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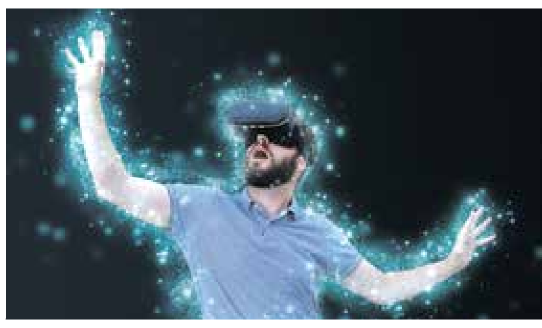

A virtual world predicting new realities for technology in the new year pages 6-7

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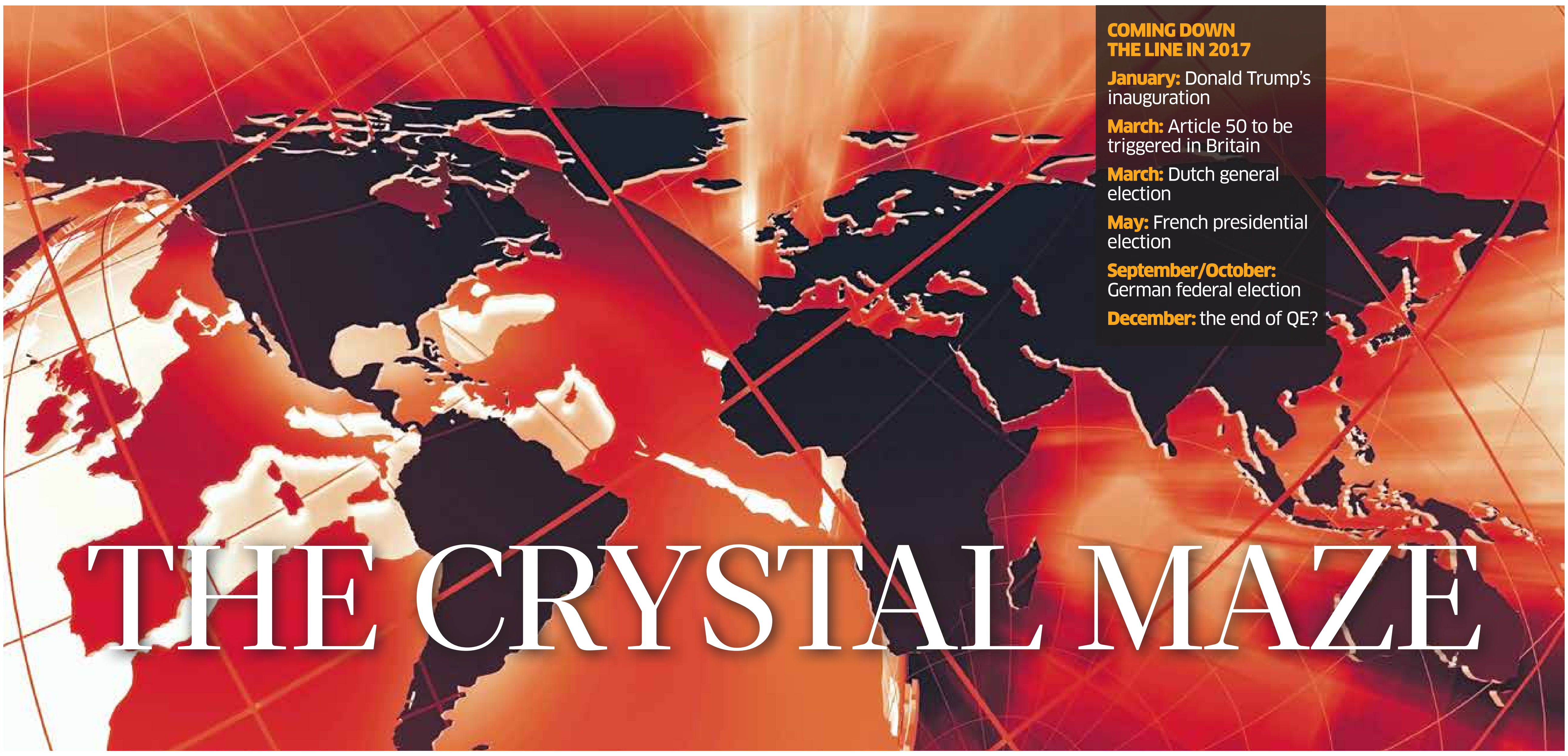

COMING DOWN THE LINE IN 2017

January: Donald Trump's inauguration

March: Article 50 to be triggered in Britain

March: Dutch general election

May: French presidential election

September/October: German federal election

December: the end of QE?

