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"Flattery is a kind of bad money, to which our vanity gives us currency" Francois de La Rochefoucauld

July is often a month of contradictions with, for example, the lure of holidays for the world's investors coinciding with heavy corporate reporting. Typically, July is a positive month for global stock markets, and if you are sitting in America having invested in some pan-European opportunities, you would be congratulating yourself in the wisdom of your decision. A bit closer to home though, July 2017 proved to be an unusual month, with a near-rampant Euro providing some strong currency translation boosts for British or Swiss investors, whilst underlying broader Euro denominated indices edged down, despite Eurozone economic confidence levels reaching its highest level for a decade.

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investment markets we typically call this rotation. Unsurprisingly, exporters are often the first sector to be sold as a higher local currency hinders their competitiveness at the margin (even though there are many factors in exporting success of which price per se is just one). More domestically focused stocks can often be the beneficiary of such moves, and there are some tentative signs of this, with the much-criticised financial sector continuing to perform well versus other areas of the stock market.

Meanwhile, the fall in the US dollar over recent months may have made transatlantic trip costs slightly more tolerable, but the bigger impact has been a well-received reduction in the threat from current global financial imbalances, including the large Eurozone trade surplus, building dollar-denominated debt burdens in the emerging markets and sensitivity in the United States to trade. Add in hopes for political reform in Europe and increased use of the 'transitional arrangements' concept in Brexit and you have many of the component sources of the global stock market rally of 2017 - and the greatest influence on financial markets today.

Hope is typically good for equities and less good for the more defensive fixed income sectors - and the two often come together in another important sector rotation, centred on the impact of higher bond yields. Typically, higher yielding sectors of the market - 'bond proxies' like consumer staples, healthcare and utilities - struggle in times of hope, compared to the more cyclical commodity, financial or technological sectors. A quick look at July's pan-European sector performance data shows that whilst staples and healthcare lagged, materials, energy and the aforementioned financial sectors led the way. Whilst there are plenty of individual stock stories that helped contribute to these trends, the underlying theme of hope feels to be all-important.

Currencies and hope have been positively aligned for all of 2017; believers in Eurozone structural reforms and a compromise-heavy and delayed Brexit will see plenty more scope for the Euro and the Pound to recover back to levels many would have regarded as normal a few years back. This occurrence however, would come with another sector rotation surprise: a fuller revival of those more domestically focused areas of the market, including the currently generally maligned retail and construction sectors, as well as the already well performing (in aggregate) financial sector.

A further sector rotation could well be the theme within the markets after you return from the beach, if the currencies and hope cycle continues apace. Something to ponder in the upcoming, quieter August weeks.

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