



## Weekly Market Comment

9 December 2016

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Source: CNN Money

## Santa Rally?

With Italy losing its Prime Minister after the 'No' outcome of the referendum and the European Central Bank signalling less monetary support from April 2017 onwards, the past week should have been full of market drama. The opposite was the case - again. Italian equities rose almost 7% over the course of the week and likewise European equities strengthened after Mario Draghi's ECB announcement and rose a good 5% over the course of the week. Very nearly enough to push them into positive territory for 2016. So is this Santa Rally unstoppable and markets 'off their heads'?

It would seem to me that every setback for the political establishment around the world just serves to convince markets more that change is in the air. This change is called: Fiscal expansion. With fiscal stimulus can come a growth jolt and with that, deflationary fears turn into more normal inflation expectations. All signs that a return from the 'New Normal' to the 'Old Normal' has come to within reach.

As the departing Prime Minister Renzi's name is added to the growing list of western politicians (Cameron, Clinton, Hollande) who are rejected by angry electorates are in hope that the populist simplifiers will do a better job at managing the economy, the western political class has come under existential pressure to improve their performance. As we will argue in one of the next sections, deficit spending for fiscal investment stimulus suddenly doesn't sound so scary anymore - when the electoral reaper is at large. Rising equity markets, despite a rapid sell-off in the bond markets appears to indicate that financial markets are no longer scared by the prospect of rising public deficits either, as long as they put an end to the economic slow growth ice-age.

Now that market barometers are beginning to flash red with overbought signals, many have begun to ask whether this rally can be sustainable or will reverse even before Santa arrives.

As I discussed here over the past weeks, the economic momentum and market sentiment is strengthening as corporate earnings are once again growing and macro-economic indicators are hitting multi-year highs which are all supportive of a rerating of markets. Furthermore, the return of inflation expectations alongside the looming clamp down on Chinese overseas investments have all mobilised money for stock market inflows that previously sat in cash, bonds or abroad. This is not to say that there isn't a risk that market expectations are becoming a little exuberant and they may fall back if politician proves to be slower in changing their ways

than markets anticipate, or the US\$ strengthens more than is healthy for the rest of the world. However, the positive forces driving markets are stronger at the moment than they have been for a number of years and medium term optimism – at least for economic progress – are probably in order.

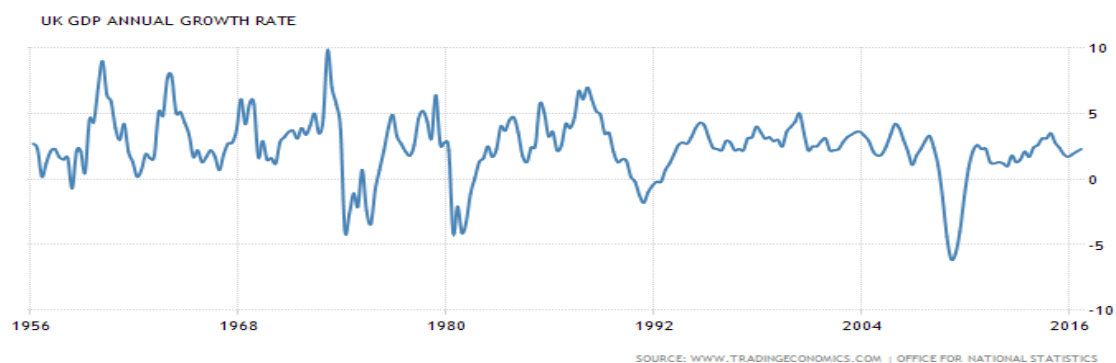
### Economic cycle orientation

This week, the governor of the Bank of England (BoE) chose to inform markets that the UK had experienced a lost decade - low growth, unstable unemployment and weak productivity. The governor's speech was intended as a response to critics of low interest rates and loose monetary policy. He argued that, had the BoE not acted, the situation would have been worse. In the same speech, the governor's references to the state of the UK economy were equally concerning, "*monetary policy has been keeping the **patient alive**, creating the possibility of a lasting cure through fiscal (read government investment) and structural operations (read economic reforms)*".

While the context for the governor's comments is monetary policy, the reference to a lost decade and fiscal and structural policies relates to a more familiar issue - economic and business cycles. The same issue has been raised by the US Fed in recent conference speeches and by market commentators when considering the apparent '(technical) inflection point' (see our previous commentary). So, have we actually suffered an 8-year recession and are now in the trough of a business cycle instead of a slow 7-year economic recovery?

