



## global weekly

Investment  
Communication  
15 April 2016**As the world turns**

Worries on China and the US recede, while uncertainties around the UK and European peripheral countries resurface.

**Bond markets update**

After a few years of good performance, government peripheral bonds from Portugal and Spain are weakening, now that uncertainties are growing. This month, we may see whether Portugal will remain eligible for the asset purchasing programme of the European Central Bank (ECB). The country may face a further rating downgrade soon and as such, fall out the asset purchasing programme. In addition, Portugal, as well as Spain, still needs to form a government. New elections almost seem inevitable, and increasing political populism and anti-European sentiment thus remain a threat.

The sentiment can be negatively influenced by renewed tensions around Greece and the UK. Last week, struggles appeared between the Greek government and the International Monetary Fund (IMF) on their debt package renegotiation. In the UK, tensions increase as the 'Brexit' referendum comes closer. The referendum on the UK leaving the eurozone will be held on 23 June. Luckily, the spread of Spain and Italy with Germany came down this week.

For a few years, peripheral bonds have performed exceptionally well. By illustration, the Italian 10-years interest rate came down from 7.1% to 1.4% now. Ever since the pledge of ECB President Mario Draghi to do whatever it takes, peripheral bonds have enjoyed the protection from ECB's safety net, the Outright Monetary Transactions (OMT). The asset purchasing programme of the ECB took away further uncertainties as to whether the bank would buy peripheral government bonds at all.

**Asset allocation**

Fears that gripped markets during the first six weeks of 2016 – including worries over a possible hard landing in China and a further collapse in oil prices – are receding. Both the US and Europe show economic growth, albeit at a moderate pace. ABN AMRO still considers a further stabilisation of the macro environment to be the main scenario.

**Equity index performance in local currency**

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	403.9	2.5	1.1
S&P 500	2082.8	2.0	1.9
AEX Index	450.0	3.6	1.8
EuroStoxx 50	3060.9	4.9	-6.5
DAX Index	10093.7	4.5	-6.4
Nikkei 225	16848.0	6.5	-11.5
Hang Seng Index	21305.0	4.6	-2.8

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

Company	From	To
Amazon	Buy	Hold
Baidu	Buy	Hold
Fanuc	Buy	Hold
Kinder Morgan	Buy	Hold
Adidas	Hold	Sell

**Government bond yields**

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.760	6.3	26.2
German Bunds 2-year	-0.511	0.6	-23.6
Japan 2-year	-0.250	0.7	-25.4
US Treasuries 10-year	1.779	6.1	-11.0
German Bunds 10-year	0.143	4.8	3.7
Japan 10-year	-0.124	-3.6	-44.7

**Spreads**

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	78.99	-2.61	18.54
iTraxx Euro 5-year	72.42	-7.06	18.02
JPM EMBI+	382.97	-31.93	1.72

Performance data as of Friday, 15 April

Source: Bloomberg

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The economic mood and a persistent low-yield environment continue to call for an overweight allocation to equities. In regard to the uncertainties, the Global Investment Committee, at its meeting on 14 April, decided to lock in some of the profits on equities, by moving from a strong to a moderate overweight. Proceeds of the equity reduction were partly moved to real estate, with the remainder being parked in cash.

Earlier this month, the Global Investment Committee decreased the allocation to hedge funds. Now the committee further scaled back its hedge fund positioning, by lowering the allocation from overweight to neutral. At the equity sector level, it was decided to move financials from neutral to underweight. Also, the decision was made to shift the allocation to the telecoms sector from underweight to neutral.

The overall asset allocation now calls for a larger cash positioning, a moderate overweight allocation to equities and an underweight allocation to bonds. Commodities are overweight, with neutral allocations to both real estate and hedge funds. The asset allocation changes involve the balanced portfolio profiles.

### Equity update

Equity markets around the world rose this week on receding worries about the Chinese and US economies. Stocks in Europe and the US gained 3% while the Japanese Nikkei Index was even 7% higher. The Brazilian Bovespa Index gained 5% this week on hopes that the political situation will improve and corruption will be tackled.

