The Outlook for 2017? Expect the Unexpected and Remain Flexible

If 2016 was a year of unprecedented uncertainty in every sector, market and geographic region, then it's a fair assumption that any firm financial or economic predictions for 2017 are likely to be quickly consigned to the waste paper basket of history.

Although major capital markets have recently been at or near record highs, and corporate profits have generally been growing in line with market expectations, the reasons for this situation are not necessarily sustainable nor evidence of strong and vibrant economies. Businesses large and small are preoccupied with the risks and uncertainties linked to the inherent volatility that seems to exist in financial markets, national and regional economies and politics generally in 2017.

In the US and Europe continuing low interest rates and relaxed fiscal policies have avoided recession and have fuelled growth, albeit in some cases at very low rates and with inconsistent results. In the US, the post-election bounce has been caused by expectations of massive increases in infrastructure spending, which may or may not occur.

In the UK, while the weakening of Sterling measured against almost any international currency is good news for a high proportion of UK listed companies that generate significant earnings overseas, either as exporters or through subsidiaries, it represents vicarious growth that could, at least theoretically, be reversed. What about Brexit? Well, despite the recent speech by the Prime Minister Theresa May setting out her 12 objectives for the forthcoming Brexit negotiations the shape of the UK's future relationship with the EU is unlikely to have real clarity until 2018.

Ignoring the fall in Sterling and uncertainty around Brexit, in terms of funds raised and the performance of new issuers, the London AIM market in 2016 stood up very well to the uncertainties that impacted on many investors in emerging company stocks. Total funds raised on AIM in 2016 of £4.8bn were only 12% below the £5.5bn raised in 2015 while the funds raised for new issuers was significantly higher. In contrast the number of IPOs on the London Main Market fell by 58% and the proceeds from new money raised was down by 68% compared with 2015.

Interestingly for investors, the post IPO share performance of AIM market entrants was on average 39% up by 31 December 2016. The average market capitalisation per company on AIM is now consistently around £80 million and a total of £100bn has been raised on AIM since its formation in 1995.

A positive note for the New Year is the sign of the emergence and development of capital markets in Europe that are designed to provide share trading facilities to growing and established businesses from around the world that may not qualify by virtue of size for some of the more established stock exchanges. Markets such as NEX (rebranded in January 2017 from ISDX), Nasdaq First North, the Channel Islands Stock Exchange and the Oslo Bors have much to prove and also much to offer if they can attract both good quality growing companies and informed investors. Furthermore, it is to be hoped that the TSX and TSX Venture Exchange in Toronto and the SGX in Singapore will maintain the increase in activity levels achieved in 2016.

Close behind the start of 2017 we have the forthcoming Chinese New Year of the Fire Rooster. The economic performance of, and perceived prospects for China in 2017 will underpin or undermine confidence in many of the world's established and developing economies, and of course price movements in commodities.

The level of debt is always a concern and recent news that Chinese banks extended a record 12.56 trillion yuan of loans in 2016, 50% for household mortgages, and 8% more than the previous highest figure for new advances in 2015, is a cause of some concern. While the Chinese economy seems likely to record GDP growth in 2016 within the forecast range of 6.5 -7%, driven by government debt, what has been a vibrant property market and increasing government spending, overall debt in the economy has increased to 250% of GDP. In 2006 the figure was 150%.

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China's trading surplus fell again in 2016 with a decrease in Chinese exports for the second consecutive year, this time of 7.7%, while imports fell by 5.6%. The likely increase in trade protectionism in 2017 means that China will need to rely more on increasing domestic demand to maintain growth, which is a tap that is not easy to control, despite government spending and the extension of credit referred to above, which cannot continue indefinitely. One example of this is the sale of cars which again achieved record sales in 2016 in what is the world's largest market. However, sales growth is expected to be restricted by a tightening of credit in 2017.

It is likely that the outward flow of capital from China will slow in 2017 where foreign exchange reserves have fallen by nearly a quarter from US$4 trillion to US$3.1 trillion, still a big number of course. It will be interesting to see whether China will continue to support the Yuan in foreign exchange markets in 2017, as it did in 2016.

The state of geo-political relations between China and the US, and indeed with the Asean countries generally, will clearly also have a significant effect on growth and confidence in Asia. A failure by Congress to ratify the Trans Pacific Partnership world weaken US influence in the region at a time when many countries are uncomfortable with China's increasing regional stature and aspirations. Talk of high import tariffs on Chinese goods are likely to be impossible to implement under the rules of the World Trade Organisation. We must hope that at some stage common sense rather than rhetoric comes to the table.

As it happens Mr Trump was born in the Chinese Year of The Dog and as such would typically be "strong-willed, pro-active and an excellent organiser if he can overcome shyness", which doesn't seem to be a problem. A Dog in a Rooster Year is predicted to have good fortune, gain a promotion and, if he works hard, "make ends meet", which is hopefully mildly encouraging for the outlook for the US Economy. However, the contrasting messages from the US relating to possible fiscal stimulus on one side, and a world of greater protectionism on the other, make it extremely difficult to predict the likely Impact of the 45th President of the United States and his administration on growth or otherwise in 2017.

Setting aside trade issues there is continued interest from European and US investors to gain exposure to the growth prospects in Asia. Interestingly, the latest World Bank figures predict that after India, where GDP of is expected to grow by 7.6% in 2017, Myanmar, Laos and Cambodia will record the highest growth rates in GDP in the Asia region, at around 7%. The IMF have requested that India continues to reform its tax system and eliminate subsidies, thereby making available more resources for investment in infrastructure, education and healthcare. Indonesia is expected to achieve growth of 5.2% thanks to strengthening commodity prices, a rise in private investment and high levels of government spending. In Thailand growth in GDP is forecast at approximately 3.2%.

As the year progresses there are important national elections in Holland, France and Germany that could change the European political landscape.

Overall, the best advice we can give in these uncertain times is to **expect the unexpected** and remain flexible to maximise the chances of coping with potential market volatility and change. Focus on the core strengths of your business and grow value by building quality as much as size. Reduce dependencies and where possible de-risk the business. The good news is that the inherent uncertainty in the market places a premium in the eyes of investors and strategic partners on well-run businesses with strong business models. The prospects for raising private or public equity in 2017 should be positive for companies demonstrating high quality, good governance and of course value. When looking at the often emotive issue of value it is important to remember that value like beauty is in the eye of the beholder.

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