Business cycles represent different levels of economic activity in an economy over time (measured by the total amount of production (output)). As shown in the illustrative graph below, economic activity will move up and down, and the length of a business cycle is determined by the point at which the direction of economic growth changes. The peak of a cycle refers to the point just before several economic indicators - such as employment and output - begin to fall. The trough of a cycle refers to the point at which the same economic indicators begin to rise.

#### Cycling through UK Annual GDP growth rates



Business cycles clearly do not follow a regular pattern. The duration of periods of 'boom (expansion) and bust (recession)' will vary according to different factors, not least monetary policy. For example, the onset of the GFC (Global Financial Crisis) meant that UK output fell sharply from mid-2008, but the cycle was actually shorter than after the recession in the early 90s (a key difference being the rapid response of the central bank and monetary policy). However, despite the unusually accommodative monetary policy and positive economic indicators, both of which indicate that the trough of the current business cycle has long passed,

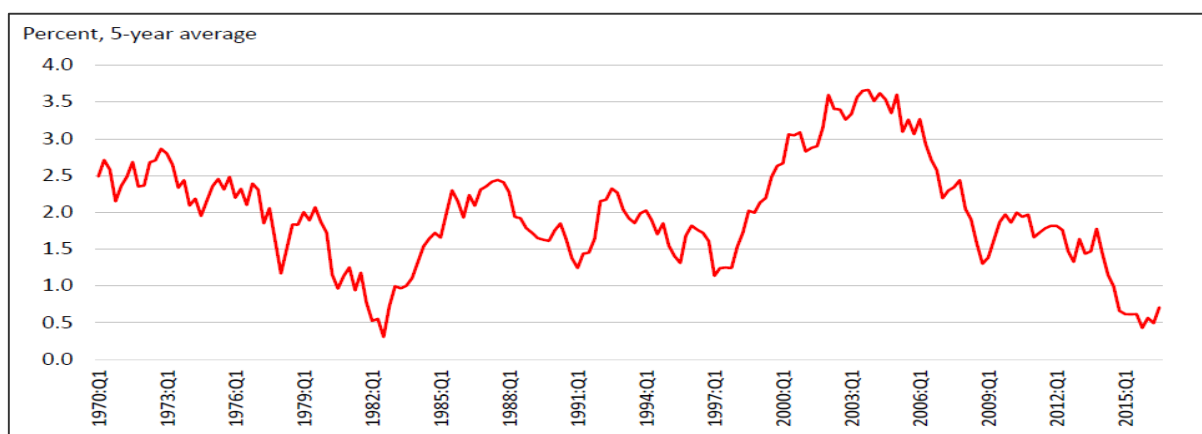
growth remains sluggish and is interspersed by periods of slowing growth, indicating it is a relatively weak cycle.

In the US, for example, the current recovery has been under way since June 2009 – making it the third longest recovery since 1913. Even though US GDP (output) is 11% higher and employment higher than their pre-crisis peaks, the expansion is showing the slowest pace of GDP growth of any period of post-war recovery.

The experience of the US and the UK is mirrored in many other developed economies, resulting in forecasted economic growth rates being repeatedly scaled down. The Fed and the BoE are querying whether the decline in the rate of growth is just a particularly slow business cycle, or whether it represents a long-run and more permanent downshift.

Certainly, both the Fed and the BoE appear to agree that productivity is a key issue, to the extent that the BoE believe the biggest problem currently is not the distribution of gains, but the lack of income growth due to a 16% shortfall of productivity since 2008. A similar picture emerges in the US, where part of the growth slowdown reflects weak productivity growth rather than lower labour supply. According to the Fed, labour productivity has increased only 0.5% per year since 2010 – the smallest 5-yr rate of increase since World War II, and about 0.25% of the average post-war rate.

### US labour productivity growth



Source: Speech by Jerome Powell, Board of Governors US Fed, November 2016

So, why does productivity matter? Productivity levels and the rate of productivity determine an economy's level and rate of growth. Higher rates of productivity tend to expand the economy's capacity and potential and, in theory at least, create a virtuous circle of labour efficiency, higher wages, greater consumption, improved corporate returns and ongoing investment etc.

