KMI EXCLUSIVE NEWSLETTER

25th year of uninterrupted financial advice for the Expatriate Market

February 2017

Dear Clients and Investors

Introduction

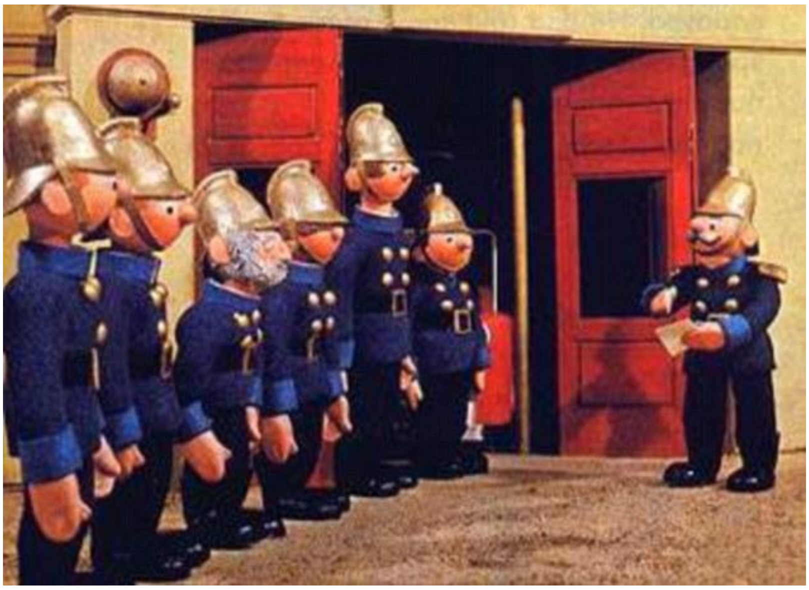
This month's newsletter is designed to be a Trump free zone, although quite how we can keep out the man whose every utterance affects the financial marketplace in some way, shape or form, at the moment eludes me.

Anyway he is supposed to be busy this week making a whole raft of government appointments and perhaps his latter day *Trumpton could benefit from the announcement of posts for Pugh, Pugh, Barney McGrew, Cuthbert, Dibble and Grubb, as you can be sure there will be plenty of fires to put out.

In this issue, we are going to look at the implications of Brexit, a word that hardly existed 18 months ago, but now commands more column inches than Lord Nelson in Trafalgar Square.

In addition we will delve into the pros and cons of Corporate Bonds in 2017 and finally attempt to lift the veil a little on the mysterious world of E.T.Fs which, surprise surprise, does not mean Endlessly Tweeting Fiction.

*For those of you not familiar with the classic BBC children's programme from the 20th century, Trumpton was a stop action puppet series set in a town far removed from reality, run by idiots and where the local fire brigade was manned by the aforementioned Pugh, Pugh etc.



Brexit and the Markets

An all time highs on the stock market is possibly not one of the scenarios visualised when the path for Brexit was voted for in the UK referendum, but lo and behold here we are.

Some economists are now busy rewriting history about their dire predictions of last year, (economists are never wrong but they sometimes rely on alternative facts) whilst others are keeping their powder dry, citing the probable return of inflation to affect first prices then spending followed by an all too familiar market downturn.

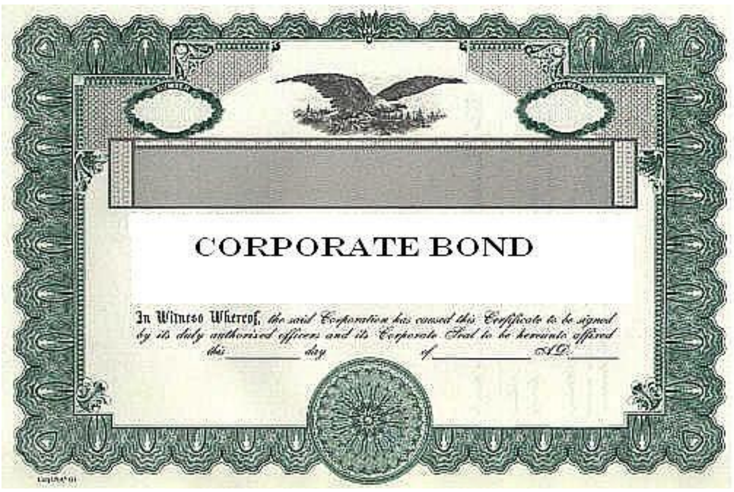
This begs the question, if consumers stop driving the markets, who will? Investors? Exports? Currency levels? Well at least we can be sure that the latter will remain a major player, being not only the harbinger of inflation but also the ‘El Nino’ effect that caused the recent tailwind that blew the FTSE onward and upwards.

