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Wealth Management

100 days - economic indicators trump political volatility

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Speaking at a series of Canaccord Genuity Wealth Management seminars on President Trump's first 100 days, Tony Dwyer, our own Chief US Market Strategist, said that "It's important to remember that while politics makes great headlines, it makes for poor economic assumptions".

Chief US Market Strategist, Tony Dwyer, said "Historically, the first 100 days signpost what's supposed to happen, so it was interesting to see that Trump got only a little of what he wanted to accomplish in the first 100 days, yet he had one of the best market performances for a president in their first 100 days".

Mr Dwyer explained that the new president was actually presiding over one of the most economically stable scenes for a long time – not necessarily thanks to his own prowess, but because underneath the US economy, the world was doing well.

And while Trump's volatility is well-documented on Twitter, and has raised fears over whether such online eruptions will transfer to market performance, Mr Dwyer is confident in his abilities to shelter the US economy thanks to the team around him saying, "The good news is the group around him is pretty strong. The Treasury Secretary really is getting his arms around the regulatory environment and other issues in the Treasury, Tillerson's doing a great job with Secretary of State… There's an awful lot of experience and wisdom in the various areas that they're supposed to control and I think that should insulate people and investors from fearing what one man can do when there are so many other good men and women around him."

So if Trump is not driving investment markets, what is and how far will they go?

Many commentators frequently refer to the risk of imminent market collapse – it was supposed to happen after the commodity price collapse, the European debt crisis, the China stock market crash, the fiscal cliff in the US and the EU referendum in the UK – and was widely tipped to happen if Donald Trump won the US election.

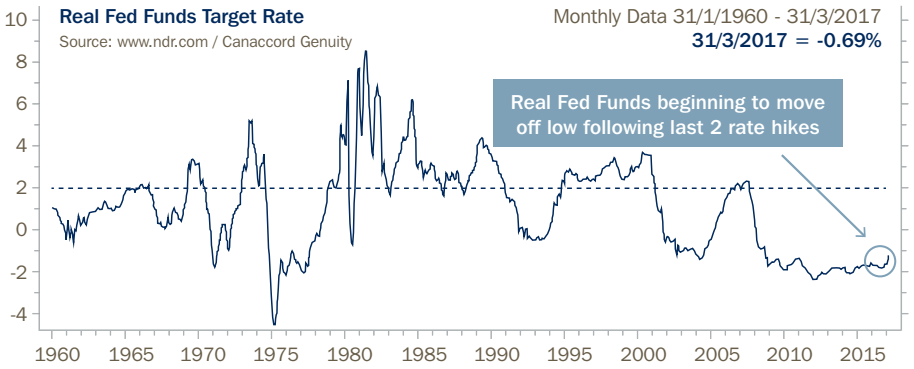
However, Mr Dwyer's view is that unless you are heading into a recession, markets will continually bounce back to new highs – and it is the underlying economic conditions that drive market performance – and not politics.

At each Canaccord Genuity Wealth Management seminar, he explained that history teaches us that there are specific indicators which warn of recessions and the current economic climate isn't showing them. Mr Dwyer used three main charts to evidence this:

Recession Indicator #1: interest rate trends

The chart below shows that since 1954 recessions don't happen unless the Real Fed Funds Target Rate (the interest rate at which banks lend funds maintained at the Federal Reserve to other banks) goes above 3%. It is currently at -1%.

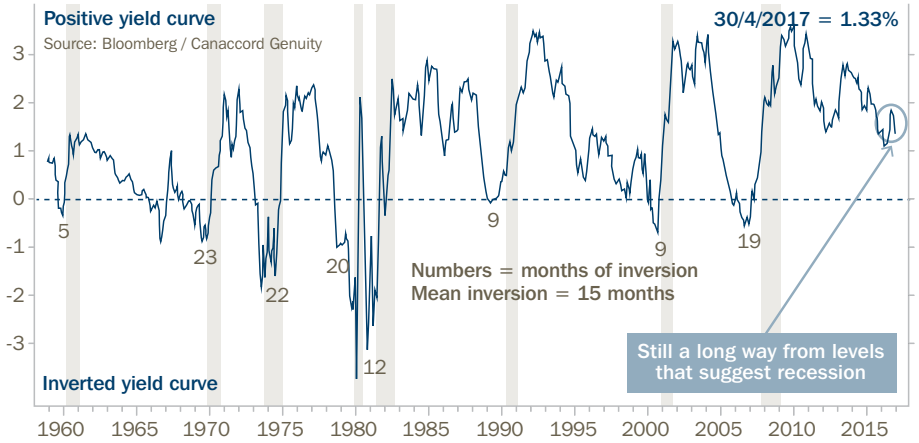
Real rates using the core Personal Consumption Expenditures (PCE)