More generally, a lower rate of growth will reduce income growth and the income security expectations of households – meaning individuals will tend to build their savings. Also, demographic factors in certain economies (more retirees as we live longer) means generally higher levels of saving (relative to historical averages). Perhaps most importantly, the lower rate of return on capital owing to lower productivity growth will tend to reduce investment (and lower interest rates).

So, against this insight into the cyclicity of business activity and the economy in general, where are we with this current cycle and what is wrong with it?

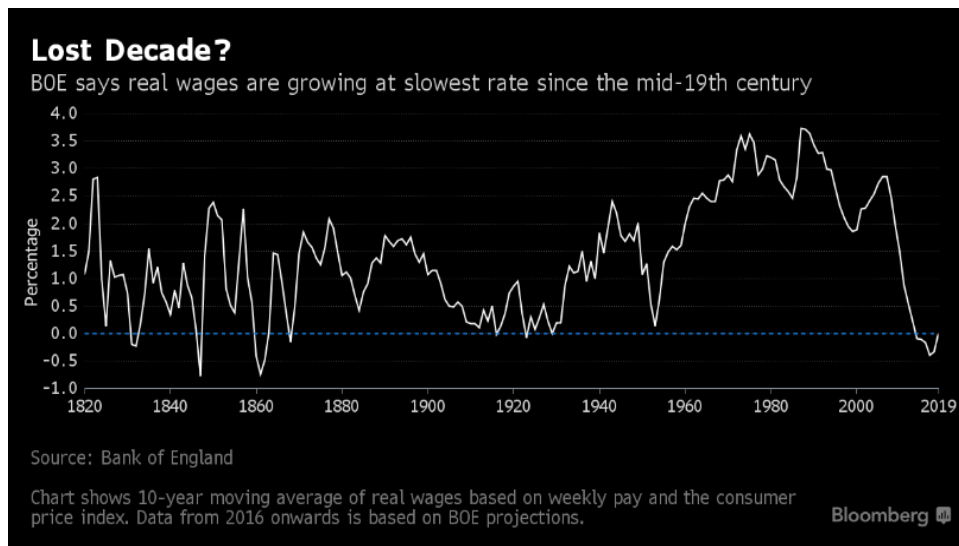
To answer this question, we have to first accept that economic cycles which follow financial crises, rather than a general overheating of economic activity (boom-bust) tend to be far longer and usually less dynamic. This is because business and consumer confidence into the future prospects tends to be far more damaged after financial crises than after the much more frequent economic overshooting – undershooting type cycle. Firstly, the economic decline tends to be sharper and deeper and secondly, a failure of the financial framework seems to be far more unsettling to the trust of economics in terms of future economic stability.

It is therefore quite possible that the low productivity phenomenon discussed above is not the cause but rather the consequence of a far more fundamental issue – an ongoing recession in trust and confidence. Lack of confidence into the future leads to lower long term investments into productive capital, because those who draw up the business cases will ascribe lower certainty of future return of the investment. This smaller investment leads to lower productivity which results in lower growth. Slower growth itself leads to lower yields, which might push down hurdle rates for the viability of business cases, but at the same time undermines confidence again, which negates the lower hurdle effect.

The low confidence also leads individuals to shy away from risky financial investments, which increases the demand for lower risk fixed interest bonds, which puts more downward pressure on yields. In such circumstances central banks try to boost confidence by injecting more liquidity into the monetary system, which pushes up asset values, as more money is looking for a home. However, if this only re-inflates depressed asset values but fails in its aim to re-establish normal confidence levels, then its ability to stimulate the economy rapidly deteriorates as time goes by. Eventually, the low interest rates and yields that come with monetary stimulus may even become counterproductive relative to the aim, if it forces savers to save even more to achieve certain future cash flow targets.

This explains why central bankers have recently become quite so vocal about the limitations of monetary stimulus so long after activity levels hit their lows in 2009 and demand that politicians finally pick up their responsibility in managing the economy towards growth. While it is broadly consensus that the decisive and concerted action of central banks in 2008/2009 prevented the GFC from deteriorating towards a global depression like in the 1930s, it is nowhere nearly as clear how to now escape the low confidence, low growth 'economic ice-age' it appears to have resulted in. For sure, at the moment this low growth environment also means there is little chance of this cycle overheating any time soon, but there is a possibility that an adverse course of events could create deterioration of sentiment and confidence once more.

Currently, it seems that the electoral discontent of those who have suffered most under the lack of improvement may finally be opening a new avenue – or so at least financial markets seem to predict. To the established political class, the radical change in voter behaviour must be feeling like some sort of revolution, given its ability to sweep away established figures and norms with a vigour that hasn't been seen for decades.



