



global weekly

Investment
Communication
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Know when to hold 'em

The September meeting of the US central bank came and went yesterday, with no change in interest rates. This decision added support for stocks, bonds and gold, but was negative for the US dollar, as markets scaled back rate-hike expectations.

Lift-off did not occur. The US Federal Reserve kept interest rates on hold at their much-anticipated September meeting. Although the US economy is seen as strong and the labor market has improved, the Fed policymakers are concerned about the impact of global developments on US growth. Since July, there has been a stock-market sell-off, the dollar has appreciated and financial conditions have tightened. There is concern over how these events will impact the US economy and if there is downward pressure on inflation.

Fed Chair Janet Yellen noted that a rate hike is still possible at "every remaining meeting" this year. We believe that October will be too early and expect a December rate hike, as global risks ease and the US economy continues to recover.

After the Fed's meeting, emerging-markets equities reacted in relief to the deferred rate hike. This was contrary to the Japanese and European markets, where the potential of a strengthening US dollar negatively affected market sentiment. US equities gave up their gains and closed with a decline for the day.

Bond markets update

With the Fed removing the immediate uncertainty regarding a rate hike and delivering a relatively soft message about future hikes, bond investors could see the Fed's statement as an effort to mitigate the impact of the first hike. There could now be a move to refocus on European government bonds in light of the possibility of more asset purchases (quantitative easing) from the European Central Bank, which are clearly on the table.

Corporate credit spreads will likely consolidate at current levels, as more new issuance comes to the market in the coming

Equity index performance

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	399,4	1,8	-4,3
S&P 500	1990,2	1,9	-3,3
AEX Index	431,8	0,5	1,9
EuroStoxx 50	3205,0	0,7	2,0
DAX Index	10075,0	-0,4	2,9
Nikkei 225	10070,0	-1,1	3,6
Hang Seng Index	21921,0	1,9	-7,1

Important rating changes (RL=Recommended List)

Company	From	To
3M	Buy	RL
CSX	RL	Buy
SYMRISE	Hold	RL
BMW	Buy	Hold
FLOWTRADERS	NR	Buy

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0,672	-3,6	10,9
German Bunds 2-year	-0,231	0,3	-17,3
Japan 2-year	0,006	-0,5	-5,6
US Treasuries 10-year	2,154	-3,5	-46,1
German Bunds 10-year	0,667	1,6	-41,4
Japan 10-year	0,308	-3,2	-25,6

Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	76,75	-2,90	19,60
iTraxx Euro 5-year	70,18	-0,98	13,21
JPM EMBI+	403,33	-11,39	89,50

Performance data as of Friday, 18 September.

Source: Bloomberg

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weeks. It is hard to predict how markets will react to reform efforts by Chinese policymakers and the slowdown of the Chinese economy, which is also impacting other emerging markets economies. Although China still has ample room to support growth, other emerging countries are much more vulnerable. We do not consider emerging markets bonds to be an investment opportunity, as there could be further corrections.

If anti-austerity parties do not win in the upcoming elections in Greece and Spain, investors may be inclined to position in eurozone government bonds, especially in the eurozone periphery. So far, it is neck-and-neck between austerity and anti-austerity parties in both elections.

Rotations in foreign exchange reserves by central banks in emerging markets could lead to a pause in their accumulation of US Treasuries. As a consequence, the whole bond yield curve may move higher.

Equity markets update

Equity markets reported another week of gains, with trust slowly returning to the market. The VIX index, also known as the fear indicator, dropped by more than 10%. Still, markets remain fragile and sentiment can turn quickly, given remaining worries about the state of the world economy, and, in particular, China.

US stocks reported the largest gain this week, followed by Europe and developed Asia. Stock markets were dominated by the Federal Reserve's meeting on Thursday, but there was also a lot of company news driving markets. From the consumer side, European car sales rose by 11.5% year-over-year in August. Apple had positive comments about orders for the new iPhone, while luxury-goods manufacturer, Richemont, reported strong sales. German utilities companies, RWE and Eon, garnered negative headlines about their argument with the German government about nuclear-waste clean-up costs. Philips issued a profit warning, although it was not a surprise; and FedEx lowered its guidance and reported disappointing results. FedEx's main express division, however, was strong.

The biggest headlines were about talks between beer breweries AB Inbev and SAB regarding a combination that would create the largest brewer in the world. Regulatory scrutiny, however, is expected. AB Inbev is the number-one beer brewery in the world, followed by SAB and Heineken.

Asset allocation

The asset allocation was unchanged this week. The asset

allocation consists of an overweight allocation to equities (profiles 2 to 6) and commodities (profiles 2 to 6) and a strong underweight in bonds (profiles 1 to 5), with no bond allocation in profile 6. Real estate, which is strongly correlated to equities, is underweight (profiles 2 to 6). Hedge funds are overweight in all profiles. Cash is overweight in profiles 1, 2, 3 and 4 and underweight in profiles 5 and 6.

Currency outlook

Markets were volatile following the Fed's decision to hold rates. Overall outcomes, however, were supportive for bonds and gold, but negative for the dollar, as markets scaled back rate hike expectations. Gold prices moved higher, while the US dollar and ten-year US Treasury yields fell.

Our overall stance to currencies remains the same as before the Fed's decision, because the outlook for the tightening cycle to begin either later this year or early next year has not changed. We are negative about emerging markets currencies, some more than others, depending on their commodity exposure, economic growth outlook, and political situation. Moreover, we are positive on the US dollar, negative on the euro, negative on the yen and negative on commodity currencies.

Published this week

Investment Strategy: September 2015

The Global Investment Committee, at its meeting on 10 September, confirmed its conviction in the existing asset allocation. A main discussion point was the growing divergence between developed and emerging economies, which has been thrust centre stage by events in China. The committee believes, however, that while other emerging-markets countries may be negatively affected, China's slowdown will not affect global growth prospects.

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