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Monthly summary | Investment Companies

April 2017

Economic & Political Roundup

A collation of recent insights on markets and economies taken from the comments made by chairmen and investment managers of investment companies – have a read and make your own minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

Roundup

Probably the most notable move during the month was a 5% fall in the oil price. This has been rallying again in April however. March saw the failure of the US government's attempt to scrap the Affordable Care Act. This called into question President Trump's ability to execute on his plan and this stalled equity markets and allowed sterling to rise against the US dollar.

Global

There seems to be more of a sense that markets are looking fully valued and that bond yields may rise.

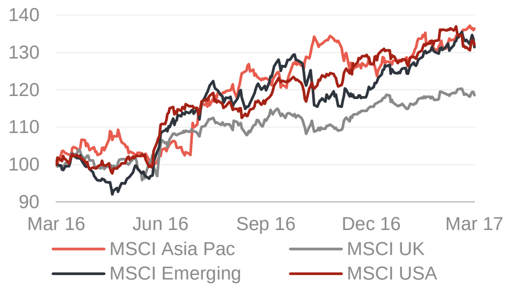
Geoffrey Howard-Spink, chairman of New Star Investment Trust says that longer-dated government and investment grade bonds could prove vulnerable to rising inflation. Simon Fraser, chairman of Foreign & Colonial says long running trends in inflation and interest rates may have turned on a secular basis. Andrew Bell, chief executive of Witan, points out that government bond issuance is set to rise at a time when central bank buying is slowing down or stopping. Paul Niven, manager of that fund, sees an improving outlook but thinks markets may have already factored this in. Teddy Tulloch, chairman of EP Global Opportunities, believes that the extended period of growth stocks outperforming value stocks is gradually coming to an end. Kevin Carter, chairman of Murray International, says that there is an unquantifiable threat to global trade and currency stability, and a potential change in the rules of free-market economics is unlikely to. (continued on next page...)

Exchange Rate	31/03/17	Chg. on month %
GBP / USD	1.2550	+1.4
USD / EUR	0.9385	-0.7
USD / JPY	111.39	-1.2
USD / CHF	1.0026	-0.3
USD / CNY	6.8872	+0.3

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 31/03/16 to 31/03/17



Source: Bloomberg, Marten & Co

	31/03/17	Chg. on month %
Oil (Brent)	52.83	-5.0
Gold	1249.2	+0.1
US Tsy 10 yr yield	2.3874	-0.1
UK Gilt 10 yr yield	1.139	-1.0
Bund 10 yr yield	0.325	+57.8

Source: Bloomberg, Marten & Co

Global (continued)

…sit comfortably with capital markets Bruce Stout, manager of Murray International, expounds at length on global markets and concludes that now is time to exert extreme caution. Tom Walker, manager of Martin Currie Portfolio, suspects that the enthusiasm for reflation in the US has taken the share prices of some of the most economically sensitive stocks too far.

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United Kingdom

Investors in smaller companies seem more upbeat than investors in larger ones. .

The managers of Aberdeen Smaller Companies Income think that small cap stocks are looking more attractively valued in aggregate but they are mindful of an environment where underlying earnings growth might be more difficult to come by. Andre Sutch, chairman of JPMorgan Claverhouse, urges caution. The managers of that fund see clouds on the horizon in the medium term but think radically stimulatory measures could extend the current bull market in the short term. Margaret Littlejohns, chairman of Henderson High Income, sees a shift from loose monetary policy by central banks to more fiscal stimulus by governments. Tom Bartlam, chairman of Jupiter UK Growth, points out that economic and market conditions are always unpredictable. Steven Davies, who manages that fund, looks to growth in connected devices and emerging market consumption to fuel growth. Michael Quicke, chairman of JPMorgan Smaller Companies, expects further volatility in the share prices of smaller companies but is enthusiastic about their long term prospects. The managers of that fund highlight continued M&A activity, especially given the weakness of sterling making UK companies more attractive to overseas buyers.

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Asia

Asian specialists are optimistic about the future

Baillie Gifford, managers of Pacific Horizon, say that, as the US becomes more inward looking, China and eventually India will rise to fill the global power vacuum and continue to support a form of nation-first globalisation. Peter Arthur, chairman of Aberdeen Asia Income, points out that Asia has healthier finances at the personal and corporate levels, compared to most of the developed world. The managers of that fund say that they would use volatility to add to positions.

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Europe

Earnings improving but this is needed to justify valuations

Jack Perry, chairman of European Assets, says 2017 looks likely to be another challenging year. Sam Cosh, manager of that fund, thinks valuations are full but there are encouraging signs of earnings growth. Sam Morse, manager of Fidelity European Values, agrees that earnings growth is needed to justify current valuations. Vivian Bazalgette, chairman of the fund, warns that UK imports from Europe may weaken thanks to weaker sterling. Nicola Ralston, chairman of Henderson Eurotrust, believes that politicians favouring European integration will prevail in upcoming elections in Europe. Tim Stevenson agrees.

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Japan

Japan is changing, there is some dispute about the prospect of inflation but most threats to the market are external

Neil Donaldson, chairman of Baillie Gifford Shin Nippon, says there have been significant developments in Japan; for example, he highlights that there are now, for the first time, over 1m foreign workers in the country. David Robins, chairman of Fidelity Japanese Values, sees the possibility of inflation and rate rises in Japan. Nicholas Price, manager of the fund, thinks the main threats to the performance of Japanese stocks are external. Prospect Japan Fund agrees but it thinks inflation expectations remain muted.

North America

For all the rhetoric coming out of the White House, policy implementation may be hard

Don San Jose and Dan Percella, managers of JPMorgan US Smaller Companies, warn that uncertainty over the pace of implementation and direction of Trump's agenda may lead to market volatility. Sarah Bates, chair of JPMorgan American, talking about the issue of implementation, says the checks and balances within the US system are many and perhaps less will change than the headlines suggest. Garrett Fish, manager of the fund, echoes that sentiment.

India

Short term pain for long term gain

Fred Carr, chairman of India Capital Growth, says the disruption created by Narendra Modi's radical reforms has created an opportunity for investors in India. Ocean Dial, the managers of the fund, are encouraged by the government's reforms but caution on the short-term as the new Goods and Services Tax is introduced and external conditions become less favourable.

Private equity

Private equity has significant cash available to deploy

Roger Mountford, chairman of Hg Capital, is enthused about the technological revolutions that is taking place across the globe. Apax Global Alpha look at a wide range of factors affecting the private equity market. they are concerned about Brexit's impact on the UK economy. Princess Private Equity think we may see significant volatility in markets. Sir Laurie Magnus, chairman of Pantheon International, highlights record amounts of "dry powder" in the private equity market.

Property

Tritax Big Box REIT goes into its market in some detail. Martin Moore, chairman of Secure Income REIT, think the uncertainties of Brexit will encourage the Bank of England to keep rates low to the benefit of the property market. Robert Peto, chairman of Standard Life Property Income, agrees and says property still offers attractive yields relative to other asset classes. Kevin McGrath, chairman of Regional REIT, thinks regional property is set to narrow the yield differential relative to London.

Other

We also have comment on the emerging Europe, Debt, Financials and Resources sectors.

Contents

Global

(compare Global funds **here**)

Geoffrey Howard-Spink, chairman, New Star Investment Trust: Political events are likely to have a significant impact on financial market returns during 2017. The protectionism of Donald Trump, the new US president, may benefit US companies but emerging market equities and bonds may be negatively affected by substantive threats to free trade. In Europe, political uncertainties include the UK's Brexit negotiations, France's forthcoming presidential election and general elections in Germany and Holland and, possibly, Italy. These elections will take place at a time of growing nationalist opposition to European Union institutions, free trade and open financial markets.

Reviving inflation on both sides of the Atlantic may also affect investor sentiment over the coming months. US interest rates are likely to rise steadily over the course of the year and the Bank of England may face pressures to unwind its recent monetary easing following the stimulus to the UK economy provided by the fall in sterling over the second half of 2016. Equities tend to rise in the initial phase of a revival in inflation from low levels but longer-dated government and investment grade corporate bonds could prove vulnerable.

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Simon Fraser, chairman, Foreign & Colonial: Long running trends in inflation and interest rates may well have turned on a secular basis, with significant implications for investment opportunities across and within stock markets. Despite longer term uncertainty and the unclear political environment, we enter 2017 with some renewed impetus in the global economy and signs of improvement in corporate earnings for the first time in several years. Markets have responded with enthusiasm and the US economy continues to be very resilient.

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Paul Niven, manager, Foreign & Colonial: Looking forward, there clearly remains a high degree of uncertainty in terms of global politics and the economy. Both factors are important for underlying corporate earnings and investor sentiment. Fund managers focusing on the micro stock specific issues will not be immune from these macro influences. Indeed, 2016 served to illustrate an environment where market perceptions of fundamentals proved to be far more volatile than the reality. While not readily apparent at the broad market level, 2016 was a year of violent rotation within markets away from relative quality and safety in corporate earnings towards areas of greater potential value but inherently less predictable cash flows. A key question, looking forward, relates to whether renewed economic and growth optimism can persist.

The factors which have driven recent marked rotation will continue to have a significant bearing in 2017 and beyond. Indeed, the direction of global interest rates beyond the short term, driven in turn by economic growth prospects and inflation, will have a strong influence on returns on, and within, equity markets. In this regard, at present, the direction of change appears clearer than the magnitude.

The rejection of the political status quo by voters, reflected in Donald Trump’s victory, the Brexit Referendum result and the failure of Matteo Renzi’s reform proposals have created greater political uncertainty, particularly in Europe. The presidential elections in France look set to be tightly contested with Marine le Pen taking on the traditional establishment. Later in the year Angela Merkel will face a test of her popularity and, further ahead, Italy will face a general election and periodic concerns over fragmentation of the Eurozone will give rise to bouts of market volatility.

In recent years, monetary policy has served to boost asset prices but the law of diminishing returns has been evident for some time. Indeed, the limits of monetary policy were manifest in 2016 when markets took fright at negative interest rates in Japan and Europe punishing the bank sector. It is likely that fiscal policy will become more prominent globally in attempts to stimulate growth. In the US, where capacity is already limited, such a pro-cyclical approach may lead to further rate rises, with uncertain implications for asset prices.

The UK will be in focus again this year due to the government's intention to trigger Article 50 by the end of March. The economy has remained in better shape than most had expected post the Brexit Referendum but, with the expectation of a squeeze in real incomes, a slowdown looks inevitable in 2017 as uncertainty levels rise. Complexity around the upcoming negotiations suggest that the process will be lengthy and there can be no certainty that a deal is reached on full or transitional arrangements within the two year period. The concern for the UK economy will be that this will become apparent in 2017 and the short-term costs of exit may more tangibly impact the economy, with reduced corporate and consumer confidence and declines in investment. Sterling, however, has already fallen to levels which suggest undervaluation from a longer term perspective. Whether this value is realised in 2017 will be a critical driver of UK equity performance, which remains heavily influenced by currency volatility.

The outlook is better today than a year ago but markets have already factored in much of the improvement. That said, President Trump's plan for a fiscal boost and a more protectionist stance creates risks on global trade. This has increased the prospects for both boom and bust in the years to come. Recession is not a serious risk yet and animal spirits have yet to be unleashed suggesting that this year could, once again, provide scope for considerable surprises.

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Teddy Tulloch, chairman, EP Global Opportunities: Following the many policy measures taken to avoid a deep recession after the financial crisis of 2008, the global economy appears to be returning at last to more normal conditions. The US has started to lead the way by raising interest rates. Other countries are expected to follow, although not imminently and not at a particularly fast pace. In this scenario, bond yields are expected to rise. This will likely have a negative impact on those equities whose valuations in recent years have benefited from being seen as "bond proxies". This could provide a much improved investment backdrop for equities with more value-based characteristics.

As always, there are a large number of factors that could impact economies and equity markets, with geopolitical concerns, particularly in the Middle East, the UK's forthcoming exit from the European Union and renewed concerns over the Eurozone in its current form. The political changes expected following the election of Donald Trump as US President could have a significant impact. The imposition of additional trade restrictions and increased protectionism would be of particular concern as it would probably result in a reduction in the potential for global economic growth.

We believe that the extended period of "growth" stocks outperforming "value" stocks is gradually coming to an end.

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Dr Sandy Nairn, manager, EP Global Opportunities: Overall, we remain cautious on the potential returns from equities, despite our view that economic growth will continue. The consequence of monetary policies, such as quantitative easing, has been to leave other asset classes looking demonstrably expensive, with a knock on effect to those related elements in equity markets, such as "bond-like equities". We have been through this cycle many times before and it is important to retain valuation discipline to be in a position to take advantage of opportunities as they arise.

