



23 JANUARY 2017

Theresa May provides more clarity

By Florence Tan, Tae Hyon Ahn, Celestee Tan

In her speech last Tuesday, British Prime Minister Theresa May charted Britain's course toward a clean break with the European Union (EU) while still offering continued partnership in trade, defense, security and science to the EU.

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Market Performance

Global equities finished the week lower with the MSCI World Index down 0.42%. In the US, the Dow Jones Industrial Average decreased 0.29%, the S&P 500 Index shed 0.15% and the Nasdaq Composite declined 0.34%.

European equities, as measured by the Stoxx Europe 600 Index dropped 0.92% while Japanese stock market benchmarks also fell for the week (Nikkei 225: -0.77% and Topix -0.74%).

Emerging stocks snapped a three-week winning streak, as risk appetite eased. The MSCI EM index declined 0.30% led by MSCI Emerging Europe (-1.37%) and MSCI Asia ex Japan (-0.30%). In contrast, MSCI Latin America gained 1.28%. Within Asia, the Shanghai Composite index was the sole outperformer, closing 0.33% for the week, as China's GDP accelerated for the first time in two years in 4Q16.

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- British Prime Minister Theresa May set out 12 objectives, including the announcement that Britain would leave the EU's Single Market and most of the Customs Union in order to implement immigration control and end the jurisdiction of the European Court of Justice in the UK.
- The government seeks a free trade deal in goods and services with the EU and other countries such as the US, China and Commonwealth countries. The UK also seeks a "phased implementation process", or transition phase.
- Domestically, she confirmed that both Houses of Parliament would get a vote on the deal concluded with the EU, but ruled out special deals for the UK's devolved regions, with perhaps the exception of some special arrangements for Northern Ireland.
- Citi's view: Accepting exit from the Single Market brings important clarity. However, Citi analysts believe that the 2 years timeframe provided by Article 50 may not be enough to negotiate the exit arrangements, a free trade deal, a specific customs agreement, a continuation of the Common travel area with Ireland and a transition arrangement.

"Bank of England likely to be on hold despite rising pressures."

Inflation rises to highest level since July 2014



Source: ONS as of 17 January 2017.

- Other data released last week include CPI inflation rising from 1.4% YY in November to 1.6% YY in December, the highest level since July 2014. Citi analysts expect further sharp increases in inflation ahead on energy base effects and sterling weakness, with inflation likely exceeding 3% in 2H17. Nevertheless, the Bank of England may remain on hold until the Brexit deal becomes clearer in 2019.

US: Trump in the House

- Within hours of becoming US president, President Trump moved quickly to weaken the rules tied to Obamacare and halting new regulations in general. The incoming administration also posted a number of policy briefs on the White House website.
- These suggest that the incoming administration and 115th Congress may aggressively pursue the tenets of the Contract, including tax reform, repeal and replacement of Obamacare, deregulation, and the initiation of an “America-first” brand of foreign policy.

“While the changing political landscape creates investment opportunities, there will also be periods of market volatility.”

First 100-Days – “Contract With the American Voter”

“Drain the Swamp”	Foreign Policy
<ol style="list-style-type: none"> 1. Term Limits for Congresspersons 2. Federal Government Hiring Freeze 3. Reduce Regulations: 2 cuts for every 1 new 4. 5-Year Lobby Ban for WH, Congress Officials 5. WH Lobby Ban on Behalf of Foreign Govts. 6. Ban Foreign Lobby Election-Money-Raising 7. Reduce Corruption in Washington 	<ol style="list-style-type: none"> 1. Renegotiate/Exit NAFTA 2. Withdraw from TPP 3. Label China a Currency Manipulator 4. Identify Foreign Trade Abusers 5. Lift Energy Production Restrictions 6. Greenlight Energy Projects (e.g. Keystone) 7. Cancel UN Climate Change Payments
“Law & Order”	“Make America Great Again”
<ol style="list-style-type: none"> 1. Cancel Obama-era EAs, EOs, Memoranda 2. Fill Vacant Supreme Court Seat 3. Cancel Federal Funding for Sanctuary Cities 4. Deport Criminal Illegal Immigrants 5. Significantly Restrict Immigration 6. Build the Wall Along Mexico Border 7. Increase Crime Deterrence Spending 	<ol style="list-style-type: none"> 1. Tax Cuts and Repatriation 2. Public-Private Infrastructure 3. Overhaul Public Education 4. Repeal & Replace Obamacare 5. Childcare & Eldercare Incentives 6. Increase Military, Veterans Health Spend 7. Stop Corporate Offshoring

Source: Citi Research as of 3 January 2017.

- The components of Trump’s campaign promises outlined in the “Contract,” and themes highlighted during his January 11th press conference (e.g. foreign policy, trade, Obamacare, job creation) can be grouped into four broad categories:
 - 1) “Drain the Swamp” – Limiting corruption and lobby influence in Washington
 - 2) Foreign Policy – Increasing US terms of trade; extracting rents from alliances
 - 3) “Law & Order” – Undoing President Obama’s legacy and cementing his own
 - 4) “Make America Great Again” – Domestic policies that may bolster the economy
- While financial markets want political stability, political change is disruptive. This is especially so with President Trump intent on reversing many of the policies of his predecessor and the likelihood that his administration may not adhere to Republican party orthodoxy. [While the changing political landscape creates investment opportunities for investors, there will also be periods of market volatility. Investors should continue to keep their portfolios diversified.](#)

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