Source: Bloomberg, Bank of England

As we have predicted since the summer, this should finally put an end to fiscal austerity and promote fiscal stimulus to regain growth rates that can once again pacify the rebellious masses. This is where confidence comes back into play. Austerity was pursued by politicians, because they thought financial markets would not be confident enough to lend to governments beyond a certain level relative to total GDP (generally assumed to be around 80%). We now seem to have reached a point, where the running out of patience of electorates with politicians' inability to improve the economic environment has become a greater concern for the political class.

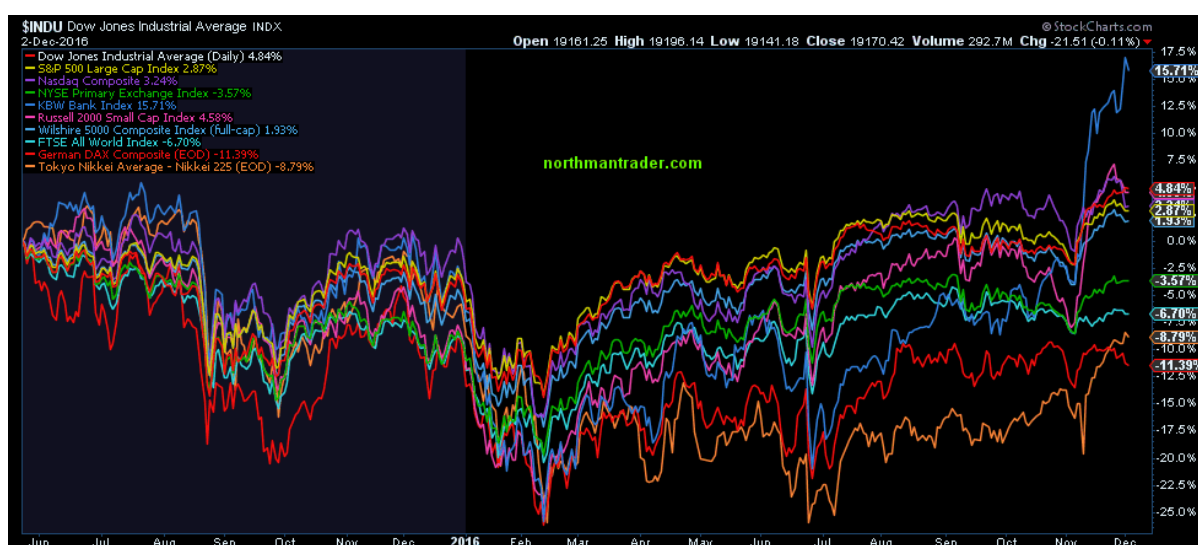
Markets' significantly increased inflation expectations since the summer coupled with improving levels of investor confidence, as evidenced by their rotation from bonds into riskier equity investments, should inform politicians that fiscal stimulus through public investment is what markets are now looking for, rather than fearing. Opposite to the 2013 Taper Tantrum, when yields rose by a similar amount as now and stock markets fell, equities have risen substantially this time – a clear signal to politicians that they are expected to act. Should they disappoint by reverting to budget tightening and lack of decisive action, then the recent upturn in sentiment and market valuation could be quickly undone. From this perspective, the election of Donald Trump may have a positive after all, as politicians across the western world will scramble to improve economic prospects quickly in order to avoid the fate of Cameron, Clinton, Hollande and Renzi.

## 'Reflation trade' propelling stock markets to new highs

Investors may have been wondering why stock markets have suddenly become so positive, with market indices across the globe either matching or breaking record highs on a daily basis. Some may point to one-off factors like the seasonal 'Santa Rally' effect, recent strong company earnings' growth or the end of deflation fears. We believe that it is the convergence of a number of these factors that has led to a marked positive shift in sentiment, which comes on the back of continued improvements in the economic backdrop to which Trump's victory has given a large boost (thanks to expectations of fiscal expansion).

On first impression, it looks as if stock prices are going up indiscriminately, almost resembling a 'buy everything at all costs'. We have written previously about the turn in inflation expectations since the summer, when the surprise Brexit referendum result spelled the end of fiscal austerity and the beginning of fiscal stimulus, in order to stem the attraction of populist rhetoric. The resulting reflationary story has therefore been pretty much in place since then. The election of Donald Trump has merely charged it up, and this could account for the acceleration of the risk asset uplift we see today.

