Weekly Market Summary

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Too Quiet & Good To Be True !? Time for a Market Shake-Out

Fadi Nasser - Head of Treasury Sales

A wave of top State department officials have resigned in past weeks, following a host of other foreign service officers who have retired or left since the election of US President Donald Trump. The move came ahead of the expected confirmation of Rex Tillerson as Secretary of State and a likely slate of new faces in top roles; and while official sources argue that these resignations are business as usual, one former executive called it "*the single biggest simultaneous departure*" in recent memory. Current and former officials have also suggested that even though offers of resignation are typical for transitions, it is shocking that the new administration accepted those so quickly, particularly when replacements have not even been named.

All signs point to Donald Trump moving as quickly as he can on election promises, and his first populist pledge to "*drain the swamp*" of politics is shaping up quicker than anticipated by Capitol Hill, the press (Stephen Bannon – Trump's chief White House strategist – has suggested overnight that "*the media should be embarrassed and humiliated and keep its mouth shut and just listen for a while*"*!)*, as well as the new president's critics or friends; And - it would seem - also by President Enrique Pena Nieto of Mexico, who recently cancelled a much anticipated one-on-one with Trump that was supposed to be the opportunity to work out a payment plan for the wall along the border. After all, Donald is a business man of action and it is working for him, in a way: Call a meeting with CEOs, visit key cabinet agencies, hold signing ceremonies, watch yourself being discussed on cable TV late into the night, and most importantly TWEET your heart out. By no means stop to read a briefing book or study what has gone before, just make moves based on instinct and impulse!

Equity markets - for now - appear to be enjoying this new presidential approach! The Dow Jones Industrial Average has climbed past 20,000 - for the first time - as stocks around the world extended a rally after President Trump rallied republican lawmakers to act quickly on his administration's priorities and corporate earnings overall beat analysts' expectations. Boeing Co.'s best rally in three months has lifted the index for American blue chips past the round-number milestone after a handful of rallies fell short in the past month. Financial and technology shares surged as investors piled into stocks that benefit from economic growth. "*The rally was again driven by positive earnings surprises and animal spirits spurred by the so called 'Trump Rally.' Policy shifts since Trump's inauguration (have been) fast and furious*," said Margaret Yang, a market analyst at CMC Markets Singapore. "*With a swift move towards signing executive orders, coupled with underlying positive economic data, clarity has begun to hit the headlines, and all the US indexes are celebrating*," Quincy Krosby, market strategist at Prudential Financial Inc. said. "*Clarity is the markets' oxygen*."

Dow Jones Industrial Average – *Breaks the 20,000 level for the first time in history!*

For all the disruptions Trump has brought to longstanding U.S. policies and practices - from trade to regulation - this month appears to be still somewhat less volatile than the past two Januaries (as a reminder, markets were roiled by confusion over China's currency tactics and stock slide at the start of 2016 and by Switzerland's surprise removal of a cap on the franc in early 2015). But whilst the world's most famous measure of volatility in financial markets - the VIX (The Chicago Board options Exchange Volatility Index tied to moves in the U.S. S&P 500 index) - languishes around low levels that prevailed before the global crisis - a more general look at the global picture shows that the early days of 2017 are no different from elevated jumpiness seen in the past two years for few asset classes. Emerging-market currencies lead the pack, illustrating both the dangers and potential returns from investing in assets ranging from Egypt's Pound to Turkish Lira and China's Yuan.

It is fair to assume that volatility will trend higher through the course of 2017 as markets react to a range of unknowns, not least the impact of U.S. President Donald Trump's agenda. After all, US economic policy structures are being reshaped in ways unseen perhaps since before World War II, and with national elections soon coming up in the Netherlands, France and Germany, everything’s in place for a tumultuous period ahead. Additionally, one extra danger for investors to be aware of - on the policy front - is that central banks may not be the security blanket during times of volatility that they have been. In that respect, investors should no longer anticipate that automatic responses of additional monetary policy will be swiftly put in place if and when economies or markets take a downturn!

Last, but not least, a quick update on key developments in the UK over the past few days. It appears that Prime Minister Theresa May will be expected now to face a new set of hurdles in delivering Brexit after the U.K.'s highest court ruled on Monday that she must pass an Act of Parliament before she can open divorce talks with the European Union. Even as Brexit Secretary David Davis promised on Tuesday to move "swiftly" to pass legislation, lawmakers lined up to say they would use the Supreme Court's decision as an opportunity to soften May's plan for a clean break with the EU. Some will seek to place future roadblocks such as holding her to account through the two-year negotiations or pushing her to hold another referendum. However, the ruling would not stop Article 50 of the Lisbon Treaty being triggered, with almost all members of Parliament saying they will vote in favor of that. It may still jeopardize May's intention to do so by March 31st, although the government said it's confident it can keep to the self-imposed deadline, and that it is important to do so!

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