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Andrew Bell, chief executive, Witan: The strength of equity markets during 2016 reflects increased hopes for faster, or more balanced, economic growth in 2017. A significant fiscal stimulus is expected from the new Trump administration in the US, in the form of tax cuts and infrastructure spending. There is a risk of disappointment if this takes longer than expected to implement, or is significantly diluted. Similarly, although some of the more exaggerated fears for UK growth in the aftermath of the referendum have been reset, the fall in sterling is likely to lead to a squeeze on real incomes in 2017.

The UK's eventual departure from EU membership may have both good and bad consequences for the UK's economic performance in coming years, some of which are not currently predictable and will differ from sector to sector. Our assessment is that this is primarily a UK economic and political issue.

European politics pose additional threats to the outlook for economic growth, as well as complicating the process of negotiating EU exit terms with the UK - election campaigns are not conducive to making trade deals which may be unpopular with your own electorate. With the Netherlands, France and Germany all facing national elections in 2017 the air may not be clear until September, leaving aside the risk of an upset result in one or another country undermining confidence in the Eurozone's cohesion.

On a more positive note, the bottoming out of commodity prices has removed a destabilising factor from a number of emerging economies. This, allied with improved economic governance, could allow them to build on their strong 2016 performance, which broke a 4 year run of underperformance. Although a strong dollar is often seen as a threat to emerging economies, raising the cost of servicing their dollar debts, the US also tends to have limited tolerance for a strong dollar if it impinges on US economic growth (or the new administration's ambition to bring manufacturing jobs back home). Whilst a strong dollar might offset the benefits to other countries from a growing US economy it seems unlikely to occur in the absence of robust growth in the US. So the balance of risks and opportunities for emerging markets may be more mixed than in past periods of dollar strength.

The shift in the emphasis of economic policy, from stimulating private sector growth via low interest rates towards governments borrowing at low rates to boost demand via tax cuts and investment spending is a potentially significant turning point. Inflation risks are rising, albeit from a very low base. Government bond issuance is set to rise, at a time when central bank buying is slowing down or stopping. These are factors against which the level of bond yields offers very limited protection - yields remain generally lower than at the start of 2016, despite rising since the summer.

Although equities are capable of making progress even if bond yields are rising, this depends on the extent of any change in yields and its cause. If a rise is driven by higher inflation expectations (reflecting better economic growth and improved corporate pricing power) it would potentially be viewed as positive for equities. If it reflected higher post-inflation yields it would represent a rise in the real cost of capital, which would be a headwind. Either way, a major further rise in yields could undermine equities, even if underlying economic growth improved. With index levels offering few windfalls, 2017 seems likely to require a more selective approach to equities after the landmark returns enjoyed in 2016.

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Kevin Carter, chairman, Murray International: It is seldom relevant to focus too intensively on politics when considering the global investment outlook, but the outcomes of the Referendum on 23 June in the UK and the Presidential Election on 8 November in the United States carry serious ramifications that cannot be ignored. Whilst it is premature to draw firm conclusions about the likely consequences, we do know that additional uncertainty will prevail. History teaches us how much financial markets dislike uncertainty. There is an unquantifiable threat to global trade and currency stability, and a potential change in the rules of free-market economics is unlikely to sit comfortably with capital markets.

This environment is likely to produce abnormal shifts in sentiment in markets as investors gather on one or other side of the perceived merits of being exposed to risky assets. This will produce opportunities for patient investors who remain focused on holding a broadly diversified portfolio of companies with robust business models, strong market positions and solid financial disciplines, 2017 is likely to provide a stern test for financial markets.

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Bruce Stout, manager, Murray International: It is said the most valuable currency in the world is trust. Earned through honesty, integrity and truth, where it exists, the possibilities are endless. Inspiring confidence for individuals, business and government, trust allows financial activity to flourish. Without it, there can be no commercial exchange, no international trade, no global investment and no social democracy. In a world increasingly frustrated by unfulfilled promises and austerity fatigue, the single most influential global development over the past twelve months was the dramatic devaluation of trust. As Central Banks, the political elite, academia and the media were seen increasingly to be out of touch with public opinion and detached from the disconnect between policy and reality, respect for them tangibly eroded.

The political cost associated with such widespread trust debasement proved deep and far-reaching. Anti-establishment sentiment escalated on a wave of nationalistic populism, securing power and elected representation seemingly against the odds and often against public opinion. In a global political climate where it became prudent to expect the unexpected, leadership change, policy change and government change swept across the landscape. Credibility loss was most pronounced towards Central Bank policymakers. Four consecutive years of grossly inaccurate economic forecasting condemned the Federal Reserve in the United States to making increasingly hollow-sounding policy predictions. Domestic interest rates were nudged up slightly, but widespread scepticism prevailed. Similar doubt and indecision accompanied policy directives in the UK. The Bank of England's fragile veneer of respectability was shattered following Britain's vote to leave the European Union. Hostage to unsustainable fiscal and current account deficits, the Brexit Referendum result delivered the long expected devaluation of Sterling as international capital took fright. In the ensuing temporary panic, policy discipline was abandoned. Displaying infinitely more consistency in futile policy implementation, the European Central Bank and the Bank of Japan kept on printing banknotes. Creating farce and fallacy whilst simultaneously destroying hard earned savings, such actions were beyond contempt. Yet oblivious to public derision, global Central Bank policymakers ploughed on regardless, in denial of the painfully obvious - issuing more debt to solve a debt crisis simply doesn't work.

Accompanying withering trust in establishment orthodoxy was escalating anxiety over economic performance. The predominant mood of influence early in the period had been one of deflation. Declining global growth forecasts, combined with extreme commodity price weakness, had politicians and policymakers paralysed from persistent macro-economic disappointment. Impotent to influence evolving events, they watched as global bond yields plunged to historic lows. When Germany issued a ten year bond yielding zero in the summer, the monetary vandalism descended to new depths. Such actions proved not just offensively ironic but also the ultimate insult to savers. Widespread condemnation of global economic management intensified and into the economic vacuum flowed the language of change. Based on neither sense nor substance, promises of increased fiscal spending, tax cuts, job creation, higher wages and economic reinvigoration became the lexicon of choice. All talk, no action but disillusioned voters embraced such reflationary rhetoric with great gusto. The half-empty glass became not just half full but somehow positively overflowing! Choosing to ignore systemically entrenched excessive debt, lingering over-capacity, fiscal insolvency, income impoverishment and deficient demand, sentiment soared in anticipation of stronger growth and higher corporate profits in the future. The effects on equity, bond and currency markets were nothing short of remarkable.

North America

America's domestic economic landscape continued to polarise opinion. This ranged between those emphasising deflationary risks associated with a chronically over indebted nation and those accentuating potential inflationary pressures inherent with maintaining abnormally low interest rates. Neither side produced sufficient evidence to unequivocally prove their point. The net result was policy inertia. For the marginalised American, desperate for clarity on employment, wages and onerous debt obligations, such policy paralysis proved unwelcome. To fill the void, increasingly radical political promises were made, cumulating in profound changes to government and leadership ideology.

Financial markets, forever eager to embrace exuberance, indiscriminately accentuated perceived positives. The Northern American index rise of +34.1% in Sterling terms over [*2016*] reflected a market drunk on sentiment, with its most recent libation imbibed in linguistic form - Make America Great Again.

Exactly why such emotive rhetoric should inspire such unquestioning confidence is unfathomable. Beyond electoral promises, US economic fundamentals dictate a very different reality. The current business expansion arguably shows signs of increasing exhaustion. Seven consecutive quarterly declines in US corporate profits eclipse the unenviable record set in the 1930s, unequivocally illustrating the fatigue in US earnings momentum. Rising bond yields, and more importantly a stronger dollar, would only further compress corporate margins. Clearly Americans want to believe in the revival of animal spirits but declining corporate profits have long been associated with the end of business cycles, not the beginning. The new President inherits an economy that received the largest monetary stimulus in history yet struggled to achieve annualised growth of just 2% over the past seven years. Will four jingoistic words deliver what four trillion dollars of monetary largesse could not?

In rational terms it is reasonable to doubt. The sheer enormity of US debt suggests deflationary risks remain. Unless policymakers are irresponsible enough to impose significant losses on creditors, then the debt overhang remains. Meantime the US Monetary Authorities attempt to set policy within an opaque fiscal landscape full of speculation and supposition. Delivering election promises are likely to be infinitely more difficult than pronouncing them.

UK

Economic sceptics maintain that in the purest form of democracy, everyone gets what nobody wants. If rational expectations dictate decision making, then economic choice is enhanced by certainty and stability. The conclusion of yet another turbulent twelve months in UK economic history witnessed almost the exact opposite prevailing. The seismic shock associated with Britain's vote to leave the European Union reverberated around every aspect of domestic activity. For the elected UK Government, Brexit meant Brexit, but for the beleaguered UK economy Brexit meant exactly what? Within the eerie silence that descended, nothing could accurately be assessed about future investment, international trade, immigration, employment, security or growth simply because no precedent existed. Into the vacuum stepped the speculators of doom and gloom, or progress and prosperity depending on which unsubstantiated illusion the respective orator wished to emphasise. Into the vacuum also ventured the Bank of England with perhaps the most inexpedient interest rate cut in living memory. For an economy already burdened with unsustainable current account and budget deficits, excessively leveraged public and private sectors, stagnating real incomes and over-extended property prices such additional uncertainty proved extremely unwelcome. Sterling plunged as the UK's Achilles Heel of foreign capital dependency was cruelly exposed.

For the broader public, and more importantly its diminishing disposable income, currency devaluation quickly translated into higher import costs. Inelastic necessities, such as food and energy, witnessed sharply higher prices which in turn rekindled inflationary concerns and pushed bond yields higher. For businesses, tough decisions on capital allocation between investment and cost containment became infinitely more problematic. Somewhat surprisingly, with the seeds of economic recession being scattered all around, for those disciples of profitless prosperity none of this mattered. The UK equity market maintained its upward momentum with complete disregard to fundamental fragilities.

Europe

The European Central Bank remained uncomfortably ensnared in its self-made monetary trap throughout 2016. Hostage to policy-obsessed financial markets, policymakers intensified futile monetary attempts to reinvigorate economic activity. Escalating purchases of troublesome sovereign and corporate debts from crippled European banks failed to stimulate activity. Designed to relieve the debt burdens of domestic banks, yet again such practices merely transferred private sector debt obligations onto the public balance sheet. Expecting loan growth to pick up against a backdrop of stubbornly high unemployment, negative real income growth, job insecurity and fragile consumer confidence throughout the region was, at best, naïve if not downright ignorant. The legacy of existing, non-performing loans remains a powerful contractionary force that will haunt Europe for some considerable time to come. Yet still the monetary madness continued, pushing bank deposit rates and bond yields deeper into negative territory. Unrecognisable evolving monetary conditions questioned the very sustainability of banking and insurance businesses in a negative yield, negative deposit rate environment.

Latin America

Ordern e Progresso - Order and Progress. Such scripture circles the globe at the centre of Brazil's iconic green, blue and yellow flag. Without question these are commendable ideals but in practice they have seldom been adhered to. Brazilian economic, political and financial history is littered with periods of the exact opposite, but the most recent chapter, concluding with impeachment of disgraced President Dilma Rouseff, witnessed an end to her accident-prone term in office and offered encouraging signs of relief for one of Latin America's most conflicted nations. Whilst hope followed by disappointment is arguably a particularly Brazilian cycle, recent developments could cautiously be viewed as progress.

Emerging from its deepest recession since the 1980s, the benefits of an extremely internationally competitive exchange rate soon became obvious. An expanding trade surplus attracted significant foreign direct investment inflows, the consequences of which translated into an appreciating currency and declining inflation. Having endured three years of steadily rising interest rates such stability finally provided the platform to begin monetary easing. Against a backdrop of potentially accelerating interest rate cuts and renewed credit-sensitive growth, Brazilian financial markets performed very well.

Conversely, whilst Mexico shares few similarities with Brazil, as an inherently conservative nation, order and progress have essentially been delivered since the dark days of Mexico's own financial crisis over twenty years ago. Recent developments proved no exception, but rising political tensions with the United States severely tested its resolve. Despite rising oil prices, buoyant consumer spending and competitive exports, the country remained suffocated by xenophobic electoral rhetoric in the United States. The Central Bank hiked interest rates five times in defence of a fragile peso which in-enviably became the international barometer of protectionist sentiment. Unfortunately, it may be some time before it discards this unwelcome tag.

