

LETTER FROM EDOUARD CARMIGNAC

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EDOUARD CARMIGNAC'S LETTER

Edouard Carmignac writes on current economic, political and social issues each quarter.

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Dear Investor,

Donald Trump will be sworn in as US President right about when the Chinese New Year begins – a disturbing coincidence when you consider that this will be the Year of the Rooster. Most investors are already concerned that with his inappropriate outbursts, the aggressively cocky, richly-feathered blond bird soon to strut into the Oval Office will trigger a surge in market volatility.

But who can be sure that he will? The fact is that Trump has confounded expectations once again, putting together a Cabinet made up primarily of able, no-nonsense business people with proven track records. Will he listen to them, and will they succeed in convincing him to tone down the more

disruptive points of his electoral platform – above all his call for starkly protectionist policies? That seems likely to us. Punitive US tariffs would truly be bad news for both GDP growth and inflation. In contrast, Trump's commitment to large-scale fiscal stimulus should increase investor confidence in the resilience of the global economic recovery under way.

Granted, both stocks and bonds already trade at rather lofty valuations. But with strong global economic growth coming on top of continued monetary policy accommodation in Europe and Japan, equity markets look set to scale new heights. So given all that, what's our strategy? As I wrote in my previous Letter, the unfolding scenario of less erratic growth, coupled with a moderate pick-up in inflation, is likely to put commodities – first and foremost oil, particularly since the recent agreement among OPEC members – at an advantage over stocks with "good visibility". Chief among the latter are the stocks of drug companies, which will remain a favourite target for populist governments. Our portfolios also include substantial holdings of Japanese financial stocks. They have shed a great deal of their market value – even as their issuers are getting a boost from the global upswing and a weaker yen. At the same time, the political and global economic shifts we discussed above haven't caused us to lose faith in our tech names, whose bright prospects become brighter every day.

Our firm had to contend with a long string of surprises in 2016 that were virtually impossible to anticipate and tough to manage – but as you know, managing the risks that come with our convictions is what we are all about. In the Year of the Rooster, a more predictable environment should make the job easier for us.

In the hope that it will, I wish you a happy and peaceful new year.



Edouard Carnignac

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