While stock markets around the world have pushed ever higher over the past few weeks, this hasn't actually been as broad based as it may seem. We can clearly identify the biggest winners in the chart below, namely financials (banks) and small caps. While some investors have cautioned that the recent rally is lacking breadth (i.e. too reliant on a small number of stocks), it appears that at least some of the long awaited rotation out of bonds and into equities (risk assets) is under way. As deflation expectations have receded and inflation expectations re-entered investor concerns, it has created what is referred to as a reflationary environment, and this is leading to a general preference for risk assets among investors. This happens on the basis that risk assets tend to not only provide a hedge against inflation (whereas fixed interest bonds do not), but also because they generate superior returns during reflationary periods.



Source: Bloomberg, 9 December 2016, from USD perspective

The US Dow Industrial Average has made no less than 11 consecutive new highs, breaching 19,500 on Wednesday, leaving the psychologically important 20,000 within easy reach. Traders estimate that 50% of the incredible gains in the Dow since Trump's victory can be traced to just two bank stocks, Goldman Sachs and JP Morgan – though financials in general have all done well.

The reason for the financials' surge is that, in a reflationary environment, interest rates and yields generally move higher, which benefits bank profitability due to their high operational gearing to stronger economic growth as both companies and individuals take out more loans. On top of this, Donald Trump's talk of rolling back some or most of the restrictive post financial crisis regulation (Dodd-Frank act et al.) on the financial sector has created further upside expectations for this sector.

Similarly, small cap stocks, which also have high operational leverage to improving economic growth, have continued to jump sharply higher since Trump's election victory. This has led to valuations of such companies becoming more stretched on an Enterprise Value to EBITDA (Earnings Before Interest Tax, Depreciation and Amortisation) basis, and these stocks now appear more expensive on a range of other valuation metrics.

As Royal Bank of Canada (RBC) commented, they "continue to see obvious re-risking" in the form of "buy everything" price-action, as investors push further out onto the risk curve, against a shift away from the 5+ year narrative of "secular stagnation" and towards positioning that allows capture of "reflation animal spirits".

We note that, on each of 2016's political upheavals, Brexit, Trump and the Italian constitutional vote – whose surprise nature should have been decidedly negative for risk assets – the initial downward risk-off moves were reversed at an ever faster rate, thanks to the relentless demand for equity from investors. One trader remarked that it took 3 days to get over Brexit, 3 hours to get over Trump and just 3 minutes to overcome fears over Italy's rejection of Renzi's constitutional reform proposal.

Added to this is the comfort of investors 'knowing' that the Bank of Japan, the European Central Bank and the Bank of England continue to provide a QE-driven monetary stimulus to the global economy. They even have the flexibility to increase the QE volume, should either the second US rate rise unduly reduce liquidity in the markets or political stress actually flare up. RBC believe that these factors are crucial in helping to avoid "VaR shocks" (large sudden downward movements), along with potential tightening in financial conditions.

The reflationary momentum is arguably well underpinned by underlying economic expansion momentum. We note that recent macro-economic data has been markedly positive across the world. The US, UK and Europe are seeing solid growth, China is experiencing a strong rebound in activity and Japan looks to be finally shrugging off the effects of nearly two decades of stagnation.

We note the following positive indicators about the global economy:

- G10 Economic Surprise Index sits at a 3-year high
- US consumer confidence is at a 9-year high
- CEO confidence index printed at the third highest level since July 2007
- Global manufacturing PMI's are at 27-month highs
- Global services are at 1-year highs
- G10 inflation surprise index is at a 49 month high.

As a result of the above factors, we have also seen a positive shift among retail investors, with 'real money' (as in money that previously sat on the sidelines in cash) entering markets as they continue to re-risk. This is manifesting in the current general uptrend environment and, thematically, investors seem to be favouring small caps, financials, cyclicals, inflation-linked investments and stocks with high domestic exposure.



Indeed, we see data backing up the flow of retail money into the markets. At the end of October, US retail investment platform Charles Schwab said that inflows into equity-based ETFs had been picking up. But, by November (after Trump's victory) investors appeared to rush into stocks and ETFs based on the S&P 500 (large cap) and Russell 2000 (small cap), recording the single largest monthly inflow of almost \$50 billion.

