



global weekly

Investment
Communication
22 January 2016

A bumpy ride

Oil prices as well as financial markets dropped sharply since the start of the year. After ECB President Mario Draghi hinted Thursday on more stimulus measures in March, investor sentiment turned rapidly.

Macro outlook

Since the start of this year, oil prices have fallen by almost 25%. This week, oil prices dropped temporarily below USD 27 per barrel. This has not only resulted in a sharp sell-off in the currencies of oil-exporting countries, but also in a general deterioration in sentiment in financial markets. Nevertheless, we believe that oil prices have been pushed too low and should gradually recover. This should alleviate the pressure on currencies of oil-exporting countries and improve investor sentiment.

President Mario Draghi of the European Central Bank (ECB) left little doubt on Thursday that the ECB would step up stimulus at its next meeting in March. Draghi remained vague about what the ECB exactly would do, but the bank would consider all options. Our base scenario remains that the ECB will cut its deposit rate by 10 basis points (bps) in March and increase the monthly pace of asset purchases by EUR 10 billion. After Draghi's statement, investor sentiment turned abruptly and stocks rebounded vigorously. Oil prices also jumped by more than 10% after having dropped to a 10-year low.

The US economy is currently in a soft patch, but we expect GDP growth to slowly pick up to around trend rates after the slowdown at the end of 2015. We do not expect a recession. The US labour market is strong and we see labour market data as important in gauging the state of the business cycle. Economic data that was released in the past few days, however, disappointed. Based on weaker retail sales and inventories, we revised our GDP growth forecast for the fourth quarter of 2015 somewhat lower. The forecast for 2016 was also revised to 2% from 2.5%.

We have also lowered our outlook for the eurozone, but we continue to see growth. The domestic fundamentals in the eurozone remain consistent with the recovery regaining traction during the course of the year. The incoming economic data

Equity index performance

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	358.5	-1.7	-10.2
S&P 500	1869.0	-1.1	-8.6
AEX Index	4176	3.5	-5.5
EuroStoxx 50	2943.9	2.3	-7.6
DAX Index	9574.2	2.4	-9.0
Nikkei 225	16958.5	-1.1	-10.9
Hang Seng Index	19080.5	-2.3	-12.9

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

Company	From	To
American Express	Hold	Buy
Marriott International	Hold	Buy
Petrobras	Buy	Hold
Allianz	Hold	Buy
Cisco	Hold	Buy

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.859	0.7	33.9
German Bunds 2-year	-0.451	-5.4	-27.8
Japan 2-year	-0.024	1.0	-0.2
US Treasuries 10-year	2.049	1.4	18.5
German Bunds 10-year	0.458	-8.2	1.2
Japan 10-year	0.231	1.7	-7.9

Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	108.59	-0.79	39.81
iTraxx Euro 5-year	91.64	-4.67	36.66
JPM EMBI+	463.20	18.83	33.40

Performance data as of Friday, 22 January

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for the fourth quarter has disappointed. We therefore expect the overall growth in the eurozone to be more moderate than previously expected. We have revised our eurozone GDP forecast down to 1.6% this year (from 1.9% previously) and to 1.9% next year (from 2.2%).

Bond markets update

High yield spreads have widened this week. Headlines stated that corporate high-yield bonds were pricing in a significant risk of a recession. The widening in high yield indeed could suggest that the overall economy is weakening. High yield bond investors are, however, more worried about credit risk and rising company defaults than about a pending recession, as they are taking an equity-like risk. Investors now expect default risk to rise to 6% in the medium term. Rating agency Standard & Poor's confirmed earlier this week that in 2016 the quality of companies will further deteriorate.

Energy and mining are by far the worst performing industries due to the decline in commodity and crude oil prices. Also, companies that have increased their leverage the last few years are being challenged. As a result, corporate credit performance was this week driven by quality, with the highest rated bonds delivering the strongest return. Within our current bond allocation, we remain confident in our overweight position in high yield and investment grade bonds.

Equity markets update

Equity markets had a bumpy week. In the first days of the week, stocks dropped sharply as the oil price continued to slide and worries about the growth prospects of China returned. Various leading equity indices entered 'bear market territory' on Wednesday as they dropped by more than 20% from their 2015 highs. In fact, the start of the year has been the worst ever for equity markets. After the statement of ECB President Draghi, however, the stock market rebounded strongly.

The earnings season has just started and the results this week were a mixed bag. The preliminary fourth quarter earnings of Royal Dutch Shell disappointed and the shares hit a 20-year low. In the IT sector, IBM issued a weak outlook for 2016, and the shares are now almost 50% off their peak level of 2013. On the other hand, Dutch semiconductor equipment player ASML reported solid results and its shares gained more than 10% during the week.

Many large US banks also reported their fourth-quarter results this week. Although profits generally beat expectations, revenues were mostly flat. Results showed that the

consumer side is still doing well, with solid loan growth and improving margins. In Europe, Deutsche Bank posted a loss of EUR 2.1 billion for the fourth quarter, partly due to legal charges. On Thursday, Deutsche Bank shares hit an all-time low.

Reporting calendar

Company	Date
Kimberly-Clark, McDonald's	25 Jan
Johnson & Johnson, Apple, Lockheed Martin Corp, AT&T, 3M, Procter & Gamble, Philips, Du Pont, US Steel, Sprint Nextel, Siemens, Sumitomo Mitsui	26 Jan
Ebay, Texas Instr., United Tech., EMC Corp, General Dynamics, Ericsson, Canon, Biogen Idec, Novartis, Stmicroelectronics, Santander, Qualcomm, Lonza	27 Jan
H&M, Baker Hughes, Bristol-Myers Squibb Co, Abbott Lab., Microsoft, Thermo Fisher, Eli Lilly, Caterpillar, Zimmer Holdings Inc, Amazon.com, Amgen Inc, Ford, Deut. Bank, Altria Group, Valero Energy, Roche, Diageo, Celesio	28 Jan
B Skye B, Honeywell Int, Teliasonera, NTT Docomo, Colgate-Palmolive, Tokyo Electric, Sony, Chevron, Tyco Int., Mizuho Financial	29 Jan

On Tuesday next week, Apple will report its fourth quarter earnings. Investors are eager to learn whether demand for the new iPhone 6S is indeed as weak as rumoured. In addition, earnings are scheduled for McDonald's, Procter & Gamble, Facebook, Microsoft, Siemens, Philips and Novartis.

Currency outlook

The recent wave of deterioration in investor sentiment and the low oil price have weighed heavily on currencies of commodity exporters and currencies that are sensitive to global growth. At the same time, the current market sentiment strongly supported the Japanese yen. The yen rallied by more than 3% versus the US dollar since the start of the year. A further appreciation in the yen could trigger more monetary policy easing by the Bank of Japan which will be meeting on 29 January. As we expect investor sentiment to improve, it is likely that the yen will weaken again.

Asset allocation

No change was made to the asset allocation at the meeting of the Global Investment Committee on 21 January 2016. The 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.

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