FP FINANCIAL PARTNERS

Weekly Digest

Week ending **6 August 2017**

French summer lull

If you take a Eurostar to Paris this month, you'll find the French capital quiet and empty. Most people have left for the Atlantic Coast or the Mediterranean Sea and not much will happen for at least the next three weeks. As usual, the French economy goes into full holiday mode in August.

Since the election results, the portfolio managers are often asked if Macron will finally change things in France, if he will be able to revive the economy, fix the labour market or even if he will reduce the number of holidays! In a way, his victory has already changed France significantly. Anyone who regularly travels there would have noticed how the national mood has turned brighter. Consumer confidence which has been on an improving trend for the past four years is now back to pre-financial crisis levels while business confidence has rebounded significantly across the different sectors. The fact that Paris is now nearly certain to host the Olympic Games in 2024 should further boost the capital and encourage investment. People are feeling energised and there is hope that things will move forward. European equity inflows reached nearly $30bn during the first seven months of 2017 while the growth momentum in France and the rest of the euro area is picking up. Investors seem to be similarly upbeat.

But Macron faces a lot of challenges if he wants to turn a better national mood into a good economic story. While GDP growth has improved, it's still low relative to other countries. Unemployment has decreased to 9.6% but remains structurally high. On the political front, Macron needs to reduce the number of controversies to ensure his reform agenda can be completed during his term. The reforms his party wants to undertake, while maybe economically necessary, are painful and have already received some public backlash. He has a comfortable majority which should help him pass reforms in the Assembly but his MPs are less experienced politically and he is struggling to maintain discipline and coherence within his own party. While Macron's popularity is still relatively high, his approval ratings have started to fall.

The month of July saw many controversies arise for the new French government, including the resignation of the head of the army following unexpected budget cuts to the military and the announcement by the budget minister of a €5 cut to the housing benefit which might disproportionally hurt the poorest. Discontent also remains high in the countryside, especially in the North and South-East where the National Front won a greater share of the vote. Street protests are likely to take place in September and the new government should move carefully to avoid mobilising more people if it wants to limit their scale. On the international side, Macron is a pro-European and is very keen to push for a more integrated Europe but his tendency to deal with issues single-handedly and his focus on Germany are at risk of alienating other countries, further limiting his political power to drive any real political and economic changes.

The managers of the core portfolios have chosen to stay overweight Europe as they continue to prefer the rest of the world relative to the overpriced US market, but they do recognise that expected returns are less attractive than at the start of the year and therefore remain cautious. As investors were overestimating risks going into the elections, they might now be underestimating the risk that Macron may not be able to push all his reforms through, at both domestic and European levels. Expectations are high and arguably outsized.

As for holidays, the managers doubt Macron will make any changes as there is little reason to do so. French people might take more holidays than the Brits but the overall productivity in France is higher; a report from the ONS indicated that in 2015 UK workers produced on average 22.7% less per hour than workers in France. Although there are some questions about how comparable the UK and French systems actually are, it raises the question of whether the UK should have more holidays …

Source: Bloomberg. Returns in local currency unless otherwise stated.

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The **Marketplace**

- Oil prices finished the week relatively flat with Brent standing at USD52.46
- Gold fell 0.9% to 1257.6
- Technology shares buoyed by Apple results
- An overall flat week on the markets with some upward momentum on Friday

Market **Focus**

US

- ISM non-manufacturing composite for July below expectations at 53.9 (56.9 expected)
- The S&P 500 Index was up +0.2% on the week closing at 2476.8
- The Dow Jones was up +1.2% closing at 22093 marking seven days of continual highs
- Nasdaq closed at 5899.9 on the week , down -0.15%
- Retired general John Kelly hired as new chief of staff, special counsel Robert Mueller to probe possible Russian electoral interference
- US jobs data on Friday was up +209K positions (estimated 180K) unemployment stands at 4.3%

UK

- PMI for manufacturing in July rose to 55.1 , beating expectations of 54.4 on the back of strong exports
- The office of the prime minister dismissed claims that the UK is willing to pay a EUR40 billion settlement to the EU
- UK house price gains dropped to 2.9% p.a in July in signs of further cooling. They were over 10% p.a in 2014
- Inflation bites as UK consumers cut back spending for a third consecutive month
- UK Equities up 1.9% month-to-date with the FTSE closing at 7511.7
- 10 year gilt yields fell 4bps on the week to 1.2%

Europe

- GDP in the Euro-Area increased 0.6% in the second quarter. Fundamentals appear strong
- The euro continued its surprising rally and breached $1.19 on Wednesday, the highest in 2 1/2 years
- Euro area composite PMI fell to 55.7 and Germany's PMI dropped to 54.7 from 56.4 in July –the first time it has lagged behind Spain, France and Italy in over 12 years
- The Stoxx 600 closed the week +1.1% at 382.3.

