



# global weekly

Investment  
Communication  
5 February 2016

## Soft patch

The road to stabilisation is proving bumpier than expected. The US economy has hit a soft patch and global growth is lacklustre. Equity markets are range-bound and oversold, while bond markets have been hurt by stress related to low oil prices.

The US economy has hit a soft patch. Global growth has stabilised, but at a low level, while global manufacturing and trade remain weak. The expected positive impact on consumer spending from low oil prices has not yet materialised. The low oil price has, however, created stress in the energy and materials sectors. This stress is now spreading to financial institutions. Banks are increasing provisions related to energy company financing.

In general, fixed income markets are taking a dim view on growth and inflation. The equity market can be characterised as range-bound and oversold. The current volatility, however, is based more on technicals than fundamentals, with too much recession risk priced in.

Central banks hold the key to an improvement in market sentiment, and they have already started to react. The Bank of Japan (BoJ) recently moved to negative interest rates, the European Central Bank (ECB) is expected to continue to ease monetary policy in March and the market is already expecting fewer rate hikes by the US Federal Reserve in 2016.

The weakness related to global growth, China and oil has been already heavily discounted by financial markets. It is not expected that the problems seen in the energy, materials and financials sectors will result in systemic risk. Instead, a bumpy period of stabilisation is expected to continue.

## Equities market update

Equity markets around the world were mixed this week. US stocks were slightly higher, as a weaker US dollar enabled non-US investors to buy shares more cheaply. European shares, however, were down 3-4%, as quarterly earnings reports failed to boost investor sentiment and the threat of Britain leaving the European Union continues to scare investors.

## Equity index performance

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	372.0	-0.8	-6.9
S&P 500	1915.5	1.2	-6.3
AEX Index	419.3	-2.8	-5.1
EuroStoxx 50	2905.3	-4.1	-10.6
DAX Index	9393.4	-3.9	-12.4
Nikkei 225	16819.6	-4.0	-11.6
Hang Seng Index	19288.2	-2.0	-12.0

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

Company	From	To
Glencore	Hold	Sell
Southwest Airlines	Hold	Buy
Fanuc	Hold	Buy
Carnival	Hold	Buy
Amazon	Hold	Buy

## Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.712	-6.4	19.0
German Bunds 2-year	-0.491	-0.1	-29.4
Japan 2-year	-0.196	-11.6	-24.0
US Treasuries 10-year	1.847	-7.5	2.6
German Bunds 10-year	0.292	-3.2	-7.3
Japan 10-year	0.022	-7.3	-33.2

## Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	109.57	8.44	43.58
iTraxx Euro 5-year	104.86	13.05	49.49
JPM EMBI+	450.66	10.93	34.38

Performance data as of Friday, 5 February

Source: Bloomberg

## In this issue

<a href="#">Equities market update</a>	1
<a href="#">Bond markets update</a>	2
<a href="#">Currency outlook</a>	2
<a href="#">Asset allocation</a>	3
<a href="#">Published this week</a>	3

Alphabet (the new name for Google) reported solid fourth-quarter numbers, and the company's shares came close to their all-time high. Apart from being the unrivalled winner in internet search, Alphabet's YouTube, Gmail and Google Maps applications now have more than one billion users worldwide.

The European banking sector had another difficult week, as Italian and Greek bank shares remained under pressure. In addition, the Swiss private banks Credit Suisse and UBS reported disappointing results. Credit Suisse shares plummeted to their lowest level in almost 25 years. ING was a positive exception in the banking sector, as impressive results drove its shares up on Thursday.

The Swiss crop-protection company Syngenta was among the top performers this week as it received an offer of CHF 480 per share from ChemChina. With a value of USD 43 billion, the deal is the largest-ever foreign takeover by a Chinese company.

The Zika virus also hit headlines this week as the World Health Organisation declared a global emergency. The economic impact seems limited for now. However, as the disease is primarily spreading in Latin America, investors are concerned that the travel sector in the region could be impacted. Share prices of cruise line operators Carnival and Royal Caribbean lost 5-10% this week.