Japan

[*2016*] witnessed the third anniversary of Japan's unorthodox monetary reflation plan. Introduced to universal enthusiasm and widespread acclaim, the new economic plan had been championed to deliver Japan prosperity from the depths of deflation. Thirty six months later, the economic consequences of an extraordinary monetary experiment which devalued the yen and inflated asset prices make sobering reading. For those more interested in reality, what was high on ambition proved woefully short on substance. Declining real wages, higher sales taxes and more expensive imports condemned the average Japanese person's living standards to fall. Weak economic growth, faltering capital investment and sluggish corporate profitability restrained overall business conditions. Most importantly, outright failure to resolve the Japanese deflationary mentality coupled with negative bond yields dictated for the first time ever, that an aging demographic of Japanese savers watched helplessly as pension promises evaporated. No economic textbook exists that can provide guidance for what comes next.

Macro-economic paralysis brought about by an aging population, insufficient immigration and constant financial market manipulation will not be alleviated until such times as Japan recognises its flawed policies and practices. Such mea culpa is unlikely to happen anytime soon.

Summary

Should future generations ever search for the seminal moment in economic history where so many supposedly intelligent people masquerading as Central Bankers and their financial market cheerleaders descended to the depths of discredited stupidity then 13 July 2016 will be as good as any. For on this day Germany issued a ten year Bund with no coupon. An income investment with no income. To emphasise this particular hideous distortion from numerous others which have polluted financial markets over the past five years is not an attempt to rank its significance. It serves only to highlight just how incredibly far the world has shifted from economic orthodoxy when savers expected, and were entitled to, a return on their savings. The tangled web woven around spiralling debts, insolvent banks, unsustainable deficits, mis-allocated capital and erosion of real wealth exists only to distort and deceive. When such disrespect of real capital value exists, in what can we trust?

It may appear disconcerting, but is no doubt worth repeating, against such a backdrop of unfamiliar extended valuations and deeply concerning fundamentals, there are no places to hide. The bottom line, of which we are acutely aware, is that both bond and equity markets are very expensive on an absolute and relative basis. Portfolio diversification, through which exposures reflect preferred investment opportunities, does have the benefit of a wide opportunity set. Despite overall valuation concerns, it is still possible to differentiate between whether a business is cheap or expensive, whether it is quality or not. With an emphasis, as ever, on capital preservation and maintaining dividends, diversification remains the strategy of preference, extreme caution the modus operandi.

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Tom Walker, manager, Martin Currie Global Portfolio: Political uncertainty in the world's largest economy is more heightened than it has been for many years. Yet, thus far, stock markets have largely taken it in their stride, buoyed by pro-cyclical sectors which have been boosted by President Trump's electoral promises of fiscal largess. Policy-wise, however, this much-talked about economic stimulus may be harder to do than to say. We suspect the enthusiasm for reflation in the US has taken the share prices of some of the most economically sensitive stocks too far. And as stock pickers, we see little point in speculating on which of the many policy initiatives enunciated by President Trump may come to fruition. So currently, the portfolio is positioned for continued tepid economic growth and only very modest increases in interest rates. That does not suggest that we are especially bearish on the outlook for the year ahead. However, after a strong upward move in equity markets, a consolidation phase is possible in the near-term.

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United Kingdom

(compare UK funds **here**)

Aberdeen Smaller Companies Income: Whilst global growth is still languishing at its slowest pace since the financial crisis we do expect that to start to pick up modestly in 2017 led by a gradual recovery in emerging markets.

However, volatility and uncertainty is rife and 2017 is bound to be an eventful year with elections coming up in France, Germany and the Netherlands, the first year of the Trump Presidency and further, difficult Brexit negotiations ahead of us. In terms of the economic outlook, higher UK inflation and weaker investment is set to slow growth to 1.5% in 2017 from 2.1% this year (Aberdeen in-house projections). Stronger growth in the US might lead to more interest rate increases there but the haphazard Trump rhetoric is also very difficult to decipher and we might well see some less positive economic policies emerge. The risk of trade restrictions and higher US interest rates (strong $) could heighten emerging market risk. Finally, despite the negative political headlines, the Eurozone recovery continues to progress at a modest pace and our Aberdeen internal forecasts have been upgraded for both 2017 and 2018 to 1.5% from 1.4% previously.

Focusing the lens on company valuations, small cap stocks are looking more attractively valued in aggregate but we are mindful of an environment where underlying earnings growth might be more difficult to come by. Despite this, selective opportunities will continue to emerge and in difficult markets like these a careful and diligent stock-picking approach can reap rewards.

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Andrew Sutch, chairman, JPMorgan Claverhouse: Since the year end the All-Share Index has held on to its gains of 2016 and, at the time of writing, has risen by 2.8% in the current year. The Bank of England has recently revised upwards its forecast of UK GDP growth for 2017 and interest rates remain low. A rise in inflation is to be expected, caused partly by the fall in sterling, but some limited inflation can often be favourable to equities and equity markets.

Caution remains the watchword given the uncertainty surrounding so many political developments around the world, not least the impact on UK companies and markets from the Brexit negotiations.

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William Meadon and Sarah Emly, managers, JPMorgan Claverhouse: The remarkable events of 2016 have made forecasting the future even more difficult than usual.

Taking the United Kingdom out of the EU will provide the toughest of challenges for the new May administration. Unwinding 40 years of EU legislation and negotiating new agreements with EU countries and around the world will be complex, exhausting and leave little time for other matters. However, as we saw in 2016, despite the uncertainly that comes with such a new era, the immediate consequences of Brexit (a cheap currency, lower interest rates and fiscal loosening) have been taken well by the UK stock market.

Similarly in the US, whilst President Trump is clearly a maverick who seems to thrive on confrontation and doing the unconventional, much of his mooted macro and micro economic policies are likely to be equity-friendly. Cutting red tape, reducing taxes and increasing expenditure on infrastructure may all stimulate both the US economy and stock market. Accelerating US growth may lead to a couple of small interest rate rises in America this year, but monetary policy generally shows no sign of tightening significantly in the near term. This, too, is a good backdrop for equities, the effect of which may be felt globally.

However, President Trump is also promising to increase tariffs and trade barriers and his confrontational style communicated via Twitter may not be fully appreciated in the more diplomatic halls of geo-politics. A wrong move by him here could be globally destabilising and outweigh the benefit of any equity-friendly policies at home.

Such an unprecedented political and economic backdrop on both sides of the Atlantic leads us to tread carefully. Moreover, the looming elections in France, Germany and the Netherlands have the potential to cause more turmoil and unsettle investors further. The established global order feels under threat. However, such a tumultuous political backdrop will inevitably throw up investment opportunities.

On a medium term view, there are many clouds forming on the investment horizon. However, in the short term, radically stimulatory measures in both the UK and US coupled with continuing low interest rates may lead this nine year old bull market to have a further leg up.

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Margaret Littlejohns, chairman, Henderson High Income: After last year's unexpected events, it would be foolish to make any predictions for 2017, other than to suggest it will be yet another period of uncertainty both within the UK and beyond. At this stage it is unclear how Brexit negotiations will progress and what effect they might have on domestic economic growth, inflation and employment in either the short or long run. We also need to wait and see if President Trump's campaign promises of US job creation, tax cuts and infrastructure spending will materialise and boost growth or if protectionist measures will restrict global trade. In addition, there remains considerable political risk within Europe, as France and Germany go to the polls during the course of 2017 and the future of the European Union remains under close scrutiny.

After many years of quantitative easing, there appears to be a shift from loose monetary policy by central banks to more fiscal stimulus by governments, resulting in a steepening yield curve in the UK and US as expectations of inflation increase. Despite potential volatility in the equity markets, dividend income will continue to be highly valued by investors given the low income returns available from cash and bonds which are unlikely to change in the near term in the absence of short term hikes in interest rates.

Against this backdrop of uncertainty, there are still many investible companies with robust balance sheets and excellent management that deliver superior products and services, generate strong cash flow and pay out attractive dividends to their investors.

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Tom Bartlam, chairman, Jupiter UK Growth: 2016 had plenty of surprises for investors, and there is potential for more of the same in 2017. On the political front the UK is expected to trigger Article 50 before the end of March and begin formal negotiations on exiting the EU. Donald Trump's inauguration as President of the United States in January has made it clear that he intends to implement many of the controversial promises he made on the campaign trail. Other potential flashpoints in 2017 include elections in the Netherlands, France and Germany. The implications for trade, globalisation and international security of these political developments remain to be seen.

Although many commentators are saying that we live in a period of unprecedented uncertainty, the reality is that economic and market conditions are always unpredictable.

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Steve Davies, manager, Jupiter UK Growth: Investor sentiment towards the UK domestic economy is at rock-bottom at present, however, the same was true (albeit for different reasons) in Emerging Markets (EM) a year ago and we've seen what asset prices have done there since. Looking ahead for the UK market, anything that suggests the UK is heading for an orderly Brexit and with an extended transitional period could trigger a bounce in sterling and a re-appraisal of the attractions of some of the portfolio's domestic names.

There has been an improvement in sentiment towards [*financial sector*] companies, which has increased dramatically from the first half of 2016, as they continue to demonstrate self-help strategies.

Although some of the mining stocks do arguably look cheap, I have doubts about the sustainability of Chinese demand stimulating growth to the same extent as previously, especially in this new Trump protectionist world. As far as oil is concerned, I still feel that there are downside risks to the oil price if OPEC doesn't maintain cuts in May. US Shale also continues to increase production in a meaningful way and its impact on the oil price is not to be underestimated.

Entering into 2017 I expect a number of longer-term secular growth trends to persist. The "connected world" continues to expand at phenomenal pace, driving growth in connected devices, connections, data analytics and e-commerce. The consumer landscape in EMs should continue to evolve as disposable incomes in EMs continue to rise and consumers spend their money on big global brands as well as increasingly on travel and leisure. These trends should offer exciting opportunities for investors in 2017 and beyond.

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Michael Quicke OBE, chairman, JPMorgan Smaller Companies: The political landscape has changed significantly over the last year, and we may see yet further developments in the months ahead. This has made predicting the future more perilous than usual. Despite this, there has been a marked increase in optimism which if sustained will help growth rates in the future. It will be some time before we know whether this positive outlook takes hold or if we revert to a period of disappointing growth.

Partly as a result of this uncertainty, UK smaller companies have relatively low valuations, yet many are showing rising earnings and dividends helped by a weaker currency. Whilst it is likely that we will see a continuing period of share price volatility, long-term investment in growing, high quality smaller companies is attractive, and the Board is confident that they will deliver good returns for patient investors.

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Georgina Brittain and Katen Patel, managers, JPMorgan Smaller Companies: The outlook for 2017 is one of increased uncertainty. In the UK newsflow will be dominated by the Brexit negotiations and we expect Article 50 to be triggered in March 2017. Outside the UK, focus will be on the European elections in France, Germany and the Netherlands, and on the emergence of Donald Trump's actual policy intentions in the US, rather than the rhetoric heard during the US election campaign.

At the time of writing, global economic data appears more positive than had been predicted, leading to upgraded expectations both for global growth, and for growth forecasts in the UK economy. However, on the negative side we expect to see a significant increase in the rate of inflation in the UK, due to the rebound in commodity prices and the decline in sterling. This will lead to rising pressure on UK real household earnings with an expected knock-on effect on consumer spending.

In the small cap arena, valuations remain attractive and dividends continue to grow. In addition, M&A activity continues to re-emerge given that the decline in sterling has provided a significant incentive for overseas purchasers to buy UK assets.

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Asia

(compare Asian funds here)

Baillie Gifford & Co, managers, Pacific Horizon: Globally, value investing performed well relative to growth as the global economic cycle, which has been muted for several years, shows nascent signs of life. We see this as both a threat and an opportunity. Poorer quality value companies often temporarily outperform growth stocks when an economic cycle turns positive. In these circumstances, companies that had exhibited earnings certainty and been rewarded in share price terms can tend to look expensive by comparison and run the risk of being de-rated.

The global investment climate has changed over the last six months. The election of Donald Trump as President of the United States is creating a schism between an old and new political order. The consequences of change are still unknown but are sure to reverberate in world markets for some time to come. Put simply, globalisation is slowing; the new economic order is changing to one of more limited international intervention and integration, with a greater focus on internal domestic issues than external foreign ones, especially in North America. Technological change, in the form of automation and artificial intelligence, and demographic change in the form of ageing populations and less immigration, has been a precursor to these political changes and will continue to drive global economies in the future. The ramifications for Asian economies are still uncertain. The most likely outcome is that China and eventually India will rise to fill the global power vacuum and continue to support a form of nation-first globalisation; we heard this from the Chinese President who delivered the most pro-globalisation speech yet at Davos this year.

In India, Narendra Modi is cementing his position as an authoritarian populist leader following his successful demonetisation of large denomination notes. We continue to believe that India, under Modi, is adopting the Asian Tiger model of economic growth which is likely to ensure increasing and sustainable economic activity. We believe loan growth is at an inflection point. Having spent almost a decade with credit growth growing in line with GDP, we expect an acceleration in the near future.