Prior to Trump, financial sector ETFs had seen a net outflow of \$5 billion during 2016, since then, they have attracted \$8.2 billion of inflows, while industrials (cyclical companies) have seen inflows of \$4.6 billion.

Another factor that some may have overlooked is the influence of Chinese investors in global markets. In an effort to clamp down on currency outflows from China, the government restricted the amounts individuals can withdraw at overseas ATMs to ¥100,000 (\$15,737). The government already limits citizens to moving a maximum of \$50,000 out of the country per year, after 2015 saw cumulative outflows from China of \$219 alone. If we were to see a similar amount in 2016, as individuals seek to use up their allowances, then this is a large amount of money being directed towards overseas assets.

UK investors, who have already benefitted from the £-Sterling devaluation uplift effect on their, are now treated to another step up and are particularly nervous about the 'new record high' news. Surely, markets are due a correction, considering all the political talk is so gloomy? Well, various market barometers are certainly flashing red and are warnings of imminent sell-off risk. That is certainly a possibility. However, so is the continuation of the 'Santa Rally', which is – this year particularly – supported by the described shift in market sentiment, the reflation theme, company earnings growth and a raft of improving economic data. This has created a positive momentum which could carry markets higher, beyond the festive season.

### Italian political upheaval fails to trigger markets stress - again

It's been a tumultuous week in Italy, following the public's rejection of the constitutional reforms offered in Sunday last week's referendum. On offer in the vote was a package of reform designed to change the makeup of Italy's parliament, giving Italy the most comprehensive alteration to the constitution since the end of the monarchy. As it turned out, the vote was extremely clear-cut; the reformers lost, and by a huge margin – 59% to 41%.

The ballots were not even fully counted before the referendum had claimed its first victim. Prime Minister Matteo Renzi announced his plan to retire as soon as the early results made it clear that 'No' was to emerge the victor. The young Prime Minister had already promised to step down should he lose and was quick to follow through, conceding in a speech after the referendum that "I have lost."

With Renzi on the way out, the job of picking up the pieces falls to his President, the 75-year-old Sergio Mattarella, who has requested Mr Renzi to stay on at least until the nation's budget law is passed, which happened later in the week. Mattarella, a former judge in Italy's constitutional court, has the unenviable task of unifying Italy's warring political factions into some kind of workable government – at least until the next general election. The Italian Presidency is normally a largely ceremonial role, but in times of upheaval the head of state can have considerable power, with the ability to determine who should form a government and whether parliament should be dissolved.

According to political science professor Roberto D'Alimonte, Mattarella's "main challenge is to ensure some sort of political and institutional stability in this moment of transition, and to avoid fuelling uncertainty or panic." This is particularly true in light of the vast problems affecting Italy's ailing banking sector. Whoever Mr Mattarella does choose to lead the country going forward – with finance minister Pier Carlo Padoan and

Senate President Pietro Grasso being among the top contenders – finding a resolution to the country’s drawn out bank saga, along with reforming Italy’s electoral law, will be a top priority.

The main issue will be what to do with the troublesome Monte dei Paschi di Siena (MPS), Italy’s 3<sup>rd</sup> largest (and the world’s oldest) bank. In July, MPS came 51<sup>st</sup> out of 51 lenders in European stress tests, with the European Central Bank (ECB) demanding it raise more capital by the end of the year or face a forced recapitalisation by the Italian state. MPS’ board has since asked the ECB for more time to pull off the necessary €5bn equity injection, so to avoid lumping retail bank bond holders with losses. In their plea, MPS cited the political instability as a major factor behind their inability to raise cash, with investors unwilling to plug the gaps in MPS’ balance sheet while the political situation remains so uncertain.

On this front, it was expected that the departure of Renzi would trigger financial turmoil in Italy, with the Prime Minister being the market preference for his commitment to sorting these issues. However, much like the market reaction to the earlier shocks in the year following Brexit and the election of Donald Trump, the oncoming havoc failed to materialise. In fact, beyond even the earlier electoral surprises of 2016 – after which markets had an initial mini-meltdown before recovering (and then some) – the fearful first response was almost completely absent, with the FTSE MIB, the country’s main stock index, gaining 8% since Sunday.

In our view, part of the calm reaction to Renzi’s failure to win over the others might be explainable by the success of Green party politician Alexander Van der Bellen in the Austrian Presidential election just over the border. At the same time as Italy was casting its ballots on Renzi’s proposed reforms, Austria was choosing between Van der Bellen and far-right candidate Norbert Hofer. Both the Austrian election and the Italian referendum were presented in the press as further tests for the western political establishment, pitting them against the forces of nationalism and anti-globalisation and testing the resilience of the established global order since Brexit and Donald Trump.

