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Equities maintain upward trajectory

"Since November 8th, Election Day, the Stock Market has posted $3.2 trillion in GAINS and consumer confidence is at a 15-year high. Jobs!" – Tweet by Donald Trump, 3 March 2017. That's not fake news either – President Trump is correct. Plenty of harrumphing from opponents followed, but is it fair to deny a correlation with the Trump phenomenon? The S&P 500 Index rose for a sixth straight week. Meanwhile, even as the US market hit new highs, European equities had an even better week against the backdrop of positive economic data and some easing of concerns around the outlook for the region's political landscape - the Eurostoxx 50 Index returned 3% in the week.

But let's Fact Check…
…because everyone else seems be doing it these days.

The Stock Market - Remember when the Dow Jones passed the 20,000 mark? That was just about three weeks ago. This week the index passed 21,000. The Dow Jones is up about 15% since election day and while it's not the most representative of indices, the trend is reflected in the S&P 500 Index, which has risen 12% in that time. This week the Dow gained 0.9%, led by those sectors considered likely to benefit from improving growth, rising inflation and higher interest rates.
Consumer Confidence – According to the Conference Board, US consumer sentiment is at its highest level since July 2001. The proportion of survey respondents expecting more jobs in the months ahead increased from 19.7% to 20.4%, while those anticipating fewer jobs declined from 14.4% to 13.6%. Similar improvements on income expectations were also noted.
Jobs – Consumer optimism is often related to jobs and income. Each week the numbers of new jobless claims are tallied. In the week to 24 February 223,000 claims were made, the lowest number since March 1973. In a tight labour market, employers typically try to keep dismissals to a minimum.

Bond markets ponder French election drama
The French Presidential election takes place on 23 April, with a (likely) run-off election in early May. So markets have to navigate two more months of opinion polls and associated volatility. This week, comfort was taken from polls that show independent centrist candidate Emmanuel Macron leading Marine Le Pen as voters switched from Francois Fillon amid speculation he may be charged with embezzling public funds. French bonds rallied – they still recorded losses for the week, but the yield gap with German bonds narrowed. As noted, bonds typically recorded losses in the week; the pick-up in inflation across the region is a big red flag for investors in fixed income instruments.

Inflating prices
Sending a shiver through the German collective memory, Germany's inflation rate hit 2.2% in February, arming critics of the ECB with further reason to argue for monetary policy tightening. Germany's central bank has warned that houses in large cities are 15-30% overpriced. With unemployment remaining at post-reunification lows, the parallels with the US – where interest rates are on the rise – are striking. But the ECB does not (or is not supposed to) cater purely to the needs of the German economy. That said, the euro area inflation rate matched the 2% target of the ECB for the first time in five years. And in Spain inflation hit 3% in January, with the spike in prices attributed to higher energy prices at a time of unseasonably cold weather that were reflected in higher electricity/heating bills. On the energy price issue, it is worth noting that the year-on-year rise in oil prices (+60%) is the key driver of the rise in inflation rates – core inflation rates (ex energy) have not moved much.

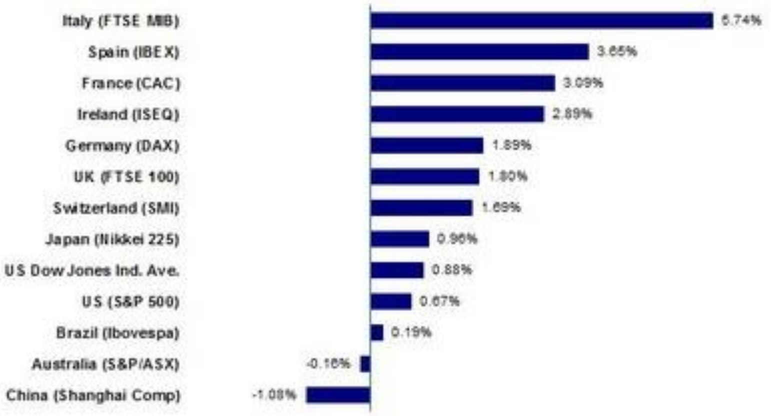
Fedspeak sparks March hike speculation
A leading Federal Reserve official put the dove among the hawks; Richard Dudley, generally considered a leading dove, stated that the rationale for raising rates had become a "lot more compelling" and that the risks to the outlook are now "starting to tilt to the upside". This prompted bond market weakness, with treasury yields rising. According to one measure of market expectations, the probability of a March rate hike rose as high as 90% by Friday when Fed Chair Janet Yellen said a March hike would "likely be appropriate". And she also hinted that the Fed might need to raise rates by more than planned.

Back to Trump
Though short on detail, markets appeared sufficiently happy that Donald Trump's address to Congress met a 'presidential' benchmark. It's fair to say the bar had been set pretty low ahead of a speech that saw him confirm his intention to repeal Obamacare, increase defence spending, enforce immigration laws and cut taxes for the middle class and corporate America. He also stated that a $1 trillion infrastructure plan guided by a 'Hire American, Buy American' strategy will also move ahead. And then his Attorney General got caught up in questions around what he may or may not have discussed with Russia's ambassador during the election campaign. And he spent the weekend making charges against Obama and

trolling Arnold Schwarzenegger. Presidential? Well, he is the President.

Source: All information is from Bloomberg Finance LP as at 3 March 2017 unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed.

A Week on the Markets



Source: Bloomberg Finance LP. Capital returns in local currency for the week to Friday 3 March 2017

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