ARTORIUS WEALTH

INVESTMENT OUTLOOK

October 2015

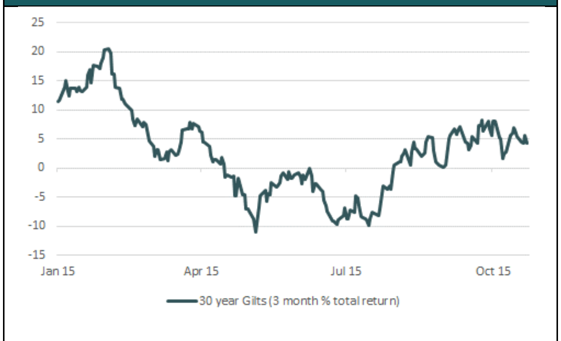
MANCHESTER ● ZURICH ● LONDON

Mr Bond, I've been expecting you

With the return of 007 to the big screen, bonds have been shaken and stirred by the cocktail of 2015. Central Bankers in Europe and China aided and abetted the rally in assets in the past month. ECB President Draghi, Super Mario to his fans, pointed the way to further QE in the euro area. Similar to Fed Chair Yellen's statement post the September FOMC meeting where interest rates were held low in the US, Draghi's comments after the ECB meeting points to global rather than local concerns as a likely reason for further stimulus.

Draghi stated that "domestic demand remains resilient", risks to growth and inflation were said to remain to the downside, "...in particular the heightened uncertainties regarding developments in emerging market economies, which have the potential to further weigh on global growth and foreign demand for euro area exports. Increased uncertainty has recently manifested itself in financial market developments, which may have negative repercussions for euro area domestic demand".

Bond return roller coaster: strong Q1, poor Q2 followed by recovery in Q3



Source: Artorius Wealth, Thomson Reuters

The Chinese Central Bank, the Peoples Bank of China, PBOC, cut interest rates effective from the 24th of October. The move in China was in response to further poor economic data. Whilst not quite a panic move, the policy responses from the ECB and PBOC reflect the lack of good news globally from economic data.

In the US the Federal Reserve may still put up rates in December, although we at Artorius Wealth like the market think that it is unlikely given the global backdrop, and even the slowing pace of growth in the US. The increased level of support from the ECB, PBOC and the delay in tightening from the Federal Reserve has provided fuel from bond market.

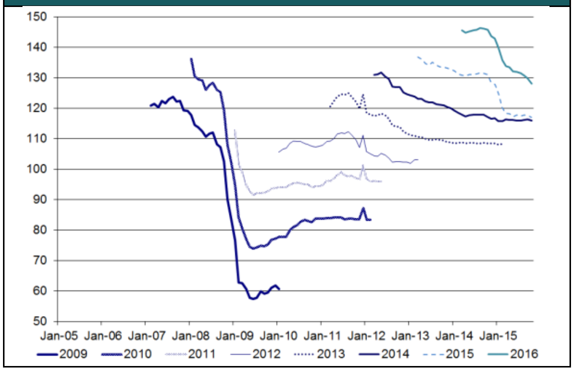
Yields have fallen substantially over the past few months, which is significantly different from the moves in the spring which saw bond yields rise quite sharply around the world. Whilst not the 'sex, violence and a good car chase' of a Bond movie, bond markets continue to labour under the misnomer as a boring asset.

Risk rally despite the lacklustre data

Equity markets have continued to rally of summer lows. This is despite the continued backdrop of poor profits in the US. Estimates of companies' profits continue to be cut by market analysts. Whilst the lack of positive news around profits doesn't always result in a fall in the market it dampens an investor's ardour.

Estimates of profits in 2015 has been blamed on commodity prices, and in the case of the US equity market the strength of the US dollar. What is striking is the pace of cuts to 2016 profit expectations.

