December 2016 Newsletter

A Modern Stockbroker with Traditional Values

COLLINS SARRI STATHAM INVESTMENTS

Themes from December

Lloyds Banking has agreed to buy MBNA Ltd from Bank of America for £1.9bn – its first major acquisition since 2008. The buyout will increase its UK credit card market share to 26% from 15%.

Credit Suisse agreed to pay US$5.28bn in settlement with the US Department of Justice related to toxic sub-prime mortgage securities issued in 2007. Deutsche Bank agreed a similar US$7.2bn settlement, (around half of the $16bn previously mooted) – it will book charges of $1.17bn in Q4 (above its provision).

Barclays has refused to settle, prompting a DoJ lawsuit alleging Barclays wrongdoing relating to $30bn of mortgage securities.

BP will issue 2% of its capital to the Abu Dhabi government for a 10% stake in the ADCO onshore oil concession. BP is also buying a 62% working interest in Kosmos Energy's exploration block in Mauritania. BP shares ended 2016 near year high levels.

USD ended 2016 at near best levels against the Yen at ¥117.96 and $1.2279. The USD is benefiting from expectations of higher US interest rates during 2017.

Capita Group said the BBC will extend its BBC TV licence contract for 2 years. The CEO and two other directors bought shares following a second profit warning.

CFD providers IG Group, Plus500 and CMC Markets declined after the FCA and BaFin announced regulatory reviews of retail client

Forthcoming UK Events

3 JAN	CIPS Manufacturing PMI
4 JAN	UK Construction PMI/ BoE Consumer Credit
5 JAN	BoE Andy Haldane speech/ CIPS UK Services PMI
9 JAN	Halifax House Price Index
11 JAN	UK Balance of Trade
12 JAN	UK NIESR GDP Estimate (3M)
17 JAN	UK PPI Output/ Retail Price Index/ PPI Input/ Output
18 JAN	UK Unemployment Rate/ UK Average Earnings
20 JAN	UK Retail Sales/ CBI Industrial Trends
23 JAN	CBI Distributive Trades January
24 JAN	UK Public Sector Net Borrowing
26 JAN	BBA Mortgage Approvals

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facing products including CFDs, binary options and spread bets.

Rightmove launched a £17m share buyback which will run until February 23rd.

Performance of World Markets (30/12/2016)				
North America	**Value**	**Change**	**+/-(1M)%**	**+/-(1YR)%**
DOW JONES (Close)	19,762.60	570.67	2.97	13.42
S&P 500 (Close)	2,238.83	47.75	2.18	9.54
NASDAQ (Close)	5,383.12	132.01	2.51	7.50
Europe/UK	**Value**	**Change**	**+/-(1M)%**	**+/-(1YR)%**
UK 100 INDEX (Close)	7,142.83	412.11	6.12	14.43
CAC 40 INDEX (Close)	4,882.38	347.65	7.68	5.16
EUROSTOXX 50 (Close)	3,308.67	293.54	9.74	1.47
Asia/Far East	**Value**	**Change**	**+/-(1M)%**	**+/-(1YR)%**
SHANGHAI COMPOSITE (Close)	3,103.64	-140.20	-4.32	-12.31
NIKKEI-225 (Close)	19,114.37	688.29	3.74	-0.42
ASX 200 (Close)	5,665.80	221.80	4.07	6.98
HANG SENG (Close)	22,000.56	-564.26	-2.50	1.13

Companies Recommended December 2016				
UK	**Research Date**	**Recommendation**	**Share Price**	**Gain/ Loss***
OneSavings Bank	14 December 16	BUY	348p	-4.0%
Virgin Money	14 December 16	BUY	294p	+2.9%

*excludes dealing costs, taxes, PTM levies.

United Kingdom

Ahead of the Article 50 trigger (due 31st March 2017) the UK GDP growth read was revised up (23rd December 2016) to 0.6% in Q3 from the initial 0.5% estimate. We have some uncertainty in January 2017, in the form of the Supreme Court verdict on the UK government's approach to the Article 50 trigger.

UK blue chips ended 2016 with the index ahead by 14.4% excluding dividends (+3.5%). Partly this reflects the toxic effect "Brexit" had on sterling's external value. The pound fell sharply to 31 year lows v the USD in 2016 boosting the value of companies with revenues/ assets in USD and EUR and hurting companies with expenses and debts in USD and EUR.

