

global weekly

Investment
Communication
23 October 2015

No more wait and see

ECB President Mario Draghi surprised markets this week with his readiness to expand the central bank's stimulus programme, including a further cut in rates. The news buoyed equity markets.

The European Central Bank (ECB) looks set to increase its stimulus programme in December. ABN AMRO Group Economics expects the size of the monthly asset purchases to increase and for the term of the programme to be extended past the current termination point of September 2016. ECB President Mario Draghi is signaling this support in the face of a fragile economic recovery in the eurozone, that has been put under pressure by the slowdown in emerging markets and a rising euro. These factors, along with lower commodity prices, have hurt the inflation outlook. The euro versus the US dollar has been trading above the level of 1.10, which had been the basis for the ECB's projections in September. Oil prices have also been lower than expected. The ECB says it would now re-examine the degree of stimulus in December. It also noted that it was no longer in wait-and-see mode. All options are being considered, including a further cut in the deposit rate, which is currently at -0.2%. After Draghi's remarks, equity markets rebounded.

Bond markets update

US and German ten-year government bonds stayed within their trading ranges this week. A lack of clarity over the timing of the Federal Reserve's pending hike in interest rates is driving investors to US Treasury ten-year notes. US ten-year government bond yields dipped under 2% this month from a high of 2.3% before the Federal Reserve's meeting in September, when it decided to hold off from raising rates.

German government bond yields are higher than 22 January 2015, when the ECB announced its asset purchase programme to stimulate the eurozone economy and counter the threat of deflation. Inflation expectations have not risen by very much since the ECB's purchases began. Bond yields are normally highly correlated with inflation and inflation expectations. As bond yields have not increased by very much since the beginning of the year, bond markets appear to not be expecting inflation to pick up.

Equity index performance

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	410,0	0,7	-1,7
S&P 500	2052,5	-0,3	-0,3
AEX Index	463,0	3,3	9,0
EuroStoxx 50	3393,0	3,9	7,8
DAX Index	10630,0	5,2	8,4
Nikkei 225	18825,0	2,9	7,9
Hang Seng Index	23138,0	0,3	-2,0

Important rating changes (RL=Recommended List)

Company	From	To
DANONE	Buy	Hold
E ON SE	Buy	Hold
SYNGENTA AG	Buy	Hold
NIKE	Not rated	Hold
UBS GROUP	Buy	Hold

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0,623	1,2	23,5
German Bunds 2-year	-0,322	-5,0	-27,6
Japan 2-year	0,010	0,6	-1,1
US Treasuries 10-year	2,054	2,0	-21,8
German Bunds 10-year	0,511	-3,6	-39,0
Japan 10-year	0,297	-1,8	-17,6

Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	80,67	-1,44	14,79
iTraxx Euro 5-year	72,18	-7,77	5,17
JPM EMBI+	402,81	-0,62	58,88

Performance data as of Friday, 23 October

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The September US payroll report disappointed markets and supported a two week rally of risky bond sub-asset-classes. At the same time, markets repriced the first rate hike out to 2016. Markets may need to deal with a higher probability of a December rate hike in the US in the weeks ahead. Under this scenario, we could see risky-asset prices, and, in particular, emerging-markets and high-yield bonds and government bonds, coming under pressure again.

Equities update

Stocks were hardly changed in the first part of the week, but finished strongly after the ECB's statement about being ready to use its full menu of monetary policy measures to fight deflation. Market sentiment was also helped by the impressive earnings of tech giants Alphabet (formerly Google), Microsoft and Amazon. Although the earnings season is far from over, companies in both the US and Europe are, on average, reporting sales that are slightly below expectations, while earnings are a bit better than expected.

A portion of the improvement in earnings per share can be explained by share buyback programmes. So far, companies in the energy and materials sectors have had the most disappointing earnings results. The decline in oil and other commodity prices are hurting companies in the energy and materials sector by more than expected. Also noteworthy was that various European telecom players beat expectations following a couple of weak years. Both Orange and Mobistar increased their full-year guidance after a good third quarter.

