MARKET COMMENT – Q3 2017

Since the 2008 crisis, excess liquidity provided by central banks has been a blessing to all financial and investment market actors. Restoring confidence was crucial in stopping the collapse of financial systems and has been a key support for economies trying to recover, while simultaneously giving time to countries to manage their unbalanced budgets. In recent years, a euphoric side effect has become apparent. Brexit, the US elections and other instances, can be cited as examples. Indeed, why worry so much when monetary authorities provide such a great safety net? Their excess liquidity, resulting from low interest rate policies from major central banks and their asset purchase programs, certainly lower investor wariness.

Steady optimism from investors was at the fore despite a tumultous past quarter. The escalation of tensions on and around the Korean peninsula, as well as with the US, saw an escalation in military movements in the pacific. Pyongyang's multiple missile "tests" did exacerbate an already tense situation. Besides the diplomatic crisis in the Far East, several large-scale natural disasters occurred in August and September. Mexico experienced devastating earthquakes, while in both the Caribbean and the US the hurricanes Harvey and Irma wreaked havoc. The US political scene saw more than its fair share of upheaval with the dissolution of the presidential business council, including the departure of Carl Icahn, in the aftermath of Charlottesville events and the warning from the US treasury secretary regarding the debt ceiling. Finally, Moody's downgraded the UK's rating again due to impact expected from Brexit. Also, S&P knocked China's rating down, highlighting the evolution of its debt level. Despite all the above mentioned headlines, there were limited and only temporary negative impacts on the financial markets and volatility remains at historical lows.

The third quarter also came with some positive news. Most notably, Angela Merkel has been reelected as German Chancellor for a fourth term. The continued political stability in the largest economy of the European union is a good sign. However, the weaker results than in past elections require the formation of a new coalition with a third party which may prevent a "Franco-German" drive to promote deeper eurozone integration. On the economic front, China continues to reassure while Europe and Japan are still on an encouraging path. Although inflation is mysteriously lacking in a tight labor market in the US, the global picture is stable enough for central banks to tackle a long-awaited challenge; dealing with their enormous balance sheets.

In September, the majority of the US fed members were in favour of an interest rate hike in December and for three further lifts in 2018. But more importantly, the US central bank started the normalization process of its balance sheet by ending reinvestment of debt reaching maturity. According to the institution's calculation, this would represent a $10 billion reduction per month. The European Central Bank, not quite yet ready to do the same, is still preparing the field. While Mario Draghi acknowledged the risk of a stronger Euro and his intention to maintain the central bank's current accommodative stance, he also mentioned that some changes may occur sooner rather than later, highlighting the ECB's difficulties in keeping up with the monthly €60bn of bond purchase in the current environment. Only the Bank of Japan remains neutral in its communications, although sharing the same concerns which will need to be addressed.

How will this normalization process from central banks evolve? Does the high tide of excess liquidity hide issues yet to be discovered and, more importantly, are we ready to face them?

We may not need to act on these questions right away, however preparing game plans today should be an obvious priority for any investor.

In this environment, supported by optimism and low volatility levels, the global equity markets continued to rally. This can be said for Emerging Markets as well asthey demonstrated even more strength. Globally, fixed income succeeded to remain positive with such low yields.

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Performance of key global indices:

Markets	**Indices**	**Q3**
Equity World	*MSCI All Countries World Daily Total Return Net USD Index*	5.2%
Equity Emerging Market	*MSCI Emerging Net Total Return USD Index*	7.9%
Global Fixed Income	*Barclays Global-Aggregate Total Return Index USD*	1.8%
Global Commodity	*S&P GSCGI Index Spot Index*	7.2%
Hedge Funds	*Hedge Fund Research HFRX Global Hedge Fund Index*	1.8%
EUR/USD	*Euro Dollar*	3.4%

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