FINANCIAL PARTNERS

Weekly Digest

Week ending **23 April 2017**

French politics: vive la difference

Overnight the votes were counted in the first round of the French presidential election and the result signifies substantial changes of the guard in French politics. Emmanuel Macron, something of a political newcomer, secured the largest share of the votes cast (23.8%), with Marine Le Pen second on 21.5%. While much of the commentary in the build up to the election has been the prospect of Le Pen's success, the first round result means that it is the first time in many decades that neither of France's main left or right wing parties has a candidate in the second round.

France's first round vote was broadly consistent with polling data ahead of the event. So, while there may not have been the outright shock that was experienced as a result of Brexit or Trump's election, the result of the first round still represents a big deal for French politics. The implication is clear and consistent with the votes in the US and UK insofar as the clear message from the electorate is that the political status quo wasn't working for them and that they feel underserved by the established political elite. Furthermore because Le Pen garnered over a fifth of the vote at the first round, there is also a strong anti-EU sentiment in France which echoes with last year's Brexit vote.

Mr Macron represents a new direction for French politics. The centrist candidate does not have the backing of a major party and, at 39 years old, he could become the youngest president in French history. In the lead up to the first round vote, Mr Macron's bid was buoyed by a number of high profile supporters getting behind him as the 'non Le Pen' candidate and in the aftermath of yesterday's vote many of those defeated candidates have now backed Mr Macron and urged their voters to do the same. As a result Mr Macron is now the favourite to win the final vote - due to take place on 7 May.

A couple of months ago the weekly blog turned its attention to the upcoming French election. At the time Macron's candidacy was still something of a novelty but it suggested that the vote would be less about the traditional tension between left vs. right and more premised on protectionism vs. globalisation. If Le Pen were taken over the line by a silent supporter base it would be a catastrophic blow for the European Union. Firstly Le Pen wants to take France (a founding member of the bloc) out of the Eurozone and will likely hold a referendum on leaving the EU. The second reason is that an erstwhile far right party winning a presidential election in Europe would rightly send shock waves through Brussels. This would call into question one of the key raisons d'être of the European project as a response to the political and military upheaval seen in the region in the 20th century (and indeed countless times in the centuries before). But in truth, even if Le Pen does not win outright, the fact that she has made it through to the second round of voting should be deemed a bold message from the electorate of France. The good news is that Mr Macron is also something of a political oddity compared to the relative hegemony of much of France's post war political history and as a result he should be well placed to embrace this discontent rather than try to sweep it under the carpet. Presently Le Pen is expected to trail Macron by between 20 and 30% in the second round vote which, while substantial in terms of her defeat, still implies that she gains up to 40% of the votes in the second round, which should in itself provide plenty of food for thought for the French establishment.

So, France continues the recent trend of a big anti-establishment vote and all eyes are now on the second round in two weeks' time. While the prospect of a victory for Mr Macron may be somewhat settling thanks to his pro EU stance, his presidency may still be a difficult one because without the backing of a major party he may struggle to secure a majority in the national assembly, in which case he would have to negotiate to have his policies approved through parliament. Marine Le Pen represents the largest share of the vote for an established party and as a result even if she loses the second round her influence in France's political landscape may be substantial..

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

FP FINANCIAL PARTNERS

Weekly Digest

Week ending **23 April 2017**

The **Marketplace**

- Equities & Euro up following first round of French election
- May calls snap UK election
- Flash PMI's encouraging in Europe, less so in US
- UK retail sales decline in March
- Poor week for oil as US inventories rise

Market **Focus**

France

- Sunday saw the first round of voting in the pivotal French Presidential election. With 94% of votes counted, centrist independent candidate Emmanuel Macron (23.8%) looks to have won the first round, with extreme far-right candidate Marine Le Pen (21.7%) in second place. The two frontrunners will now face off in a head-to-head second round of voting on the 7th May, with Macron the favourite.
- Macron, a supporter of the EU, is seen as the most market friendly candidate – evidenced by the moves in Continental European equities, which after losing 0.4% last week, are up 2.1% at time of writing on Monday, while the French CAC 40 index is up 4.5%.
- The Euro is similarly 1.2% higher against the US dollar, at USD 1.09 – its highest level since late March – following a 0.7% rise last week.

