

2016.11: November Economic Review

UK Highlights

The main points from the November Economic Review by the Office of National Statistics are provided below:

The economy as a whole has grown by an estimated 0.5% in Quarter 3 (July to September) 2016. Although this is a slightly slower growth rate than the previous quarter, GDP has continued the trend of positive growth seen since 2015.

ONS Chief Economist Nick Vaughan said:

“The ONS data so far have shown an economy largely undisrupted by the UK’s decision to leave the EU. Growth has continued at roughly the same rate seen for the past few years with our large and relatively robust services sector still significantly outperforming the rest of the economy.

“On the downside, the costs of raw materials have clearly started to rise due to the weakened pound but there is little sign yet of this feeding through to consumer prices.

“Of course this is only the first chapter of a long story.

Value of Sterling

Following the EU referendum, the value of sterling fell sharply against a basket of currencies at the end of June and into July.

In October 2016, the sterling Exchange Rate Index (ERI) fell a further 4.8% from the end of September 2016 and was 20% lower compared with October 2015.

GDP

GDP was estimated to have increased by 0.5% in July to September 2016 compared with growth of 0.7% in April to June 2016. GDP was 2.3% higher in July to September 2016 compared with the same quarter a year ago.

This is the first release of GDP covering a full quarter of data following the EU referendum. The pattern of growth continues to be broadly unaffected following the EU referendum with a strong performance in the services industries offsetting falls in other industrial groups.

Consumer prices

The Consumer Prices Index (CPI) rose by 0.9% in the year to October 2016, compared with a 1.0% rise in the year to September. Although the rate was slightly lower than in September

2016, it remained higher than the rates otherwise seen since late 2014.

Brexit

Whilst we had been given some clarity from Prime Minister Theresa May's that the UK will trigger Article 50 of the Lisbon Treaty before March 2017, this has again become most uncertain by campaigners who bought a case against the government.

Ministers say they are already able – under powers given conferred the royal prerogative – to trigger Article 50 of the Lisbon Treaty, getting formal Brexit talks with the EU under way.

But campaigners who brought the case against the government say Parliament must have a vote. The High Court backed their argument earlier this month and the Supreme Court will consider the government's appeal against the decision from 5 December, with a ruling expected in January.

We will keep this subject under review.

US Election

Whilst the result of Donald Trump becoming the President elect sent shockwaves across the globe, his victory speech appeared to calm markets and was far less controversial than his speeches delivered throughout the campaign. In fact on the day of the result, most investment markets actually closed slightly positive at their close.

It's too early to say what the longer term impact will be, it seems clear that his focus is on domestic matters as he seeks to deliver economic growth to the USA.

Investment Markets – Update

October has continued to remain positive, with strong returns being delivered from Overseas Equity sectors. UK Equities were flat or negative along with bond sectors, who once again posted negative returns during the month.

Below we provide a table of the major sectors that we allocate to when constructing our client portfolios. The data has been sorted over 1 month in order of best to worst returns. We have shown returns on an annualised basis for 1 year and above.

Sector	1m	3m	6m	1yr	Ann. 3yr	Ann. 5yr	Ann. 10yr
UT Japan Retail TR in GB	7.96	13.09	29.78	31.78	14.10	14.05	5.42
UT Global Emerging Markets Retail TR in GB	6.33	11.82	30.17	37.58	6.68	5.74	7.17
UT North America Retail TR in GB	5.16	6.83	22.91	27.77	16.01	16.65	9.66
UT Europe Excluding UK Retail TR	4.74	7.46	15.89	18.85	8.13	11.95	6.16

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in GB							
UT Asia Pacific Excluding Japan	4.51	10.08	29.90	35.38	10.54	9.77	9.99
Retail TR in GB							
UT European Smaller Companies	3.32	7.52	17.83	24.99	12.18	15.74	9.51
Retail TR in GB							
UT North American Smaller Companies Retail TR in GB	3.11	5.59	23.51	28.97	12.66	15.34	10.65
UT Global Bonds Retail TR in GB	1.34	3.19	10.15	16.00	4.91	4.16	5.32
UT Sterling High Yield Retail TR in GB	0.68	2.47	5.20	6.71	3.43	6.33	5.33
UT UK All Companies Retail TR in GB	0.36	3.78	8.24	7.70	4.87	9.77	5.21
UT Targeted Absolute Return Retail TR in GB	0.24	0.72	1.30	0.50	2.24	2.92	3.60
UT Property Retail TR in GB	-0.31	0.31	3.21	5.77	7.18	7.02	0.99
UT UK Smaller Companies Retail TR in GB	-1.85	5.02	3.79	3.94	6.72	13.08	7.50
UT Sterling Corporate Bond Retail TR in GB	-2.82	-0.72	5.48	8.31	4.87	6.05	4.20
UT UK Index Linked Gilts Retail TR in GB	-3.22	6.64	20.10	21.61	11.47	9.14	7.74
UT UK Gilts Retail TR in GB	-5.12	-3.09	5.92	9.52	6.23	4.41	4.98

Source: FE Analytics – % growth to last month end 31.10.2016