



## global weekly

Investment  
Communication  
26 February 2016**Mixed and volatile**

It has been a mixed week, as disappointing economic data, Brexit and oil prices gave markets more than enough to chew on. Equity markets, however, appear to be gradually shrugging off their problems.

Data from both the US and the eurozone has been weaker than expected lately, as a soft patch continues. A referendum on Britain leaving the European Union is now fixed for June, bringing into focus "Brexit" fears. The oil price also continues to lead markets and volatility. Markets retreated with the oil price when the Saudi oil minister said he was prepared to keep prices low to drive out US producers. But, later in the week, as oil prices rose, so did markets.

Central banks also continue to drive market behaviour. This week, the People's Bank of China announced that it still had monetary policy tools at its disposal, which buoyed markets. We believe that central banks will continue to focus on fostering growth. We expect that the European Central Bank will increase its monetary policy stimulus in March and that the US Federal Reserve will not hike rates in 2016.

**Equity update**

Equity markets were able to finish the week in positive territory. Market focus on oil prices increased volatility, but an upward trend in equities that began last week continued. It was positively influenced by the Chinese central bank indicating there is room for more monetary easing. Europe outperformed the US, as the euro weakened against the US dollar.

The earnings season in Europe is continuing, while in the US most companies are done with reporting fourth-quarter results. Large European pharmaceutical companies had good results, although helped by a strong US dollar. Underlying demand is also healthy. The industrials sector continues to suffer, as the larger industrial companies experience contracting volumes.

One of our long-term favourites, the German dialysis specialist Fresenius Medical Care (Buy) reported better-than-expected results. Demand is rapidly rising for dialysis treatments, instruments and medications, driven by an increase in diabetes

**Equity index performance**

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	372.9	1.0%	-6.8%
S&P 500	1951.7	1.8%	-4.6%
AEX Index	423.4	2.9%	-4.1%
EuroStoxx 50	2937.8	2.4%	-10.5%
DAX Index	9530.9	1.6%	-11.9%
Nikkei 225	16188.4	1.4%	-16.2%
Hang Seng Index	19364.2	0.4%	-12.4%

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

Company	From	To
Volkswagen AG	Buy	Hold
Wessanen	Hold	Buy
Vale	Hold	Sell
3M	Buy	Hold
IBM	Buy	Hold

**Government bond yields**

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.736	-0.8	8.8
German Bunds 2-year	-0.548	-1.3	-31.0
Japan 2-year	-0.231	-3.1	-25.2
US Treasuries 10-year	1.720	-2.6	-31.0
German Bunds 10-year	0.142	-5.9	-15.5
Japan 10-year	-0.073	-7.9	-41.1

**Spreads**

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	112.63	-6.33	51.72
iTraxx Euro 5-year	106.26	-7.18	57.41
JPM EMBI+	446.38	-5.70	45.00

Performance data as of Friday, 26 February

Source: Bloomberg

**In this issue**

Equity update	1
Bond market update	2
Currency outlook	2
Asset allocation	2
Published this week	2

patients worldwide. Fresenius Medical Care is a global leader in this segment. Its holding company Fresenius SE (Buy) is also involved in private hospitals in Germany and in pharmaceutical production.

This week, two major professional publishers, RELX Group and Wolters Kluwer, reported their results. Sales growth for these companies remains favourable, as both players are benefitting from better economic conditions. Also, a shift to digital publishing is paying off. Both companies announced new share buy-back plans, as balance sheets have improved substantially on the back of strong cash flows. The shares of Wolters Kluwer and RELX Group have outperformed year-to-date. Investors value their defensive nature, given volatile markets, and dividend yields of 2-3%.

### Bond market update

Global bond markets continued to improve this week with both rates and spreads coming down gradually. Markets are slowly positioning towards riskier parts of the universe, although caution remains, with credit spreads continuing to be at elevated levels. This confirms our view of risk in cyclical segments of the economy and warrants a defensive stance. Given disappointing German manufacturing data combined with weaker inflation, we expect the ECB to further step up asset purchases, which will bring rates into advanced negative territories further down the curve.

US bank credits recovered and European bank credits remained stable this week, despite both HSBC and Standard Chartered reporting weaker earnings because of higher risks related to emerging markets. We expect the outcome of upcoming bank stress tests by the European Banking Authority to provide more comfort. We believe that bank buffers are adequate and we remain positive on senior issues of larger EU banks. Overall, we recommend an underweight allocation to bonds as an asset class. We are negative regarding European core government bonds and positive toward credits.

### Currency outlook

The British pound has fallen sharply since Prime Minister David Cameron agreed a deal with the EU and announced 23 June as the referendum date. Although financial markets had already widely anticipated that the referendum would be held in June, by officially setting the date, Brexit risks are now more in focus. News that London Mayor and Conservative political heavy-weight Boris Johnson will campaign for a UK exit from the EU, is believed to increase the chance of Britain leaving the European Union, adding pressure on the currency.

### Reporting calendar

Company	Date
Berkshire Hathaway	27 Feb
CLP, PostNL, Volkswagen	29 Feb
PSP Swiss Property, Medtronic, Glencore Xstrata, Barclays	01 Mar
Corbion, Intertek	02 Mar
Stratasys, Cooper Companies, Ahold, Continental, Delhaize,	03 Mar
Adidas	
Staples, Brunel, WPP	04 Mar

The GBP/USD has dropped below 1.40 and EUR/GBP has surpassed 0.79.

Although a Brexit is not our base-case scenario, we have been negative on sterling versus the US dollar since November 2015, based on a delay in rate hikes by the Bank of England, a weaker economy and fears about Brexit. We expect GBP/USD to move towards 1.35 ahead of the referendum. We expect the upside in EUR/GBP to be limited, however, because of more aggressive monetary policy stimulus by the ECB.

### Asset allocation

There was no meeting of the Global Investment Committee this week. At the previous meeting on 18 February, the committee voted to increase the equity allocation. The increase was at the expense of cash in cash-rich portfolios (profiles 2, 3 and 4) and, also at the expense of existing exposures to hedge funds in the equity-dominated portfolios (profiles 5 and 6). Selective investment in the health care and information technology sectors is recommended. For more information, read the Investment Strategy published this week.

### Published this week

#### Investment Strategy: Time to Increase Equities

The fear of recession is overdone, the US Federal Reserve is expected to be "on hold" in terms of rate hikes in 2016 and central banks worldwide are expected to continue to support growth, having plenty of fiscal and monetary policy levers left to use. Against this background, the Global Investment Committee decided it was time to increase equity risk across the board at their meeting on 18 February.

## 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"),

## 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)

and under applicable state laws in the United States. Accordingly, absent specific 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 Research and Strategy. 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.



**ABN·AMRO Private Banking**