Vietnam, with 90 million young, educated people, should no longer be overlooked. A combination of economic reforms, foreign direct investment flows, market gains from China and a cheap stock market is likely to lead to significant economic growth and stock market outperformance.

Asia ex Japan stands out as a region with high positive real economic growth in an otherwise slow growth world. India is likely to grow at an annual rate of 6%-9% due to its demographics, a rising middle class and the absence of an overhanging debt burden. Chinese growth is stabilising at around 4%-5% and Vietnam has the potential to grow at 6%-7% year on year. It is our contention that the best way to generate long-term absolute and relative returns is to invest in growth companies in growth regions. Once near-term uncertainties are removed, the premium paid for this rapid growth will increase given its relative scarcity.

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Peter Arthur, chairman, Aberdeen Asian Income: Equity markets have risen on optimism that the US economy would accelerate under President Trump's pro-growth agenda. As US consumers spend more, this may translate into higher demand for goods and services from the rest of the world, including Asia.

Your Board remains confident of the region's strong longer-term prospects. Asia has healthier finances at the personal and corporate levels, compared to most of the developed world, while governments are working to fix structural impediments to domestic-driven growth. The region also has a large and growing consumer base with a growing middle class that will be supportive of long term future demand.

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Aberdeen Asset Management Asia, manager, Aberdeen Asian, Income: President Trump's pledge to reboot the US economy bodes well for Asian exporters over the long term, as does rising intra-regional trade. Prospects look brighter for companies that have acted prudently during the difficult operating environment of the previous years. The portfolio's underlying holdings have streamlined operations, cut costs and controlled spending, preparing themselves for a recovery in domestic demand growth. A potential recovery in sales and earnings, coupled with healthy balance sheets and good cash flow generation, will continue to be supportive of dividend growth in the region. With valuations in Asia at a significant discount relative to Western markets, any volatility could present opportunities to add to positions.

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Europe

(compare European funds **here**)

Jack Perry CBE, chairman, European Assets: 2016 has been chastening for pollsters and economists alike and I will refrain from predictions here, but it feels reasonable to say that 2017 looks likely to be another challenging year. The potential hurdles in Europe loom large in the form of political elections in Germany, France, the Netherlands and of course the 'Brexit' negotiations. However recent precedents would suggest that even perceived negative outcomes do not necessarily mean that share prices will decline. 2016 ended so positively because the fundamentals for the global economy and Europe in particular have improved with economic statistics, including inflation being surprisingly positive.

This is encouraging for investors as it has brought fundamentals back to the fore. Prior to the fourth quarter a combination of central bank action and fear had driven investors to seek out assets perceived as safe. For bonds this has driven yields to irrational levels and for equities 'bond proxies' led the way. Valuation seemed to have been forgotten. The fourth quarter however saw market leadership transfer back to assets which have value support.

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Sam Cosh, manager, European Assets: Valuations in aggregate do not look particularly attractive to us. For markets to rise from here they must be driven by profit recovery. On this front, in contrast to last year, the signs are encouraging. While European profits have made little progress since the financial crisis, for the first time in recent years, earnings expectations are rising. Economic progress appears to be sustained. Within this environment the areas of the market which have lagged since the financial crisis now appear healthier. In a cycle of recovering profitability it feels reasonable to expect this improvement to continue.

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Vivian Bazalgette, chairman, Fidelity European Values: Eurozone growth gained some momentum towards the end of 2016, with private consumption remaining a significant contributor. In addition credit conditions continue to ease and fiscal policies are becoming more supportive at the margin, with further easing likely in 2017. A friendlier global growth backdrop is also a helpful factor. Nevertheless, there are downside risks to this positive outlook. In politics, Mr Trump's presidency, the repercussions of the Italian referendum and a packed election calendar in 2017 are some of the influences which could inhibit investment decisions. It is also likely that import demand in the UK will suffer as a result of a significantly weaker sterling. This may have an adverse effect on trade in the Eurozone.

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Sam Morse, manager, Fidelity European Values: Earnings and dividend forecasts have been downgraded consistently such that continental European companies have, in aggregate, delivered little in the way of earnings and dividend growth in recent years. The second half of 2016, however, saw an end to this cycle of downgrades and analysts are now confidently predicting (again) double digit earnings growth for 2017 (and 2018). The hope now is that the global economy will be given additional impetus by Trump's reflationary policies (fiscal spending, a reduction in taxes, etc.) and that this will lead to acceleration in European earnings, particularly in sectors that have struggled to grow earnings for many years, such as the banks.

Strong earnings and dividend growth is, indeed, needed to support valuations that are high relative to historic ranges, especially given that one of the crutches for high valuations - low bond yields - is slowly being removed. There is the potential for more political shocks to come, especially given the heavy load of elections in Europe in 2017. The main risk, however, would be any hiatus in the current economic improvement. The uglier aspects of Trump's agenda, such as protectionism, may have an impact here or a monetary squeeze, if inflation starts to get out of control, and may also slow any recovery.

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Nicola Ralston, chairman, Henderson Eurotrust: European markets are rather unloved in the UK at the moment - but this, in our opinion, represents an opportunity rather than a problem. Ahead of hard-fought elections in Europe, many observers believe European economies may be heading for political shocks of the kind that have already occurred in the UK and the US. These cannot be discounted, but we believe the most likely outlook in the main countries is a continuation of governments broadly in favour of further European integration. We keep our sights on a number of positive factors, especially the choice of companies with strong market positions and, in many cases, global businesses, many selling on lower valuations than in the US or the UK, and - currently at least - a significantly stronger earnings outlook.

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Tim Stevenson, manager, Henderson Eurotrust: My opinion is that although there may be a rise in "populist" parties in the elections this year, I do not that that we will see the overthrow of the established parties.The simple fact is that Europe is in many cases not as economically and socially unequal as may be the case in the UK and the USA. As a result, while there are plenty of things that European people can feel unhappy about, generally the politicians have been relatively (the bar is set increasingly low in my view) honest about the fact there has been little economic alternative to running an economy properly and with a focus on long-term issues such as demographics. This latter issue poses huge challenges for all economies, and makes simple solutions probably unrealistic.

In the meantime economies look set to continue the slow improvement of recent years, and importantly for us, earnings should also be set to improve again this year. Markets do look rather over-valued in the short term, but with bonds offering nothing given the return of gentle inflation, the chances are that European equities will remain preferred.

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Japan

(compare Japanese funds **here**)

M Neil Donaldson, chairman, Baillie Gifford Shin Nippon: In our Interim Management Report we commented on the EU Referendum result in the UK, along with concerns over global growth (China in particular), rising scepticism over unconventional monetary policy by central banks and further speculation over a rise in US interest rates. To this we now need to add the election of President Trump in the US and be mindful that all of these developments are still in their infancy. As such, uncertainty remains and caution in investment decision making is paramount. That said, our primary focus is on Japan and there have been significant developments in that market. Last year I highlighted the pace of economic change and the fact that company Boards were improving corporate governance. This development is continuing and is to be welcomed. Companies are continuing to increase dividend payouts and company share buy backs are at an all time high. There are also a number of interesting developments in the Japanese labour market which will affect large as well as small companies in Japan. For example, the number of foreign workers in Japan surpassed 1 million for the first time last year and the time period that highly skilled, foreign born professionals must live in Japan in order to qualify for permanent residency will be reduced from 5 years to 3 years. These structural trends will help address the labour shortages in Japan which I highlighted in last year's report.

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David Robins, chairman, Fidelity Japanese Values: Financial markets have advanced on the so-called 'Trump rally' and a strong US dollar/weak yen has played a key role in the rebound in Japanese stocks. While sentiment improved in the wake of the US presidential election, there were already signs that a pickup in global growth was translating into a cyclical recovery in Japan. Indeed, a rise in global bond yields, firmer commodity prices and the recent rotation into cyclical stocks suggests that reflationary trends are emerging. The likelihood of an improvement in corporate earnings is increasing, given a pickup in global growth and the weakening yen, and momentum is building for upward revisions to earnings forecasts in Japan.

While the inflation outlook has improved and the yield on ten-year government bonds has risen in line with long term interest rates in the US, the Bank of Japan ("BoJ") has continued to maintain its accommodative stance. Through its policy of quantitative and yield curve control the central bank has provided firm support for financial markets in Japan.

Looking ahead, there may be some degree of policy adjustment. The BoJ's capacity to purchase Japanese government bonds is nearing its limit and the increasingly tight labour market in Japan is contributing to a gradual pickup in inflation. As the end of Bank of Japan Governor Kuroda's term (April 2018) approaches, any policy adjustment may lead to increased volatility in the short term. Indeed, there is a good chance that rates in Japan could rise to some extent if interest rates continue to rise globally as growth and inflation pick up. But as the yield differential with the US in particular is likely to widen, the yen is expected to remain relatively weak, which tends to be supportive of the Japanese equity market.

Meanwhile, Japanese companies continue to make steady progress in corporate governance reforms under the auspices of Prime Minister Shinzo Abe's growth strategies (Abenomics). We see many companies increasing capital efficiency and making better use of their record cash holdings to increase investment for future growth and to improve shareholder returns. Indeed, share buybacks reached record levels in 2016.

The past 12 months proved to be a challenging period for Japanese stocks and we remain conscious of the potential for further exogenous shocks, particularly potential trade and geopolitical upheavals deriving from the new administration in the US. Nevertheless, the outlook for the Japanese market appears more positive in 2017, supported by improving macroeconomic and corporate fundamentals, favourable supply/demand conditions and higher shareholder returns.

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Nicholas Price, manager, Fidelity Japanese Values: While the outcome of the US presidential election resulted in a significant shift in market sentiment, there were already signs that major global economies are regaining momentum, and inflation expectations are picking up. The policy stance of Japanese authorities is supportive of a gradual cyclical recovery in the domestic economy and of financial markets in general. The BoJ maintains a highly accommodative stance (although with fewer options for further easing), and fresh fiscal stimulus is expected in the months ahead.

Against a backdrop of improving domestic and global growth, earnings are starting to recover in Japan and companies are making positive revisions to their forecasts. Not only exchange rates, but also cost-cutting efforts and lower oil prices, are contributing to the improvement in corporate earnings.

Prime Minister Abe's reform agenda remains a work in progress, but there have been positive developments in the areas of corporate governance, taxation, the role of women in the labour market and inbound tourism. Moreover, stable political leadership, combined with high levels of public support, are conducive to further structural changes ahead. Working style reforms aimed at bolstering productivity, improvements to child and nursing care, and the deregulation of integrated resorts, including casinos, are near term priorities.

The risks are that global macroeconomic and geopolitical factors may negatively impact the performance of Japanese stocks, specifically protectionist trade policies being adopted by the US, a debt induced slowdown in China or renewed tensions in the South China Sea. However, the market should find some support from a weaker yen, driven by a widening interest rate differential with the US, and continued increases in shareholder returns through dividends and buybacks.

Given that Japanese equities continue to trade at a discount to other developed markets, supply/demand conditions should prove more favourable than in 2016.

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Prospect Japan Fund: While the details of a Trump administration's policy outlook remain clouded, some of the key issues regarding the Japanese economy include a potentially stronger dollar, US abandonment of the Trans-Pacific Partnership ("TPP") and closer attention paid to the China-backed Regional Comprehensive Economic Partnership ("RCEP"), a 16-nation initiative of Asian nations that excludes North and South American countries, much as TPP excluded China.

The recovery in the Tokyo office market continues, with Miki Shoji reporting that the average office vacancy in Tokyo's Central Business District (CBD) has fallen 42 basis points year-on-year in 2016. Average rents rose 4.79% year-on-year in 2016, improved from the 4.36% improvement in 2015, and 19.0% below the 2008 highs.

Japan remains vulnerable to slowdown in the global economy and geopolitical turmoil, particularly in major trading partners, as well as by volatile swings in currency exchange rates and interest environment due to domestic and overseas monetary policy.

While the Abe administration and BoJ remain poised to provide additional stimulus as needed, inflation expectations remain muted, and CPI turned negative with the largest monthly decline since 2013 recorded during the year. Although the delay of the consumption tax increase is positive, the Abe administration's successful rollout of stimulus spending and regulatory reform remain necessary catalysts for long-term economic growth. Fundamentals on the corporate level remain strong, and while tangible effects of corporate governance reforms, beyond an increased pace of share buy-backs, are negligible, a widespread and ingrained refocusing on investor return should be a long-term positive.

