Investment News

Monthly Bulletin from the Insurance & Investment Team

January 2018

Last Month in Brief

The FTSE 100 achieved another all-time high in December, finishing 2017 at 7,687.77 points. The record high has largely been attributed to strong performance from London-listed commodity firms as a result of an increase to oil prices . The FTSE 250 Index also achieved its highest level in history as it finished 2017 at 20,726.26. The level of recent market volatility has been significantly lower than historical standards.

The Dow Jones also set a record-high of 24,837.51 points on 28 December (with further records being set in 2018). 148,000 jobs were created in the US in December and unemployment is currently hovering at its lowest since 2000 (4.1%). However, fewer jobs were created than expected and experts forecast that job growth will stagnate as the labour market contracts.

There was strong performance within the Eurozone during December, with economic confidence in the bloc at its highest level since 2000. The European Central Bank expects growth in 2017 to have been around 2.4%, higher than the 1.7% forecasted at the beginning of 2017.

Preliminary reports for UK retailers indicate weak profits over the Christmas period. Consumer spending in December was 1.0% lower year-on-year and spending for the year was down 0.3%, the lowest it has been since 2012. This is in part due to high-street retailers losing customers to their online counterparts and also due to the continued stagnant wage growth in the UK.

Chart 1: Equity Indices
Equity markets saw mixed returns over the month

Chart 2: Sterling Credit Spreads
Credit spreads were stable over the month

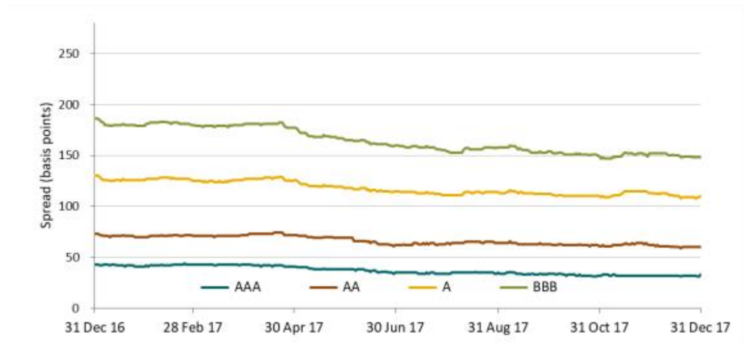


Chart 3: Gilt Yields
Real and nominal gilt yields were stable over the month

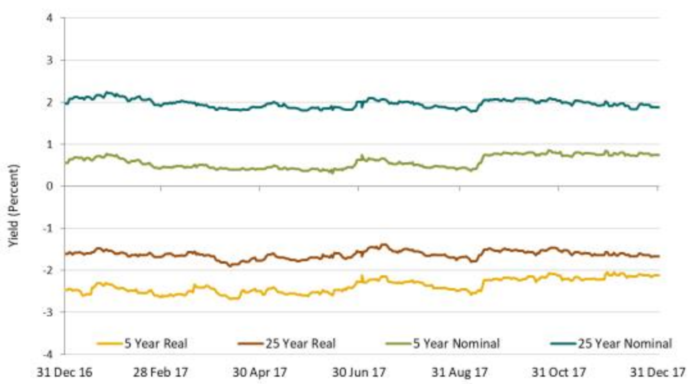
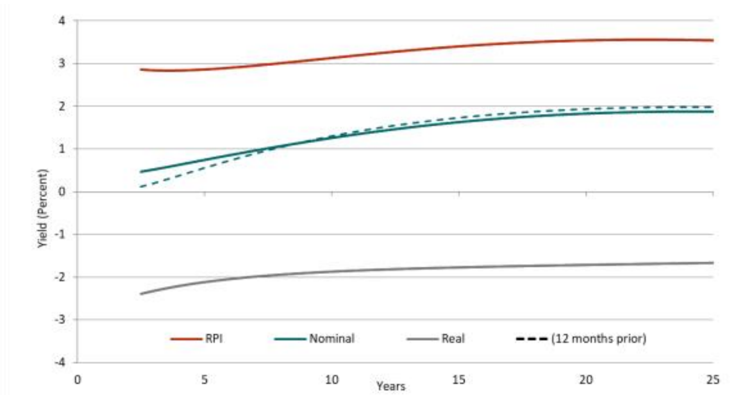


Chart 4: Gilt Spot Curves
The yield curve was stable over the month



Source: Financial Times, MSCI, Merrill Lynch Bank of America, & Bank of England

	Latest	Previous		Latest	Previous
CPI increase (annual change)	+3.1%	+3.0%	**Base rate**	0.5%	0.5%
PPF 7800 funding ratio*	94.7%	94.7%	**$/£ exchange rate**	1.35	1.35
Halifax house prices (monthly change)	-0.6%	+0.5%	**VIX (volatility) index**	11.04	11.28

**PPF have recently changed their methodology for calculating the above figures so the figures may not be consistent with previous updates.*

For monthly published indices "Latest" and "Previous" refers to the two most recently published statistics, otherwise numbers are quoted as at the month end.

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A look back on 2017

Early in 2017, there was a lot of political uncertainty surrounding Brexit negotiations and new US president Donald Trump's position on market issues. As the year unfolded, it became clear that Trump's aims were business focused - aiming to cut America's corporation tax by 20%. After this proposed reform is implemented, America will possess the lowest corporation tax in the G20 at 15%. Currently, the UK has the lowest corporation tax within the G20 at 19%.

