EQUITY MARKETS RISING COUNTERACTS BOND SELL OFF

A lot of attention has been given to the sell-off in government debt markets, although as ever the reality has failed to match up to the hype. UK 10 year Gilts are still below their pre-Brexit levels, having been 2% last November. Meanwhile, US 10 year Treasuries are at 2.3% at the time of writing, back to where they were in the same month. While this does mean investors have lost money in these instruments, for us the real story has been the far more reassuring fact that equity markets have been rising at the same time.

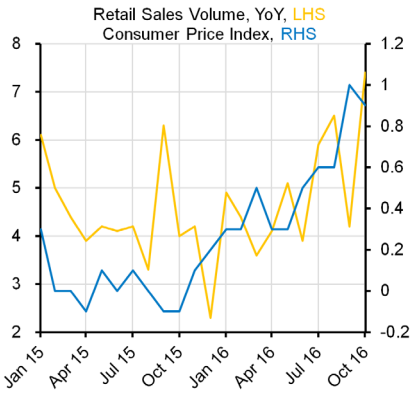
The most alarming hypothesis about bonds we have heard over the past few years is the one predicting that yields would rise as equities sold off in some sort of systemic loss of confidence. Well that has not occurred, and investors who were diversified have done well again, with gains in the stock markets offsetting losses in bonds. It is wise to be aware of and prepared for the scenarios in which bonds and stocks could sell off at the same time, but once again following conventional wisdom would have served investors poorly.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+0.42%	+0.91%	+3.41%	-0.34%	-0.83%	+0.16%	+0.10%	+4.68%	-1.35%	-0.56%	-1.42%

UK: RETAIL SALES SURPRISE ON THE UPSIDE

October brought a 14-year high for retail sales, with consumers shopping for winter clothes in response to the cold weather. The 1.9 per cent increase from September is higher than forecasters had predicted. Perhaps shoppers are concerned about higher inflation and as a result are looking to buy their more expensive items before prices rise next year. Despite predictions for an increase in inflation to 1.1 per cent the Consumer Prices Index fell from 1 per cent in September to 0.9 per cent this month.



Meanwhile Mark Carney voiced his distaste for critics of central bankers this week after Theresa May questioned the governor's decision to keep interest rates low at last month's Conservative conference. Other politicians have since followed suit and are even going as far as to question whether central banks should have their independence restricted. It looks as though the critics are playing the blame game, with loose monetary policy acting as scapegoat. Carney has defended the Bank of England's decision, stating that the decline in the value of the pound is part of the governor's plan to address the large current account deficit.

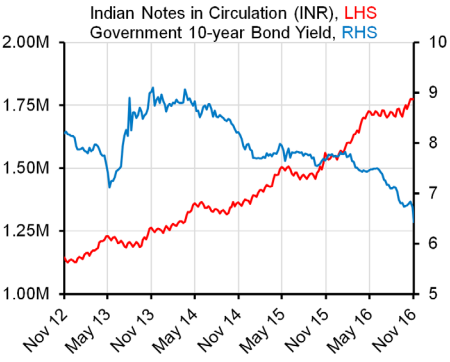
US: RATE HIKE LOOMS

Despite sceptics ruling out a rate hike because of Trumps surprise win, the market-implied probability of an increase is now 96 per cent. The chair of the Federal reserve, Janet Yellen commented on Thursday that the US rate rise will "become appropriate relatively soon". If both maximum employment and price stability continue to show signs of strength, the increase is inevitable. The Fed have also expressed concern that holding the current low level for too long could undermine financial stability.

Yellen's statement provides investors with satisfaction that a move out of the bond market into equities was a profitable decision. The sell-off in fixed income assets continues to push yields higher, as investors expect stronger growth and higher inflation from Trumps promised fiscal stimulus. The Treasuries yield curve has steepened over the last week, with the 30-year Treasury yield reaching above 3 per cent however, the biggest yield increases over the past week have been in the "belly" of the curve.

INDIA: MODI'S RADICAL MOVE

To crackdown on black money (cash earned through illegal activities, or legal but undeclared) Prime Minister Narenda Modi decided to remove Rs500 and Rs1,000 notes. This decision has been criticised because these two notes make up 86 per cent of cash in circulation. Modi's decision was part of a plan to force businesses to start using banks or online payments so income can be monitored. Although politically risky Modi's decision has the potential to deal with India's 85 per cent of the economy who do not pay income taxes.



Meanwhile, the working day restriction on China's coal mines has been relaxed after reduced output sent prices soaring. The decision in April, to reduce the number of days' mines could operate for, was taken to control the supply and price of the country's most vital energy source (improving the profitability of the heavily indebted coal industry). This action prompted the coal market to top $300 a tonne in November, which boosted profitability for producers such as Anglo American, BHP Billiton and Glencore. This potentially allows these energy firms to lift dividend payments next year.