



# global weekly

Investment  
Communication  
18 December 2015

## As the year draws to an end

The Federal Reserve's rate hike on Wednesday didn't prompt fireworks in financial markets. Equity investors took the Fed's decision positively, as Chair Janet Yellen indicated that the central bank will remain on an accommodative path. Bond markets had a muted response to the Fed's well-signalled move.

### Equity markets update

After a weak start, sentiment among equity investors improved during the course of the week. Investors welcomed the Fed's first rate hike since 2006, as they took it as a confirmation that the US economy is strengthening. At the same time, investors assume that further Fed hikes will come only gradually and that rates will remain low from a historical perspective in the coming years.

Looking back at 2015, we see substantial differences in the performance of equity markets across the world. Currency developments played an important role here. Although the year is not fully over, it looks like 2015 will turn out to be another good year for European investors. Shares in Europe have gained some 5% for the year. Taking into account a 3-4% dividend yield, total return is close to 10% for 2015.

Equities in the US have hardly risen this year (S&P 500 Index: +1%), but European investors with positions in the US have benefited from a 12% rise of the dollar. In Asia, performance has been mixed. Japan had an excellent year, with an 11% rise of the Nikkei Index, and Chinese shares strongly recovered from their September lows. However, shares in India, Hong Kong and Taiwan had a weak year, with all main indices now below the levels of late 2014.

There have also been large performance differences between sectors this year. The best-performing sectors were health care and IT; the consumer-oriented sectors also did well. The energy and materials sectors, by contrast, lost more than 20%, as they were hit by price declines in oil and other commodities.

Within the ABN AMRO universe, there are five shares that have more than doubled in 2015. Netflix has been the best performer, with a return of some 150%. The company now

### Equity index performance

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	397.9	1.3	-4.6
S&P 500	2041.9	-0.5	-0.8
AEX Index	434.8	1.3	2.4
EuroStoxx 50	3306.5	2.3	4.2
DAX Index	10738.1	3.2	8.8
Nikkei 225	18986.8	-1.3	8.8
Hang Seng Index	21755.6	1.4	-7.8

### Important rating changes (RL=Recommended List; NR=not rated)

Company	From	To
Netflix	Sell	Hold
Marks & Spencer	Hold	Buy
Kinder Morgan	Hold	Buy
UBS Group	Hold	Buy

### Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.975	9.8	34.1
German Bunds 2-year	-0.358	-0.5	-27.8
Japan 2-year	-0.053	-2.4	-4.3
US Treasuries 10-year	2.215	8.8	0.7
German Bunds 10-year	0.560	2.1	-5.6
Japan 10-year	0.264	-5.3	-9.2

### Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	94.42	0.67	28.97
iTraxx Euro 5-year	79.43	-2.44	17.18
JPM EMBI+	411.37	12.32	-12.71

Performance data as of Friday, 18 December

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has more than 70 million subscribers in around 80 countries and continues to conquer the globe. Shares of Amazon.com, Ctrip.com, Vestas Wind Systems and TomTom have also more than doubled in 2015. The big losers of 2015 include materials players Glencore and Freeport-McMoran, and 3D printing companies 3D Systems and Stratasys. All these stocks are down some 70% for the year.

### Bond markets update

The reaction in bond markets to this week's modest increase in US rates has been muted, demonstrating how well-signalled this move was. Recent moves in bond markets have been more affected by other issues, such as problems among energy-related credits in US high-yield and among euro investment-grade corporates (for instance, Glencore and Anglo American), than by worries over the Fed's move.

US 10-year Treasury yields are struggling to move upwards. US Treasury yields are now at 2.25% and German Bunds are at 0.65%, which is approximately where they were at the beginning of the year. The US yield curve is flattening, while the Bund curve is steepening in recent months. In Europe, bond markets are waiting for signals from the ECB as to further accommodative policy measures.

### Macro update

The Federal Reserve on Wednesday raised the target range for the federal funds rate to 0.25-0.50%, bringing an end to the seven-year period of near-zero interest rates. In its statement, the Fed indicated to continue on a slow and accommodative path. The central bank expects that economic conditions will evolve in a manner that will warrant only gradual increases in the Federal funds rate. Our base scenario is for a very slow rate hike cycle in 2016. We see the next step coming in June and three hikes in total next year.

### Currency outlook

The US dollar firmed against its trade-weighted basket of currencies after the Federal Reserve raised the federal funds rate target by 25 basis points on 16 December. Fed Chair Janet Yellen's confidence in the strength of the US economy supported the US dollar. We expect the fed funds rate target to be raised by a total of 75 basis points in 2016. Hence, we remain optimistic on the US dollar in 2016.

Since the start of December, the CNY index (Chinese yuan) has declined by about 1.5%, sparking market fears that the People's Bank of China (PBoC) is seeking a weaker yuan to inflate and support the economy. We expect volatility in the yuan to be

higher than in previous years, as the central bank allows the currency to be more market-determined. Nevertheless, strong volatility and depreciation pressure on the yuan will likely not be tolerated. Our 2016 forecast for USD/CNY is 6.55, which is less pessimistic than what is priced in by financial markets.

### Asset allocation

Our current asset allocation reflects an overweight allocation to equities (profiles 2 to 5) 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 5), but overweight in profile 6. There is no real estate allocation in profile 1. Hedge funds are now overweight in all profiles, to mitigate risks. Cash is overweight in profiles 1, 2, 3 and 4 and underweight in profiles 5 and 6.

### Published this week

#### Investment Strategy - 16 December 2015

The investment strategy of ABN AMRO Private Banking is aimed at providing stable future returns. The asset allocation, as determined by the Global Investment Committee, remains tilted in favour of equities with a cautious stance towards bonds. Alternative investments, consisting of hedge funds and commodities, add diversification and return potential in volatile markets.

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