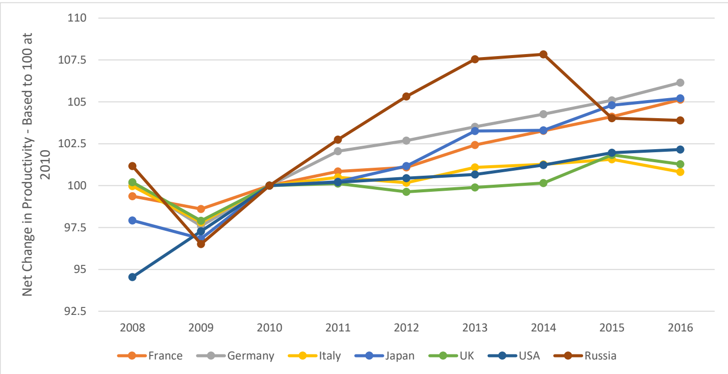
2017 also saw the first increase in interest rates in 10 years, where the Bank of England increased the rate by 0.25% to 0.5%. The Governor of the Bank of England explained this increase was a response to record employment, global economic growth and to rising inflation. This came with the guidance that the rate would be increased two more times within the next three years.

In 2017, the combined cost of natural disasters for the US was estimated to be $306 billion. This figure was largely attributed to three huge hurricanes; Harvey, Maria and Irma. These hurricanes were said to be a main driver of the $135 billion paid out by insurers following the spate of hurricanes, the highest pay-out in history. Economists noted that catastrophe bond prices were heavily affected by these hurricanes, with prices dropping throughout the year.

In December, the pound traded at a six month high against the Euro. This could be attributed to a number of factors, which include: the interest rate change, developments in Brexit negotiations and recent rises in inflation.

Productivity

GDP (2010=100) per hour worked in six G8 countries

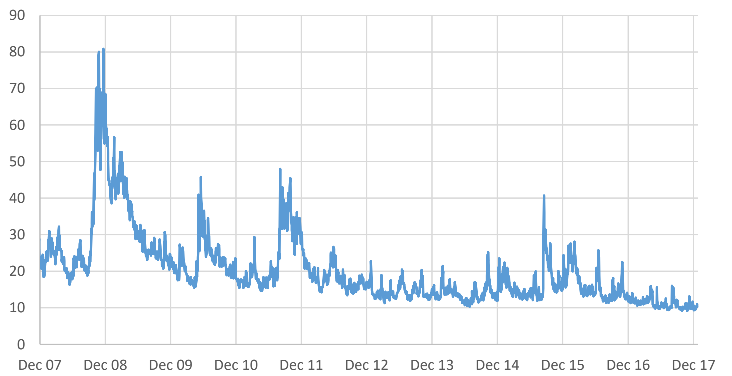


Source: OECD Compendium of Productivity Indicators 2017

Productivity growth appears to be slowing in most countries, with rates trending down in the UK since the early 2000s. In October 2017, the OBR stated that it was significantly reducing productivity forecasts for the UK. The average productivity growth over the last 5 years has been 0.2%, significantly less than the forecasts of 1.6%.

Market volatility

VIX index of US (S&P 500) equity market uncertainty

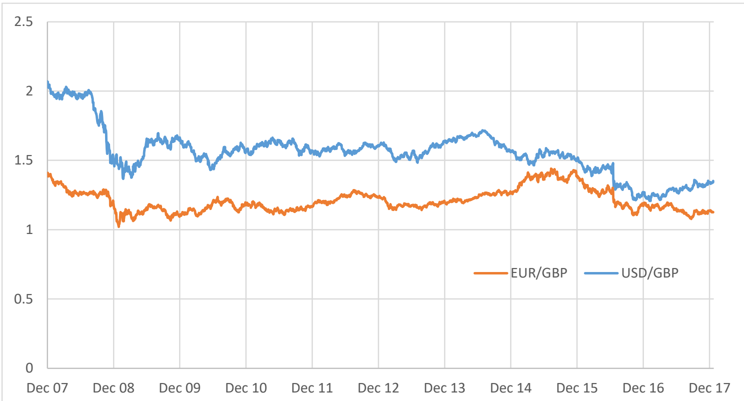


Source: Yahoo Finance

According to the VIX, 2017 has been a year with one of the lowest volatilities to date. In November 2017, the VIX reached an all time low both at close and intraday. In fact, out of the lowest 20 VIX closes of all time only *two* did not occur in 2017.

Exchange rates

Sterling exchange rates against the Euro and Dollar



Source: Bank of England

Sterling has begun to stabilise against the majority of its peers following Brexit. Two of the possible explanations to which this could be attributed are: the increasing levels of certainty surrounding Britain's exit from the EU, or the interest rate increase that occurred in November.

The gap between the Euro and the Dollar has grown over the last year as the Euro further strengthens.

Forecasts

Headline economic forecasts for the UK

	2017	2018
GDP growth	1.6%	1.5%
CPI	3.0%	2.3%
RPI	3.9%	3.2%
LFS Unemployment Rate	4.3%	4.3%
Current account	£-88.3 bn	£-76.8 bn
PSNB	£49.2 bn	£41.2 bn

Source: Forecasts for the UK economy: a comparison of independent forecasts, HM Treasury December 2017

GDP growth forecasts have been revised lower for two consecutive years. This fall continues to be primarily driven by the expected impact of Brexit negotiations on confidence and output. CPI and RPI forecasts have been revised lower, which could be attributed to the 0.25% interest rate increase that occurred in November.

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