

# global weekly

Investment  
Communication  
16 October 2015

## Under central bankers' spell

Equity markets rebounded in the second half of this week, as several Fed policymakers indicated a near-term rate hike may be premature. ECB officials took an accommodative stance as well, hinting at additional easing measures to fuel inflation.

### Equity markets update

On balance, global equity markets did not move much this week, with China being the exception. After a weak start, stock markets gained territory during the second half of the week, as investors seemed convinced that the Federal Reserve (Fed) will refrain from rate hikes in the near term. Expectations for new stimulus in China also added to investors' confidence.

In the US, the third-quarter earnings season really kicked-off. So far, companies seemed a bit cautious with regard to their outlook. Some large banks were among the first US companies to report quarterly earnings. In terms of profits, these banks' results were mixed. Loan growth, however, was strong and net interest margins were stable. Mortgage volumes disappointed and trading revenue declined. Third-quarter figures of Netflix trailed expectations. Moreover, the provider of online streaming services reported disappointing subscriber growth in the US. Wal-Mart issued a profit warning. In Europe, ASML's outlook disappointed, but Unilever reported very strong revenue growth for the third quarter.

On the mergers & acquisitions (M&A) front, the SAB Miller board accepted an improved offer from AB Inbev and Dell made an offer for data storage company EMC. The rationale for Dell to acquire EMC is that the company becomes less dependent on the shrinking global pc market. Intertrust was listed on Euronext Amsterdam this week. The Initial Public Offering (IPO) price was EUR 15.50 per share, valuing the provider of legal and financial administrative services at EUR 1.3 billion. More IPO news came from FiatChrysler: the car maker is planning to list its subsidiary Ferrari. At the top end of the price range, Ferrari is valued at USD 9.8 billion.

### Bond markets update

Although the risk-averse attitude of late seems to be waning,

### Equity index performance

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	406.2	0.3	-2.6
S&P 500	2023.9	0.5	-1.7
AEX Index	446.6	1.1	5.2
EuroStoxx 50	3238.8	0.2	3.5
DAX Index	10064.8	0.1	3.1
Nikkei 225	18291.8	0.8	4.8
Hang Seng Index	23088.9	2.8	-2.2

### Important rating changes (RL=Recommended List)

Company	From	To
Morgan Stanley	Buy	Hold
Syngenta	Hold	Buy
BMW	Buy	Hold

### Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.595	-4.4	24.9
German Bunds 2-year	-0.264	-1.3	-21.0
Japan 2-year	0.003	0.0	-3.8
US Treasuries 10-year	2.017	-7.2	-14.0
German Bunds 10-year	0.547	-6.7	-27.1
Japan 10-year	0.314	-0.1	-16.8

### Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	83.12	2.05	9.13
iTraxx Euro 5-year	79.91	-0.85	2.69
JPM EMBI+	403.43	-0.62	39.31

Performance data as of Friday, 16 October

Source: Bloomberg

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10-year US Treasuries and 10-year German Bund yields are still trading around their 3-month lows, with Treasuries yielding 1.95% and Bunds 0.53%. Inflation figures pulled yields somewhat down this week.

In the European periphery, Portuguese bond prices came under pressure, on the news that Portugal's opposition Socialists Party is exploring the possibility of joining forces with the radical Left Bloc and the hard-line Communist Party, in forming a government following the inconclusive election earlier this month. This would result in the replacement of the current centre-right coalition by an anti-austerity government. Yields on Portuguese 10-year government bonds, moving inversely to prices, rose by 20 basis points.

Credit spreads, both investment-grade and high-yield, remained stable over the week. Quite an achievement, as the market for new issues reopened and a string of large M&A deals and takeover proposals – including the AB InBev/SABMiller deal and Dell's bid for EMC – was announced. These M&A activities show that, at least in the US, companies have entered the later stages of the credit cycle: firms are increasingly re-leveraging their balance sheets, while earnings languish. Here, Wal-Mart provides an interesting example: the company issued a profit warning and seeks to invest heavily, in an effort to reignite sales growth. At the same time, Wal-Mart is embarking on a USD 20 billion share buyback programme, through large-scale bond issuance. We believe that European companies have not reached this stage yet; we expect European firms to remain more bondholder-friendly than their US counterparts, for the time being.

