# Market Comment – Q4 2016

“Donald Trump has been elected”. This would be a very tempting title for our last quarterly comment. Call it complacency or laziness, some have already been using the US elections as the only explanation for the positive trend we saw on the equity market and the impressive interest rates upward. But summarizing three months of market evolution by a single event leads to over-simplification and to spurious causal links any investor would be wise to avoid.

The month of **October** witnessed important political uncertainties. There was indeed an important focus on the US elections (the debates, the FBI investigations on Hillary Clinton and the various rather puzzling lines from Donald Trump), but concerns were also raised about the perspective of the European Central Bank (ECB) considering tapering its massive asset buying program too soon and about the credibility of the agreement made by the Organization of the Petroleum Exporting Countries (OPEC). This overshadowed the strong set of US economic indicators with notably a better than expected growth for the third quarter at +2.9% QoQ (revised to +3.5% in December) as well as better than expected ones from China with a notable growth of +6.7% YoY posted for the third quarter.

**November** saw the election of Donald Trump as the 45th president of the United States on odds and manners that remind strongly the Brexit referendum. Protests across the country emerged for several days, but after a brief quiver the market focused solely on the positive growth outlook that could result from the US elected president program. Drastic corporate tax reductions, heavy infrastructure investments and much more US friendly trade terms would definitively give a boost to the US economy. The major challenge of the US budget deficit management and the international response were challenges put aside temporarily as another set of positive economic indicators for the country supported the beginning of the equity market rally. Moreover, later in the month, the OPEC confirmed its oil production cut agreement, lifting another layer of uncertainty to investors.

In **December**, the US Federal Reserve System (Fed) raised its target rate for the first time since December 2015 as it was widely anticipated given the encouraging economic and market news. In Europe, the ECB extended its bond purchase program by nine month, from April 2017 to the end of the year, with €60bn purchase per month and representing an additional €540bn to its intervention program. The reassuring and accommodative policy is suspected to be put in place to face the political agenda and concerns the European Union is facing rather than for maintaining price stability, the official mandate of the institution. But regardless the motive, the market reacted positively to the announcement. Finally, in the Far East side, the good and better than expected economic news flow coming from China supported the global positive picture for the period.

Globally, all other things being equal, much derived from the United States recent development. The affirmation of the strength of the American economy formalized by the US Fed raising its key rate resulted in a positive sentiment in favor of equity and significantly higher interest rates. This badly impacted fixed income investments apart from high yield bonds and favored meaningfully the banking sector. The resulting strength of the dollar highlighted the cheapness of certain markets such like Europe and Japan. Beyond the average aggregated performances of broad indexes, the dispersion observed across sectors and industries during the period has been high and need to be kept in mind. The S&P500 Index, for instance, returned +3.25% for the fourth quarter. But the Financial sector gained +20.48%, and Healthcare was down by -4.42% during the same period. Another major factor was the good performance of energy backed by the OPEC agreement. It supported naturally the energy sector in both equities and high yield bonds markets.

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