5% in H2 2017 and 1% in 2018. But will a re-run of the 1930's "New Deal" narrow wealth disparities?

US bond yields have surged as investors expect a "Reagan-esque" period of high deficits. The Federal Reserve made the point that market rates would reflect anticipated US spending. An important by-product of the Trump plan is likely to be the swift end of "ZIRP" – "zero interest rate policy". November 2016 was the worst month for US bonds since 2009.

US equities were positioned for a Clinton win, but rapidly adjusted to the reality of Donald Trump reversing initial losses post the victory speech.

Important Information

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