UK

- On Tuesday Theresa May, in a surprise U-turn on previous statements, called for a snap general election to be held on the 8th June, which was consequently approved by parliament the next day.
- The prime minister said that her change of heart on calling an election primarily stemmed from her desire to gain more seats in parliament in order to give her a stronger negotiating stance when determining the exit conditions of the UK from the European Union.
- Sterling surged following the announcement, gaining 2.2% on the day versus the dollar, and finished the week at its highest level since September, at USD 1.28. This strength had an adverse effect on UK equities which fell 2.4% on the day, reflecting the high proportion of UK companies who generate revenues abroad.
- Regarding economic data releases the biggest surprise was monthly retail sales, which, after rising 1.7% in February, recorded their largest monthly decline since 2010, falling 1.8% over March.

UK

- US equities rose 0.9% over the week, including a 0.8% rise on Thursday after being buoyed by comments made by Treasury Secretary Mnuchin that the Trump administration is "pretty close" to bringing forward "major tax reform".
- Meanwhile, flash Purchasing Managers Index (PMI) numbers for April were relatively disappointing, with the manufacturing PMI falling 0.5 points to 52.8, and the services PMI falling 0.3 points to 52.5. Although still representing expansion by being above 50, the numbers were interpreted by some to indicate the stalling momentum of US growth.

Europe

- PMI numbers for the Eurozone were more encouraging, with the manufacturing (56.8) and services (56.2) indexes rising 0.6 and 0.2 points respectively.

Oil

- Brent crude oil prices recorded a weekly decline of 7.0% to USD 51.96 per barrel.
- Falls primarily followed data showing US gasoline stockpiles rising for the first time since February. While a following report showed the number of rigs drilling for oil in the US rising for a 14th consecutive week, bringing the total rig count to 688 – the most since April 2015.

James Klempster (CFA) & Oliver Bickley

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

FP FINANCIAL PARTNERS

Asset Class/Region	Currency	Currency returns			
		Week ending 21 Apr. 2017	Month to date	YTD 2017	12 months
Developed Market Equities					
United States	USD	0.9%	-0.5%	5.4%	14.0%
United Kingdom	GBP	-2.8%	-2.5%	1.2%	16.0%
Continental Europe	EUR	-0.4%	-0.9%	5.9%	12.2%
Japan	JPY	2.0%	-1.6%	-1.0%	9.1%
Asia Pacific (ex Japan)	USD	-0.4%	-0.1%	12.7%	15.2%
Australia	AUD	-0.6%	-0.2%	4.6%	15.9%
Global	USD	0.6%	-0.5%	5.8%	11.2%
Emerging Market Equities					
Emerging Europe	USD	1.2%	-0.4%	1.0%	7.4%
Emerging Asia	USD	0.1%	0.3%	13.7%	16.7%
Emerging Latin America	USD	0.0%	-0.1%	11.9%	18.7%
BRICs	USD	0.2%	0.2%	11.8%	19.1%
MENA countries	USD	-1.4%	-0.2%	0.9%	7.8%
South Africa	USD	0.0%	4.4%	8.9%	7.9%
India	USD	-0.6%	-0.3%	17.4%	20.1%
Global Emerging Markets	USD	0.2%	0.5%	11.9%	15.3%
Bonds					
US Treasuries	USD	0.0%	1.0%	1.7%	-0.1%
US Treasuries (inflation protected)	USD	-0.6%	0.3%	1.7%	2.6%
US Corporate (investment grade)	USD	0.0%	1.2%	2.4%	3.7%
US High Yield	USD	0.1%	0.5%	3.2%	13.4%
UK Gilts	GBP	0.0%	0.8%	2.4%	9.0%
UK Corporate (investment grade)	GBP	0.0%	0.5%	2.4%	10.1%
Euro Government Bonds	EUR	-0.1%	0.5%	-1.1%	-0.5%
Euro Corporate (investment grade)	EUR	-0.3%	0.4%	0.7%	2.6%
Euro High Yield	EUR	0.1%	0.4%	2.3%	7.4%
Japanese Government	JPY	0.0%	0.7%	0.2%	-2.3%
Australian Government	AUD	-0.4%	1.0%	2.3%	2.9%
Global Government Bonds	USD	0.3%	1.3%	2.8%	-2.4%
Global Bonds	USD	0.2%	1.0%	2.4%	-1.4%
Global Convertible Bonds	USD	0.4%	0.3%	4.1%	3.3%
Emerging Market Bonds	USD	0.5%	1.7%	5.5%	7.2%

