



## global weekly

Investment  
Communication  
20 November 2015

**Countdown till December**

Expectations continue to build that the US Federal Reserve and the European Central Bank will continue to move their policies in different directions in December. The minutes of their last meetings add to these expectations, and reveal inflation worries within the ECB.

**Macro outlook**

In Europe, the minutes of the European Central Bank (ECB) provided more evidence of upcoming monetary easing in December. It was very clear from the discussion at the meeting that the ECB is very concerned that inflation will turn out even lower than was projected in September and that the central bank felt compelled to act at the next meeting.

The Governing Council of the ECB discussed the options for further stimulus. It was noted that 'the present communication already catered for the possibility of extending the programme beyond September 2016'. However, 'adjusting the overall size and range of eligible assets was seen as requiring further analysis by ECB staff and the relevant committees'. The council also discussed the option of lower rates. The minutes mention that 'reference was made to the experience in other jurisdictions, where negative rates had not appeared to result in major difficulties or widespread substitution into cash'. This option would also be further examined by committees.

We think the ECB will almost certainly deliver a stimulus package in December. We expect the ECB to step up the pace of its asset purchasing programme by EUR 20 billion per month, to signal that purchases will continue beyond September, and to expand the eligible universe of assets to include regional bonds. On top of that, we expect a 10 basis points (bp) reduction in the ECB's deposit rate.

In the US, the minutes of the 27-28 October meeting of the Federal Reserve (Fed) were published. The minutes confirmed that 16 December is a "live possibility" for a rate hike. Indeed, the number of participants favouring a rate hike as soon as December, seems to be in a majority. The minutes indicate that 'most participants anticipated that conditions for normalisation

**Equity index performance**

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	409.6	2.7	-1.8
S&P 500	2081.2	1.7	1.1
AEX Index	466.9	2.9	10.0
EuroStoxx 50	3430.5	2.1	9.1
DAX Index	11064.4	3.3	12.9
Nikkei 225	19879.8	1.4	13.9
Hang Seng Index	22754.7	1.6	-3.6

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

Company	From	To
BAYER AG	Buy	Hold
ILLUMINA INC	Buy	Hold
GLAXOSMITHKLINE	Hold	Buy
MONDELEZ INTERNATIONAL	Hold	Buy
FREEPORT-MCMORAN INC	Buy	NR

**Government bond yields**

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.903	6.6	39.2
German Bunds 2-year	-0.389	-1.6	-36.6
Japan 2-year	-0.025	-1.4	-2.9
US Treasuries 10-year	2.249	-1.8	-8.9
German Bunds 10-year	0.475	-8.3	-32.3
Japan 10-year	0.318	1.8	-15.0

**Spreads**

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	84.89	0.61	18.63
iTraxx Euro 5-year	71.59	-2.17	7.42
JPM EMBI+	379.06	-8.52	35.07

Performance data as of Friday, 20 November

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will be met in the next meeting, based on their assessment of the current economic situation and their outlook for economic activity, the labour market and inflation’.

We think that after the liftoff in December the pace of the rate hikes will be slow. We expect the Fed policy rate to reach 0.5% in December 2015. The next hike will be in June, giving the Fed time to assess the impact on the US economy, and thereafter rate hikes every other meeting, resulting in a policy rate of 1.25% at year-end 2016.

### **Bond markets update**

The main drivers for bond markets remain the leading central banks of the US, the eurozone, Japan and China as they could announce more accommodative policy or reverse it, as in the US. Expectations on both sides of the Atlantic are building in a different manner.

US Treasury yields rose gradually from 1.97% (14 October) to a high of 2.34% (9 November) as an increasing number of investors believes that a liftoff by the Fed will take place on 16 December. US Treasury yields, however, ended the week lower as markets are not forecasting an aggressive continuing increase by US Fed.

German 10-year Bund prices rose nine days in a row, the longest stretch of gains since the depths of the eurozone sovereign debt crisis. The rise reflects the market conviction that the ECB will deliver additional stimulus in December.

The German Bunds curve started to show positive yields for maturities longer than seven years. Eurozone peripheral bonds show positive yields for bonds with a maturity from two years and longer. US corporate credit spreads have slightly widened, especially within high yield. European corporate credit spreads remained unchanged overall, with a tendency of tighter spreads going forward.

In the coming weeks, market liquidity will continue to diminish as we are approaching the end of the year, which is usually a period of reduced bond trading volumes.

### **Currency update**

The US dollar continued to show strength in the past week, as investors kept on positioning for a Fed rate hike. The Fed minutes did not change this market behaviour. Investors, however, seem to have taken some profit on long US dollar positions after the release of the minutes. This is probably done because of signs that the Fed will only hike at a very modest pace. We think that this profit taking is only temporary.

Net long US dollar positions are considerable, but far from extreme levels. We expect further strength in the US dollar in the next months as financial markets have not fully priced in that the Fed will raise the Fed funds target rate by 25 basis points (bp) in December. Currently financial markets estimate a probability of 66%. So there is clearly more room.

### **Equity markets update**

This week, markets rose on optimism about the ongoing economic recovery in Europe and a clearer rate hike signalling by the Fed, which also supported the US-dollar uptrend versus the euro. US markets lagged somewhat, but emerging markets continued to recover from the selloffs in 2015. Commodity prices seem to be stabilising, helping sentiment towards emerging markets. For next week, with Thanksgiving on Thursday, we expect market consolidation and some profit-taking.

This week, the German DAX Index had the best performance in Europe with a gain of more than 3%, recouping losses of about 18% from the low of this year, which was reached at the end of September when the VW scandal emerged.

US markets were not that much concerned about a possible rate hike in December. Instead, they were focussed on corporate actions such as mergers & acquisitions. One of the largest mergers of the year is expected to be announced next week when pharma giant Pfizer specifies the pending deal with Allergan. This would create the largest pharmaceutical company worldwide, surpassing Johnson & Johnson and boasting a market capitalisation of more than USD 327 billion.

The technology sector was a clear outperformer. Apple, the company with the largest market capitalisation in the US stock market, was rerated by Goldman Sachs. The focus is now on the software of the company, or on how the tablets, smartphones and other gadgets that are in use by a large client group are providing data to advertisers, commercial services and to automated systems, robots and health care providers.

### **Published this week**

#### **Investment Strategy - November 2015**

At its meeting on 12 November, the Global Investment Committee reduced risk by moving the strong overweight in equities to a less pronounced overweight. In the balanced profile-3 portfolio, this amounted to a reduction in equities of 5%. The 5% reduction in equities (profile 3) was taken first from emerging markets equities excluding Asia. To come to 5%, reductions were also taken in US and European equities. The final regional positioning results in an overweight

in Europe, underweight in US and a neutral allocation to emerging markets, with a preference for emerging-markets Asia. The proceeds were invested in bonds, an asset class which remains strongly underweight. Bond positions were increased equally in the corporate segments of investment-grade and high-yield.

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## Reporting calendar

Company	Date
China Resources Enterprise	23 Nov
Compass Group, Tiffany & Co., Hewlett-Packard	24 Nov
Holcim, Deere & Co	25 Nov
Infineon Technologies	26 Nov

## Group Economics

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