Recession Indicator #2: inversion in the treasure yield curve

The next chart shows grey areas where a recession has previously occurred. On each occasion, there has been an inversion in the treasury yield curve before it happens. Recent commentary from Fed Chair, Janet Yellen, coupled with hikes at the December and March meetings, should allow for the beginning of an interest rates move off the low. However, based on the Federal Open Market Committee's (FOMC) outlook, an inversion doesn't happen until late 2018 and the mean inversion lasts 15 months which would suggest no recession until 2020.

10 year treasury yield curve minus 6 month T-bill bond equivalent yield

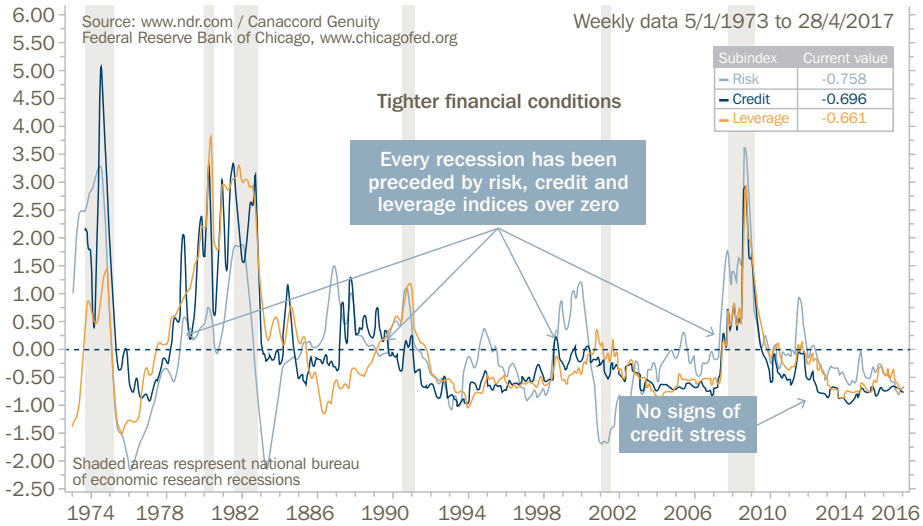


> "An inversion doesn't happen until late 2018 and the mean inversion lasts 15 months which would suggest no recession until 2020"

Recession Indicator #3: stress in the financial system

The third chart shows stress in the financial system. There are 105 indicators to help predict the onset of a recession. The Chicago Fed NFCI Index and its sub-indices have been above zero prior to recession over the past 40+ years. Currently, all the sub-indices are testing historically low stress levels, re-emphasising that we're not heading into a recession.

National Financial Conditions Index (NFCI) Subindexes



Political volatility does not equal investment market volatility

According to Tony Dwyer, investors should be more concerned about the fundamental economic backdrop than political posturing. And while you might naturally think Trump's volatility would introduce market volatility, this is unlikely to be the case if all the fundamental economic drivers remain positive. At Canaccord Genuity Wealth Management, our team of experts closely monitor these indicators on behalf of clients so that if bad news hits the press tomorrow, it doesn't mean you should necessarily 'sell'.

Should we be investing in the US?

So long as you are comfortable with taking currency risk when investing in the US, the only reason you'd never want to invest there is how close you are to recession. As Mr Dwyer argued, we're at least two years from a recession, so when you couple a stable-to-better pound with growth in the US and globally, then it can offer interesting opportunities for investors.

In fact, we're in a period of historically low volatility which we've only seen twice in the last 70 years. Having the most volatile leader in US politics at a time of such low volatility proves, in Mr Dwyer's opinion, that politics doesn't matter but economic indicators do.

As ever, we would always recommend speaking to an expert if you would like to understand more about investing in the US – or anywhere. Our team at Canaccord Genuity Wealth Management would be pleased to help you on +44 20 7665 4500 or email wealthmanager@canaccord.com.

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Investment involves risk. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested.