



global weekly

Investment
Communication

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End of a so-so quarter

The first quarter of 2016, which started so poorly, is ending with a sigh. A relief rally has not quite managed to return stocks to where they started the year and bond markets remain mixed.

This week, Federal Reserve Chief Janet Yellen was surprisingly mild in her remarks regarding future rate hikes. She described the US economy as “somewhat mixed” and expressed doubts regarding the outlook for inflation. She is recommending a cautious approach to rate hikes. ABN AMRO Group Economics expects rates to remain on hold in 2016. Even if a hike would occur, it is not bad news. Instead, it would mean a global improvement in economic conditions and a more positive environment in the US.

The monetary stimulus measures announced by the European Central Bank (ECB) in March will begin to be more fully felt in the summer. If deflation remains well below the ECB's comfort level, the central bank will be expected to do more. It is clear that central banks are continuing to play a key role in market developments.

Equities market update

Since the low point of February, equity markets have extended some gains, with a relief rally driven largely by a technical recovery based on diminishing fears for a global recession and a rebound in the price of oil. The gains have mostly been seen in the hardest hit sectors of energy and materials. Fundamentals, however, remain basically unchanged and are expected to support equity markets going forward.

Valuations and dividend yields remain reassuring. Lower single-digit earnings growth is expected for developed markets, with somewhat higher, but still single-digit, growth expected for emerging markets. The long-term view for equities is cautiously optimistic. Improvement in fundamentals will need to be seen for equity markets to gain traction.

The financial sector had a volatile week in which it underperformed the broader market. There was positive news in Europe, as loan growth to households and companies increased in February by the most in almost five years.

Equity index performance

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	398.3	1.6%	-0.3%
S&P 500	2059.7	1.2%	0.8%
AEX Index	433.1	-1.0%	-2.0%
EuroStoxx 50	2960.3	-0.9%	-9.9%
DAX Index	9834.8	-0.2%	-8.8%
Nikkei 225	16164.2	-5.1%	-16.3%
Hang Seng Index	20498.9	0.8%	-6.7%

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

Company	From	To
Deere & Co	Hold	Buy
Compagnie De Saint-Gobain Sa	Buy	Hold
Thyssenkrupp Ag	Buy	Hold
Twitter	NR	Hold
Fortum Oyj	Buy	Hold

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.750	-12.1	21.3
German Bunds 2-year	-0.491	-0.5	-23.2
Japan 2-year	-0.227	1.8	-25.5
US Treasuries 10-year	1.791	-11.0	-6.8
German Bunds 10-year	0.151	-2.7	-1.4
Japan 10-year	-0.066	3.2	-44.4

Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	78.59	-4.94	14.99
iTraxx Euro 5-year	75.01	-1.61	18.36
JPM EMBI+	400.29	2.64	-1.72

Performance data as of Friday, 1 April

Source: Bloomberg

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This week, the energy sector declined in line with oil prices. Oil and gas producer Chesapeake Energy was hit the hardest, given investor lawsuits that a debt restructuring was detrimental to non-institutional investors.

Carnival was one of the best performing companies this week. The cruise operator beat analyst expectations and boosted its 2016 forecast. Bookings increased substantially compared to previous years and prices also rose, mainly driven by growing demand from China. These developments are in line with our expectations, as described in our thematic note, Travel the Globe, published earlier this year.

Bond market update

Bond markets remain mixed. Core government bond yields remain very low, with ten-year Bunds at around 0.15%. Yields declined after Yellen's speech this week. The ECB's supportive monetary policy has helped credit spreads and issuance is increasing in response to the ECB beginning to buy corporate credits of non-financial companies. Bond markets appear to be expecting inflation to rise, especially in the US, with inflation expectations moving in line with oil prices.

Helped by central banks, the prices of riskier bonds were able to continue catching up with government bonds during the first half of March. In the second half of March, all bond markets performed well as yields fell across the board. The credit bond market in Europe received a positive impulse from the ECB's decision to buy corporate bonds as part of its asset purchasing programme. Most segments of the bond markets returned between 1.5% and 2.5% in the first quarter, with only inflation-linked bonds disappointing, given low oil prices and negative inflation data.

Although bond markets ended the first quarter on a positive note, the lessons of the full quarter cannot be ignored. Sentiment is vulnerable and seems to require ever more aggressive central bank action. Other policy options, such as tax cuts or government spending, are simply not yet on the table. With political tensions in Europe likely to increase over the next few months, uncertainty and volatility are calling for diversified portfolios. While we remain comfortable with positions in peripheral government bonds (inflation-linked bonds) and in European corporates (both investment-grade and high-yield), we are also continuing to explore other options.

Asset allocation

Markets have entered a more constructive period since the low point in February. After increasing the allocation to equities at

its meeting on 23 February, the ABN AMRO Global Investment Committee made no change to the asset allocation at its meeting on 31 March. The asset allocation consists of an overweight allocation to equities, an underweight allocation to bonds and overweight allocations to commodities and hedge funds.

Currency outlook

Financial markets appear to be biased towards a weaker US dollar. Comments from Fed officials have been playing a role in the movements of the dollar. But the more dovish comments, such as those by Fed Chair Yellen this week, have had a larger impact.

Once more the rally of the US dollar versus the Japanese yen has run out of steam around the 113 level. Upward pressure on the euro versus the US dollar is increasing. If US economic data would disappoint, the euro versus the US dollar could move to above 1.15.

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