North America

(compare North American funds **here**)

Don San Jose and Dan Percella, managers, JPMorgan US Smaller Companies: So what do we think about 2017? Predictions are very difficult and events in 2016 certainly made the point. Nevertheless, investor sentiment has been as high as ever, accumulating since the US election. We believe that most of President Trump's stated polices are pro-growth and the prospect of corporate tax reform, increased fiscal spending and less regulation are positives for equities. In addition, the future direction of corporate profits looks encouraging while the US economy is in reasonably good shape. Nevertheless, the devil will be in the details and expectations are high for the Trump administration to deliver pro-growth policies that can lead to an acceleration in GDP growth, while making progress on corporate tax reform. From a valuation perspective, comparative values between equities and bonds remain favourable for equities as an asset class. Thus, we continue to believe that US equities can deliver positive returns, though likely less robust than last year's strong pace.

However, some caution is warranted regarding the post-election enthusiasm. There remains a large degree of uncertainty as to what the final outcome of President Trump's broad agenda will be and to the timing of when proposals will become law. The process of putting significant reforms through Congress is expected to be lengthy and quite contentious. President Trump's ambitious proposals may be scaled back and implemented later than expected as the legislative process unfolds. This uncertainty leads us to believe 2017 will see a trend of increasing market volatility throughout the year.

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Sarah Bates, chair, JPMorgan American: Given the extraordinary political surprises of 2016, making predictions for 2017 seems a little foolhardy. At the time of writing there is evidence of continued growth in the US economy and indeed the Federal Reserve has now raised rates thrice since December 2015. Sections of the US equity market remain apparently vulnerable to swings in sentiments as the new President unveils policy on Twitter but the reality of implementation is far from clear. As the academics at New York University pointed out to us, the checks and balances within the US system are many and perhaps less will change than the headlines suggest. In the meantime, US equities are not at their cheapest, but the economy is looking reasonably resilient.

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Garrett Fish, manager, JPMorgan American: We believe that many of President Trump's stated polices are pro-growth and the prospect of corporate tax reform, increased infrastructure spending and less regulation are positives for equities. Given that one of his top priorities is the repeal and replacement of the Affordable Care Act, we would expect heightened volatility in the health care sector. We believe caution is warranted regarding the post-election enthusiasm as there remains a large degree of uncertainty as to what the final outcome of President Trump's broad agenda will be and to the timing of when proposals will become law. It could be a strong possibility that the President's ambitious proposals may be scaled back and implemented later than expected as the legislative process unfolds.

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Gordon Grender, chairman, Jupiter US Smaller Companies: The outlook for corporate profits growth appears to have improved markedly, assuming the new President can get his proposed measures through Congress.

The economy is now almost eight years into a recovery and prospective fiscal stimulus is likely to cause overheating especially as US average hourly earnings are already rising at around 3% p.a. A politically astute Federal Reserve (Fed) may well allow the economy to "run hot" for a while rather than seek to cut off growth too soon. The strength of the US dollar in general will act to restrain economic growth somewhat and may provide the Fed with a suitable excuse for tightening more slowly than it might otherwise.

The market has run strongly since November without a significant correction, which is unusual. Longer term the arrival of the new President may herald a reversal of some of the trends we have experienced for the last thirty years or so but for now the bull market probably continues.

The US smaller company sector is still an attractive and interesting one for long term investors. It is generally under-researched and offers areas of undiscovered value.

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Emerging Europe

(compare emerging market funds **here**)

Sam Vecht and Chris Colunga, managers BlackRock Emerging Europe: The past few years have been difficult for Emerging European equities. For those investors who endured, 2016's performance went a long way to rewarding their patience. Following a strong 2016, we continue to be positive on Emerging European market equities going into 2017 as valuations are still below historical trends, investor positioning remains light and the region has the potential to benefit from several positive developments.

In Russia the positive monetary and fiscal policies are ongoing and it is appearing increasingly likely that the Central Bank may reach their inflation target of 4% by year end. For a country that saw inflation peak at 16.9% less than two years ago this is a remarkable achievement. The lower inflation should give the Central Bank room for further rate cuts through the year, allowing the domestic economy and asset prices to continue their recovery. Additionally, the potential remains not only for US sanctions to be eased but also for higher oil prices to be realised if the OPEC agreement is extended beyond its initial six-month term. Despite the strong returns in 2016 the market continues to trade at a discount to Global Emerging market peers despite delivering one of the highest dividend yields of its peer group.

In the Central European economies of Poland, Czech Republic and Hungary the inflationary picture is almost the exact opposite. After several years of near zero inflation, or even a deflationary environment, inflationary pressures are building on the back of accelerating wage growth, low unemployment and a pickup in investment spending. The move back towards 2% inflation is creating the potential for the region's banking sector to break away from the destructive low rate environment that has bogged them down for the past several years and could create a springboard for both margin and volume expansion.

In Greece, where valuations remain exceedingly cheap, we may see the successful conclusion of the Second Bailout Review. Progress would open up the discussion of further debt relief, the potential admission of Greek bonds into the ECB quantitative easing program and set Greece on a more positive and sustainable growth trajectory. Whilst this outcome is not yet a forgone conclusion, such a cocktail may prove to be just what the banks need to leave behind any questions on solvency and see substantial gains.

For Turkey, 2017 may be the year that the country sees an end to its recent political instability. The attempted coup in July was withstood and its failure demonstrated not only the strength and resilience of the government but the genuine popularity of the AKP party throughout the country. A referendum on the introduction of a presidential system has been called for April which may see Prime Minister Erdogan become President Erdogan. On the international front, the tragic war in Syria appears to be drawing towards a close, relations with Russia have largely been repaired - to the point that both governments have given the green light to the Turk Stream project, a gas pipeline designed to bring Russian gas to the door of Europe through the Turkish waters of the Black Sea. Whilst we still have reservations about the stock of external liabilities, the weak Turkish Lira coupled with attractive valuations and the potential removal of the political discount may deliver surprising returns.

From structural economic improvements in Russia through to Central Europe, and potential political resolution in the countries surrounding the Aegean, we believe that Eastern European equities are in a strong position to deliver attractive returns in 2017. This potential, coupled with high dividend yields, growing earnings, and whilst trading at a discount to emerging and developed market peers, should present an attractive opportunity for investors.

India

Fred Carr, chairman, India Capital Growth Following the State election victories for Prime Minister Modi's ruling party in March, his reform driven agenda gained much needed momentum. Central to this was the passage of the Goods and Services Tax (GST) which, when implemented, will result in huge productivity gains for the Government and corporates alike. In addition, much needed reform of the public banking system was initiated by the Reserve Bank of India (RBI), supported by the Finance Ministry, and further enhanced by the introduction of a new Bankruptcy Law. This remains work in progress, but it was encouraging to see that the changeover at the head of the RBI appears to have done nothing to dampen these efforts. For the first time in three years the country enjoyed a bountiful Monsoon, ensuring a healthy crop yield and refilling reservoirs for future planting seasons. It was this, perhaps, that tipped the balance for PM Modi in deciding to bring about "demonetisation", or the immediate removal of 86% of all currency notes in circulation in early November. The introduction of demonetisation takes "big bang reform" to a higher level, and is ambitious in its attempt to eradicate the shadow economy. Working in tandem with GST, and by encouraging greater use of technology, the Government is proactively forcing individuals and SMEs into the formal banking system thereby helping to eradicate "black money" and corruption.

In spite of these radical reform based policies, India underperformed the broader emerging asset class in 2016. Part of this is because countries such as Brazil and Russia benefited from huge rebounds in the value of their currencies and stock markets as oil and commodity prices recovered from a low base. Not surprisingly, PM Modi's reformist approach has brought about much short-term uncertainty about GDP growth and corporate earnings, and it is inevitable that the market should focus on these issues. But it is this that creates an opportunity.

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Ocean Dial, managers, India Capital Growth: We believe India emerged as a stand out economy in 2016 when compared to other emerging economies. On virtually every macroeconomic parameter there was improvement. The fiscal deficit was well under control at 3.5% of GDP, with a healthy growth in tax revenues (17%), partly aided by increased taxes on petroleum products. Inflation at 3.4% was at a five year low, prompting a series of cuts in interest rates by the Reserve Bank of India. The current account deficit of 0.5% was also at historic lows when compared to a peak of 5% in 2012. Even the foreign exchange reserves have been sustained at US$360bn+ despite the outflows in the last three months of the year, to the extent that the Rupee was among the most stable currency against the US Dollar during the year. Another significant change being witnessed is the shift in household savings from physical assets (gold / real estate) to financial assets. This is being reflected in deposit growth exceeding credit growth in the banking system, as well as steady inflows in domestic equity mutual funds which are averaging almost US$700m a month. Should this be sustained, it could greatly alter the volatility in the Indian equity market.

The main concern was the persistent slowdown in the growth of the economy. Though India remained the fastest growing economy during the year, even outpacing China, GDP growth at 7% has been trending downwards. Credit growth at 5% is at a record low. The primary reason is the lack of investment by the private sector, which is still operating at low capacity utilisation or is still in deleveraging mode. The fact that the global economy remained weak did not help matters as export growth was also negative during the year, though the trend has reversed in the last quarter. Consequently the banking sector continues to see record high 'non-performing assets' in the system, and though these have peaked, the trend downward is slow in the absence of credit growth.

Corporate earnings growth for the BSE Sensex companies, which was initially projected at 18%-20% for FY17, is now expected to be closer to 5%-6%.

What was however pleasing was the continued initiatives being taken by the Government in reforms as well as taking the initiative of kick-starting the investment cycle. We are already seeing a sharp upswing in the order flows coming out of the Road and Rail sector. The economy for the first time has a situation of surplus power and even coal output is exceeding demand. Moreover, various initiatives taken by the Government in 'Ease of Doing Business', 'Make in India' etc. continue to gather pace. A test of its success can be seen by the record FDI inflows of US$32bn in the first nine months of the calendar year, an increase of 21% over the same period in 2015.

We would however like to highlight two significant initiatives taken during the year, which we believe will be transformational going forward. The first is the passage of the Goods & Services Tax (GST) bill, which will be implemented from 1 July 2017. This has been almost 10 years in the making, but would possibly be the single biggest reform measure since the economy was opened up in the 1990s. It would provide a uniform tax structure across the country and enhance the efficiency across the system, reducing cost of operations and at the same time creating a level playing field with those avoiding paying taxes. The second measure was the surprise decision of the Government on 8 November to overnight demonetise all outstanding Rs500 and Rs1,000 currency notes. Thus overnight, 86% of currency in circulation by value became non legal tender. With holders of the currency being given 50 days to deposit the currency into the banking system, in one swoop the entire stock of unaccounted currency was forced back into the banking system. Having already built a huge IT infrastructure, the Government is now analysing the data and hopes to structurally raise the tax to GDP ratio and also transform the economy from a cash economy towards a cashless economy.

These two reform measures, though structurally make India an even more promising growth story in the longer term, have made the short term outlook more challenging, generating uncertainty as well as disruptions. GST, given the scale of implementation and lack of knowledge base, particularly among small and medium enterprises, will have its challenges and push back investment plans. Demonetisation on the other hand has led to huge disruptions across the country. In the first week post-demonetisation, the economy virtually came to a halt. Even two months post, there are still pockets in the country which are severely affected, particularly in rural India. Many smaller businesses will need to permanently change the way they operate, and some may need to shut down. Hence it is only likely to be in H2FY18 that we will see a revival in earnings. At the same time, the global outlook from an Indian perspective is also not as favourable. A rise in commodity prices, protectionist policies by the US (IT and Healthcare are India's biggest exports to the US) and rising interest rates in the US (will hit FII flows) are all headwinds going into 2017.

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Debt

(compare Debt funds **here**)

Paul Read, Paul Causer and Rhys Davies, managers of City Merchants High Yield: Valuations within many parts of the high yield market have become stretched and in Europe the high yield bond market finished 2016 with historically low yields. That said, there are still some areas of the market that we think are attractive. Our strategy is to be cautious and to focus on higher quality companies that we think provide an appropriate level of yield. We also continue to look at the non-traditional areas of the high yield bond market. Subordinated financials, for example, provide substantially higher levels of yield than comparable bonds in other areas, following some underperformance for the financial sector in 2016.

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Antony Vallee, Natalia Bucci and Robin Dunmall, managers, JPMorgan Global Convertibles: We consider the movements in the fixed-income markets in the final quarter of 2016 as indicative of a longer-term movement away from a 'lower for longer' interest rate environment. While the result of the US presidential election may have accelerated this repricing, improvements in economic growth and the recovery of inflation expectations were already underway prior to November 2016. Significantly, this gives us confidence that the positive investment environment for risk assets, such as convertibles and equities, is not solely reliant on President Trump enacting market-friendly policies. Indeed, we see an unpredictable President who has spoken at length about turning the US inward as a key risk for 2017.