US earnings have disappointed in 2015 but 2016 estimates are being revised down as well

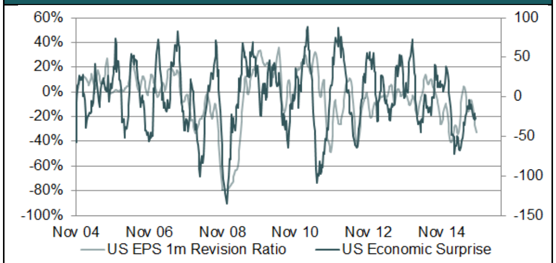


Source: Artorius Wealth, Thomson Reuters

Weaker economic data and profits

The major driver of weakness on profits, in our view, is the disappointment of economic growth in 2015. Better than expected economic data leads to an increase in expectations for profits. Weaker than expected economic data leads to a downgrading of earnings.

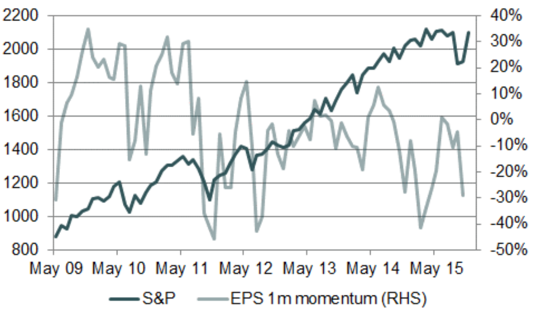
US profits appear to be linked to the economic surprise in the US economy



Source: Artorius Wealth, Thomson Reuters

Recent economic data has dipped once more. This is likely to lead to further cuts to estimates to US profits. Whilst earnings downgrades doesn't necessarily lead to a drop in equity markets, other factors are needed to keep equities rallying.

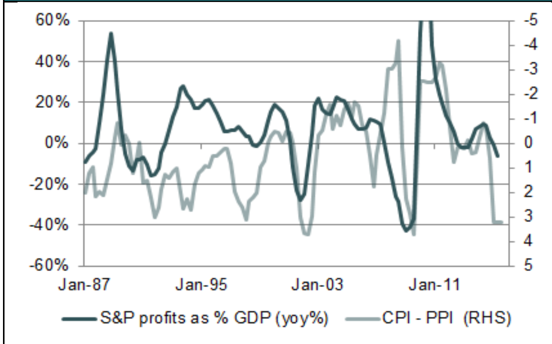
Weak earnings momentum challenge bullish equities outlook



Source: Artorius Wealth, Thomson Reuters

A major concern for long-term investors would include the elevated level of profits as a percentage of GDP in the US. Whilst this has dropped from recent highs, the relationship between consumer price inflation and producer price inflation suggests that profits may grow more slowly than the wider economy.

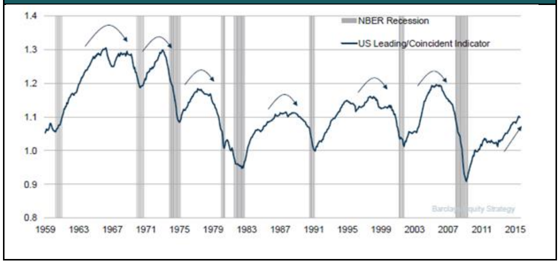
US profits may grow less quickly than the US economy, as margins may have peaked.



Source: Artorius Wealth, Thomson Reuters

The saving grace for the US, and hence global equity markets is that although the US economy appears lacklustre there is limited evidence of a recession on the horizon. Typically when the US leading indicator starts to fall relative to the US coincident indicator this signals that the risk of a US recession has increased.

But no US recession is signalled



Source: Artorius Wealth, Barclays

Without a recession and with Central Bank support to stave off the effect of a slowdown in China and deflation in the Euro area, bonds and equities should continue the rally seen since the summer. Longer term the lack of a strong economy will continue to weigh on hopes of robust profits growth, and returns will be driven by cash returns to shareholders via dividends and buybacks.

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