



global weekly

Investment
Communication
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In search of stabilisation

Equity and bond markets are showing signs of stabilising. Oil prices moved upward this week, but remain volatile and a negative influence on market sentiment.

Equity, bond and commodity markets are in search of stabilisation. Equity markets recovered somewhat this week but remain fragile, owing to concerns regarding global growth, China and oil. Bond markets are also perceived to be doing slightly better. Spreads are narrowing and the move toward risk aversion is dissipating. Nonetheless, the move is small and spread levels remain elevated.

Some stabilisation has also been seen in the commodities market. The key base metals copper and zinc have stabilised since mid-January. The oil price, while climbing off its lows, remains volatile in search of a new equilibrium.

This week's statement by the Fed made clear that the US central bank is in "wait and see" mode. The risks are now skewed towards later and fewer moves by the central bank in 2016. The bar for future rate hikes has been raised, given the strong US dollar, lower energy prices and falling equity prices. Group Economics continues to believe that the next hike in interest rates by the US Federal Reserve will be in June, but the risks of a delay have increased.

Bond markets update

Financial markets are worried about the risks of a further slide in oil and commodity prices. This fear is in combination with a possible hard landing in China and recession risk in the US. Central banks are now responding to these worries. Last week, the European Central Bank (ECB) announced decisive action in March and, this time, we expect ECB President Mario Draghi to deliver with a 10-basis point cut in rates and an additional EUR 10 billion in monthly bond purchases.

This week, the Fed showed plenty of patience with current conditions. German Bund and US Treasury yields are expected to move sideways. They are also more likely to fall, before rising again in the second half of the year. This may open up short-term opportunities for aggressive investors in safe government bonds. It also improves prospects for other bond segments,

Equity index performance

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	3676	-0.1	-7.9
S&P 500	1893.4	1.3	-7.4
AEX Index	425.6	1.5	-3.7
EuroStoxx 50	2979.4	0.0	-7.4
DAX Index	9639.6	0.1	-9.0
Nikkei 225	17518.3	3.3	-8.0
Hang Seng Index	19683.1	3.2	-10.2

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

Company	From	To
BinckBank	Hold	Buy
BP	Buy	Hold
Glencore	Hold	Sell
Samsung Electronics	Buy	Hold
Halliburton	Buy	Hold

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.803	-6.8	28.6
German Bunds 2-year	-0.467	-1.8	-28.7
Japan 2-year	-0.080	-5.5	-8.1
US Treasuries 10-year	1.960	-9.3	20.8
German Bunds 10-year	0.379	-10.4	2.1
Japan 10-year	0.094	-13.8	-19.3

Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	103.44	-1.66	34.71
iTraxx Euro 5-year	90.79	-2.21	33.39
JPM EMBI+	439.73	-23.47	7.02

Performance data as of Friday, 29 January

Source: Bloomberg

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where attractive spreads are lifting overall yields above what are still unattractive risk-free levels. The shadow of higher US Treasury yields has long been hanging over the US-dollar global high-yield and emerging-markets bond segments. But these risks are now pushed outward considerably.

So far this year, all risky bond markets have been pushing valuations to levels that would often imply a recession. But this week is the first week so far this year where spreads managed to stabilise, mostly on support from central banks. The impact of oil on US high-yield spreads is obvious, given that the energy sector dominates the US high-yield universe.

The European high-yield segment, however, is also starting to suffer. The pain is owing to the links of southern European banks with Latin America and a general decline in risk appetite. Unlike last year, when emerging-markets bonds posted positive returns, they have now seen absolute losses. We do not expect inflation-linked bonds to perform until the oil price stabilises or rebounds. After that, the recovery could again be strong and rapid, such as was seen in early 2015.

We continue to favor peripheral government bonds (including inflation-linked bonds), euro corporate bonds and high-yield bonds with a strong tilt (more than 50%) toward Europe.

Equities update

Nervousness about the health of the Chinese economy continues to dominate the mood of investors. European and Japanese markets did better this week than the US, while Chinese markets remained in a clear downward trend. Commodity and energy prices continued to be highly volatile as overcapacity persists. This also continues to weigh on sentiment.

The US and European equity markets are now in the midst of the fourth-quarter earnings season. So far, we have seen mostly positive surprises, although, admittedly, expectations were low.

The energy and commodity-related companies that have so far reported their results have confirmed the weakness expected in terms of demand and pricing. The outlook for the rest of the year remains very cautious. The takeover of British Gas by Royal Dutch, which pre-announced their results last week, was approved by shareholders on Tuesday.