Continued strength in economic data and expectations for higher inflation suggest an environment that is likely to be positive for equity and high yield credit markets, while introducing downside risks to longer-dated exposures. We see this as a positive backdrop for convertibles, which have typically been highly correlated with equity and credit markets, while their short-dated maturity (the expected life of the portfolio is a little over three years) puts a natural cap on the extent to which they may suffer from higher rates.

Whilst this environment should be supportive of credit, we see little room for further tightening of credit spreads following the strong moves since February 2016, and so we take a cautious view on outlook for this component of return. We see equity markets as the most likely beneficiary in this environment.

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Financials

(compare specialist financials funds **here**)

Robert Kyprianou, chairman, Polar Capital Global Financials: The start of the current financial year has a different feel from that of a year ago. Equity markets are performing well generally and sentiment towards the financial sector is more constructive. Following the outcome of referenda and elections in 2016 and with a further round of key elections scheduled in Europe in 2017, the political and policy environment is particularly uncertain. However, the macro background provided some reasons to be positive for financials. The rise of populism and economic nationalism in the developed West could provide the backdrop for a reversal in the generational low in bond yields which should support bank profitability. At the short end of the curve, quantitative easing by monetary authorities globally may have passed its peak. This promises at least a floor to negative short term interest rates, with rises likely in some countries, in particular in the US, where the upward trajectory is already underway.   There are encouraging signs that regulators and policy makers are acknowledging concerns over the impact of seemingly never ending encroachment of regulation, taxation and fines.

At the micro level, the great strides taken by financial institutions to strengthen their operational efficiency since the crisis are clearly being reflected in results. Digitisation, modernisation and consolidation remain powerful forces that will drive further cost savings and operational leverage.

Challenges remain. Eight years after the financial crisis bank recapitalisations are still making headlines. The current focus is on the troubles in Italian banks which will test Europe's banking authorities and central bankers. How they respond could have broader implications for the European Union - specifically the role the private sector versus the public sector plays in troubled bank recapitalisations, and whether Europe will adopt a common approach to pending bank failures or whether there will be different solutions for different jurisdictions. Answers to these questions have significance for Europe that go way beyond the pace and form of the recovery of its banks.

Overall such challenges are to be welcomed as they form part of the ongoing process, now very advanced, of healing financial institutions in the West. This underpins the ongoing recovery in balance sheets and profitability. The Board is confident that the sector remains attractive in both relative and absolute terms.

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Nick Brind and John Yakas, managers, Polar Capital Global Financials: The US Federal Reserve, as expected, raised interest rates in December 2016 while the European Central Bank announced that it will reduce the size of its bond purchases later in 2017. Against this background financials stocks have continued to outperform underlying equity markets since our financial year-end. Looking forward there are a number of key reasons the improved sentiment towards the sector could be sustained.

While the underlying macroeconomic trends for the US were positive prior to the US election, the outcome has the potential for some significant ramifications. Firstly, expectations for an increase in fiscal spending will lead to higher US interest rates, all things being equal. As a result interest rate expectations have risen and may well rise further which is very helpful for net interest margins and therefore profitability of banks but similarly for other financial stocks as well.

A steeper yield curve means higher earnings for financial companies as they reinvest their holdings of fixed-income securities on maturity at higher yields.

Secondly, the potential to reduce some of the regulatory burden that the sector faces should increase the ability of banks to return capital to shareholders and bear down on costs. There is cross-party support for easing restrictions on smaller banks but whether there is sufficient support to repeal parts of the Dodd-Frank bill, which brought in a significant portion of new regulation on the sector post the financial crisis, is very uncertain.

Finally, the proposed reduction in federal tax rates would have a very beneficial impact on earnings for US financials, being largely domestic businesses, although for some banks it would initially be offset by a reduction in deferred tax assets. Lower taxes for consumers and businesses are also helpful at the margin for reducing concerns about loan losses as it raises cash flows for meeting interest payments on loans.

In Europe, elections in Germany and France in 2017 have the potential to upset sentiment, but perhaps less than some fear with the favoured candidate in France seen as pro-business. More importantly in Italy, depending on the outcome of a long overdue recapitalisation of some of the country's weaker banks, there is a risk of further significant volatility in financial markets, but should it be resolved it will be a significant boost to sentiment. The UK is expected to invoke Article 50 and commence negotiations over its exit from the EU and with expectations remaining very low it would take little for UK financials to react positively.

A stronger US dollar and higher interest rates have historically been unhelpful for emerging markets. Our largest emerging market exposure is to India and the recent demonetisation experiment, namely withdrawal of certain bank notes, has had a significant impact and resulted in a correction in the share prices of Indian financials. Despite the expected slowdown we still see it as having some of the best longer-term growth stories in the sector.

On the regulatory front the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, was due to meet and announce final proposals on capital requirements for the banking sector in January. Leaks had suggested that they would be more onerous than expected with those banks that have significant exposure to the mortgage market more susceptible to higher capital requirements albeit with a very long lead time before being implemented.

This is at odds with statements from UK and European regulators who have consistently stated that there would be no material increase in capital requirements. The market appeared to take the view that most of any increase would be offset by a reduction in other capital requirements where national regulators have discretion, they would be diluted down further or at an extreme some countries would walk away from implementing them.

At the beginning of January, a press release was put out by the Basel Committee saying that the meeting had been postponed as the proposals had yet to be finalised and needed more work in calibrating before a final review. To what extent this was due to significant lobbying rumoured to be from France and Germany, amongst others, or otherwise it is seen as positive news from the sector. The next meeting is due later this month.

Regulation remains a significant risk for the sector. For example, in Poland in December the Ministry of Justice announced an interest rate cap well below where it was previously and in the UK, the Financial Conduct Authority has announced new limits with respect to spread betting. However it is likely that regulation will become less of a headwind over the next few years. Not only in the US is there agreement to lighten the burden on the banking sector but in the UK the Bank of England has reduced capital requirements for UK banks post the referendum result and has been lobbying to reduce the burden on smaller banks that are at a regulatory disadvantage to larger banks.

With economic data being supportive and as long as it continues to be so we remain positive on the outlook as it is one of the few sectors that is a beneficiary of rising interest rates and/or bond yields. While valuations are no longer as historically cheap as they were in the summer, the sector still trades at a large discount to the underlying market, and recent experience suggests that this is not a bar to further outperformance.

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Private equity

(compare Private equity funds **here**)

Roger Mountford, chairman, Hg Capital: The world is faced by changes at an ever faster pace, and businesses that do not address, and adopt, relevant change are likely to go into decline. Accordingly, investors need to be well briefed about these opportunities and threats, and to be able to identify with confidence which businesses understand and exploit these changes.

It has been said that the world is at the opening stages of the Fourth Industrial Revolution. The drivers of this revolution are simultaneous innovation across the physical, digital and biological sciences, but all of them are empowered by advances in information technology. Innovation is then manifested both in new physical forms - new materials, manufacturing processes and machine capability - and in disruptive new business models.

The World Economic Forum has identified 21 tipping points - moments when specific technological shifts hit mainstream society - that will shape our world, and they are all expected to occur in the next ten years.

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Apax Global Alpha: Brexit and the outcome of the US presidential election will distinctly change the investment landscape going forward. Therefore, it is worthwhile discussing the possible implications of these events in a little more detail.

Brexit

The UK government has become clearer on what strategies it wants to pursue, and we believe that what is generally called a "hard Brexit" is now the base case scenario. First, the UK's stated political priorities of controlling immigration and exiting the supervision of the European Court system are recognised as incompatible with Single Market participation. Second, the Brexit process is designed in such a way that a "hard Brexit" becomes the default should an alternative agreement not be reached within a very short time frame (formally two years but in practice much less). The requirement for a negotiated exit to be approved is very demanding, especially as unanimity is required within the remaining 27 EU member states and the process also involves EU institutions such as the EU Commission and the EU Parliament.

In our view, Single Market participation has had significant advantages for the UK in the past and present. Losing these advantages will have negative economic impacts both in the EU and in the UK, but in our view the UK will pay the (far) higher price. A "hard Brexit" is likely to require significant and costly adjustments in a variety of UK sectors (most notably in banking and auto). The macroeconomic consequences could be significant, and the political reaction to them will likely be "throwing money at the problem", in turn causing budgetary and FX issues. In our view, UK equity and FX markets are not yet fully pricing in these consequences, opening up a scenario of a market correction in the next 12–18 months. Before such a correction happens, our approach to investment opportunities in the UK remains cautious, focusing on opportunities that already provide clear value opportunities today.

US under a Trump administration

On 8 November 2016, Donald Trump was elected as the 45th President of the United States. Despite the outcome coming as a surprise to many, US and European equity markets have rallied since the announcement and the US fixed income market has lost ground. Capital markets in the emerging world have been hit with corrections in FX, equities and debt.

While not all elements of President Trump's agenda are yet clear, and the odds are that there will be quite a few surprises, the fact that the Senate and the House of Representatives remain in Republican hands suggests that whatever agenda materialises, it will have a strong likelihood of being implemented.

What are we expecting? First, there will be a shift from a monetary to a fiscal dominated economic strategy, including tax cuts and infrastructure spending programmes. Such policies will likely lead to a short to mid-term stimulus and an increase in the budget deficit. An initial real GDP boost is to be expected, but then so is an increase in inflation. Additional sovereign borrowing will put further pressure on rates and an appreciation of the US dollar due to "hot money" flows, in particular from emerging markets. Second, more domestic oriented policies are likely. On the one hand, this could mean increases in tariffs and focus on domestic production in (core) industries, on the other hand it will put more limits on immigration. Limiting cheap imports and the labour supply will add to inflation, and a stronger US dollar will mean trouble for export oriented US businesses.

What implications does this have for private equity investing? The likely economic policies under a Trump administration have both positive and negative effects. Obviously, a short term boost to real GDP is a good thing for existing portfolio companies in the US (and elsewhere). The attraction of aggressive fiscal policy, from a politician's view, is that the benefits come quickly, but that costs from increased government borrowing will be borne by someone in the future. In the same vein, from a private equity fund's perspective, the cost of inflation is limited but the benefits to headline returns are obvious and the current portfolio and future investments will benefit from lower corporate tax rates. The longer-term cost of inflation and increased sovereign debt are a few years out. Similarly, while mercantilist policies may appeal to parts of the current electorate, the long-term costs of trade restrictions are significant and are likely to be felt by the actors in a post-President Trump world. There are some less obvious effects of fiscal expansion as well. For example, a lower corporate tax rate actually decreases the beneficial effect of interest deductibility. Consequently, in bidding for assets against strategic acquirers, private equity funds may actually experience a relative reduction in competitiveness. An increase in interest rates is also more of an issue for highly levered entities. Cash flow headroom of future buyouts are likely to decline, increasing the level of financial risk. After years of low interest rates when the margin for error was large, the future will require more diligence in determining the optimal financial structure.

Overall, we believe that US policies in the coming years will favour cyclical and domestically-oriented businesses. On the flip side, companies from Europe and the emerging markets selling into the US could suffer from a protectionist US administration. Investment approach in the current market environment.

While we have argued, for some time now, that fears of deflation were overblown and that the health of the US economy was better than its reputation, we believe that under a Trump administration even a small risk of a recession in the short and medium term has diminished. The expected fiscal stimulus is likely to be effective at least for a while and real and nominal GDP growth are likely to accelerate, with the latter accelerating more than the former. New public equity market peaks in the US clearly reflect this view and obvious value opportunities remain hard to find.

In Europe the landscape is more heterogeneous. Germany and Central Europe, Spain and the Nordics all have positive macro trends and valuation levels are not unduly elevated.

In our view, the problem-child in Europe from an economic perspective could become the UK in the wake of Brexit. As laid out earlier, odds for a “hard Brexit” are high, and the implications for the UK’s economy are not good. In addition, there are some political risks ahead in Europe such as the Dutch, French and German elections in 2017, which could create market and economic risks.

Asset classes

From an asset class perspective, we believe that the most notable changes going forward will affect debt. The outcome of the US presidential election has already had a pronounced effect on US fixed rate debt, beginning with sovereign and investment grade. The Federal Reserve has begun with rate increases and they are likely to continue. Fixed income securities with high ratings are likely to remain under pressure in the near future. The effects have not yet been felt in the more junior market yet – in fact, high yield and junior loan markets in the US strengthened towards the end of 2016, as a fiscal impulse is likely to keep default rates low. However, going forward increasing rates and rising inflation are likely to affect valuation levels in high yield. Floating rate (junior) credit appears the most attractive debt segment in our view, and margins may actually continue to compress further – the proposition of loans relative to high yield remains attractive.

