The Investor
Summer 2017

2017 Investment Outlook – Ireland & the World

Global stock markets continue to press ahead as volatility, interest rates and inflation continue to remain well below their long term averages.

The world economy has performed better than expected in the first half of the year. Confidence indicators, industrial production, headline measures of employment and cross border trade flows have improved in most economies. However, as the Organisation for Economic Cooperation and Development (OECD) has pointed out, the still modest cyclical expansion is not yet robust enough to yield a durable recovery.

At this juncture, risks to the global economic outlook appear to be broadly balanced, with a slight positive bias. Global growth remains on track as some developments, with the potential to jeopardise the economic recovery, have failed to materialise. Donald Trump's much dreaded protectionist agenda has not yet come to fruition and world trade is in good health. The European Union is enjoying political stability not seen in recent years and the economy is in smooth sailing.

Although growth in China has decelerated, it is expected to remain robust for the remainder of the year, while authorities continue with the implementation of economic reforms and initiatives to deleverage the financial sector.

Moreover, monetary policies remain largely accommodative, with the exception of the United States. On a negative note, uncertainty is high on Trump's fiscal measures, while rising political uncertainty in Brazil and the Persian Gulf highlights the fragility of the recovery. Financial vulnerabilities also have the potential to impact negatively on the growth outlook.

Geopolitical shocks and trade protectionism could catalyse snapbacks in asset prices and realise downside risks through a variety of channels. Global equity prices have increased, reaching historic highs in the United States and Germany, despite little upward revision to GDP growth and inflation. Around $12 trillion of OECD countries' government bonds (32% of the total stock) continue to trade at negative yields.

Big corrections in various asset prices would weigh on economic activity via wealth effects (more pervasive in advanced economies), via the weak financial conditions of some firms and banks (currently reflected in high non-performing loans, especially in Europe) and via the mismatch of currencies and maturities of assets and liabilities. This is of particular relevance for some of the emerging market economies.

Credit weakness, expected before an equity downturn, has not happened. One of the reasons interest rates have not risen until recently is politics, where legislative action in the US has undershot expectations dramatically. Market strength in the face of this 'disappointment' is often cited as a sign of excessive enthusiasm. However, gridlock in Washington D.C. is arguably the best outcome for markets, reducing the odds of more aggressive Federal Reserve tightening. Meanwhile, in the Eurozone, politics has surprised to the upside.

World GDP Forecasts

	2015 (actual)	2016 (actual)	2017 (forecast)	2018 (forecast)
World	3.1%	3.0%	3.5%	3.7%
Ireland	26.3%*	5.1%	4.4%	3.8%
United Kingdom	2.2%	1.8%	1.4%	1.0%
Eurozone	1.5%	1.7%	1.8%	1.8%
United States	2.6%	1.6%	2.2%	2.6%
Japan	1.1%	1.0%	1.5%	1.0%
China	6.9%	6.7%	6.6%	6.4%

Source: Merrion 30.06.17

* *The Irish economy grew by 26.3% when corporate inversions are included.*

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Current Irish GDP Forecasts

	2017 (forecast)	2018 (forecast)
Department of Finance	4.3%	3.7%
Central Bank of Ireland	3.5%	3.2%
ESRI	3.8%	3.6%
IBEC	3.1%	2.8%
IMF	3.5%	3.2%
European Commission	4.0%	3.6%
OECD	3.7%	2.5%

Source: Merrion 30.06.17

Ireland

National Accounts results for 2016 showed an increase of 5.1% in GDP and a rise of 9.6% in GNP in real terms compared with 2015. All sectors of the economy experienced growth in 2016 with industry increasing by 2.4% in volume terms:

- *Distribution, transport, software and communication grew by 7.8%*
- *Building and construction rose by 11.4%*
- *Other services posted growth of 6%*

Personal consumption, which accounts for approximately half of domestic demand, increased by 3.3%, boosted by the continued fall in unemployment. Having peaked at 15.1% during the financial crisis, the jobless rate is now just under 6.5% and three percentage points below the Eurozone average.

Personal spending and construction activity appear to be holding up in 2017, which is encouraging. However, it is expected that 'Brexit' worries will intensify this year, leading to lower overall GDP growth. Still, Ireland managed to head the EU growth league table for the third year running in 2016, and even with slower growth this year, won't be far off the top performer once more in 2017. Based on the latest Central Statistics Office (CSO) numbers, it is now thought that Irish GDP growth will be in the 4% to 4.5% range this year, up from an estimate of 3.6% at the beginning of the year.