Source: Bloomberg

FINANCIAL PARTNERS

Asset Class/Region	Currency	Currency returns			
		Week ending 21 Apr. 2017	Month to date	YTD 2017	12 months
Property					
US Property Securities	USD	0.9%	2.9%	3.6%	8.5%
Australian Property Securities	AUD	-1.1%	4.1%	2.9%	5.1%
Asia Property Securities	USD	-0.6%	2.7%	12.0%	8.4%
Global Property Securities	USD	0.2%	2.6%	6.4%	6.6%
Currencies					
Euro	USD	0.7%	0.0%	1.6%	-5.3%
UK Pound Sterling	USD	2.2%	2.0%	3.6%	-10.7%
Japanese Yen	USD	-0.3%	2.1%	7.4%	0.4%
Australian Dollar	USD	-0.5%	-1.4%	4.8%	-2.6%
South African Rand	USD	2.1%	2.0%	4.1%	8.9%
Swiss Franc	USD	0.6%	0.2%	2.0%	-2.3%
Chinese Yuan	USD	-0.2%	-0.2%	0.8%	-6.0%
Commodities & Alternatives					
Commodities	USD	-3.6%	-2.1%	-3.8%	3.3%
Agricultural Commodities	USD	-1.7%	-1.8%	-2.1%	-4.9%
Oil	USD	-7.0%	-1.6%	-8.6%	16.7%
Gold	USD	0.0%	2.9%	11.7%	3.1%
Hedge funds	USD	0.1%	0.0%	1.7%	5.6%

Source: Bloomberg

Weekly Digest Week ending **23 April 2017**

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

This communication is issued by Financial Partners Limited 泛柏資產管理有限公司 and/or a Financial Partners' related company (collectively, and individually "FP") solely to its clients, qualified prospective clients or institutional and professional investors. Unless stated otherwise, any opinions or views expressed in this communication do not represent those of FP. Opinions or views of any FP company expressed in this communication may differ from those of other departments or companies within FP, including any opinions or views expressed in any research issued by FP. FP may deal as Distributor or Agent, or have interests, in any financial product referred to in this email. FP has policies designed to negate conflicts of interest. Unless otherwise stated, this e-mail is solely for information purposes.

This message may contain confidential information. Any use, dissemination, distribution or reproduction of this information outside the original recipients of this message is strictly prohibited. If you receive this message by mistake, please notify the sender by reply email immediately.

Unless specifically stated, neither the information nor any opinion contained herein constitutes as an advertisement, an invitation, a solicitation, a recommendation or advice to buy or sell any products, services, securities, futures, options, other financial instruments or provide any investment advice or service by FP.

No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any figures, forecasts, prospects or returns (if any) contained in the message. Such figures, forecasts, prospects or returns are by their nature subject to significant uncertainties and contingencies. The assumptions and parameters used by FP are not the only ones that might reasonably have been selected and therefore FP does not guarantee the sequence, accuracy, completeness or timeliness of the information provided herein. None of FP, its group members or any of their employees or directors shall be held liable, in any way, for any claims, mistakes, errors or otherwise arising out of or in connection with the content of this e-mail.

This e-mail and any accompanying attachments are not encrypted and cannot be guaranteed to be secure, complete or error-free as electronic communications may be intercepted, corrupted, lost, destroyed, delayed or incomplete, and/or may contain viruses. FP therefore does not accept any liability for any interception, corruption, loss, destruction, incompleteness, viruses, errors, omissions or delays in relation to this electronic communication. If verification is required please request a hard-copy version. Electronic communications carried within the FP system may be monitored.