**Beware the Ides of March**

As we move into March the financial markets have their eyes set on a very special date, the 15th of March. Whilst it also marks the demise of Julius Caesar in 44 BC, in 2017 AD it will bring together a series of geopolitical and economic events that may increase volatility in financial markets from the very relaxed and optimistic view of investors at present.

The Eurozone political elite will be waiting with bated breath for the outcome of the Dutch general election, where Geert Wilders may end up getting the largest share of the vote, but is still unlikely to lead the next Dutch government. However, the scale of the support that he and his party get will be a measure of how much Europe may be lurching to the right on an agenda of nationalism and anti-immigration. Recent opinion polls suggest that the extreme right wing party has lost some of its momentum, but opinion polls can be wrong. Over recent decades the established parties’ share of the vote has dropped from 80% in the 1980’s to 40% more recently. Such a fragmentation of the vote is something that has been playing out across Europe due to the frustration with the political elite. This week’s outburst in the European parliament with arch federalist EU Commission chief Jean-Claude Juncker losing his cool whilst making a speech, shows the pressure for reform and change in the Eurozone. We still fear that the euro will take the brunt of the geopolitical fall out and hence a euro falling below parity with the dollar is very possible.

The Federal Reserve Open Market Committee will meet on the 15th March with a high probability that they will increase interest rates. Fed chair Janet Yellen last week made a strong statement to the markets that a rise in interest rates at that meeting would be quite logical, given the strength of the economic data and the achievement of both targets for unemployment and inflation. The Fed statement will be as important as a decision to raise rates so early in the year. In the past the thinking was that the Fed would move slowly on rate increases for fear of triggering a marked slowdown in the global economy that has taken on so much debt in the past decade.

On March 15th there is a strong possibility that the US federal debt ceiling will become a problem again. On March 15th 2015 the Obama Administration on a temporary basis suspended the ceiling of $20 trillion debt. Should Congress not replace the current temporary stay on the debt ceiling, the US government in all probability will run out of money by the summer. Readers will remember the issues around the debt ceiling crisis in 2013, when 800,000 government workers were temporarily put on leave as the government had run out of money. There was even a warning from Fitch that the US would be downgraded from its triple-A credit rating.

President Trump's standing in at least the US public’s eyes improved by one notch last week after his speech. The credibility of the President is important even in the financial markets’ eyes. Popular support for his policies will be a particularly important factor in getting his agenda approved in Congress. According to a CBS poll 83% of Republican voters were more optimistic after the speech and even 24% of Democrats. Among those that actually watched the speech, 76% approved. In particular, there is increasing support for his plans to spend $1 trillion on infrastructure. To date the financial markets have been very skeptical about whether infrastructure spending will get the support of Congress, as it would in all probability put upward pressure on the budget. Roll on “Trump Bridges”!

We may be facing a challenging Ides of March but the markets have remained in an exceptionally positive frame of mind. Equities have pushed higher and the US 10-year government bond yield has, at 2.47%, remained close to the average of the past three months. Some valuations are screaming sell for US equities. The Shiller CAPE (cyclically adjusted price earnings) stands at 30x. The equity market’s eyes improved by one notch last week after his speech. In particular, there is increasing support for his plans to spend $1 trillion on infrastructure. To date the financial markets have been very skeptical about whether infrastructure spending will get the support of Congress, as it would in all probability put upward pressure on the budget. Roll on “Trump Bridges”!

* The Ides of March are in modern days remembered for the assassination of Julius Caesar. His passing in effect brought to an end the Roman Republic. A civil war followed that eventually led to development of the Roman Empire and the violent revenge of Caesar’s assassination.
Money flows may keep pushing equities higher irrespective of valuation. Deutsche Bank points out that the US equity market has seen $80bn of inflows since the Presidential election, but that it has still to see the return of $230bn that left US equities over the past two years.

There are factors though that could weigh on the market in the coming weeks irrespective of March 15th. Global economic data may start to come in below expectations only because economists will start to push up their forecasts too high, risking that they start to be disappointed. A rise in US interest rates must start to weigh on sentiment, given that many dollar-linked economies are not really in an economic state to warrant a higher cost of borrowing (the GCC included).

For the Dec 2016 quarter, India's GDP growth slowed to 7% despite demonetization, well above the consensus estimate of 6.5%. While advance purchases propped up GDP growth, the limited data capture of the so-called 'unorganized sector', made up of small unincorporated companies, may lead to revisions. All sectors contributed to growth except construction and 'financial, real estate & professional services'. 'Manufacturing' and 'trade, transport & communication' surprised positively. Communication growth should have been driven by increased subscriptions and increased use of data as Reliance Jio tapped the nationwide market with attractive offers. The Indian telecom industry market size is likely to be INR3 trillion by 2020-21, with voice revenue shifting to data. Increased data use is driven by the proliferation of smart phones, greater data speed and more time spent on the internet. The next 5 years are expected to witness rapid growth in data consumption in India. Industries that would benefit in addition to the telecom operators are banks offering digital services and online retailers. Indian market penetration in the online retail use is still very low.

The Indian market has continued its upward trajectory alongside the US indices (the Sensex at 28832 is up 8.3% in 2017). However, with valuations not yet stretched given earnings growth expected in the low teens, pullbacks should be used to add to equity positions. The realization has dawned on investors that the risk-off reaction to demonetization was overdone by the media and growth optimism continues. The rollout of the Goods and Services Tax (GST) scheduled for July adds to confidence in government reform, against expectations that it would get pushed out to 2018.

With Uber and Airbnb which are yet to list, Snap is not the only highly valued company with an app-based business. Snap is different in that its user base is younger and that it focuses on content-creation hardware for social-media-savvy millennials. Users aged 11 to 34 make up 85% of Snapchat's audience. Annualized sales growth of 50% is projected over the next few years, however profitability is still a far-away target. It has 158 million daily users (mainly from the US) vs. Instagram's 400 million. Unlike Uber and Airbnb which have revenue models built on a product offering, Snap's revenue is ad dependent, similar to Facebook and Google. The younger Snap users typically spend 30 minutes a day on the app and visit it over 25 times. The youthful leadership looks like it has understood its user base needs quite well.

After Yellen’s hawkish speech on Friday the US 10-year benchmark yield pushed briefly above 2.52% to close at 2.48%. Reflecting stronger global growth 10-year real yields have also edged higher to date across the US, UK and Germany to 0.18%, -0.08% and -0.79% respectively.

Amidst a low-yielding environment demand for EM corporate bonds continues to be strong and boost primary debt sales, which for the month of January and February recorded very strong volumes. Supply crossed the USD107 billion mark, as compared to USD46.15 billion during the same period last year.

GCC bond markets were active last week, with investors still digesting the deluge of recent bond issuance. The Sultanate of Oman, that saw USD20 billion of investor demand across their multi-tranche maturities, successfully printed USD5 billion. The much anticipated 5-year and 10-year sovereign bond sale by the State of Kuwait expected this week should also witness strong interest. Kuwait is rated AA by S&P and Fitch with a stable outlook.

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