This week, the first-quarter earnings season started. As always, Alcoa was the first major company to report. Although the results were in line with expectations, the aluminum giant issued a disappointing outlook for the rest of the year. Alcoa lowered its forecast for global aluminum demand and indicated that aircraft manufacturers, such as Boeing, are cutting production. Semiconductor producer TSMC cut its forecast for global smartphone and tablet demand, but the shares were unchanged as investors already anticipated the cautious tone of the company.

Fortunately, there were also companies that brought good news. For example, JP Morgan posted surprisingly strong results and the shares jumped 5%. The European consumer goods companies Unilever and Nestlé both reported a reassuring first quarter revenue growth as demand for food and personal care products in emerging markets remained solid.

Next week, the earnings season will fully break loose when dozens of US and European companies will report their results and provide their view on the outlook for the rest of this year.

### Reporting calendar

Company	Date
Pepsico, Morgan Stanley, IBM	18 Apr
Kuehne & Nagel, Johnson & J., Intel, Goldman Sachs, Philip Morris, TomTom, Yahoo!, Akzo Nobel	19 Apr
China Mobile, ASML, Vopak, Teliasonera, SAP, Coca-Cola, AmEx, EMC Corp, Abbott Lab., ABB, Newmont Mining, Qualcomm, MEMC Electronic Materials	20 Apr
Schlumberger, B Skye B, Google, PPG Ind, Verizon, Actelion, Yara Int, Microsoft, Southwest Airlines, Ericsson, Southwestern, Biogen Idec, Novartis, ASM Int, Starbucks, General Motors, Arcadis	21 Apr
Honeywell Int, General Electric, Kimberly-Clark, McDonald's, Caterpillar, Daimler	22 Apr

### Currency update

As commodity prices recovered, currencies of commodity exporting countries rallied. The Brazilian real was the star performer, also due to market speculation that an impeachment of Brazilian President Dilma Rousseff would lead to a new government, that would support the economy. This is despite intervention from the central bank to slow gains in the real.

The British sterling (GBP) gained earlier in the week after core inflation in the UK was stronger than expected. Profit taking followed, however, as risks around a possible 'Brexit' once again came to the fore. We expect the GBP to weaken towards 1.35 versus the dollar ahead of the UK referendum on 23 June.

Gains in the euro seem to be limited to around 1.14 as worries surrounding Greece increase. Ahead of next week's ECB monetary policy meeting, we expect the euro to weaken before finding some support at around 1.1150.

## Contributors

### Investment Strategy & Portfolio Expertise

Ralph Wessels - [ralph.wessels@nl.abnamro.com](mailto:ralph.wessels@nl.abnamro.com)

Maurits Heldring - [maurits.heldring@nl.abnamro.com](mailto:maurits.heldring@nl.abnamro.com)

Edith Thouin - [edith.thouin@nl.abnamro.com](mailto:edith.thouin@nl.abnamro.com)

Roel Barnhoorn - [roel.barnhoorn@nl.abnamro.com](mailto:roel.barnhoorn@nl.abnamro.com)

Jaap Rijnders - [jaap.rijnders@nl.abnamro.com](mailto:jaap.rijnders@nl.abnamro.com)

Willem Bouwman - [willem.bouwman@nl.abnamro.com](mailto:willem.bouwman@nl.abnamro.com)

Chris Huys - [chris.huys@nl.abnamro.com](mailto:chris.huys@nl.abnamro.com)

Jasvant Jadoenathmisier - [jasvant.jadoenathmisier@nl.abnamro.com](mailto:jasvant.jadoenathmisier@nl.abnamro.com)

### Group Economics

Georgette Boele - [georgette.boele@nl.abnamro.com](mailto:georgette.boele@nl.abnamro.com)

Roy Teo - [roy.teo@nl.abnamro.com](mailto:roy.teo@nl.abnamro.com)

Nick Kounis - [nick.kounis@nl.abnamro.com](mailto:nick.kounis@nl.abnamro.com)

Aline Schuiling - [aline.schuiling@nl.abnamro.com](mailto:aline.schuiling@nl.abnamro.com)

Maritza Cabezas - [maritza.cabezas@nl.abnamro.com](mailto:maritza.cabezas@nl.abnamro.com)

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