On the other side of the pond, monetary policy in the Eurozone will likely continue to remain supportive, and if in doubt, we prefer US to European credit.

We believe that equity investments on the margin appear more attractive than investments in debt, and loan investments remain more attractive than public debt investments, both because of more attractive margins and their protection against rate rises. A fiscal stimulus in the US, with lower corporate tax rates should support rising corporate profits. While this impulse should also be good for exporters in Europe and the emerging markets, there will likely be negative implications due to protectionist trade policies of a Trump administration. We continue to believe that India offers a broader range of attractive investment opportunities than China.

Sectors

In a world of fiscal stimulus, more cyclical assets could be a better choice than the more resilient and stable classes. In Tech & Telco, the systems, software and IT services segments are likely to benefit more than infrastructure-like areas such as telecoms operators. In Services, financial and industrial services appear more attractive to companies with non-cyclical, recurring revenue business models. In Healthcare, depressed valuation levels in segments such as pharmaceuticals could allow for interesting opportunities; and, in Consumer, we may eventually see a rebound in some apparel segments (apparel being one of the most troubled spaces in the past decade).

The accelerated trend towards digitisation and migration to online, by consumers and businesses, are an overarching theme layered over the above sector themes. While valuations generally reflect this trend and are high in this space, there are always niches of value if one can be agnostic between geographies.

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Princess Private Equity: The outlook for the US economy is modestly encouraging, with the prospect of potentially higher infrastructure spending, corporate and personal income tax cuts and deregulation of select industries. Nonetheless, potential trade barriers present material downside risks to the economy.

With rising inflation and a vibrant labor market, US interest rates are likely to rise. The higher expected fiscal deficit spending may put further upward pressure on longer-dated government bond yields, and there is a risk that a strong US dollar and higher financing costs will weigh on margins and purchasing power.

In Europe, the outlook remains modestly constructive. Risks remain, however, raising clouds over the medium-term outlook, including Brexit negotiations; rising populism and anti- EU sentiment; elections in France and Germany; a weak banking sector; continued high fiscal debt levels; lack of structural reform; and a potential spillover risk from higher US interest rates.

Emerging markets growth should remain below pre-crisis levels as structural tailwinds, such as inclusion into the global economy, workforce growth, credit growth and China's strong economic growth, are wearing off. More positively, in economic terms, Japan should be shielded from international events, and growth should be relatively unaffected. From an investment perspective, potentially rising US interest rates and US protectionism should put emerging markets under increased scrutiny. USD-denominated debt has accumulated in the emerging markets, and margins are likely to suffer as a result. Also, capital is likely to leave the region as US Treasuries are gaining relative attractiveness. A stronger US dollar is putting pressure on the Chinese renminbi. Consequently, emerging market currencies are likely to remain volatile.

On the capital markets side, there may be more significant periods of volatility with inflation and wage pressure picking up in the US, monetary policy running out of steam in the Eurozone and Japan, and persistent tail risks (e.g., uncertainty around the new US administration's political agenda, Brexit negotiations, German/French elections and Chinese debt).

The prospect of rising rates in the US, continued muted earnings growth, growing corporate leverage in parts of the world and stretched asset prices may indicate that valuations are approaching peak levels for the current cycle.

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Sir Laurie Magnus, chairman, Pantheon International: The political and economic uncertainties experienced in 2016 will continue to feature during the year ahead. The new US administration, the implications of Brexit and possible changes in the political landscape in Europe will throw up many questions for investors. In the US, it is still unclear what changes are likely to occur in regulation and tax policy. While the proposed removal of the tax deductibility for interest expenses would have a serious impact on the cash flow characteristics for companies acquired by US buyout fund managers, given the amount of debt normally used to finance such acquisitions, the proposed lower corporation tax rate should mitigate this impact.

High demand and strong fundraising activities have resulted in record levels of "dry powder" in the private equity market and this trend looks set to continue into 2017. Although the elevated pricing levels have created a more challenging and competitive landscape for sourcing new deals, it should also be noted that managers have been able to take advantage of the high valuation environment by using the secondary market to manage their portfolios and realise assets. These conditions in turn, enable continued realisations.

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Property

UK

(compare UK Property funds **here**)

Tritax Big Box REIT: Most commercial property sectors saw significant capital growth after the recession, as investment demand grew. Some sector yields have softened recently, although prime logistics yields remain resilient. We expect this to persist, with the imbalance between occupational supply and demand producing strong rental growth. These attributes have also led to more domestic and overseas money targeting the sub-sector, which helps liquidity. However, we do not believe yields can harden much further and this reduces prospects for capital growth. Capital growth is likely to come from rental growth (applied to a steady state capitalisation rate) and value enhancing asset management. We therefore expect total returns to be lower in 2017.

We are aware of the attractiveness of our investments versus other asset classes, on a risk-adjusted basis, and we continue to monitor rate movements. Ten-year Gilt yields have been close to historic lows and we are not unduly concerned by the small recent increase. As for interest rates, it is difficult to know because the forward yield curve remains reasonably shallow. Nonetheless, there has been considerable recent commentary on the potential for rising interest rates in response to inflationary pressures partially resulting from the Referendum vote. Increased interest rates would affect all asset classes and all sectors of the property market but Big Box logistics is, to some extent, insulated by strong demand from both occupiers and investors and barriers to entry controlling supply, so we would expect to be affected to a lesser degree than other parts of the market.

The timing and type of our upward only rent reviews provide a possible hedge against inflation. In addition to capturing current strong market rental growth through open market rent reviews, we also enjoy fixed rental increases and inflation indexed uplifts, most of which are to RPI.

We continue to believe that the Big Box logistics sector is one of the most exciting asset classes in the UK property market. In this section, we explain why the fundamentals of our market are so attractive and why Big Boxes are such an important component of UK logistics.

Big Boxes are mission critical to their tenants

Big Boxes are highly efficient distribution centres and logistics hubs, which act as both the break down point for goods imported in bulk and which hold the finished goods for distribution to other parts of the supply chain or directly to consumers. This large scale format did not exist in the UK before the early 1990s and most high-quality Big Boxes are modern facilities constructed within the past 15 years. This new generation of logistics assets are often technologically sophisticated and make a significant contribution to the local and national economy. This makes Big Boxes an emerging market.

Big Boxes are usually situated close to major roads, motorways and potentially to airports, sea ports or rail freight hubs, allowing efficient stocking and onward distribution. Big Boxes often benefit from value enhancing capital investments by tenants in the form of state of the art automated handling. Big Boxes have floor areas generally between 300,000 and 1,000,000 sq ft, with eaves heights of between 10m and 25m allowing for the installation of racking and mezzanine floors. Big Boxes are modern facilities typically constructed within the last 15 years incorporating modern designs and the latest specifications. Big Boxes are in demand from institutional-grade tenants who are willing to sign up to long leases, with regular upward only rent reviews, and from investors wanting to own the assets.

Market drivers

Demand for Big Boxes comes from three main sources: conventional and online retailers, third-party logistics companies ("3PLs"), and other companies such as manufacturers. These organisations are responding to structural changes in their markets, such as the relentless rise of e-commerce, weaker economic growth and increased competition, which means that improving operational efficiency can be a key factor in determining profits.

Big Boxes offer previously unavailable flexibility, economies of scale and low cost of use. They are often the nucleus for distribution at a national level and increasingly at a regional level and can be the most important component of an occupier's supply chain. Many companies use Big Boxes to centralise previously dispersed distribution into fewer, larger facilities, helping to optimise staff and stock management and expand product ranges. This allows retailers to match store or online offerings in a single warehouse, which is not possible with smaller buildings. 3PLs are also focusing on Big Box assets to centralise multiple contracts, providing flexibility and allowing them to tender more competitively.

Low-bay buildings are typically used for food distribution. For non-food distribution, a tall building can allow for high racking and mezzanine floors, which can double or even triple the floor space. This additional volume can increase efficiency and flexibility, making Big Boxes even more attractive to tenants, not least because rents are generally paid on the ground floor area only, as opposed to the building's volume.

To drive efficiency, occupiers increasingly invest in advanced systems that allow them to stock automatically and rapidly retrieve products, so they can operate on a "just in time" basis. Technological advances are resulting in Big Boxes becoming smarter. So called 'four-dimensional' automation can pack complex online deliveries in the most efficient order possible. When customised to work with state of the art robotics, such technology drives efficiency savings of up to 20%. The tenant will typically own the fit-out and their capital investment can be substantial, sometimes eclipsing the value of our investment. Such commitment to a location often goes hand-in-hand with either an initial long-term lease or lease extension. This can be value enhancing, making the tenant's inward investment highly attractive to landlords.

All these characteristics mean that Big Boxes are both strategically and operationally integral to their occupiers. Retailers, 3PLs and manufacturers who want to remain commercially viable regard Big Boxes as a strategic necessity.

The Big Box format is particularly attractive in the UK

- The UK has mature transport infrastructure, with excellent road, rail and air links, as well as numerous ports capable of handling the large container ships that are increasingly used to import goods;
- The UK's relatively small size and dense population allows Big Box users to construct networks of regional distribution centres that can cover the entire

country efficiently and reliably. This reduces the risk of late or missed deliveries and cuts costs; and

- The UK has the world's highest internet shopping spend per head and is a major adopter of mobile technology, an increasingly important channel for online sales.

Supply chains continue to evolve in response to commercial demands which in turn impact on commercial property.

A major catalyst for change to UK supply chains was the transition towards the majority of production being outsourced to overseas, low cost economies, producing an increasing volume of cheap imports. Prior to this, domestically made products were held in store rooms on retail premises or in numerous small, simple and geographically dispersed industrial properties, each holding specific product line items representing only a small percentage of the retailer's total range, thus requiring multiple journeys. Such logistics frameworks are outdated and inefficient.

Pre-Millennium, some companies recognised the benefits of larger scale logistics hubs, known as National Distribution Centres (NDCs), from which a single building could be tasked with distribution across the UK. These buildings were typically below 400,000 sq ft in size. Increased road traffic congestion has made this model challenging and since the turn of the Millennium the distribution model has evolved. Consequently, some NDCs have effectively morphed into Regional Distribution Centres (RDCs).

Big Box evolution

A natural compromise between these two former models saw the emergence of RDCs which, due to their proximity to stores, effectively shortened the NDC supply chain and at the same time delivered cost savings and efficiencies not possible from the fragmented smaller unit model. Modern RDCs are often larger than the former NDCs; consequently, high street stores can hold less stock and dedicate more space to "showroom" sales. RDCs act as the "break down point" where bulk container loads of palleted goods (usually from ports) are reduced into manageable quantities, suitable for onward transportation to either smaller distribution centres, stores or direct to consumer households. The scale of RDCs allows them to handle slow, medium term and fast moving goods.

Modern supply chains need Big Boxes

Changing consumer habits have placed pressure on retailers, resulting in the need for swifter and more reliable replenishment of stock in stores. In tandem there has been an exponential growth in online retail sales with consumers demanding ever-faster deliveries. Retailers are increasingly combining both store and e-retail distribution, holding their full range of products within an RDC. This and the rising volume of product "returns" has contributed to the growth in larger buildings of up to c.1 million sq ft. This scale can provide occupiers with significant operational efficiencies and cost benefits particularly when combined with "real time" ordering systems and extensive automation often necessary to deal with the complications of omni-channel supply chains. RDCs can efficiently cover most of the market, although for major cities they can also deliver stock to "Last Mile" or Urban Logistics Centres (ULCs), typically 50,000- 100,000 sq ft. ULCs usually hold only a very small percentage of a retailer's product line and these tend to be smaller sized products and those most consistently ordered.

The relentless rise of e-commerce and omni-channel retailing

E-commerce sales in the UK have grown rapidly in recent years, with the result that many Big Boxes have become quasi-retail outlets. As a relatively small and densely populated nation, the UK is ideal for e-commerce and the rate of online shopping is far higher than in other European countries. This is supported by ubiquitous access to smartphones and Wi-Fi, widespread availability of 4G and the introduction of new services allowing consumers to have packages delivered to convenient stores or lockers, rather than just their homes.

In addition to pure online retailers, growth is being driven by the expansion of omni-channel retailing. This reflects consumers' desires to interact with retailers in different ways at different points in their transactions. Omni-channel retailers can therefore have physical, online and mobile stores, apps and telephone sales, all requiring fulfilment capabilities. New technology is also creating new channels and changing how consumers interact with retailers. Amazon's Dash service, for example, allows consumers to order specific products by pressing a button. Smart appliances such as washing machines will, for example, be able to reorder detergents automatically.