THE CRYSTAL MAZE

The markets proved resilient last year in the face of unprecedented events, yet the triggering of Article 50, a strong dollar and European elections crowd the crystal ball for investment in 2017

Emma Kennedy
Money Editor

If 2016 taught investors anything, it's the futility of predictions.

In a year when Britain decided to divorce Europe, and America elected Donald Trump as its next president, markets were remarkably resilient, even hitting record highs as last year drew to a close.

"If you'd anticipated the events of 2016 at the start of the year, you'd have sold out or sat on the sidelines," said Rory Gillen, the founder of investment advisory firm GillenMarkets.

This year, however, could deliver its own shocks. And will markets be as resilient? "Markets have been resilient post-Brexit, but as we start moving towards the enactment of Article 50, I think that may change," said Merrion stockbrokers' head of research David Holohan.

"Then you've got France and Germany also going to the polls. Ultimately, even if the established parties do well and get over the line, it still shows how close we've come to a shift in sentiment on taking Europe apart. So we don't know what Europe will look like next year, let alone in ten years."

Europe is gearing up for a number of pivotal elections this year: there's a Dutch general election in March, France faces a presidential election in May, and then in autumn, Angela Merkel will be fighting for a fourth term in Germany.

Depending on the results of each election, confidence in Europe and its currency could be significantly diminished in the months ahead.

"Each of these elections is being framed in some way as a referendum on Europe, a litmus test of the appetite for remaining in the EU," said Tero Tiilikainen, director of corporate finance at Key Capital.

"In parallel to that, I think security will be a big theme in 2017," he said. "It's a question of confidence in the safety of Europe.

"When confidence is lost in markets, banks don't lend, companies don't invest. It's absolutely about perception, and that feeds into investor appetite for risk."

Closer to home, there could also be wobbles ahead. While 2016 brought Brexit and Trump, Tiilikainen believes that another "exogenous shock", or even the threat of one, could spell bad news for the Irish economy.

And, in the days before Christmas, bookmaker BoyleSports predicted that Ireland might also find itself going to the polls in 2017. A spokesman for the bookie said: "We have made it odds on at 10/11 that we will be heading to the polling stations at some stage in 2017."

February, he said, is the "early favourite to be the month that we will be casting our votes".

The US, rates and yield

Two things are likely to unnerve global markets in 2017, according to Gillen. "The dollar getting too strong, and US bond yields ratcheting up." The dollar, he said, could be "a danger" in 2017. "If it gets too strong, it is bad for the US and for emerging markets."

Tiilikainen agreed with Gillen that a stronger dollar would be an issue for developing economies. "It could destablise them," he said. That could, in turn, pose problems for the European economy in months to come. "That's a prime destination for European exports. So you are looking at a weaker euro, but who to sell to?"

Last month, the US Federal Reserve announced an interest rate hike – only the second in a decade – and there's an expectation of more to come in 2017.

US interest rate rises in 2017 have been largely priced in by markets, according to Tiilikainen. "Janet Yellen has done a good job of telegraphing her intentions," he said. The prospect of a rate rise in the US had been "hanging over markets" for a while.

Rate increases in the next few months would set the Fed on a very different course to the European Central Bank. In December, the ECB announced plans to extend quantitative easing until the end of next year, albeit at a reduced level.

"QE is dead as far as most people are concerned," said Tiilikainen. "There's not a whole lot left to run and it hasn't achieved its objectives."

However, in Holohan's view, it is too early to write off QE. "If investors get jittery, the ECB could change its mind. And Trump is still an unknown economic force," he said. "Markets could wobble if Trump fails to deliver. People have latched onto his policies. I think investors might have a different outlook though if he pares back his promises. It's a very difficult market for yield.

"Staples have sold off. People paid to get the dividend, but once US bonds moved, they sold out of this bond proxy."

However, Holohan believes defensive stocks might see a revival in 2017. "Cyclicals have had a huge rally, but you could see that reverse."

Ignore the noise

In a market with so much uncertainty, it can be a challenge for investors to plot a course. "Investors trade on facts – be they positive or negative facts. But in the absence of facts, it is hard," Tiilikainen said.

The consensus among experts is that the ordinary investor should, as far as possible, tune out the noise and ignore it as much as possible, rather than resort to predictions and guesswork.

Investors should not formulate their investment policy on the basis of macroeconomics, Gillen warned. "There are so many moving parts. In terms of trying to interpret macroeconomics, it is always very hard to know how the markets will interpret it."

Brexit, experts say, taught investors a valuable lesson last year.

"The world didn't end and markets rallied," Tiilikainen said. "You can't plan for shocks. Individual investors should invest according to their own risk profile, and appropriate to their own investment horizon."

However, with experts predicting continued volatility in markets in the next 12 months, that investment horizon probably needs to be a longer-term one.

> **"When confidence is lost in markets, banks don't lend, companies don't invest. It's about perception, and that feeds into appetite for risk**

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