MARKET COMMENT – Q2 2017

A cornerstone has been removed from the main consensual political risk scenario in place since last year. The relief generated by Emanuel Macron's election, a leader in favour of Europe, and the success of his new party at the legislative vote support the markets and confirm the positive sentiment toward Europe and its economic recovery. Investors then failed to find something consistent enough to focus on. Bored by the US Trump "show", the Brexit negotiations and hesitant in front of higher valuations, they finally drew their attention back to central banks and their apparent decision to tackle the issue of the enormous balance sheet.

In **April**, despite a series of terrorist attacks and heightened political tensions between the US and Russia, over Syria, and renewed tensions with North Korea, investors found a way to focus on brighter news. First, there was the promising US earning season. It was then followed by the IMF global economic forecast raise, with European countries leading the improvement. And most importantly, US President Trump announced his initial US fiscal reform plans which include a reduction of more than 50% of Corporate taxes.

In **May**, Emanuel Macron is elected French president in a landslide victory over Marine Le Pen from the "Front National" party. The positive sentiment was however dampened by President Trump being suspected mid-month to have asked James Comey, the former FBI director, to drop the investigation linked to Russian potential interferences during last US elections. The sheer number of accusations and potential misbehaviour from the president reached a peak and even resulted in the emergence of a potential impeachment scenario. On the 22nd, another terrorist attack took place in Manchester. Key information concerning its investigation were revealed in a US newspaper and provoked additional international tensions. The G7 took place in Italy later in the month, with President Trump scolding Nato allies about its finance and his reserve about global environmental discussion.

In early **June**, President Trump withdraws the US from the Paris Climate accord and the UK is hit once more by a third terrorist attack. Saudi Arabia, UAE, Egypt & Bahrain cut all ties with Qatar as per the country's alleged support to terrorists and its tolerance over Iran. Despite the tense geopolitical backdrop, and downward revision of their inflation forecast, the US central bank raised its key interest rate for the second time this year and indicated that they would stop buying back government bonds coming to maturity. Mario Draghi from the European Central bank echoed the US central bank by pointing out that it may soon be the time to have tighter monetary policy. Finally, In the UK, Prime Minister Theresa May called for a snap election to reinforce her party but unexpectedly failed. The Conservative party indeed lost its majority in parliament resulting in a weaker government, ahead of the formal discussions with the European Union concerning Brexit.

In this environment, global equity and credit markets succeeded to be move higher despite stretched valuations and all the above mentioned geopolitical events. The euro surged against the dollar on the back of the French elections and encouraging European macroeconomic numbers. We remain convinced that these are further proof of the excess liquidity in the system and we will therefore pay particular attention to the development of central bank policies with regard to the size of their balance sheet.

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Performance of key global indices:

Equity World	MSCI All Countries World Daily Total Return Net USD Index	4.27%
Equity Emerging Market	MSCI Emerging Net Total Return USD Index	11.45%
Global Fixed Income	Barclays Global-Aggregate Total Return Index USD	2.60%
Global Commodity	S&P GSCGI Index Spot Index	2.57%
Hedge Funds	Hedge Fund Research HFRX Global Hedge Fund Index	0.89%
EUR/USD	Euro Dollar	7.27%

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