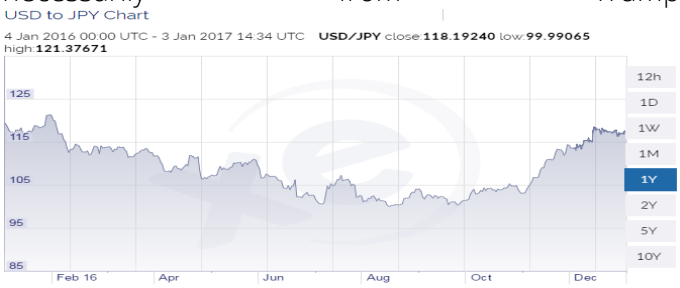
2016 saw significant sector related sensitivity. There were sharp gains in mining, oils, banks and insurers. However travel, retail, leisure, property, support service companies were hit very hard. Post the US election, sharp rises in market interest rates hurt companies seen as interest rate proxies, such as large cap pharmaceuticals, consumer goods and utilities.

What lies ahead for 2017? We expect global interest rates to climb and commodity prices to remain underpinned. It is likely that event-driven volatility, a key theme of 2016 will persist. Overall we see uncertainty levels rising not abating

China/Japan

Having paid my first visit to Tokyo over the festive season, I must report that based on anecdotal evidence, business in Shinjuku (Tokyo's skyscraper district) appeared brisk! The Yen is playing the "currency war" game as well with a sharp drop since the US Presidential election.

The election saw PM Shinzo Abe rapidly make his way to Trump Tower for urgent talks aimed at clarifying Japan's position. The talks went well and we do not see Japan's position as under threat necessarily from Trump.



Source: www.xe.com/currencycharts

Japan's zero interest rate policy is perhaps the most insulated from US events due to Japan's high savings rate and elderly demographics. Over 2016 the Bank of Japan continued its QE policy of targeting bond yields, an objective likely to continue.

Europe

Notwithstanding significant political uncertainty in the EU over 2017 in the form of key elections in the Netherlands, Germany and France – the key EU markets headed into 2017 in strong form ending at near best levels.

EU investors are hoping the recent Austrian election, in rejecting the radicalism of the populist

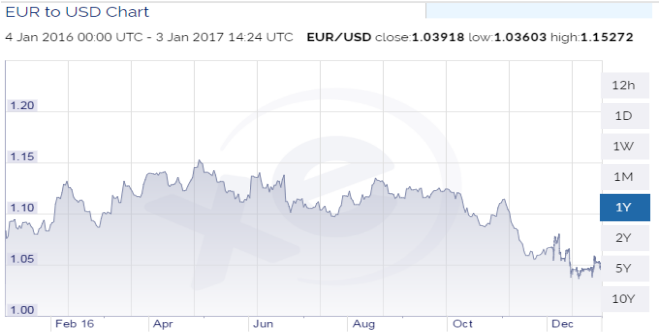
United States

Given the nature of global risks do US equities deserve to be at Dow Jones 20k?

US equities, as represented by the S&P 500 have priced in a near 20% jump in EPS during 2017 based on President-Elect Trump's promise to cut the US corporate tax rate from 35% to 15%. The lower tax rate could encourage US companies to

far right will be the example followed on the Continent in 2017. The intelligent withdrawal of President Hollande from the 2017 election is seen as positive for Francois Fillon and channeling away support for Marine Le Pen.

One key benefit for the EU's exporters has been the steady decline in the Euro's value v USD – it has dropped to $1.04 near record lows. This appears a function of widening interest rate differentials and market yields as US bond yields north of 3% prompt dollar buying activity.



Source: www.xe.com/currencycharts

repatriate cash profits from overseas, funding share buybacks or higher dividends.

Equities are overlooking the high risk of geopolitical tensions, (investors should recall 2002-2003 ahead of Gulf War II when the US Administration hell bent on the Iraqi invasion triggered a bear market as investors awaited the war) and the prospect of trade wars (China/ Mexico). The incoming President has yet to demonstrate any diplomatic skills, engaging in daily social media commentaries and juvenile slanging matches with the Obama Administration and others. We remain concerned over the course of US foreign policy and the weird coziness with Russia that could risk the NATO alliance. We view as odd, Donald Trump's frequent berating of China basically on the grounds of its trade surplus.

Tax cuts whether corporate or personal are a blunt instrument. They are likely to decrease US productivity and rapidly increase the US debt load in exchange for a temporary GDP increase that will be accompanied by a higher interest rate.

Important Information

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