

global weekly

Investment
Communication
4 March 2016

Fears recede

The fears that had gripped markets since the beginning of the year are gradually receding. Equity markets are recovering in line with commodities, oil prices and a reduction in volatility. The bond market also perked up, as investors moved into riskier segments.

Economic data continues to be mixed and, in some cases, more disappointing than expected. The ABN AMRO Global Investment Committee believes that there are two sources of relief to the malaise: consumers and policymakers. The consumer holds the key to development of the world economy. Low oil prices will support consumer spending, which, in turn, will reduce inventories and lead to higher output. A fundamental stabilisation should be on its way, given that global demand is growing faster than world output.

Central banks will return to centre stage starting next week and are expected to continue to support growth. The ECB meets on 10 March and the US Federal Reserve on 13-14 March. The ECB is expected to keep its commitment to improve financial conditions. Further monetary stimulation is expected. Given a sense of exhaustion about the effectiveness of the ECB's monetary policies, there is also the possibility of a new stimulus setup.

The base case of ABN AMRO Group Economics is that the ECB will cut its deposit rate by 20 basis points in March and by another 20 basis points in June, with measures to cushion the blow for banks. A tiered deposit rate system and even longer duration refi loans are believed likely. In addition, monthly asset purchases are expected to increase by EUR 10 billion a month and for the programme to be extended until June 2017.

In the US, the central bank is expected to keep rates on hold throughout 2016. While the domestic situation may support an increase in rates, global considerations are believed to outweigh a hike any time soon.

Bond markets update

Better than expected employment and manufacturing data from the US and the eurozone and reassurance from China

Equity index performance

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	384.7	3.0%	-3.5%
S&P 500	1993.4	2.3%	-2.5%
AEX Index	436.0	3.1%	-1.3%
EuroStoxx 50	3018.1	2.9%	-7.9%
DAX Index	9768.1	2.6%	-9.5%
Nikkei 225	17014.8	5.0%	-11.2%
Hang Seng Index	20176.7	4.1%	-8.3%

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

Company	From	To
Vopak	Buy	Hold
Deere & Co	Buy	Hold
BP	Buy	Hold
Daimler	Buy	Hold
EMC	Buy	Hold

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.832	3.6	17.5
German Bunds 2-year	-0.582	-3.3	-37.6
Japan 2-year	-0.206	2.5	-22.4
US Treasuries 10-year	1.823	5.9	-29.6
German Bunds 10-year	0.170	2.3	-21.2
Japan 10-year	-0.049	2.5	-45.2

Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	96.95	-12.47	35.32
iTraxx Euro 5-year	94.56	-8.54	44.52
JPM EMBI+	419.77	-26.61	32.08

Performance data as of Friday, 4 March

Source: Bloomberg

In this issue

Bond markets update	1
Equity update	2
Asset allocation	2
Currency outlook	2

regarding a relaxation of credit constraints drove investors into riskier bond assets across different qualities and regions this week. Credit spreads narrowed across the bond universe. There was a strong rally in US high yield, but we remain cautious. Fundamentals, such as the glut in oil storage, remain weak for the largest constituents.

Lower recession risk and US core inflation will make the Federal Reserve's decision regarding rate hikes difficult this year. Hopes for European fiscal stimulus to complement expected expansion in monetary policy stimulation were crushed by German Finance Minister Wolfgang Schäuble. We continue to recommend an underweight allocation to bonds. We are negative towards core European government bonds, and positive towards credits.

Equity update

Equity markets continued their rebound this week, with the MSCI World Index returning +2.7%. The financial sector (+4.6%) and the commodity-related materials (+4.2%) and energy (+4%) sectors outperformed at the expense of the defensive health care (+0.7%), utility (+1.1%) and consumer staples (+1.2%) sectors.

US banks, such as Citi (+6.9%), Bank of America (+6%), J.P. Morgan (+3.9%) and Wells Fargo (+3.1%), continued to rally with rising oil prices. Because of their financing of the energy sector, banks have a substantial exposure to the oil industry. As capital positions are likely to be strong enough to withstand the negative effects from a prolonged slump in oil prices, US financials recovered further as oil prices rose.

Among the commodity producers, Freeport McMoran (+21%) was a winner, driven by improving base metal prices. ArcelorMittal (+32%) moved higher, as the company plans to increase efficiency at its northern French installations.

In the health care sector, Sanofi's (-7%) plans to divest its European generic drugs business are likely to be delayed, as the company needs more time to decide what assets should be included in the deal. Iberdrola (-8%) and E.ON (-7.3%) declined, as utility companies face negative earnings revisions on the back of weak energy prices.

Asset allocation

After moving to increase equities on 17 February, the Global Investment Committee (GIC) left the asset allocation unchanged at its meeting this week. The allocation consists of a substantial overweight in equities, an underweight in

Reporting calendar

Company	Date
Soho China, Symrise, RWE, Merck KGAA, TKH Group, Volkswagen	8 Mar
Industria De Diseno Textil, Casino Guichard-Perrachon, Deutsche Post, E. ON, Adecco, Cathay Pacific Airways, Boskalis, Westminster, Prudential, Wharf Holdings	9 Mar
China Unicom (Hong Kong), Aviva, Carrefour, Linde, Swire Properties, Swire Pacific, DMG Mori Seiki, Kerry Properties, China Mobile	10 Mar
MTR Corporation	11 Mar

bonds and overweight allocations to commodities and hedge funds. This week, the committee discussed risks from the UK leaving the EU. Despite attracting headlines, the reality is that the risk and uncertainty of a "Brexit" have so far had an effect only on the currency market. Brexit polls in the UK point in the direction of the UK remaining in the EU. The margin of the vote, however, is not convincing enough for it to be seen as a foregone conclusion. An exit would have a broad impact for both the UK and the EU. The base case scenario developed by Group Economics estimates the probability of the UK leaving the EU at 35%.

Currency outlook

The euro has been one of the weakest performing major currencies this week, given weak inflation data at the start of this week. This has triggered expectations of aggressive monetary policy easing by the ECB next week.

Investment sentiment towards emerging markets currencies is improving. Negative news is having less of an impact. Market expectations for a Fed rate hike in June, for example, have increased from close to zero on 11 February to 32%. Despite this adjustment in expectations, most emerging market currencies have stabilised and some have even recovered. Last year this would have been unthinkable.

Since 11 February, the US dollar has also rebounded. This US-dollar strength, however, has mainly been driven by weakness in the euro, sterling and currencies of central and Eastern Europe. In fact, most currencies of commodity exporters have outperformed the US dollar. The recovery in oil and metal prices has played an important role here. We expect commodity prices to recover further and this should continue to support these currencies.

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

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 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