The labour market continues to improve, with the most recent official figures from the CSO showing that eleven of the fourteen economic sectors under review posted year on year gains in employment in the first quarter of 2017. But the outlook from this year on is more uncertain in light of 'Brexit'. Increased labour market participation will also impact on the overall numbers. Still, it is expected that the downward trend in unemployment will continue over the next twelve months. An average jobless rate of 6.4% is forecast for 2017, as against 7.9% in 2016 and 9.4% in 2015.

A lack of supply continues to hit the housing market and until this is addressed, prices will continue to rise. House price growth will likely stay in positive territory on a year on year basis for some time, with the annual rate of increase set to remain in the 7-12% range over the rest of 2017.

The underlying budget deficit is now less than 1% of GDP and is heading ever closer to being in balance over the next year or so. However, the Government is at risk of bowing to the pay demands of public servants, which if granted, will have to be taken out of funds that could have been spent on crucial services. Otherwise, taxes will have to be raised, damaging the economy just as it is finding its feet again.

Europe

The economic picture is becoming brighter in the Eurozone. Complete data revealed that GDP growth was stronger than previously estimated in the first quarter and recorded the best result in two years. Private consumption grew healthily thanks to an improving labour market and looser fiscal policies, while the external sector also improved. Moreover, growth is broadening across economies and the common currency bloc is shaking off political concerns.

In June, Greece's creditors agreed to unlock over €8 billion in financing for the country, removing a possible summer default on loan repayments. The recently elected French President Emmanuel Macron won a decisive mandate, giving him the ability to govern effectively. Accommodative financial conditions, falling unemployment and a brighter global backdrop will provide tailwinds to growth this year.

UK Prime Minister Theresa May's 'Brexit election' backfired as her Conservative Party lost the parliamentary majority in the 8 June vote. Although the Tories managed to build a coalition government with the Democratic Unionist Party, the result represents a serious setback for May's 'hard Brexit' stance and it will likely lead to a softer approach. In this regard, at the first day of the 'Brexit' talks on 19 June, the UK apparently capitulated and accepted the EU's agenda of first discussing citizens' rights and the 'exit bill' before negotiating any trade accord.

Meanwhile, the UK economy is continuing to face the headwinds of the entangled political situation, following a disappointing first quarter performance. The weak government resulting from the June election has added to an already uncertain economic outlook as the country is sailing uncharted 'Brexit' waters. As a result, uncertainty is deterring investment and consumers are feeling the pinch of rising inflation. The Bank of England's ultra-loose monetary policy stance and healthy global demand, however, will soften the slowdown.

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United States

The economy remains on track to expand at a faster rate in the second quarter after a disappointing first quarter performance. The unemployment rate has hit a 16 year low, further shoring up households' disposable income at a time of meagre wage growth and tightening financial conditions.

The outlook for 2017 remains bright due to a solid job market, a relatively healthy housing market and a notable turnaround in business investment growth. Nonetheless, persistent political wrangling in Washington continues to cast doubts on the administration's ability to roll out growth inducing policies later this year.

All in all, economic growth is projected to pick up in 2017 and 2018 as headwinds from past exchange rate appreciations abate and support from fiscal policy begins to appear. Consumer spending will benefit from continued, though slowing, employment gains and, as the labour market tightens, stronger wage growth. With inflation nearing its target and unemployment edging down further, monetary policy stimulus has begun to be withdrawn gradually. As economic growth picks up, further interest rate rises are projected to contain inflationary pressures and reduce the risk of financial market distortions. Reducing the size of the Federal Reserve's balance sheet will soon become appropriate.

China

Economic growth held up well in the first half of 2017 and is projected to continue to do so over the remainder of the year and into 2018, partly thanks to the impact of earlier fiscal and monetary stimulus. Infrastructure investment is picking up on the back of regional development initiatives, including the Belt and Road and the Beijing Hebei Tianjin Corridor. Real estate investment will remain buoyant notwithstanding measures to restrict demand. Private investment growth has bottomed out and consumption growth will remain stable, underpinned by continued strong job creation. Recovering global demand will spur exports, but surging tourism imports will limit the effect on the current account balance. In a context of low inflation, monetary policy is appropriately geared to focus on financial risks, which have mounted.

Fiscal policy will remain supportive but should prioritise social inclusion more. Productivity enhancing reforms, such as further reducing the costs of doing business, phasing out the implicit guarantees enjoyed by state owned enterprises and improving corporate governance frameworks, are necessary to keep up the pace of convergence in income per capita to the advanced economies.

