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Appian
Asset Management

February 2017

Monthly Monitor

Has Trump Made Equity Markets Great Again?

Shifting inflation expectations across the globe are changing the dynamics of equity markets. Since mid-2016, financial markets are adjusting to the prospect of inflation re-emerging, and away from the threat of deflation, a theme which is diminishing.

The election of Donald Trump as US president has contributed to this change due to the promise of increased fiscal spend and an ambition to restore US GDP growth to 4%. The global equity market has been reacting positively to the changing economic backdrop, whilst fixed income markets have been selling off. However, this move doesn't tell the full story of what's been happening within equity markets, and the move from the threat of deflation to the re-emergence of inflation has produced some profound changes within the equity market. The most significant trends are highlighted below along with our view.

Global equity markets have been positive, rising 8.7% in the fourth Quarter of 2016.

Appian View: A re-emergence of inflation should be positive for equities. The more difficult question is what type of equities will prosper in this environment. At Appian, we continue to believe our approach of seeking value in quality companies will perform over time in different economic backdrops.

The US equity market has continued to out-perform the European equity market.

Appian View: The out-performance of the US market, relative to Europe, has taken the relative valuation to the utmost extreme in the last 30 years. This has occurred at the same time the US dollar has strengthened. Valuation remains a concern for equity markets, particularly in the US market. The lack of value in the US is the driving factor behind our

Global bank stocks have emerged as a large beneficiary, rising over 20% in the fourth quarter of 2016

Appian View: The rising bond yield environment has lifted the share prices of banks globally. The rally has been indiscriminate, affecting US banks and European Banks equally. Appian Funds were positioned in US banks stocks prior to the recent rally. The preference for US banks over European banks is maintained at present due to the interest rate cycle being more pronounced in the US, greater signs of improved credit demand and greater capital certainty.

Defensive sectors have been under-performing

Appian View: Defensive sectors that were acting like bond proxies have under-performed recently as they lack the growth characteristics to perform in an inflationary world. One of the key tenets of the investment philosophy at Appian is to seek companies which generate profitable growth. This has resulted in our funds having a zero weighting in utilities and telecoms. However, not all defensive stocks are equal and this rotation out of defensives has the potential to throw up opportunities in profitable companies that pay solid dividends. Appian continue to own equities which have dividend yields higher than the broader market.

Cyclical sectors have out-performed

Appian View: Cyclical sectors are the clear beneficiary of the changing economic backdrop. The challenge with investing in them is their valuation. An example of the valuation challenge is CRH, a quality company exposed to the US infrastructure story. It trades on a P/E of 18 and a DY of 1.8% indicating that a lot of potential upside is already priced into stock. However, it is possible to find value with the cyclical space and the funds have benefited from their holdings in miners such as Rio Tinto and Antofagasta. Cyclical names such as ABB and Akzo Nobel have also been added.

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Appian Unit Fund Prices

1 February 2017

Appian Value Fund	**139.5751**
Appian Equity Fund	**173.4140**
Appian Small Companies Opportunities Fund	**191.0748**
Appian Liquidity Fund	**106.1775**
Appian Ethical Value Fund	**98.3884**

For more detailed information on each of our funds click **here**

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