



## global weekly

Investment  
Communication  
11 March 2016**ECB pulls the strings**

All eyes were on the European Central Bank (ECB) this week. The ECB surprised on Thursday with a large stimulus package, but disappointed markets with lower growth and inflation forecasts.

**Macro and currency update**

Thursday, 10 March the European Central Bank (ECB) lowered its main refinancing rate to 0.0% from 0.05%. It also cut its deposit rate to -0.4% as widely expected. In addition, it expanded the asset purchase programme by EUR 20 billion to 80 billion a month and increased the eligible universe to include investment grade bonds of non-financial corporates established in the eurozone.

The package was more aggressive than financial markets had expected. Therefore, the euro initially moved lower across the board. ECB President Mario Draghi stated during the press conference that he does not see any need to reduce rates further and this resulted in a turnaround in sentiment pushing EUR/USD above 1.11 before it eased somewhat.

After the announcement of the ECB's policy package, risky assets rallied, with corporates and periphery government bonds outperforming. The mood reversed after a strong initial rally, reflecting that the positive surprise from the announcement of the measures was undone by Draghi's more cautious forward guidance on interest rates.

In its new staff projections, the ECB has revised its forecasts for economic growth and inflation lower again. Eurozone GDP is expected to grow by 1.4% this year, revised from 1.7% in its December 2015 forecasts. According to Draghi, the risks to the growth outlook remain tilted to the downside. In addition, according to the ECB's forecasts the central bank will continue to miss its inflation target in the coming years. The forecast for inflation in 2016 was revised lower to 0.1% from 1.0%.

Last week, the US employment report played an important role in the improvement in investor sentiment. The strong US employment report fueled optimism that the US economy may not be as weak as feared. Next week, the Fed will decide on

**Equity index performance**

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	384.9	-0.6	-3.6
S&P 500	1,989.6	-0.2	-2.7
AEX Index	438.9	0.2	-0.7
EuroStoxx 50	2,970.8	0.0	-7.0
DAX Index	9,498.2	-1.4	-9.8
Nikkei 225	16,938.9	-0.4	-11.0
Hang Seng Index	20,199.6	0.1	-7.8

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

Company	From	To
NN Group	Hold	Buy
Casino	Buy	Hold
Boeing	Buy	Hold
Fanuc	Buy	Hold
Praxair	Buy	Hold

**Government bond yields**

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.933	7.0	25.1
German Bunds 2-year	-0.460	8.2	-21.9
Japan 2-year	-0.160	4.6	-18.3
US Treasuries 10-year	1.941	6.6	-16.9
German Bunds 10-year	0.284	4.7	7.6
Japan 10-year	-0.013	3.7	-42.7

**Spreads**

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	90.81	-3.73	25.66
iTraxx Euro 5-year	79.50	-12.88	30.12
JPM EMBI+	404.44	-15.33	-6.08

Performance data as of Friday, 11 March

Source: Bloomberg

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monetary policy. Market consensus is that the Fed will not change its policy.

### Bond markets update

In the last two months, investors have moved away from risky credits, which were priced extremely low. Now, after the ECB announcement, sentiment has become more positive, also supported by the rebound in commodities and oil.

European credits will be further supported by the ECB now buying investment-grade euro-denominated bonds of non-bank corporations. Adding corporate credits demonstrates the central bank's broader tolerance for risk.

There are, however, side effects to the ECB expanding its purchasing target to EUR 80 billion per month. Investors will find a bond market with a severe lack of liquidity (see also our Bond Thematic – Liquidity trap in credit markets, February 2016). Since October 2014, the ECB has bought EUR 786.8 billion in assets.

The two-year US Treasuries (0.88%) and Bunds (- 0.55%) currently show the highest difference of 143 basis points in more than nine years. Investors think that the probability has slightly risen that the Fed will hike its rate again this year and that the ECB will cut its rates further. The latest 10-year auction by the US Treasury saw its lowest demand in seven months. Within bond markets, we already saw a mild risk-on sentiment that will be stimulated with the latest expansion of the ECB asset purchase programme.

Yields of 10-year peripheral eurozone bonds moved lower. Italian government bonds (currently at 1.28%) are challenging their lowest level of March 2015 of 1.12%. Ten-year Spanish government bonds trade at a premium over Italian bonds, due to political uncertainties.

### Equity update

Equity markets were largely unchanged in the first days of the week. Investors were in a wait-and-see mode in anticipation of actions from the ECB and Mario Draghi's speech on Thursday. Following the announcements, equity markets showed no clear direction.

After the nervous start of the year for equity markets around the world, volatility has declined in recent weeks. The earnings season comforted investors. Companies generally reported results that did not disappoint and provided an outlook for 2016 that removed worries of an economic slowdown in the US or other large economies.

### Reporting calendar

Company	Date
Geberit, Oracle, Porsche	15 Mar
Smiths Group, Dufry Group, FedEx, Fraport	16 Mar
China Mobile, LafargeHolcim, Lufthansa, Telecom Italia, Heidelbergcement, United Internet	17 Mar
China Telecom, Generali, AMB Generali, Salzgitter, Tiffany's & Co	18 Mar

The Brazilian stock exchange, the Bovespa Index, has shown the strongest rise in recent weeks. The index rose by 30% since late January as investors hope that corruption problems may finally be tackled. The former president of Brazil, Lula da Silva, was held for questioning last week and dozens of politicians and business executives have been convicted for corruption in recent months.

The sectors that recently have performed strongest include energy and materials. They have benefited from the rebound in the oil price and the revival of base metals prices. Moreover, most earnings reports from companies in these sectors were better than investors had feared.

The weakest performing sectors year-to-date remain financials and health care. The financial sector suffers as low interest rates are bad for life insurers. In addition, bank profits could be under pressure as they may have difficulty attracting or keeping household savings deposits with such low rates. The health care sector is still facing profit-taking following a strong performance in 2015.

With the current low interest rates, investors continue to see equities as an attractive asset class partly as dividend yields remain attractive. The average dividend yield in Europe is now close to 3.5% compared with 2.5% in the US. US companies, however, buy their shares back more often than their European peers.

### Asset allocation

The Global Investment Committee made no changes to the asset allocation at its meeting on 10 March. The asset allocation continues to consist of an overweight in equities, an underweight in bonds and overweight allocations to hedge funds and commodities.

The Global Investment Committee believes that major economies are exiting the influence of end-of-year and seasonal effects and beginning to be driven more by fundamentals. After a period of disappointing data, some bright spots are being seen, and markets are gradually recovering. Risky assets that had been sold because of risk aversion, such as emerging

market equities and high-yield bonds, are being bought back. This is particularly true for the riskiest parts of that equity market, such as the energy and materials sectors.

## Published this week

### Bond Markets Monthly: Central banks still at play

After a severe risk-off period in January, bond markets took a breather in February. The worries are not yet over. An oil price of over USD 30 has soothed worries about a next global crisis, but credit risk premia have not come down convincingly. This suggests that the bond market rout may continue, and that the ball is in the court of the central banks. All eyes will be on the ECB and Fed meetings in March as they can certainly affect the direction of rates and yield spreads.

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