Japan

Exports expanded at the fastest pace in more than two years in May, signalling robust global demand. Healthy shipments of Japanese goods are having positive reverberations across the economy, with growth in industrial production hitting an almost six year high in April. Despite May's strong export reading, the overall trade balance swung to a deficit in the month as imports soared, underlining the strength of Japan's growth momentum. Moreover, wages appear to have entered onto a sustained growth path, which is expected to foster private consumption.

In the political arena, Prime Minister Shinzo Abe's approval ratings are plunging amid claims that he used his influence to benefit a friend's business. Strong global demand and a weak currency are propelling economic activity. Japan's external sector led recovery, however, could be threatened by a sharp appreciation of the yen should an economic slowdown materialise in China.

Economic growth is projected to edge up to 1.5% in 2017, aided by stronger international trade in Asia and fiscal stimulus. Although fiscal support is expected to fade in 2018, labour and capacity shortages and record high corporate profits will support employment and business investment, keeping growth close to 1%. Headline inflation will reach 1% by the end of 2017, due to ongoing monetary easing. The primary deficit in 2018 is projected to remain well above the Government's benchmark of 1% of GDP, leading to a further rise in the ratio of government debt to GDP.

Market Performance 01.01.17 to 30.06.17

Market	Index	Local Currency	Euro
World	FTSE (€)	3.2%	3.2%
Ireland	ISEQ	4.8%	4.8%
UK	FTSE 100	2.4%	-0.3%
Europe	FT/S&P Europe Ex. UK	7.1%	7.1%
US	S&P 500	8.2%	0.0%
Japan	Topix	6.1%	1.8%
Hong Kong	Hang Seng	17.1%	7.5%
Bonds	Merrill Lynch Euro over 5 years	-1.5%	-1.5%

Source: Bloomberg: 01.01.17 – 30.06.17

Financial Planning – What should I be doing?

Financial planning in six structured stages: One of those things that people know they should do but often wonder why?

In many cases this is because the process is made too complicated and opaque or the goals are too vague for an individual to properly take ownership of their own financial plan. This has led to many people being ill-prepared financially for the various milestones they will meet over the years. The **Invesco Financial Planning** service is specifically designed to tackle this issue and provide solutions tailored to the precise needs and lifestyle requirements of our clients.

Financial planning is a process which assists individuals in closing the gap between the life they have now and the life they want in the future. Ideally, it's the process of uncovering what a client wants to do or achieve financially, for themselves and their family, and putting arrangements in place to best achieve this.

Invesco's structured **six stage financial planning process** works by taking a holistic approach to a client's needs and circumstances and helping them to meet their life goals and priorities.

Initial meeting

It starts with an initial meeting where the financial planning team gets to know the client and their overriding financial goals and objectives. We try to get an understanding of our client's desired lifestyle for the future.

Discovery

We also go through a comprehensive information gathering session which includes all sources of income, debts, investments, pensions, protection benefits, employee benefits, family circumstances, health background and so on.

Analysis and evaluation

The information from the discovery session is used to compile statements of current net worth detailing the client's assets and liabilities:

- *An income and expenditure account including an analysis of an individual's current financial situation.*
- *An estimation of future income and expenditure needs.*

Detailed recommendations

We present our financial planning recommendations to the client based on their specific needs and objectives and the analysis conducted. We utilise lifetime cash flow forecasts, availing of the latest technology to illustrate a current cash flow position, including all expenses and taxes due, along with long term forecasts right up to pension age and beyond.

We also prepare detailed 'what if' scenarios at this stage which cover both short and long term eventualities such as early retirement, family holidays, sending children to college, gifting money to loved ones or making charitable donations. These assist clients to understand the implications of future financial decisions and steps to be taken now, to cater for various scenarios should they arise.

Protection planning forms part of the process and we show the impact of death or illness on clients and their families. We also carry out an estate planning exercise to illustrate the potential tax liability when an estate is passed on and devise strategies to maximise tax efficiencies.

We illustrate the level of return required from investments to reach the client's goals and objectives. This is followed by a planning session where, based on the various scenarios modelled, we agree on the optimum financial plan for the client.

Implementation

At this point we work with clients to select the most efficient options to implement their individual financial plan whether this be reducing investment risk within portfolios, increasing savings or pension contributions, or establishing gifting programmes for family.

Ongoing review & planning

Financial planning is not a once off exercise. Our lives are subject to constant change and it is of utmost importance that plans are reviewed at least annually to allow for changing circumstances and external factors.

Ultimately, we help our clients to understand how much they will need to fund the lifestyle they want for the future and put the necessary structures and plan in place to help them achieve this.

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