



global weekly

Investment
Communication
8 April 2016**Markets pause**

The rally seen since mid-February is taking a breather, as concerns over China, oil prices and political risks prove enough to bring it to a temporary halt.

The rally in stock markets that has been underway since mid-February has paused, overtaken by concerns regarding China and oil prices. It had been supported by a delay in rate hikes by the US Federal Reserve and the additional easing of the ECB's monetary policies.

ABN AMRO Group Economics continues to call for modest but positive global growth, and signs of stabilisation are seen in both the manufacturing and services sectors. While first-quarter growth in the US is expected to be weak, the evolution of equity markets should be in line with the unfolding recovery.

Political risks are attracting increased attention. This week the Greek debt crisis flared up, Portugal is facing a possible credit downgrade at month-end and Spain needs a new government by 2 May or will need to hold new elections. The British referendum on staying in the European Union is coming in June. With the earnings season starting in the US next week, there is more than enough for markets to chew on.

Equity markets update

Big headlines about the Panama Papers, the files leaked from the secretive Panamanian law firm, Mossack Fonseca, did not have a huge impact on markets this week. Shares of financial trust companies, such as Intertrust, however, were under pressure. Although the current impact is relatively small, the negative newsflow could continue. As a result, there could be a public backlash that negatively affects certain parts of the financials sector.

Stock markets ended the week lower. The US reported small losses, followed by Europe, while Asia had the largest losses. The main company news was the failed takeover of Allergan by Pfizer. The merger between Halliburton and Baker Hughes is also about to be cancelled, as it was not supported by the regulators.

Expectations for the developed market (MSCI World Index) is that earnings per share (EPS) will grow by 2.5% on a yearly

Equity index performance in local currency

| | Value | One week change (%) | Year-to-date (%) |
|-----------------|---------|---------------------|------------------|
| MSCI ACWI | 391.2 | -1.2 | -2.0 |
| S&P 500 | 2041.9 | -0.9 | -0.1 |
| AEX Index | 432.1 | -0.6 | -2.2 |
| EuroStoxx 50 | 2871.6 | -2.0 | -11.4 |
| DAX Index | 9530.6 | -1.9 | -10.6 |
| Nikkei 225 | 15821.5 | -2.1 | -16.9 |
| Hang Seng Index | 20303.8 | -2.3 | -7.3 |

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

| Company | From | To |
|---------------|------|------|
| Deere | Hold | Buy |
| Kinder Morgan | Hold | Buy |
| Fanuc | Hold | Buy |
| Exxon Mobil | Buy | Hold |
| BASF | Hold | Buy |

Government bond yields

| | Yield (%) | One week (bp) | One year (bp) |
|-----------------------|-----------|---------------|---------------|
| US Treasuries 2-year | 0.713 | -1.1 | 17.9 |
| German Bunds 2-year | -0.513 | -2.9 | -22.7 |
| Japan 2-year | -0.256 | -2.8 | -27.0 |
| US Treasuries 10-year | 1.714 | -5.7 | -19.1 |
| German Bunds 10-year | 0.098 | -3.6 | -6.4 |
| Japan 10-year | -0.090 | -2.3 | -44.4 |

Spreads

| Index | Spread (bp) | One week (bp) | One year (bp) |
|--------------------|-------------|---------------|---------------|
| CDX NA IG | 82.34 | 4.27 | 22.08 |
| iTraxx Euro 5-year | 80.53 | 6.61 | 24.70 |
| JPM EMBI+ | 414.90 | 14.61 | 24.97 |

Performance data as of Friday, 8 April

Source: Bloomberg

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basis and by 0.2% on a quarterly basis. Earnings growth expectations are highest for the consumer discretionary sector (14% year over year), while a decline in earnings growth expectations is expected for the energy, materials and the utilities sectors. Especially for the energy sector, expectations remain low, with a drop in earnings of 50% expected on a year-over-year basis.

We continue to favour equities, based on moderate earnings growth, loose monetary policies and a slowly improving world economy.

Reporting calendar

| Company | Date |
|----------------------------------------------------------------|--------|
| Alcoa | 11 Apr |
| CSX | 12 Apr |
| JPMorgan, Tesco | 13 Apr |
| Casino Guichard-Perrachon, Taiwan Semiconductor | 14 Apr |
| Manufacturing, Wells Fargo, Sodexo, BlackRock, Bank of America | |
| Citigroup, Infosys, CapitaMall Trust | 15 Apr |

Bond markets update

Bond markets are in the thrall of central banks. The result is low yields, in particular for core government bonds, and a flattened yield curve. German ten-year Bunds are now yielding only about 0.10%, and yields are negative for bonds of up to eight years. The ECB's plan to purchase non-financial company corporate bonds has helped credit markets. Inflation expectations are moving upwards, but remain below the stated targets of the ECB and Federal Reserve.

This week, the Greek saga resurfaced, as the Greeks set fire to continuing talks with their creditors. The Greek prime minister is said to have questioned the credibility of the negotiations following the release of a leaked transcript in which negotiations were described as 'difficult'. To the Greeks, it seems as if Greece was pushed to default by the International Monetary Fund (IMF) as a negotiating tactic, which the IMF denies. Peripheral government bonds were hit as a consequence, and core government bond yields declined.

Corporate bonds escaped the decline in sentiment, as spreads remained resilient. We remain positive about the prospects of euro-denominated corporate debt, both investment grade and high yield. We also favour European high yield over global high yield, given the preponderance of US energy companies in the global index.

Asset allocation

At its meeting on 7 April, the Global Investment Committee decreased the allocation to hedge funds in the defensive portfolios 2, 3 and 4, with the proceeds moved to cash. This move follows a reduction in hedge funds in the more aggressive portfolios (5 and 6) in February. The asset allocation is overweight equities, underweight bonds and, in the alternatives portion of the portfolio, overweight commodities, underweight real estate and overweight hedge funds.

The move in hedge funds signals a reorientation of the role hedge funds play in the overall strategic asset allocation. The goal is to potentially limit the use of hedge funds to the longer-term strategic asset allocation and to downplay the role of hedge funds in the shorter-term tactical allocation.

Currency outlook

Sentiment in currency markets has deteriorated since the end of March. This is reflected by higher volatilities in the foreign-exchange options market. The uncertainty surrounding the Brexit referendum is becoming more visible. The main beneficiary is the Japanese yen, the ultimate safe-haven currency. The currencies of commodity-exporting countries and emerging markets have fallen, with domestic political developments and expectations about central bank actions playing a role.

Published this week

Equity Thematic Update: Renewables: tide is turning

Solar and wind energy has the potential to become fully competitive with fossil-based energy, even without government support.

Active Investor: Don't be fooled by recent sector rotations

Investors are fleeing healthcare stocks in favour of energy and materials. We explain why they might want to think again.

Bond Markets Monthly: Central banks raise the stakes

The ECB's introduction of additional stimulus measures in March is keeping core government bond yields low, while benefiting corporate credits.

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