#### Reporting calendar

Company	Date
Twenty-First Century Fox, BinckBank	08 Feb
Enel Ente Nazionale Per L'Energia Elettrica, Nuance Communications, Viacom, KDDI, Dr. Reddy Laboratories, Walt Disney, CVS Caremark, Regeneron Pharma, Daikin Industries, Sanofi, Actelion, Coca-Cola, Klépierre, HCP, Vestas Wind Systems, Sumitomo Realty & Development, Tomtom, Agrium	09 Feb
Expedia, Humana, Twitter, A.P. Møller-Maersk, Cisco Systems, Whole Foods, Time Warner, Heineken, Baidu, iRobot, ARM Holdings, Akzo Nobel, Commonwealth Bank Of Australia, IFF, Aperam, Telenet, Carlsberg, Natixis	10 Feb
Metro, Nokia, Teva Pharmaceutical Industries, Alcatel-Lucent, Tata Motors, Cochlear, Pepsico, SBM Offshore, Mosaic, Kellogg Company, CBS Corporation, Davita Healthcare Partners, Avon Products, Societe Generale, Zurich Insurance, Total, Yara International, Rio Tinto, Henderson, Pernod Ricard, Publicis Groupe, L'Oreal, Rio Tinto	11 Feb
Thyssenkrupp, Mitsui Fudosan, Singapore Telecommunications, Commerzbank, Eurocommercial Properties, Renault, Nieuwe Steen Investments	12 Feb

European pharma company Sanofi announced that it has set up a research & development programme to develop a vaccine for the Zika virus. Sanofi looks well positioned for this work, as it already has vaccines against viruses that are closely related to Zika, such as dengue fever.

#### Bond markets update

US Treasuries has been testing lower levels since the beginning of the year, as markets begin to doubt that the Federal Reserve will be able to raise interest rates more than one time this year, if at all. Bond investors are pushing global government bonds to new, sometimes record, low yields. The yield on ten-year Japanese government bonds moved to 0.00%. German ten-year Bunds moved below the yield of three-month US Treasury bills (0.33%) to 0.26%. And ten-year US Treasury yields have been sliding since the beginning of the year. They are now yielding 1.85% and some bond investors believe they could even test the 2012 low of 1.38%.

Bond investors are sceptical about the US Federal Reserve's projected four rate hikes in 2016. The balance of the fixed-income market is now leaning toward one interest-rate hike this year. The slow pace of growth seen in the most recent report of the US service industries supports this view. It was the slowest growth seen since April 2014. So far, low energy and commodity prices have not been as beneficial as expected.

Further risk-aversion has added pressure on credit risk spreads. Risk spreads are at their widest in almost all sub-sectors, while risk-free government bonds are touching lows. Macroeconomic concerns persist. Risk-averse investors are concerned that lower commodity and oil prices will have a larger and more negative impact than initially believed. Our view is that the bond market is currently overshooting and is suffering from contagion from the oil and equity markets. There could be some relief and support for credit risk spreads next week.

#### Currency outlook

The weaker-than-expected US economic data this week caused a dramatic selloff in the US dollar. The data fuelled concerns about the economic outlook and led markets to further scale back Fed rate-hike expectations. The EUR/USD broke through 1.12, while it began the week at 1.0830. At the same time, the USD/JPY dropped to lows below 117, thereby fully erasing the weakness in the yen after the BoJ decision last week to move to negative rates.

The ball is now back in the court of the ECB and the BoJ. The stronger euro and yen will tighten financial conditions

and dampen growth and inflation in these economies. With inflation already uncomfortably low in both economies, we expect the central banks to react to offset the headwinds from a stronger currency. We expect the ECB will cut its deposit rate in two steps (March and June) to -0.5% and increase its asset purchase programme by EUR 10 billion in March. The risks are also skewed to more aggressive monetary stimulus. We believe that the BoJ will also cut its policy rate further into negative territory in the coming months. In this way, currency market movements are leading to central bank policy easing globally.

### **Asset allocation**

The asset allocation consists of an overweight allocation to equity, an underweight in bonds and overweight allocations to hedge funds and commodities. The ABN AMRO Global Investment Committee made no change to the asset allocation at its meeting on 4 February.

### **Published this week**

#### **Bond Markets Monthly: Have we turned the corner?**

This year could have not started more badly. Oil prices dropped below USD 30 and stock markets plummeted. Worries about the Chinese economy erupted again, and the question of whether the economic cycle has started to turn – which would mean the US could be approaching recession sometime soon – was the subject of much market commentary.

#### **Is the oil sector strong enough?**

Oil represents 3% of global GDP, 12% of the MSCI World Index and 16% of the global high-yield market. Although the recession underway in the oil industry is having a ripple effect through the energy sector, it is not expected that recession effects will spill over to the broader economy.