The rapid growth in e-commerce sales is therefore expected to continue in the coming years, with forecasters predicting that e-commerce will account for 22.6% of total retail sales in the UK by 2020, up from 13.0% in 2014. While the impact of Brexit on the UK economy remains uncertain, industry analysts expect that e-commerce will continue to grow, even if the retail sector as a whole remains flat. E-commerce therefore has resilient characteristics.

To remain competitive in this environment, retailers need to have large, highly efficient distribution facilities that can fulfil orders quickly and accurately. This need is only becoming more acute as customers demand ever-shorter delivery times. The importance of data to successful e-commerce operations means that Big Boxes dedicated to e-commerce increasingly also house the retailer's data and intelligence centres.

Information collection has become increasingly important for retailers. Bar code scanning at tills in store provides sales data and can trigger automatic re-stocking and the same principles apply to on-line sales. Cookies, collected when consumers "surf" the internet provide additional intelligence which allows retailers to know what is being bought by whom, where and when but also provides trending data that allows them to more accurately forecast changes in fashion which means they are able to pre-order product lines that are more likely to sell.

As the complexities of multi-channel retail grow, retailers are combining the control point for these functions within Big Boxes. These facilities increasingly fulfil store-replenishment alongside home deliveries, while also dealing with other channels such as click and collect. If store sales are reducing and e-commerce sales are increasing, the retailer can adjust for this within a Big Box far more easily than it can by operating those functions from smaller and separate single-focus warehouses.

Growing retail demand in peak periods

Changing consumer shopping habits are also requiring retailers to cope with surges in demand. According to IMRG, online retail sales on Black Friday 2016 were up 12.2% on the previous year, to GBP1.23 billion. With retailers beginning their offers earlier, the four days before Black Friday also saw substantial spikes in demand, with significant sales growth each day against 2015. Bank holidays and key shopping days before Christmas also tend to see significant increases in online orders.

The challenges these demand peaks create for online retailers are being exacerbated by the share of sales coming via e-commerce. The Black Friday week has seen e-commerce sales as a percentage of total sales increase from 33% to 48% in just two years. Those with the quickest, most efficient and reliable ways of fulfilling consumer demand are best placed to benefit. At the same time, the ability to provide a trouble-free service protects retailers' reputations from the damage caused by failed deliveries or long delays. Big Boxes have a crucial role to play in supporting retailers through these peak periods.

Other significant retail trends favour Big Boxes

The retail market is also developing in other ways that favour Big Boxes. Retailers want to make the most of their expensive high street store space, so they are carrying less stock in-store and are focusing more on the consumer experience with the inclusion of enhancements such as in-store café's. They also use computerised sales tracking to automatically re-order stock and to respond rapidly to changing customer demand in quality and product type. At the same time, consumers are increasingly favouring smaller convenience stores for food shopping. These stores generally have very limited storage capacity. As online sales have increased, so has the amount of product being returned. Stores, with limited storage space, are ill-equipped to cope with the necessary checking and re-stocking of returned items. Invariably this function is fulfilled by Big Boxes, some of which have dedicated returns sections. Along with the rise of click-and-collect, these factors mean retailers need much greater control of stock and the timing and efficiency of deliveries to stores. Speed and reliability are crucial, which is where Big Boxes come into their own.

Strong occupational demand and constrained supply

The strong occupier demand outlined has led to high levels of take-up and there is a shortage of Big Boxes to let. Take up has, nonetheless, been constrained by low supply levels. Some key areas of the country currently have no new-build supply and there is no modern Big Box currently available to let in the UK of greater than 500,000 sq ft. This creates opportunities for rising rents and increasing capital values for owners.

Supply is likely to remain constrained in the medium term as there is a significant lag in the supply of new Big Boxes.

Suitable land which can accommodate Big Boxes is scarce in key locations, which may not be zoned for employment use, let alone B8 planning for distribution which can take years to secure. The scale of Big Boxes and the extent of traffic movements they generate can present planning challenges. In addition, Big Boxes require a pool of suitable workers in the local area and have substantial power and infrastructure requirements, adding further complexity to site identification and delivery.

Once detailed planning consent has been obtained, however, the construction of a new Big Box can be relatively quick (typically 6-12 months) from the point where the site is serviced with suitable infrastructure. Tenant fit-out can then take a further three to 18 months, depending on the extent and complexity.

Despite the attractions of Big Boxes as an asset class, the amount of capital a developer would have to invest deters speculative development. While there is some speculative development of smaller buildings, we are not aware of any properties of over 500,000 sq ft that are currently being speculatively built (ie without a tenant pre-letting). The level of occupier demand means developers can de-risk their development upfront by agreeing a pre-let with a tenant, rather than going down the speculative route.

Building-to-suit on a pre-let basis creates opportunities for investors such as us to forward fund these developments and obtain brand new assets on long leases, to high-quality tenants.

Rising rents

The combination of strong occupier demand and a shortage of supply has resulted in robust rental growth in recent years, which we believe will continue for some time to come. In addition, build costs for Big Boxes have increased in 2016, as a result of increased imported material costs, exacerbated by the fall in Sterling in the second half of the year. While the demand-supply imbalance has been the main driver of rental growth to date, it is clear that cost inflation has begun to feed through to rising rents and we expect this to continue in 2017.

Pre-let deals for Big Boxes can be agreed initially at a premium to the prevailing market rent. Tenants are keen to secure the opportunity and developers seek to capture the benefit of anticipated rental growth between securing the pre-letting and delivering the completed building, which can be a year or so after agreeing terms.

Driving investment values

The increased importance of Big Boxes to tenants and evidence of rental growth have heightened investment demand, compressing yields.

Historically, prime retail yields of around 4% were the norm. This low yield reflected limited property fabric obsolescence and reliable rental growth from strong occupational demand. Industrial property attracted yields of 6.5% or more, due to higher perceived obsolescence and abundant land supply, which suppressed rental growth. More recently, for larger logistics buildings, land supply has become constrained.

As high street retail has come under pressure and demand for prime logistics has grown, prime yields in the two sectors have converged. We believe that this reflects a structural long-term yield repositioning.

Although yields have hardened for logistics, investors are still able to source attractive opportunities. In a low interest rate environment, property yields remain well above the cost of debt, maintaining a positive yield gap and a considerable premium to 10 Year Gilts.

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Martin Moore, chairman, Secure Income REIT:

2016 was a bad year for the credibility of forecasters and showed how widely held views can fail to predict the outcome of key events or the market's reaction to them. The few who foresaw Brexit and a Trump victory were unlikely to have anticipated the stock market rallies or the subsequent upgrade in economic forecasts. Bullish investors and economists were typically right for the wrong reasons, outperforming the bears who were wrong for the right reasons and may yet be proved right. So how best to approach 2017 with European elections and yet another Greek debt restructuring looming whilst a mercurial new President seeks to reform US foreign and trade policy? How will Brexit unfold? Negotiations will extend well beyond 2017 and there is a wide range of outcomes. Indeed, we may have to wait until 2019 or beyond to know the precise nature of the UK's exit and the extent to which this impacts on the commercial property market. Scenarios stretch all the way from a relief rally as Mrs May secures her ambition of a smooth Brexit to a recessionary shock as the UK "crashes out" of the EU should the Government's "no deal is better than a bad deal" stance meet an equally intransigent EU. Intermediate scenarios create a variety of likely property losers with City office occupation exposed to any restrictions placed on investment banking activity and retail property vulnerable to any squeeze in real incomes caused by the fall in the pound. Strong views may abound but in practice investors are being asked to place their bets far in advance with little visibility as to the likely outcome. This extended period of uncertainty will encourage the Bank of England to keep interest rates lower for longer despite rising inflation. This should maintain if not intensify the search for yield, especially where there is some form of inflation protection.

If we are to take one lesson from 2016 it should be that we are now living in an era of unpredictable events and it is unwise for investors to assume that they will be able to anticipate correctly all the twists and turns that lie ahead. Mainstream commercial property prices have stabilised much more quickly than many anticipated, but it is still far too early to know whether this will be the full extent of any correction.

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Kevin McGrath, chairman, Regional REIT: Occupational demand for offices and industrial sites in the UK's regions remained robust over the year. With the present limited new supply of regional offices and industrial sites, and the prospects for continued economic growth and trends in 'north-shoring', the regions appear well set to continue to grow rentals and narrow the yield differential versus London and of secondary property versus prime. This is further underpinned by property valuations remaining well below replacement cost. Market optimism remains strongest for industrial sites and positive but more nuanced for regional offices, being more focused on specific locations and tempered by some improvements to come in the supply outlook. In our view, both of these sectors continue to offer later-in-cycle benefits, underpinning our enduring strategy and income growth prospects.

In the second-half of 2016 a challenge for us was the comparative quietness of investment property markets, where we had expected more assets to become available. We saw that there were deals to be done in the regional markets and in small to medium-sized lots, but asset prices did not weaken as much as we expected.

For 2017 the Group expects a continuation of the positive occupancy trends in the regional office and light industrial markets in the UK with the potential for rental income to grow. In the UK's regions outside of the M25 motorway the fundamentals of supply and, as yet, occupier demand, have changed little.

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Robert Peto, chairman, Standard Life Property Income: 2017 is expected to be an eventful year in the UK and abroad. The UK's economic landscape is expected to be dominated by the continued political debate over the Article 50 process for exiting the European Union. The twists and turns of politics are expected to dominate the headlines elsewhere in the world as the year progresses. How this impacts the wider UK economy remains to be seen with the Bank of England forecasting growth of 2.0% in 2017, the same as that achieved in 2016. Any temptations to increase interest rates are likely to be muted by the negative impacts on consumer spending resulting from externally generated inflation, and the historically modest level of anticipated economic growth -"lower for longer" in terms of interest rates continues to be the most likely scenario.

However, despite the unprecedented levels of uncertainty, real estate still has some significant attractions as an asset class. The sector has considerably lower void rates, speculative development and gearing levels compared to previous cycles which should help reduce volatility. In addition, there remains a significant gap between the attractive and historically stable yields currently being produced on real estate and those produced by other mainstream asset classes. This provides a buffer against any modest increases in interest rates.

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Macau

Chris Russell, chairman, Macau Property Opportunities: Improving gross gaming revenues and supportive new policies from China's central government should help to stabilise Macau's economy further.

Efforts to attract more families and casual gamblers have borne fruit, with the number of overnight visitors in 2016 rising 9.8% year-on-year. This momentum is likely to continue, supported by the opening of another two new multi-billion dollar integrated resorts - the MGM Cotai in the second half of 2017 and the Grand Lisboa Palace in 2018 - which will attract more visitors and entice them to stay longer.

The VIP gaming segment has surprisingly shown some signs of a recovery, helped largely by a combination of better Chinese macroeconomic conditions and improved player confidence.

There remain uncertainties and risks. Continued rises in US interest rates and any new measures enacted by China's central government to curb capital outflows, in addition to any further property cooling measures, could subdue Macau's recovery. Nonetheless, barring unforeseen economic or political circumstances, we expect a continued improvement in property values in the short term. The Company will look to realise assets into the recovery and eventually return cash to shareholders over the next two years

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Resources

(compare Resources funds **here**)

Geoff Burns, chairman, City Natural Resources: When I wrote to you in September, I said that the outlook for commodity markets had improved and that there were grounds for optimism as to the durability of the recovery. The exit from a super-cycle as emerging markets growth slowed, especially in China, was accompanied by the inevitable excesses of supply as mining companies over expanded, and valuations reflected bankruptcy fears as funding evaporated. The recent recovery in commodity prices has prevented widespread failures. In addition, improvements in balance sheet discipline, the reinstatement of dividends, and better governance, underpin that optimism of which I spoke.

While the sector progress is encouraging, it would be hard to argue that global and macro risks have reduced. China is still seen by some as liable to slump into recession, devaluation and crisis; equally, of course, the reasons for concern are nothing new, with credit growth and capital flight still heading the list; the jury, of course, remains out. The apparent cap on oil prices in the face of the responsiveness of US production may help the case for the defence. Political risk has certainly increased, above all in relation to the United States, with pessimists pointing to a certain lack of coherence in a policy apparently to be based on increased spending and tax cuts; on protectionism and deregulation. From your Company's perspective, at least that spending is to be concentrated on infrastructure, but the financing of that could be challenging if a trade war with China leads to the latter withdrawing from lending to the US government.

Equity markets have seemingly accentuated only the positive from the above, and market volatility has been generally low. It has been left to the bond markets to reflect some of the risks, with global bond yields and spreads rising. In the view of the Federal Reserve, at least, a turning point has been reached in the interest rate cycle, while Europe's and Japan's increasingly desperate addiction to cheap credit do not feel deflationary anymore.

In such a world, the improvements and discipline that have been forced on commodity markets during the five difficult years now stand them in good stead, with a new found realism that just may continue to repay the patience and confidence that shareholders manifested in the bad times.

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