



## global weekly

Investment  
Communication  
18 March 2016**Loose policies**

As the US Federal Reserve kept its policy rate unchanged on Wednesday, now both the ECB and the Fed are supporting markets. Financial markets continued their surge, but the US dollar fell sharply.

**Macro update**

Fed policymakers left their policy rates unchanged at their March meeting, as was widely expected. Official projections for the federal funds rate showed that the Fed scaled back its expectation for rate hikes. This leaves the median forecast now at 0.9% in 2016 down from the 1.4% indicated in December. Our view is that the Fed will keep interest rates on hold this year.

The Fed is now signaling a more accommodative monetary policy path compared with December. Fed projections also showed downward revisions to GDP growth and inflation this year, while core inflation and unemployment were unchanged.

**Bond markets update**

In the US, the US Treasury and credit markets tightened on the Fed announcement. We feel that tightening of high yield spreads by 11 basis points (bp) was not justified based on fundamentals, given that default rates remain elevated.

The announcement of ECB President Mario Draghi buying European high-quality corporate bonds led to an increase in corporate bond prices. This policy may give companies an incentive to issue debt. As a result, the credit spreads on European corporates decreased from 149 bp to 131 bp, pushing up the bond prices. The credit spreads on European high yield decreased by more than 50 bp.

As an illustration investors are willing to pay premiums of 1.5% above the value of the underlying corporate bonds to get into the leading euro corporate ETF, due to the dramatic increase in corporate bond demand. The premium is at the highest level since inception of the ETF in 2008.

Investors question whether the expectations of the ECB's asset purchasing programme will be met, as it is not clear yet how high-quality corporate bonds will be selected for purchase by the ECB.

**Equity index performance**

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	396.2	1.1	-0.8
S&P 500	2040.6	2.6	-0.2
AEX Index	444.1	0.5	0.5
EuroStoxx 50	3043.1	-1.0	-6.9
DAX Index	9892.2	0.5	-8.0
Nikkei 225	16724.8	-1.3	-12.1
Hang Seng Index	20671.6	2.3	-5.7

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

Company	From	To
Praxair	Buy	Hold
Alibaba	Buy	Hold
Blackrock	Buy	Hold
Mead Johnson	Buy	Hold
ABB	Buy	Hold

**Government bond yields**

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.845	-11.2	29.1
German Bunds 2-year	-0.482	-1.4	-24.8
Japan 2-year	-0.239	-7.9	-24.1
US Treasuries 10-year	1.867	-11.8	-5.4
German Bunds 10-year	0.206	-6.4	1.0
Japan 10-year	-0.098	-8.5	-45.8

**Spreads**

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	83.69	-1.78	17.87
iTraxx Euro 5-year	70.49	3.00	18.63
JPM EMBI+	392.59	-11.85	-35.05

Performance data as of Friday, 18 March

Source: Bloomberg

**In this issue**

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

The German Bund curve flattened further compared with last week. There was also appetite for peripheral bonds, as spreads for both Italy and Spain sovereign bonds narrowed.

### Equity update

After positive statements from the ECB and the Fed, most stock markets were up this week. Emerging markets and the US reported the largest gains, followed by Europe with a small gain, while Japan reported a loss. Despite the gains and the rally of the last few weeks, all major indices are still on a loss for the year.

Mergers and acquisitions were in the news this week. London stock exchange and Deutsche Boerse agreed on terms for a merger of equals. Another merger deal, planned between Marriott International and Starwood Hotels (USD 63.74 per share), went less smoothly as a consortium with China's Anbang insurance made an unsolicited offer of USD 76 per share. There were also rumours from an unidentified source that European rivals Nestlé and Danone were interested in baby food producer Mead Johnson.

There was positive news from the transportation segment. FedEx reported strong results and upgraded its guidance, which was better than expected. Lufthansa's 2015 results were in line with expectations, but the airliner expects a slight adjustment in operational profit for 2016, which the market interpreted as cautious. In another part of the industrial sector, the news was not so good. The first-quarter profit guidance from Caterpillar was 30% below consensus.

### Reporting calendar

Company	Date
Enel Green Power S.P.A., China Resources Power, Henderson Land Development, China Resources Land, Petroleo Brasileiro Sa Petrobras	21 Mar
Enel Ente Nazionale Per L'Energ Elet Spa, Nike, China Coal Energy, Kuka, Jiangxi Copper Company, Huaneng Power Int.	22 Mar
China Telecom, PVH, China Life Insurance, Agile Property Holdings, Petrochina	23 Mar
Accenture, China Shenhua Energy, Cnooc	24 Mar
China National Building Material, Zijin Mining, China Steel Corporation	25 Mar

### Currency update

The lowering in the Fed's rate hike expectations after the Fed meeting may be positive for risky assets, but has been very negative for the US dollar. The overall result is that the US dollar

is moving lower, also versus the euro and the yen. EUR/USD is back above 1.13 and USD/JPY fell below 113 again.

We now expect EUR/USD to be range-bound for the foreseeable future at around 1.15. For a start, the pricing out of some of the Fed rate hikes could push EUR/USD towards the top of the range around 1.20. While the ECB could take action and ease monetary policy further given the risks to inflation. As a result, forces will likely keep EUR/USD within a 1.10-1.20 range.

After the Fed, emerging market currencies moved higher because of US dollar weakness and the view that the Fed being on hold would provide a more benign environment for these economies.

### Asset allocation

The Global Investment Committee, after increasing the equity allocation at its last monthly meeting in February, made no change to the asset allocation at its meeting on 17 March. The committee continues to believe that the investment environment remains favourable for risk taking. The asset allocation therefore consists of an overweight in stocks, a strong underweight in bonds and overweight allocations to hedge funds and commodities.

The preference for European equities compared with US equities has been discontinued. The decision was made to move both regions to a neutral allocation. This involved a decrease in European equities and an increase in US equities. The switch represents a reduction in risk exposure to events that could negatively impact the European Union.

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