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Cock a doodle doo.....

In the Chinese calendar, this is the year of the Rooster, and given the scale of change underway within in the world, a peek at the zodiac seems almost as useful as much of the output from investment banks! The Rooster, apparently, implies luxury, beauty and wealth and more ominously, a year in which we will deal with financial events. Donald Trump was born under the sign of the Dog and their luck, in the year of the Rooster, is predicted to be poor in the areas of work, love, wealth, and health.

The current political climate is being driven by the consequences of a long running theme – the hollowing out of the so-called middle class. Brexit and Trump have illustrated the desire for change but also the lack of a middle ground. Globalisation's 'winners' are being pitched against the 'losers' leading to an increasingly polarised debate. It is unusual to see anti-establishment parties taking power whilst the establishment supporters are on the street campaigning for the status quo.

In hindsight, 2016 turned out to be a pretty decent year. Investors climbed the wall of worry and many markets made new highs. Indeed, gains were recorded across most markets, except for some fixed interest markets and commodities. Heading into 2017 the market narrative is that the US will outperform, due to reform and fiscal spending, at the expense of Asian and Chinese markets whilst Europe faces political/disintegration risks. Whether this is reality, or not, it feels like it is already baked into valuations. US markets look expensive but Asia and Europe look like they offer value even for hard pressed Sterling investors.

Whilst global growth softened over the past two years, it is fair to say that growth remains resilient and broad based. The intense period of deleveraging, as companies and households increased savings and reduced debt, has passed and 2017 could see the end of the fears of secular stagnation. The US economy is close to full employment and if growth accelerates without productivity gains then there is a risk that interest rates will need to rise faster than expected. Encouragingly the corporate sector is responding and capital is now being invested to support growth and to increase productivity.

Domestically, Brexit remains a key risk that is difficult to assess until the UK's new terms of trade with the EU and the rest of the world are better known. These worries have played out in the value of our currency but we are reluctant to reduce weightings to a market offering exposure to many international companies with decent dividends.

Whilst it will be an interesting year for the EU, as investors watch elections in Holland in March, France in June and Germany in October, we remind ourselves that the European economy is bigger than the EU. In our view the Euro area as a whole is in better shape than many investors believe and reminiscent of the USA 3-4 years ago. Unemployment is falling, inflation remains low, and easy monetary policy leaves room for equities to move higher during 2017 if break-up risks recede. In a similar vein, Asia has been marked down by investors on the back of concerns surrounding globalisation. Our sense is that this will prove to be overdone relative to current valuations and the momentum within the global economy.

The bull case for shares is based on rising corporate earnings in turn supporting higher prices with central banks dragging their feet in regard to interest rates rises. On the other hand, this bull market is old, political risks remain high and globalisation appears to have peaked. Our belief is that this economic expansion will continue until interest rates move into restrictive territory to curb growth. As current monetary policy remains on a pro-growth footing, with only gradual interest rate rises expected during the year of Rooster, the end game for equities is still some way off.

In view of the current environment we continue to maintain a pro-growth equity bias within portfolios although it is increasingly difficult to find cheap or underpriced assets as new highs for equity markets are rarely sign of great value. The price of bonds has started to fall but it is, in our view, too early for any large scale move into fixed interest. Therefore we are increasing exposure to investments that rely less on growth such as structured products and increasing our allocation to income bearing equities within a broadly diversified multi-asset class portfolio.

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