In the British market, the FTSE100 is mainly comprised of UK Large Cap Equities and the dichotomy at work here, is that because of the outward looking and global nature of these companies, investors don’t always benefit when the UK economy flourishes, but neither do they necessarily suffer in times of slowdown.

The only undeniable fact about Brexit is that it isn’t actually here yet. Two years on from a much heralded March 2017 starting gun, can offer up a whole smorgasbord of possibilities and only the foolhardy would be brave enough to stand up now and say what will happen then.

Corporate Bonds 2017

In discussing the possibilities for these bonds in the year ahead, we need to take note of the generally held perspective that volatility will rule the roost in 2017, with the election shocks in both the UK and US possibly being mirrored by forthcoming European government elections.



These events will undoubtedly help shape capital markets globally, markets that will also be driven by a number of other factors.

- Uncertain domestic and foreign policy in America but a macroeconomic outlook that may serve as a positive for the countries' economy.

- A Eurozone underscored by unrest that could produce dramatic changes of leadership in an area already suffering from poor economic growth and a banking system in some countries that still struggles nearly 10 years after the global credit crisis.

- The impact of globalisation, causing increased protectionist policies around the world, bringing inflation to economies dependent on imports.

- The quantitative easing policies from Europe, Japan and the UK driving government bond yields to new lows, causing fixed market investors to look at higher yielding markets.

A lot of ifs, but and maybes of course, but trying to assemble the jigsaw from the pieces provided, brings us to the conclusion that for 2017 US Dollar denominated bonds are preferred over those that are Euro denominated. In particular Investment Grade bonds that are in receipt of the highest ratings from the credit rating agencies.

It is a similar story in the Banking sector where potentially less regulation and rising government bond yields should benefit Bank profitability in America making them more attractive than their European counterparts.

The bonds in the energy sector were top performers in 2016 and there are enough good indicators to suggest that this year can be another profitable one.

Finally, whilst Brexit continues to cloud the issue in the UK. Sterling Corporate Bonds managed to rise above the mayhem and enjoy a good year and further opportunities exist for 2017.

E.T.Fs

Exchange Traded Funds (Ah! so that's what it means) were first seen in 1993 but started to take off about 10 years later. They have now become so successful that net assets currently held, amount to some US$1.34 trillion which is over 9% of the total assets held through investment companies worldwide.

In definition, we can say that an ETF has the same goal as an index fund, that is to provide investors with a benchmark return at minimal cost, the main difference being that whilst the index fund can be costly to trade, an ETF can often trade commission free.

Like most things these days, ETFs come with a health warning, investors wanting the flexibility of their low trading costs and performances that equal the index funds, should largely stick to funds that are matched to well known benchmarks and that can demonstrate track records showing their accuracy.

The most popular ETF provider of 2016 was the iShare managed by Blackrock. Its market share has remained at around 46% for the last three years.

In 2016 Eurozone Equity ETFs finished the year at the top of investor preferences, with US Equity holdings also well favoured. On the negative side fixed income and Eurozone Government debt ETFs were firmly at the bottom of the list.

Notwithstanding this lack of current popularity however, most providers feel that fixed income is one of the key growth areas in the years ahead.

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That concludes the February bulletin, dear readers. I'm off to a darkened room for a quick rub down with the Financial Times, a glass of something refreshing (for medicinal purposes only) and my very own ETF (extra tasty fruitcake).

Happy Investing

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