

CORPORATE UPDATE

'I can't change the direction of the wind, but I can adjust my sails to always reach my destination.'

Jimmy Dean, 1928 - 2010



A year is a long time in financial markets. It seems just yesterday it was January 1st 2016, yet here we are preparing for another Christmas period in the midst of a “Santa rally”, and possibly the most bizarre year on record.

At the beginning of 2016, after an initial Fed rate hike (the first in 10 years!), we were set for a worrying year. What was not to concern us?

- The dollar was very strong already (and that was pre Brexit!)
- Economists and pundits were torn between calling a global contraction or small expansion
- Oil had collapsed causing the doomsayers of deflation to rise from the ashes
- The commodity industry was firmly embedded in an earnings recession
- Global growth and solid corporate earnings growth were almost unthinkable above the most modest of levels!

On the interest rate front, the nightmare was unfolding further as Germany, Japan, and a host of developed nations were experiencing negative, or very close to negative, interest rates. The rest were surely to follow, weren't they? To top it all off, major indices started the year with a 10% fall during the first quarter. There was little to seemingly galvanise the savvy investor, it was a dark and gloomy outlook!



If we move the clock forward one year, and after the most bizarre set of incorrect polls and assumptions with regard to UK Brexit and the US elections, we appear to be sitting pretty and at highs in the US - the global market leader. Notwithstanding what most commentators thought as a disastrous set of outcomes...

- Global manufacturing is expanding
- Retail sales are rising
- We are close to full employment
- Corporate activity is rife
- GDP numbers are revised upwards – to 3.2% in the US – wow!
- Earnings recession is a thing of the past

The world is not the same place - how the hell did that happen? Mr Trump - that's what happened. Against all the odds and scaremongers as to the impact of his political rhetoric, Donald Trump has changed the world and he's not even in the White House yet! A potentially explosive, Republican President has sage investors eagerly anticipating the prospects for tax-reform, infrastructure spending and the commensurate real impact on both growth and inflation in 2017. But how? He's crazy, isn't he?



Brexit, another great piece of pollster incompetence, was also set to castrate the UK from its European partners, cause Euro defections of major companies and lead to a sick and distraught UK economy. Even that, for now, also seems to be unfolding in a new positive light. Now Italy has set an additional hare running, will the EU and the Euro really now come under severe pressure? Is it actually they that need to be worried.

In 2016, it is without a shadow of a doubt that the winds of political change have had the investment landscape and the expectations for growth and inflation in a state of excited fear, confusion, but also - anticipation.

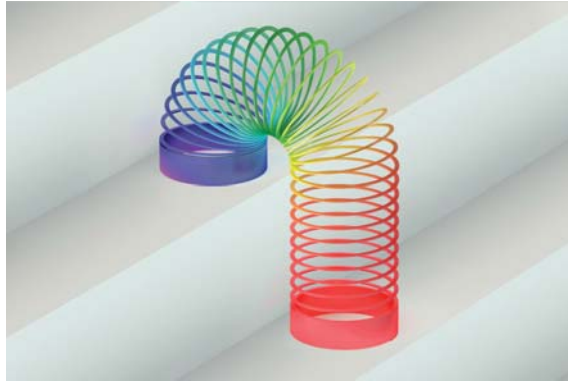
Not wishing to get too carried away, as Brexit is still a virtual unknown quantity and with a “Boris-esque” incumbent to the White House, no-one is out of the woods just yet, but the signs of a bizarre stability are developing. Bizarre because no one expected it, and stability because we all expected the opposite. You can't change the direction of the wind but you can adjust your own course to take it into account.

2016 was not the strongest year for TAM clients, as we sought to take the defensive course through what were very much uncharted and worrying waters. We preferred to keep our powder dry rather than make the big bet. No-one would have thanked us for getting that wrong, and the gamble we saw for the first time in a number of years was too great! In that sense, whilst disappointed with our investment return for the year, I am comfortable it was a prudent thing to do to get through the year unscathed.

So, 2017 - what lies ahead? The path will be fraught with humps and bumps but the cards have been dealt – Trump is in the White House, Brexit is being put in motion and growth with moderate inflation is likely to be the story for the year. Watch out for some surprises, not only in Trump statements that cause international finger wagging, but in earnings, inflation and old fashioned growth - it's already happening.

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The stale bulls (term for those who don't change tack but stay bewitched and beguiled by what happened before) of the 2012-2015 period could well find themselves blown off course. Change is afoot and political change is the driver. It's time to adjust the sails, reengage in what TAM is best at and retain its flexibility.



I have my hand firmly on the tiller after a becalmed investment return for 2016, as the winds of political change require us to think proactively to the changes as they unfold. As to the destination? It remains the same - solid long term returns whilst taking a defensive posture at times of uncertainty.

As a final note I would like to take this opportunity to wish you all a very happy Christmas – eat, drink and be merry. Let's put 2016 behind us and focus on a prosperous new year!

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