Global Developed Ex-US Commentary

Political uncertainty continues falling for two of the eurozone's biggest economies: Germany and Italy. Germany has a new government, a reboot of the "Grand Coalition" between Angela Merkel's Christian Democratic Union (CDU) and the center-left Social Democratic Party (SPD). To seal the deal, Merkel had to award key cabinet posts—including Finance Minister—to the SPD, a sign of her waning political capital. Negotiations ended with the SPD putting the terms of the coalition government up to a party-wide vote (~460K members), and 66% voted in favour of the coalition government. In the end, Germany's government is largely unchanged, and Merkel remains Chancellor for another four years. This, along with coalitions' general tendency toward gridlock, should keep the risk of major legislative change low.

Political gridlock looks likely in Italy as well. The anti-establishment Five Star Movement (M5S), which has dropped its more lively rhetoric like exiting the euro, has been the most popular party and won the most votes. However, as the M5S emerges as the leading party, they probably won't be able to lead without working with other parties. The populist group's anti-coalition stance hasn't changed, though they have indicated a willingness to rule as a minority government and work with different parties on a case-by-case basis on legislation. Officials are still figuring out how many seats each party gets and a muddled, hung parliament looks probable, this is par for the course for Italy—do-little governments are common for the country. Moreover, simply knowing the results helps investors move on.

The UK economy continues exceeding dour expectations. Q4 GDP rose 0.5% q/q (2.0% annualised), its fastest rate of 2017. Despite all of the apprehension over Brexit's potential negative fallout, the UK grew 1.8% in 2017, not far off 2016's 1.9% rate. Politically, the UK is mired in gridlock. Prime Minister Theresa May faces challenges from every direction. Domestically, May faces challenges from both the opposition and her own Conservative party. Labour Party leader Jeremy Corbyn stated he was in favour of remaining in a customs union with the EU, prompting several Tory MPs to threaten to cross party lines—and putting May's ability to push through her preferred post-Brexit bill in jeopardy. While these stories saturate the news cycle, nothing here is surprising markets—the public, drawn-out debates should allow equities to gradually price in the most probable outcomes. We believe this gridlock and a stronger-than-appreciated economy are bullish for UK markets in 2018.

In addition, the UK and EU agreed to terms on a post-Brexit transition period, clearing some uncertainty—a positive. Officials aim to finish Brexit negotiations by the end of 2018 in order to give member-states enough time to ratify the deal by March 29, 2019—the UK's official departure date. To smooth the transition and provide more time to work out important details, the UK and EU agreed the former will function largely as an EU member through December 2020. The UK won't have a say over EU decision-making, but it will retain single-market access. Negotiators can now turn their attention to the more consequential "end state" agreement that will go into effect from 2021 onward. As the UK and EU discuss their future long-term relationship, the transition period reduces some uncertainty for both businesses and investors.

In Japan, Prime Minister Shinzo Abe's popularity is falling after new revelations emerged related to last year's cronyism scandal. Some polls show Abe's support falling to its lowest level since he took office in 2012, raising doubts about his chances of winning a Liberal Democratic Party (LDP) leadership election in September. However, Abe's political resiliency is formidable—this scandal didn't derail him last year, and his LDP won October's general election in a landslide. From a market perspective, though, the implications likely aren't significant. The controversy will make it difficult for Abe to push through any meaningful reform for the foreseeable future, but this has been Japan's status quo for the past several years. Other than the pickup in global growth that has buoyed trade, not much has changed for Japan. In our view, investors should be selective in pursuing opportunities in Japan, as overall outperformance doesn't look likely.

After 9 years of negotiations, 11 nations signed the Comprehensive & Progressive Agreement for Trans-Pacific Partnership (CPTPP)—a striking counterpoint to concerns about the state of global trade. With Japan, Canada and Australia as the pact's largest members, the CPTPP will be one of the world's largest free trade blocs. It will cover more than $10.5 trillion of global GDP, trailing only the North American Free Trade Agreement (NAFTA) and the EU. The agreement removes nearly all tariffs and improves market access across participating nations. It will become effective when at least six participants ratify the agreement, which some experts anticipate happening before year's end. Though some worried the US's exit from talks in January 2017 would derail the agreement, the CPTPP survived and should facilitate trade between countries amounting to about 13% of global GDP.

Despite protectionism fears running high in March, a global trade war doesn't look imminent. US steel and aluminum tariffs inspired threats of retaliatory duties from the EU, but the US ended up exempting many of its trading partners, including Canada, Mexico, Australia and the EU. While a damaging trade war is possible, it doesn't look probable right now. Agreements like the CPTPP are also evidence that despite the occasional high-profile trade argument, the global economy overall is moving towards freer trade.

Outlook:

Developed markets continue enjoying a strong synchronous growth streak—evidence of the solid economic fundamentals underpinning this bull market. Concerns about the state of global trade dominated headlines in March as tariff threats spurred trade war fears. In our view, this is vastly overstated. Not only do the announced tariffs currently lack the scale to meaningfully dent the global economy, but exemptions, lobbying and appeals to the World Trade Organisation (WTO) seem likely to moderate them further. Though worries may persist, the probability of an actual global trade war remains low. However, these fears can weigh on sentiment and spur negative volatility, pullbacks and even corrections in the short term. Meanwhile, the combination of warming sentiment and underappreciated political gridlock should add further tailwinds.

Sources: *The Conference Board, FactSet, Ministry of Finance, Trade and Industry, IHS Markit, Statistics Canada, Cabinet Office, Government of Canada, Value shown in US dollars based on US/Canadian dollar exchange rates, Government of Canada, and MSCI Australia Financials and Materials sector weights.*

FISHER INVESTMENTS EUROPE™

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c) Explain features of the investment approach;

d) Describe investment performance as it relates to your investment mandate;

e) Provide a full explanation of costs;

f) Assist in the completion of documentation;

g) Where specifically agreed, review your position periodically and suggest adjustments where appropriate.

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12. Termination

If you wish to cease using the services of Fisher Investments Europe or Fisher Investments at any time, then send notification and the arrangement will cease in accordance with the investment management agreement. However, if a transaction is in the middle of being arranged on your behalf at that time and it is too late to unwind it, then the transaction may need to be completed first.

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