In the information technology (IT) sector, the disappointing numbers published by Apple were countered by very strong

numbers from Facebook. This emphasizes the growing importance and profitability of the software versus hardware side of the technology industry.

The defensive consumer staples sector continues to outperform. Large-cap companies, such as Procter & Gamble and Johnson & Johnson, reported good results and a positive outlook for 2016. Philips surprised with the strong performance of its health care business, as the company's shares rallied.

Overall, we continue to see attractive investment opportunities in the high-quality growth sectors of IT and health care. The very strong balance sheets and cash generation of the leaders in these sectors and the acceptance of the innovations they have introduced are both disruptive and impressive. Older industries are shaken by the rapid changes that new types of business models are bringing to their markets. Investors need to get used to this new reality and adjust their portfolios to include these new trends.

As history has repeatedly shown, new technologies lead to higher productivity and to increased wealth. Investors should believe in the longer-term benefits that the current wave of innovation is bringing and regain confidence.

Reporting calendar

Company	Date
Google, Anadarko Petroleum, BT Group, Ryanair, Mitsubishi Fin., Julius Baer	01 Feb
Yahoo!, Dow Chemical, United Parcel Service, BP, Pfizer, Gilead Sci., Nomura, Nintendo, Exxon Mobil, Emerson Electric, Infineon, Unibail-Rodamco, Givaudan, LVHM	02 Feb
Motorola, ABB, Fortum, Hyundai, Kon. KPN, Merck, Comcast, GlaxoSmithKline, Hitachi, Southern, Exelon Corp, BBVA, Panasonic, Takeda Pharma, Gas Natural, Becton Dickinson & Co, Kraft Foods, General Motors, Syngenta	03 Feb
Philip Morris, Credit Suisse, Stora Enso, Neste Oil, Daimler, Occidental Petroleum Corp, Hartford Financial, Statoil, Royal Dutch Shell, ConocoPhillips, Dominion Resources, ING, Swisscom, Astrazeneca, Muenchener Rueckv, News Corp, Wereldhave	04 Feb
BG Group, BNP Paribas, Estee Lauder, Intesa Sanpaolo, Toyota Motor, Nippon T&T	05 Feb

Currency outlook

A re-occurring theme is that the deterioration in financial markets since the start of the year has resulted in a relatively resilient euro. Analysts suggest that the euro seems to have

become a safe-haven currency. We strongly disagree with this conclusion. When investor sentiment deteriorates, investors tend to move back into assets that appear to be less risky. They therefore often pay low or even negative interest rates (reversal of interest-rate carry or growth carry trades). In addition, currencies of countries that have a current account surplus often receive support as well.

The euro has the characteristic of having low interest rates and is backed by a region with a current account surplus. Does this mean that the euro is a safe haven currency now? We do not think so. A safe-haven asset has an extra feature which makes a real difference in times of severe stress: liquidity. On this front, the yen and the US dollar are unique because of the depth in their financial markets.

Currently we are experiencing the reversal of interest-rate and growth carry trades resulting in repatriation of investments (such as the yen). What complicates the situation is that the US dollar is currently behaving as a cyclical currency as well. The dollar faces headwinds versus the yen and euro because of the downward adjustment in interest rate expectations and the US growth outlook. The behaviour of the euro versus the dollar may point in the direction of it being a safe-haven currency, but when financial markets move in extreme risk aversion, then only the yen and the US dollar will stand out. Therefore, we will not call the euro a safe-haven currency. Considering the euro as a safe-haven currency can be misleading in times of severe stress.

Asset allocation

No change was made to the asset allocation at the meeting of the Global Investment Committee on 28 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.

Contributors

Investment Strategy & Portfolio Expertise

Ralph Wessels - ralph.wessels@nl.abnamro.com

Maurits Heldring - maurits.heldring@nl.abnamro.com

Edith Thouin - edith.thouin@nl.abnamro.com

Roel Barnhoorn - roel.barnhoorn@nl.abnamro.com

Jaap Rijnders - jaap.rijnders@nl.abnamro.com

Willem Bouwman - willem.bouwman@nl.abnamro.com

Chris Huys - chris.huys@nl.abnamro.com

Group Economics

Georgette Boele - georgette.boele@nl.abnamro.com

Roy Teo - roy.teo@nl.abnamro.com

Nick Kounis - nick.kounis@nl.abnamro.com

Aline Schuiling - aline.schuiling@nl.abnamro.com

Maritza Cabezas - maritza.cabezas@nl.abnamro.com



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