The telecom sector was among the best performing sectors worldwide this week. Although there is some good news from European telecom operators, we expect that both sales and profit growth will be low in the coming years as competition remains fierce in both Europe and the US. We therefore have the sector on 'underweight'. The worst performing sectors this week were energy and health care. The reason for the weak performance of energy is generally disappointing third-quarter figures, while the oil price recovery is stalling. We attribute the underperformance of health care to further profit-taking, after a strong performance in the first quarters of the year.

The luxury car producer Ferrari started trading on the New York Stock Exchange under the symbol 'RACE.' Appetite for the shares was strong, and they gained 15% on their first day. After the IPO, FiatChrysler still holds the majority of Ferrari shares (80%), but is likely to further reduce its stake in 2016. Despite the fact that FiatChrysler is among the best performing

automotive stocks, we still see almost 50% further potential to our fair value estimate of EUR 20. Another automotive-related stock that we like is TomTom. The company reported solid third-quarter results and confirmed that its automotive order portfolio for 2016 is strong and that it is gaining market share. We see TomTom as one of the best positioned companies for trends related to automated driving and connected cars. This is owing to TomTom's top-quality digital map of the world's road network and its best-in-class traffic information.

Currency outlook

The accommodating stance of ECB President Draghi pushed down the euro. During Draghi's press conference this week, the euro versus the US dollar fell from above 1.13 to below 1.12, a drop of more than 1%. If the ECB both increases and extends the term of its quantitative easing programme, which is our base case, this should weigh on the euro. The further pricing out of a Fed rate hike this year should balance the ECB's action. Our target for the euro versus the US dollar for the end of 2015 is 1.12.

The US dollar recovered in the past week, under the influence of the Fed policymakers meeting on 28 October and the release of third-quarter US GDP next week. The FOMC is widely expected to keep monetary policy unchanged, though its forward guidance will be crucial for the US dollar's direction. A signal by the FOMC that a rate hike is still on for this year or better-than-expected US GDP data, will likely support the dollar across the board. However, our base case is that the Fed will not hike rates in December, which should limit the US dollar's upside.

Asset allocation

The Global Investment Committee confirmed its conviction in the existing asset allocation at its last meeting on 15 October. The allocation consists of an overweight in equities, a strong underweight in bonds and overweights in commodities and hedge funds. At the meeting, the GIC removed the short euro versus long US-dollar hedge for US-dollar portfolios, given a muted outlook for the US dollar.

Published this week

Investment Strategy: October 2015

The committee's discussion at its meeting on 15 October, centred on the main macroeconomic scenario, calling for a continued global recovery, while also considering the potential for an adverse alternative scenario, involving a recession.

Equity Thematic Update

Robotics, biotech, shale oil & gas and rising wealth all present

opportunities for investors. We continue to see attractive investment opportunities in a number of areas, including:

- Rising wealth and healthier life styles in developed and emerging markets
- Innovations based on artificial intelligence, such as driverless cars
- The introduction of new drugs based on biological material

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Reporting calendar

Company	Date
TNT Express, Philips, BinckBank	26 Oct
Apple, Bristol-Myers Squibb, Simon Property Group, Novartis, BASF, Du Pont, Saipem, Ford, UPS, BP, Twitter, Merck & Co, KPN, Gilead Sciences, Pfizer, Anadarko Petroleum	27 Oct
Amgen, Deutsche Boerse, Glaxosmithkline, EDP	28 Oct
Renovaveis, Volkswagen, Linde, Heineken, Valero Energy, Noble Corporation, Williams Companies, Southern, Mondelez International	
Air Products & Chemicals, Baidu, Electronic Arts, Praxair, Deutsche Bank, Sanofi, Stmicroelectronics, Solvay, Total, Bayer, Technip, DMG Mori Seiki, Banco Santander, Swiss Re, Randstad, Fresenius Medical Care, Teva Pharmaceutical Industries, Royal Dutch Shell, Delhaize, Starbucks, Barclays, Eni Spa, Expedia, Mastercard, Fluor, LinkedIn, Conocophillips	29 Oct
Exelon Corp, Airbus, Toshiba Corp., Belgacom, Colgate-Palmolive Company, Abbvie, Anheuser-Busch Inbev, RBS, Chevron, BNP Paribas, BBVA, USG People, Exxon Mobil, BNP Paribas, USG People	30 Oct

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