Monthly Commentary 4th April 2017

Apart from euro equities that had a good run in March, the rally in global and US equities since Donald Trump's election victory has paused. Global equities (based on the MSCI World Index) rallied just 0.8%, while US stocks (based on the S&P500 Index) were flat. The US dollar rally also appears to have run out of steam. The Dollar index (DXY) was down 0.76% in March and more than 3% from its peak at the start of 2017. On the commodities front, March has been a slippery month for oil investors, with oil prices falling 6%.

All the above makes investors wonder whether this is a temporary halt in the recent euphoria, or does it mark the beginning of something worse to come? While political and policy uncertainty in the US and the Eurozone may lead to more volatile markets (more below), we believe that the global stock market rally has room to run, driven by stronger economic growth, a gradual return to "normal" interest rates, and a steady pickup in corporate earnings.

According to Barrons during the first three months of the year the market produced all its gains without much help from the sectors that surged following the November presidential election—the ones that were supposed to benefit the most from the policies proposed by President Donald J. Trump. The S&P 500 Industrials index, which was supposed to benefit from increased infrastructure spending, rose 4%; financials, which would benefit from scaled-back regulation, advanced just 2.1%; and energy tumbled 7.3%. Instead it was the “anti-Trump” stocks that led the way higher, with technology gaining a whopping 12%.

Political changes were the focus of attention in financial market lately. Arguably the most lasting political event occurring recently wasn't in the United States, as the UK Prime Minster Theresa May triggered Article 50, beginning Britain's two-year withdrawal from the European Union (EU). Article 50 has never been triggered before, so nobody really knows for sure how an exit from the EU will unfold or how long it may take for the UK to form new relationships. This potential risk is something that we are aware of although it is impossible to speculate or to quantify the consequences in financial markets.

In Europe, things are a bit clearer although there is some uncertainty in the air on the outcome of key elections. Investors could be spooked if anti-European populists make gains. However, there's good reason to believe that the euro zone is on a surer footing now than it was even a few months ago. Inflation is up, unemployment is down, and concerns that anti–European Union populists would make significant gains at key elections this year have subsided for now.

The Elgin Analyst Team