### Macro update

The uncertainty around the first rate hike by the Fed is increasing. This week, two Fed board governors signalled their reservations for a rate hike this year, challenging Fed Chair Janet Yellen who had mentioned earlier that a rate hike this year was likely. Fed Governor Daniel Tarullo said that right now, he did not expect it was appropriate to raise rates. Meanwhile, Fed Governor Lael Brainard indicated that “the risks to the near-term outlook for inflation appear to be tilted to the downside.”

Bill Dudley, the influential President of the New York Fed, discussed monetary policy yesterday. He said that he did not know whether the Federal Reserve would raise rates in December, but most of his arguments suggest that he would be in favour of a delay. He mentioned that recent economic news suggests that the US economy is slowing. He also

pointed out that financial market turmoil has brought about additional risks, which are important to take into account when considering a rate hike. Last week, we have adjusted our expectations for a first Fed rate hike. We now think that the Fed will further delay raising interest rates beyond December and into 2016.

The European Central Bank (ECB) also seems to be in favour of maintaining an accommodative monetary stance. Yesterday, ECB Governing Council member Ewald Nowotny sounded more worried than before about the inflation outlook. He said that the ECB was “clearly missing” its inflation target. This is partly due to a decline in oil prices. Nowotny, however, pointed out that core inflation was “clearly” below target as well (core inflation excludes food and energy prices). He concluded that additional steps are necessary to help the ECB reach its objective.

The ECB commentary is consistent with our base scenario that sees further ECB monetary easing by the end of this year. We expect the ECB to extend its asset purchases beyond September 2016. We also expect the ECB to raise the level of its monthly purchases (by EUR 20 billion per month, taking the total to EUR 80 billion per month).

### Currency outlook

Most currencies have profited from a weaker US dollar in an environment of improved investor sentiment. Weaker US data (retail sales) and mixed comments from Fed officials are considered as good news, because they have lowered the likelihood of the Fed hiking rates this year. As a result, bad news is considered as good news and this is supportive for currencies other than the US dollar.

It is likely that the euro in the near-term will continue to move higher versus the dollar, in the wake of the pricing out of a possible Fed rate hike this year. Once this has happened, the US dollar has room to recover. However, the recovery in the US dollar we expect at the start of next year will be relatively modest. The euro may start falling more convincingly versus the dollar during the course of next year, when Fed rate hikes approach.

### Asset allocation

The Global Investment Committee, at its meeting on 15 October, left the current allocation unchanged. It consists of an overweight in equities, a strong underweight in bonds and overweight allocations to hedge funds and commodities.

## Next week's calendar

### Important dates next week

	Country	Date
GDP - %	CN	19 Oct
NAHB home builders' confidence index	US	19 Oct
Housing starts - %	US	20 Oct
Consumer confidence	EC	22 Oct
Existing home sales - %	US	22 Oct
PMI manufacturing - index	EC	23 Oct
PMI services - index	EC	23 Oct
Composite PMI output	EC	23 Oct

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## Reporting calendar

Company	Date
Halliburton	19 Oct
Verizon, TomTom	20 Oct
Ebay, Coca-Cola, AmEx, Baker Hughes, Texas Instruments, Motorola, Yara International, EMC Corp., Credit Suisse, Abbott Lab., Iberdrola, ABB, Thermo Fisher	21 Oct
McDonald's, Dow Chemical, Microsoft, AT&T, Eli Lilly, Caterpillar, 3M, Daimler, Southwest Airlines, Amazon.com, Kon. Wessanen	22 Oct
Procter & Gamble, Stora Enso, Neste Oil, Ericsson, Hyundai, Grontmij	23 Oct

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