



global weekly

Investment
Communication
29 April 2016**Wait and See**

US and European equity markets are recovering, but the mood is one of “wait and see.” Rising political risks are causing concern for bond markets in Europe’s periphery.

Volatility has retreated, and it appears that equity market sentiment is becoming more positive. The worst appears to be over. The first-quarter earnings season is just starting. Earnings expectations, after having been revised downward at the end of last year, are being met. While some companies have reported large losses, share prices have only been modestly affected. This is a confirmation that the market remains positive regarding equities.

The US economy appears to be at a standstill, and this week, a statement from the policymakers at the Federal Reserve suggested that the US economy may not be ready for a rate hike. While Fed policymakers believe that global risks may have diminished, inflation remains a concern. We think that the US central bank will keep rates on hold this year. Economic data released in the first quarter suggest that the US economy has weakened further.

Political risk is expected to increase in Europe over the next few months, given the Brexit referendum, continued financial discussions in Greece and inconclusive elections in Spain and Portugal. The Global Investment Committee validated the decision this week to reduce exposure to these risks by taking some profits in Spanish government bonds.

Asset allocation

At its meeting on 28 April, the Global Investment Committee left the overall asset allocation unchanged. It continues to reflect an overweight allocation to equities, a strong underweight in bonds and an overweight allocation to commodities. The portfolio allocation within the bond portion of the asset allocation was adjusted. Some profits will be taken in Spanish (periphery) government bonds and invested in quantitatively managed, less-risky government bonds. By taking profits now, the portfolio’s exposure to political risk is reduced, while introducing a wider base for diversification – both within the bond allocation and in the investment portfolio as a whole.

Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	405.0	-0.5	1.4
S&P 500	2075.8	-0.7	1.6
AEX Index	444.7	-1.5	0.7
EuroStoxx 50	3125.4	-2.1	-5.9
DAX Index	10321.2	-1.8	-5.2
Nikkei 225	16666.1	-4.0	-12.4
Hang Seng Index	21067.1	-1.9	-3.9

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

Company	From	To
Vivendi	Hold	Buy
Starbucks	Hold	Buy
Twitter	Hold	Buy

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.786	-3.4	22.7
German Bunds 2-year	-0.501	0.3	-26.2
Japan 2-year	-0.241	2.1	-24.2
US Treasuries 10-year	1.827	-6.2	-21.3
German Bunds 10-year	0.237	0.6	-4.7
Japan 10-year	-0.083	3.6	-37.9

Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	76.48	2.83	13.88
iTraxx Euro 5-year	72.23	3.35	10.98
JPM EMBI+	380.45	9.48	7.52

Performance data as of Friday 29 April

Source: Bloomberg

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Equity markets update

Most major equity markets were little changed this week. Shares in both the US and Europe hovered around last weeks' levels during a week that hundreds of companies published their quarterly results. There was also some nervousness in Asia as the Japanese Nikkei Index declined by more than 5%. Investors were disappointed by the lack of further stimulus from the Bank of Japan and sold shares as the yen strengthened.

Information technology was the worst performing sector this week. Investors were scared by Apple, which reported disappointing quarterly results. The company's iPhone sales dropped by 15% compared with the same quarter last year, as demand from Chinese consumers waned and the global smart phone market is becoming saturated. Apple also issued a weak outlook for the quarter ahead. There is some hope that India could be the next growth market for Apple and that the lower priced iPhone SE will drive future demand. Despite raising its share buyback programme to a staggering USD 175 billion, Apple shares lost almost 10% over the week.

Microsoft and Alphabet/Google also released disappointing quarterly results, raising fears about the health of the global IT market. Fortunately, Facebook brought some good news, as the world's largest social-media player realised strong revenue growth (>50%) and earnings. We remain positive about the IT sector, as economic conditions remain favourable.

Reporting calendar

Company	Date
Anadarko Petroleum, Suedzucker	02 May
Halliburton, DBS Group Holdings, Pfizer, Lufthansa, Fresenius, Solvay, BNP Paribas, Sprint Nextel, Estee Lauder, Commerzbank, Dufry Group, HSBC, BMW, Agrium, Valero Energy, Emerson Electric, Devon Energy Corporation, CBS, Duke Energy, Swisscom, Infineon	03 May
Sainsbury, Air France-KLM, Royal Dutch Shell, Belgacom, Inbev, Dominion Resources, Beiersdorf, Veolia, HeidelbergCement, Société Générale, Time Warner, Fraport, Deutsche Telekom, Freenet, A.P. Moeller - Maersk, Continental, Siemens	04 May
MEMC Electronic Materials, Avon Products, Motorola, Occidental Petroleum Corp, Merck, BT Group, Kellogg, Becton Dickinson & Co, News Corp, Apache, Repsol	05 May
Exelon Corp, Intesa Sanpaolo, ArcelorMittal	06 May

Energy was the best performing sector this week. Energy companies benefited from the further rising oil price. Moreover, integrated oil players, such as BP and Total, reported solid results. We believe that integrated oil players are the most attractive segment in the energy sector, as they can cope with oil price volatility and, in general, have strong balance sheets.

Bond markets update

Interest rates have declined since the announcement of the ECB's intention to buy high-quality corporate bonds. This is tempting companies to issue new bonds, although a clarification about how the policy would work was published only recently. The document outlined that the scheme could allow the ECB to buy up to 70% of a single bond issue. Despite increasing concerns about liquidity, the credit spreads on European corporate bonds decreased a few basis points, more than their US counterparts. There were similar developments in high-yield markets, although slightly more pronounced.

The US Treasury yield curve was little changed over the week. The German Bund yield curve, on balance, continued to steepen. Peripheral spreads did not change. Spanish elections and Britain's referendum on staying in the EU are causing concern. We expect political risks to build further and volatility to continue over the next few months.

Currency outlook

The Japanese yen rallied by 3% from above 111.50 against the US dollar towards 108, after the Bank of Japan decided to leave monetary policy unchanged on Thursday. This is despite the fact that the Bank of Japan had downgraded its growth and inflation forecasts for 2016 and 2017. The downgrades disappointed market expectations (including our own) that the central bank would increase its monetary stimulus.

Published this week

Bond sector note: Banking Sector

We have a neutral recommendation on the banking sector. We prefer globally operating US banks over their European counterparts.

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