July 2017

# Market Bulletin

Essential Wealth Management

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This month's update comes to you from Octopus, managers of the Omnis Multi-Manager Funds and the Omnis Alternative Strategies Fund.

**There is a noticeable shift in policy direction from both central banks and governments, which will have a real bearing on the near term direction of markets.**

This has been most apparent in the US where the US Federal Reserve (Fed) continues to raise interest rates and President Trump looks to fulfil his election promise of large scale tax breaks and spending. Elsewhere, although there has been no actual change in policy, there is a change of tone. European Central Bank President, Mario Draghi's upbeat take on the broad economic recovery in the region prompted a rise in the Euro as markets interpreted it as a signal – both for scaling back quantitative easing (QE) measures and possible interest rate rises. In the UK, amidst inflation concerns, Bank of England Governor Carney stated that now was not the time to raise rates or change policy.

Central Banks have been calling on governments to help stimulate their respective economies for a while. Now it seems they might be ready to act. President Trump is seeking to introduce large scale tax reform. However, expectations are being tempered somewhat as the Trump administration struggles to get their healthcare reform bill through the Senate. Some tax reform is expected, but not of the scale originally envisaged. There is room for a surprise but markets aren't holding their breath.

In the UK, the general election was fought more on domestic policy than Brexit with the electorate signalling a desire to end the age of austerity. Having already softened the approach adopted by his predecessor, Chancellor Philip Hammond's November budget may prove to be the showcase marking the end of austerity politics in the UK.

All this is important for a number of reasons. A tightening of policy from Central Banks will affect both the bond and currency markets as well as impacting the broader economy and so will need to be managed carefully. A loosening of fiscal policy from government is intended to provide a boost to the economy. A combination of loose monetary and fiscal policy, should be highly stimulative for asset prices, at least in the short term.

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Market volatility remains relatively subdued, particularly given the geopolitical backdrop. We continue to be cautious given the political uncertainty and room for policy error from both government and central banks. However, the dynamic between loosening fiscal and accommodative monetary policy could provide short-term investment opportunities. Global economic growth is coming through, which is a positive.



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