While we consider this picture slightly oversimplified in both cases, we do, as argued in last week’s edition, think that it is far more applicable in the Austrian case. While Van der Bellen’s Green party credentials hardly scream establishment politics, he is firmly pro-European, and campaigned for the presidency on a largely centrist platform. His opponent, on the other hand, was a hard-line anti-immigration Eurosceptic who was aiming to become Western Europe’s first far-right leader since WWII. Had Renzi’s loss on Sunday coincided with a victory for Mr Hofer, it’s possible that the result would have a very different flavour, with the growing populist nationalism across Europe looking emboldened after the successes of Brexit and Trump.

As it stands, we believe that the attempt to paint Italy’s referendum as another signpost blown away by the winds of populism is a little wide of the mark. The coalition behind the ‘No’ vote was as diverse as it was broad, comprising of the populist anti-euro Five Star Movement (M5S), those on the left of Renzi’s own democratic party, Silvio Berlusconi’s Forza Italia and even former technocrat Premier Mario Monti, amongst others.

Despite M5S and the anti-immigration Northern League trying to use the referendum as an effective vote of no confidence in Renzi, there were many voters with genuine principled objections to the Prime Minister’s proposed constitutional reform. Even the Economist newspaper ran an article last month rallying against the reform on the grounds that it would concentrate too much power with the government. From that perspective, it is even quite conceivable that those parts of the electorate who fear a swing towards populism voted against the reforms, out of fear that it would have removed important checks and balances which would keep a populist government under control. In this sense then, the muted reaction of markets is perhaps understandable. The danger as we see it, however, is that Mattarella could call an election soon in which the

populists of M5S or the Northern League might gain power. The 'Italicum' law that came into force in July means that any party that wins at least 40% of the popular vote will be allocated a majority of seats in the parliament's lower house, meaning that achieving power is not out of the question for the populist movements. Mattarella has stated that he wants his appointed government to make reforming this law a priority before the next election, in order to avoid such a situation.

Whatever the case, how the new government responds to these issues will be crucial in the coming weeks. At this point, an election in early 2017 looks likely, which could be bad news for MPS, and the banking sector as a whole. On the other hand, Italy has always been a master at muddling through and we can sense a distinct interest in the Italian banking sector to accommodate the MPS capital raising, to prevent this issue from holding the Italian economy back while the rest of the world is on an upward trend. It may therefore become more dependent upon the flexibility of the ECB and EU rules as to what the Italian banking sector and state are permitted to do. In this aspect, the rise of populism may well serve as a healthy catalyst, at Pan-European level, to help out Italy with a slightly softer interpretation of the 'bail-in' rules for bond holders, to counter a further rise of the populist movement.

### Spread betting: 'Closing the casino' or FCA spoil sport?

The FCA has thrown spread betting into the spotlight this last week. After investigating the industry, its conclusions were damning and demands unprecedented. Its announcement – that 82% of spread betting customers surveyed lost money on products known as contracts for difference (CFDs) – is not a new development. Essentially, these CFDs, a spread betting instrument, are derivatives that allow investors to gamble on equity price movements without owning the underlying shares, which would be subject to stamp duty. The tax benefits of CFDs have made them popular with retail clients, wherein lies the issue. Customers have created accounts with very little understanding of the risks of CFDs. Most crucially that it is possible to lose more than you in fact deposit. As a leveraged product, spread betting allows you to borrow money to make larger bets than you could otherwise afford, sometimes as much as 200 times your deposit. In turn, these complex financial instruments magnify both gains and losses, making them appropriate only for the experienced and knowledgeable.

However, due to the advent of cheap technology, the industry has been flooded by competitors who take their marketing inspiration from the poker industry. In the past six years alone, the number of retail CFD providers has doubled. Many of these providers actively target those who, in most circumstances, would be inappropriate for this financial product. Advertising at sporting events, and often marketing the product as "easy" has been deemed inappropriate, given that CFDs are complex and high risk. Crucially, these providers are not running casinos; their financial products have to be marketed as investment products. They are held to high standards and have a duty of care to their customers, and so should be addressing the suitability of retail clients to their products. Yet, up until May of this year, one of the UK's largest CFD providers, Plus500, was allowing customers to create an account simply by supplying their name and email address. Many have argued that, as these companies are in fact providing "loans", they should be held to the same stringent regulations as credit cards, with a greater emphasis on protecting the customer.