Asia

- The Nikkei index had a flat week closing -0.04% on Friday at 20055.8
- The Hang Seng index closed the week up 2.2% at 27690.3
- New UN sanctions to restrict North Korea's exports supported by China

Jeromine Bertrand (CFA) & James Jones

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Asset Class/Region	Currency	Currency returns			
		Week ending 4 August 2017	Month to date	YTD 2017	12 months
Developed Market Equities					
United States	USD	0.2%	0.3%	11.5%	16.1%
United Kingdom	GBP	2.0%	1.9%	7.8%	15.7%
Continental Europe	EUR	1.2%	1.4%	10.0%	19.5%
Japan	JPY	0.6%	0.8%	8.7%	29.9%
Asia Pacific (ex Japan)	USD	0.4%	-0.1%	25.9%	24.7%
Australia	AUD	0.3%	0.0%	3.2%	9.0%
Global	USD	0.4%	0.4%	13.7%	17.5%
Emerging markets equities					
Emerging Europe	USD	1.2%	1.1%	10.2%	24.0%
Emerging Asia	USD	0.6%	0.0%	30.1%	28.5%
Emerging Latin America	USD	1.2%	1.0%	20.4%	18.6%
BRICs	USD	1.3%	0.5%	27.6%	30.5%
MENA countries	USD	-0.7%	0.2%	4.5%	13.1%
South Africa	USD	-2.8%	-1.6%	13.6%	5.6%
India	USD	1.1%	0.6%	32.4%	24.9%
Global Emerging Markets	USD	0.4%	0.1%	25.7%	24.6%
Bonds					
US Treasuries	USD	0.2%	0.2%	2.4%	-2.3%
US Treasuries (inflation protected)	USD	0.1%	0.2%	1.6%	-0.6%
US Corporate (investment grade)	USD	0.1%	0.1%	4.7%	2.1%
US High Yield	USD	0.0%	0.0%	6.1%	10.9%
UK Gilts	GBP	0.5%	0.6%	1.1%	-3.0%
UK Corporate (investment grade)	GBP	0.5%	0.5%	3.8%	1.5%
Euro Government Bonds	EUR	0.6%	0.5%	-0.3%	-3.3%
Euro Corporate (investment grade)	EUR	0.4%	0.4%	1.8%	0.7%
Euro High Yield	EUR	0.4%	0.4%	5.6%	8.7%
Japanese Government	JPY	0.1%	0.1%	-0.3%	-2.1%
Australian Government	AUD	0.4%	0.3%	2.9%	-1.0%
Global Government Bonds	USD	0.3%	0.0%	5.8%	-3.1%
Global Bonds	USD	0.2%	0.0%	6.1%	-0.7%
Global Convertible Bonds	USD	-0.1%	-0.1%	8.7%	7.1%
Emerging Market Bonds	USD	0.6%	0.5%	7.2%	3.5%

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 4 August 2017	Month to date	YTD 2017	12 months
Property					
US Property Securities	USD	-0.2%	-0.3%	3.0%	-3.9%
Australian Property Securities	AUD	0.6%	0.8%	-5.3%	-13.6%
Asia Property Securities	USD	1.0%	1.0%	21.9%	17.0%
Global Property Securities	USD	0.1%	0.1%	11.0%	3.7%
Currencies					
Euro	USD	0.1%	-0.5%	11.7%	5.6%
UK Pound Sterling	USD	-0.7%	-1.2%	5.5%	-0.6%
Japanese Yen	USD	0.0%	-0.3%	5.6%	-8.7%
Australian Dollar	USD	-0.7%	-0.7%	10.1%	3.9%
South African Rand	USD	-3.0%	-1.5%	1.8%	2.1%
Swiss Franc	USD	-0.4%	-0.6%	4.8%	0.2%
Chinese Yuan	USD	0.1%	0.1%	3.4%	-1.2%
Commodities & Alternatives					
Commodities	USD	-0.8%	-0.9%	-3.7%	3.4%
Agricultural Commodities	USD	-1.8%	-1.5%	-0.5%	0.2%
Oil	USD	-0.2%	-0.4%	-7.7%	18.4%
Gold	USD	-0.9%	-0.8%	9.1%	-7.6%
Hedge funds	USD	-0.1%	-0.1%	3.4%	5.4%

Source: Bloomberg

For more information, please contact your adviser or alternatively contact:

Financial Partners Ltd.
泛柏資產管理有限公司
Unit 01 - 03
24/F, Kinwick Centre
32 Hollywood Road
Central, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
client.services@f-p.hk
www.f-p.hk

Important notes