Point of View

Analysis, Research and Comments by AVM Market Analysis Unit

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From the Editor

Portfolio Manager point of view

We analysed the post-US elections scenarios: when there is a change in government and therefore leaders, we consider this as positive. This is due to the fact that it is easier for leaders to be involved in acts of corruption, collusion or illegal activities of any kind once they are in government for a long period of time. On Election Day, the continuity of the current system which is the Democratic Party would have been preferred by market users. On the other hand, this would have brought an intense relationship between the White House and Congress, with the consequence of a legislative paralysis, which is already hypothesized. Moreover, the current expansionary monetary policy would have been an obsolete solution and absolutely no good for the economy. Now decisions are in Trump's hands who, if able to mitigate the extremely bad pre-election atmosphere that went on during the Electoral Campaigns, could be able to create a new positive atmosphere as a way forward. Trump's Electoral Campaign was based on the hope of improving the US current dissatisfaction, the fact that he won proves there was a situation of global dissatisfaction, of both Western World and China (involved itself in the "moral issue"). We believe in the possibility that these proposed movements by Trump are able to bring, in most organized countries, a new growth period.

If this said growth situation occurs, we will surely see an inflationary phenomenon, together with more expansive fiscal policies and increasing rates, with an increase in deficit consequently: the latter could be reduced if Mike Pence is the chosen candidate for Vice-President. Mike Pence is one of the most qualified Governors in the United Sates. This would probably result in the President finding the correct relationship with the fiscal conservatives in the Congress. If inflation and rates will actually increase, as we believe, this will not be out of control: the Federal Reserve will maintain its current organizational chart but only if it will cooperate with the Presidency, if not, we will see a complete change in the US Central Bank governance. We suppose that the possible substitutes for Yellen would agree for an increase of rates in December and by another four times (or maybe less) by next year, depending on the increase in inflation rate and the expansive fiscal policy.

As far as the foreign economic policy is concerned, new Duty could be imposed: in this case, this imposed Duty will be selective as it was in the recent past in order to take the Chinese dumping, and most of all the foreign imports by American companies which have located the production in emerging countries, under control. In this scenario, the ECB this December will announce an extension of the Quantitative easing (QE), which will give continuity to the phase recently experienced: this does not mean that the European Exchanges (Italy, Spain and France) will have benefits from it and, with great probability, the political stalemate lived until now will continue.

Giorgio Saronne
Portfolio Manager

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The point of view of the Central Banks

Note on monetary policies

ECB: the ECB this December will announce an extension of the Quantitative easing, which will give continuity to the phase recently experienced: this does not mean that the European Exchanges (Italy, Spain and France) will have benefits from it and, with great probability, the political stalemate lived until now will continue.

CURRENCIES: The increase in rates will strengthen the dollar, while the emerging currencies will maintain their volatility with probable strains, for both economical and geopolitical reasons; in this scenario the Ruble should play a particular role, insofar as we expect more positivity from it.

Markets scenario analysis

Markets

BOND: The expected downward trend has begun, long maturities are under pressure; the trend of the inflation-linked bonds with short maturities has to be considered positive. Emerging markets will be penalised in long maturities: short maturities will probably be more under pressure than for West economies.

STOCK MARKETS: The US Stock Exchange will be selective, penalising those securities linked with indexes and rewarding the cyclical securities and those related to infrastructures. The pharmaceuticals are also experiencing a good trend, after great pressure in last years; Good trends for banks, also in Europe. Emerging countries will have the stock market under the spotlight, because of the pressure on currencies.

China will continue to reconvert on domestic consumption, with benefits.

Russia, according to latest news, will benefit from the new geopolitical situation and is therefore monitored in positive terms.

COMMODITY: Raw materials related to the construction of infrastructures will again become attractive, OIL remains with targets between 55 and 60 $ per barrel, but for this analysis we should have further confirmation when Trump's Presidency is up and running.

Giorgio Saronne
Portfolio Manager

Other analysis

WTI Crude Oil: New "statistical excess" peak for WTI Crude Oil which during October rapidly fell from the upper threshold to the lower one of Trading Range, becoming active compared to last May. This trend has now created conditions for statements of position on an initial target of 48 $ per barrel at and 53 $ per barrel as a second option. In fact as seen in the graph below, with the exception of the drop last June when it stood at 42 $ per barrel, the Oil price has always remained in the range of 45-53 $ per barrel. However, medium and long-term analysis show real possibilities of a 60-61 $ per barrel rise, this price was last seen in June 2015. In this regard, the new geo-political scenario created by the election of the new President Trump will be crucial. Reconsideration of the technical framework analysed here will only be needed if price falls below the threshold of $ 42 per barrel.

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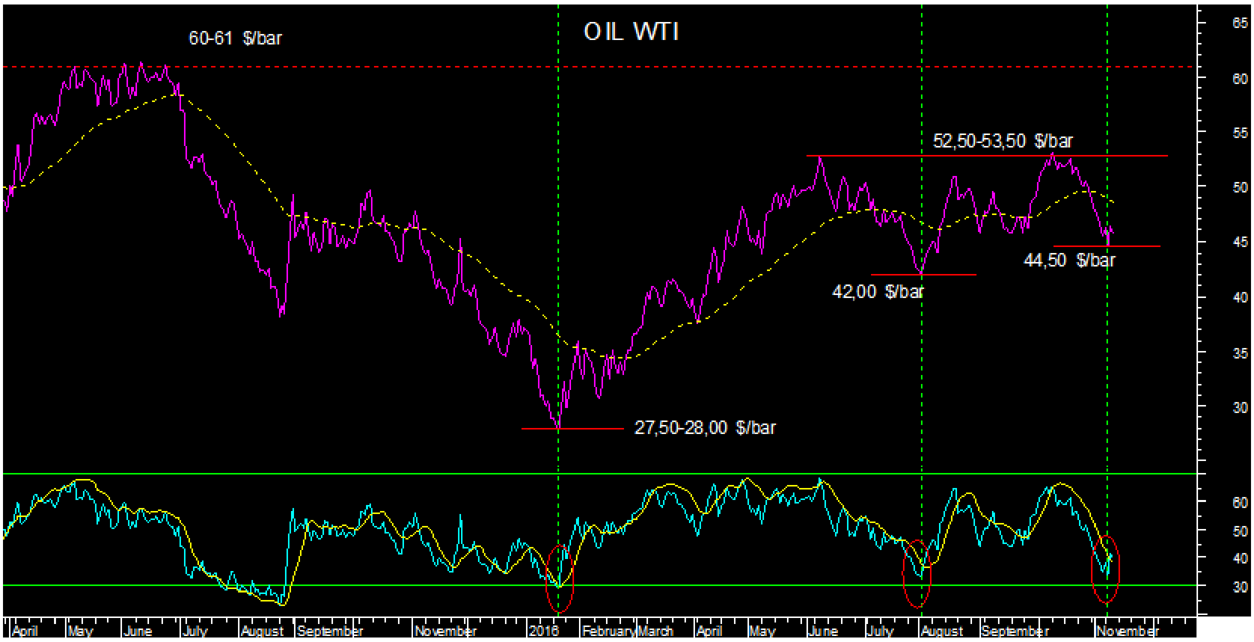

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