This notion of protecting the customer came to the forefront back in January 2015, when the Swiss national bank unpegged the Swiss franc from the Euro. Amateur traders with £1 bets on the franc against the Euro were suddenly faced with five figure losses. This example is testament to the unbeknownst risk many of these retail customers are taking. The FCA reported that it was sometimes possible for these customers to have leverage of 200 times, meaning they could take a £20,000 position with a £100 deposit. When one considers that the Autorité des Marchés Financiers, the French regulator, found that, over a four-year period,

nine out of ten customers of retail foreign exchange brokers lost money, almost €10,900 on average, the suitability of these products to the retail market seems almost absurd.

Therefore, the FCA has proposed a major clampdown on trading in CFDs and laid out plans to restrict how much risk retail customers are exposed to. They have called for lower limits on deposits for inexperienced traders. The FCA also wants providers to offer standardised risk warnings across the industry, as well as profit-loss ratios on client accounts. These demands triggered a steep sell-off in the sector's shares, with the share price for the three main providers in the UK market falling by around 30% overnight.

However, analysts have argued that the regulations will eventually have a positive outcome for these firms, as they push out many of the smaller and more unscrupulous operators. These changes would hit those that focused on the lower quality end of the market hardest and, in doing so, align the firm with a more appropriate customer base. In this way, it would appear that the synonymous nature of spread betting and casino style gambling is over.

# PERSONAL FINANCE COMPASS

## Global Equity Markets

MARKET	CLOSE	% 1 WEEK	1 W	TECHNICAL
FTSE 100	6956.5	3.4	225.8	↗
FTSE 250	17726.8	1.7	291.5	↗
FTSE AS	3776.4	3.0	111.4	↗
FTSE Small	5011.5	2.1	104.3	↗
CAC	4766.5	5.2	237.6	↗
DAX	11209.3	6.6	696.0	↗
Dow	19681.1	2.7	510.7	↗
S&P 500	2251.7	2.7	59.7	↗
Nasdaq	4890.0	3.2	150.6	↗
Nikkei	18996.4	3.1	570.3	↗

## Top 5 Gainers

COMPANY	%	COMPANY	%
SKY	30.3	CAPITA	-11.4
ITV	14.7	PROVIDENT FINAN	-4.5
RBS GROUP	12.4	SHIRE	-3.4
BARCLAYS	9.5	BABCOCK INTL	-2.4
AVIVA	8.9	SAGE GROUP /THE	-2.3

## Sovereign Default Risk

DEVELOPED	CDS	DEVELOPING	CDS
UK	19.0	Brazil	493.9
US	19.3	Russia	304.2
France	26.0	China	26.0
Germany	12.5	South Korea	12.5
Japan	49.0	South Africa	49.0

## Currencies

PRICE	LAST	%1W	CMDTY	LAST	%1W
USD/GBP	1.26	-1.12	OIL	54.0	-0.8
USD/EUR	1.05	-1.11	GOLD	1162.9	-1.2
JPY/USD	115.11	-1.39	SILVER	17.0	1.4
GBP/EUR	0.84	0.12	COPPER	265.0	1.0
JPY/GBP	6.91	-0.41	ALUMIN	1724.0	0.1

## Commodities

## Fixed Income

GOVT BOND	%YIELD	% 1W	1 W
UK 10-Yr	1.4	4.6	0.06
US 10-Yr	2.4	2.3	0.06
French 10-Yr	0.8	12.2	0.09
German 10-Yr	0.4	26.3	0.07
Japanese 10-Yr	0.1	52.5	0.02

## UK Mortgage Rates

MORTGAGE BENCHMARK RATES	RATE %
Base Rate Tracker	2.3
2-yr Fixed Rate	1.4
3-yr Fixed Rate	1.8
5-yr Fixed Rate	2.3
Standard Variable	4.2
Nationwide Base Rate	2.25
Halifax Standard Variable	3.74

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For any questions, as always, please ask!

If anybody wants to be added or removed from the distribution list, just send me an email.

**Please note:** Data used within the Personal Finance Compass is sourced from Bloomberg and is only valid for the publication date of this document.

**The value of your investments can go down as well as up and you may get back less than you originally invested.**

Lothar Mentel