### **Contributors**

#### **Investment Strategy & Portfolio Expertise**

Ralph Wessels - [ralph.wessels@nl.abnamro.com](mailto:ralph.wessels@nl.abnamro.com)

Maurits Heldring - [maurits.heldring@nl.abnamro.com](mailto:maurits.heldring@nl.abnamro.com)

Edith Thouin - [edith.thouin@nl.abnamro.com](mailto:edith.thouin@nl.abnamro.com)

Roel Barnhoorn - [roel.barnhoorn@nl.abnamro.com](mailto:roel.barnhoorn@nl.abnamro.com)

Jaap Rijnders - [jaap.rijnders@nl.abnamro.com](mailto:jaap.rijnders@nl.abnamro.com)

Willem Bouwman - [willem.bouwman@nl.abnamro.com](mailto:willem.bouwman@nl.abnamro.com)

Chris Huys - [chris.huys@nl.abnamro.com](mailto:chris.huys@nl.abnamro.com)

#### **Group Economics**

Georgette Boele - [georgette.boele@nl.abnamro.com](mailto:georgette.boele@nl.abnamro.com)

Roy Teo - [roy.teo@nl.abnamro.com](mailto:roy.teo@nl.abnamro.com)

Nick Kounis - [nick.kounis@nl.abnamro.com](mailto:nick.kounis@nl.abnamro.com)

Aline Schuiling - [aline.schuiling@nl.abnamro.com](mailto:aline.schuiling@nl.abnamro.com)

Maritza Cabezas - [maritza.cabezas@nl.abnamro.com](mailto:maritza.cabezas@nl.abnamro.com)



## Disclaimer

© Copyright 2016 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO"), Gustav Mahlerlaan 10, 1082 PP Amsterdam / P.O. box 283, 1000 EA Amsterdam, The Netherlands. All rights reserved. This material is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to in this material may not be appropriate or suitable for the specific investment objectives, financial situation, knowledge, experience, or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. ABN AMRO or its officers, directors, employee benefit programs or co-workers, including persons which were involved in preparing or issuing this material, may from time to time hold long- or short-positions in securities, warrants, futures, options, derivatives or other financial instruments referred to in this material. ABN AMRO may offer and render at any time investment banking-, commercial banking-, credit-, advice-, and other services to the issuer of any security referred to in this material. Pursuant to offering and rendering such services, ABN AMRO may come into possession of information not included in this material and ABN AMRO may prior or immediately after publication thereof have acted based on such information. In the past year, ABN AMRO may have acted as lead manager or co-lead manager with regard to a public offering of securities from issuers as mentioned in this material. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither ABN AMRO nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without ABN AMRO's prior express consent. This document is solely intended for dissemination amongst private/retail customers in a PC country. Distribution to private/retail customers in any jurisdiction that would require registration or licensing of the distributor which the distributor does not currently have, is not permitted. Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

## US Securities Law

ABN AMRO Bank N.V. is not a registered broker-dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 Act") and under applicable state laws in the United States. In addition, ABN AMRO Bank N.V. is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, absent spe-

cific exemption under the Acts, any brokerage and investment advisory services provided by ABN AMRO Bank N.V., including (without limitation) the products and services described herein are not intended for U.S. persons. Neither this document, nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person.

## Other jurisdictions

Without limiting the generality of the foregoing, the offering, sale and/or distribution of the products or services described herein is not intended in any jurisdiction to any person to whom it is unlawful to make such an offer, sale and/or distribution. Persons into whose possession this document or any copy thereof may come, must inform themselves about, and observe, any legal restrictions on the distribution of this document and the offering, sale and/or distribution of the products and services described herein. ABN AMRO cannot be held responsible for any damages or losses that occur from transactions and/or services in defiance with the restrictions aforementioned.

## Sustainability Indicator Disclaimer

ABN AMRO Bank N.V. has taken all reasonable care to ensure the indicators are reliable, however, the information is unaudited and subject to amendment. ABN AMRO Bank is not liable for any damage that constitute from the (direct or indirect) use of the indicators. The indicators alone do not constitute a recommendation in relation to a specific company or an offer to buy or sell investments. It should be noted that the indicators represent an opinion at a specific period of time considering a number of different sustainability considerations. The sustainability indicator is only an indication regarding the sustainability of a company within its own sector.

## Company disclosures

ABN AMRO may beneficially hold a major shareholding or a significant financial interest of the debt of this company. ABN AMRO currently maintains a market in the security of this company and otherwise purchases and sells securities of this company as principal. ABN AMRO has received compensation for investment banking services from this company, its subsidiaries or affiliates during the previous 12 months. All disclosures made herein refer to ABN AMRO and its affiliates, including ABN AMRO Incorporated, which is regulated in the United States by the NYSE, NASD and SIPC.

## Personal disclosures

The information in this opinion is not intended as individual investment advice or as a recommendation to invest in certain investments products. The opinion is based on investment research of ABN AMRO. The analysts have no personal interest in the companies included in this publication'. Their remuneration for this work is not, was not and will not be related directly or indirectly to the specific recommendations or views expressed in this opinion.