2016 Market Review & 2017 Investment Outlook

2016 Review

2016 will be remembered as the year of political shocks – the year started out with a January rout, where concerns over China weighed negatively on investors - then we had Brexit and Trump. It's been surprising from an investment perspective. Having fallen by almost 15% in the first six weeks of the year, global equities are back in positive territory at year end, while government bonds which started the year well are struggling as the year draws to a close.

The thought of a Trump win sent shivers through the markets, but Trump's victory and likely reflationary initiatives have rallied equity markets towards the end of 2016 and carried forward with gains across the board up to early 2017. How long this can last no one knows and Trumps election "tweeting" is adding to market volatility.

One of the key conclusions we can draw from the election surprises of 2016 is that the pundits often failed to understand people and their views.

Markets are no different from elections and while the experts get it right most of the time they can get it very wrong also. Most "experts" forecast a market sell off if Trump was elected…. the opposite happened.

The key point to garner form this is to have a solid strategy in place and stick with it. Avoid the latest fads and if an investment looks complicated then most probably best avoided.

Global Equity Market Returns 2016

Index	Returns (€)
S&P 500	15.3%
Euro Stoxx 50	4.8%
UK FTSE 100	3.9%
ISEQ (Ireland)	-2.6%
FTSE Asis Pacific	6.0%
FTSE Emerging Markets	16.8%
Nikkei (Japan)	8.2%

Oakwood
FINANCIAL ADVISORS

Commercial Property Update

As mentioned in the 2016 Mid-Year newsletter the larger gains have now subsided in Irish Commercial Property and with rental yields moving back towards 4.5% p.a. property will offer reduced growth potential over the next 12 months. with projected gains of 3% to 5%.

The Irish Commercial Property market is still well-positioned to benefit from Brexit and with further demand for well positioned office space in Dublin gains of circa 5% are forecast.

UK Commercial Property suffered initially after the Brexit vote but has bounced back in the latter part of 2016. How long this is sustainable is hard to know but the safer option is to steer away from the UK Market in the short-term until there is more certainty and clarity around the Brexit fallout.

The Euro Project

It is well understood by the investment community that Italy is a serial laggard in terms of economic growth. Part of the blame lies at the door of the euro and part in poor political policies and decision making. A strong euro has also contributed to a lack of growth in Italy. Poorly performing economies need to be able to lower their exchange rates versus trading neighbours in order to recalibrate and compete. In fact, devaluing a currency has been the traditional solution for decades to improving a country's competitiveness and getting out of a debt crisis.

Many feel Italy needs to leave the euro for this reason; in fact, the more you look at it the more it becomes clear that without political and monetary union (where debts are shared across the board) the euro is utterly unsuitable as a one-size-fits-all solution in Europe.

In its current form, the single currency is unsustainable. The success or failure of the Eurozone will determine the EU's future, as continued low growth and divergent economic fortunes will further heighten Euroscepticism.

Alternative Asset Classes

Alternatives are an investment asset that is not one of the four traditional asset classes (Cash, Bonds, Property & Equities) and offer an opportunity to diversify a portfolio.

Two examples are **Green Energy** (such as Solar Power) and **Water** which are both becoming increasingly valuable commodities. For investor diversification an exposure to funds with a focus in these areas over the longer term will more than likely yield a positive return. With Solar Power storage is currently the hard part but with technological advances this will gradually lower the cost as solar power neither has to be extracted nor needs refining. Clean water is becoming a scarcer commodity and its value will only increase over time.

Just as with any other investment in alternatives/commodities (including Gold) or sector funds, investors should limit their exposure to a small element of their portfolio. Limiting exposure to concentrated positions provides opportunity to capture positive returns while limiting overall portfolio volatility.

2017 Outlook

Forecasting an outlook is always a dangerous game and I think the following quote from John Kenneth Galbraith (Canadian Economist) is apt –

"We have two classes of forecasters. Those who don't know – and those who don't know they don't know."

As an optimist who believes *the glass is half full* if we look at the positives for 2017 we should have another year of improving global growth based on current forecasts and economic indicators. The financial market signposts for 2017 are reasonably clearly marked.

There is a wave of critical elections (that we know of) in Europe, as France, The Netherlands and Germany go to the polls, and given the recent outcomes in the UK and the US, investors will take very little on faith in advance of the results. In the US, the Federal Reserve will look to walk a fine line with a series of interest rate increases that don't choke economic growth or drive the currency too high.

How the rhetoric of the Trump campaign trail meets the reality of Washington politics will be interesting to watch. While 2017 may see some move on corporate tax rates, much of Trumps spending proposals will take longer. The influence of the new US administration on the world stage may serve to heighten rather than dampen "geo-political risk" given the early glimpses we have seen and the heightened tensions in regions such as Syria and the South China Sea.

Regardless of the above or other factors, a solid investment approach with a diversified portfolio *(with a reduced exposure to Ireland due to the potential Brexit fallout)* will leave investors well positioned to steer a course through any market uncertainty and to do so, with substantially lower levels of risk.

Ronan McGrath BFS QFA FLIA AIIPM
Managing Director
Oakwood Financial Advisors
64 Lower Mount Street
Dublin 2

T: 01 652 3070
M: 086 6098615
E: ronan@oakwoodfinancial.ie