



global weekly

Investment
Communication
13 May 2016**A relative calm**

Brazil suspended its president from office, Spain issued its longest-dated bond ever, and the earnings season is coming to an end. Bond and equity markets remained relatively calm.

Equity update

Equity markets worldwide were mixed this week. The US performed well, Europe remained flat, while Asia was mainly down, with the exception of Japan. On Wednesday, consumer-related stocks fell, as Walt Disney published disappointing results and retailer Macy's cut its outlook for the year.

The focus in the first quarter earnings season has shifted to Europe. In the US, less than 10% of the S&P500 still has to report. Though earnings were beaten in 75% of the times and sales by 54% of the companies, expectations were low. In Europe, so far, 56% of reported earnings were better than expected, with sales exceeding expectations in 43% of the cases.

Since the start of the earnings season, the S&P 500 Index and the Stoxx 600 Index hardly moved, showing that investors are not really impressed by the better-than-expected earnings. This may be explained by negative earnings growth. Growth is expected to return in the third quarter of 2016.

On the merger front, Staples and Office Depot announced their merger deal had collapsed, after we have seen several other cancellations recently. In the international seed business, chemical conglomerate Bayer said to explore a USD 40 billion bid for agriculture company Monsanto.

Reporting calendar

Company	Date
Mitsubishi UFJ Financial Group	16 May
Home Depot, Vodafone	17 May
Cisco Systems, Tencent, Target, Staples, SABMiller, Salesforce.com	18 May
Parkson Retail, Wal-Mart, Applied Materials, Henkel, Merck KGAA, Lenovo, National Grid	19 May
Deere & Co, Cie Financiere Richemont	20 May

Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	3972	0.4	-0.5
S&P 500	2064.1	0.7	1.0
AEX Index	430.9	-0.1	-2.5
EuroStoxx 50	2956.7	-0.2	-10.2
DAX Index	9975.3	0.1	-8.2
Nikkei 225	16412.2	1.9	-13.8
Hang Seng Index	19660.2	-2.2	-10.3

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

Company	From	To
Baidu	Buy	Hold
Halliburton	Sell	Hold
Danone	Hold	Buy
Vallourec	Hold	Buy

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.752	1.6	17.4
German Bunds 2-year	-0.518	-0.1	-32.5
Japan 2-year	-0.254	-0.1	-25.3
US Treasuries 10-year	1.730	-5.0	-56.3
German Bunds 10-year	0.137	-0.7	-58.6
Japan 10-year	-0.113	1.0	-56.0

Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	81.29	-3.86	16.30
iTraxx Euro 5-year	78.77	-0.85	17.14
JPM EMBI+	386.85	-12.49	20.04

Performance data as of Friday 13 May

Source: Bloomberg

In this issue

Equity update	1
Bond markets update	2
Currency update	2
Macro update	2
Asset allocation	3

In April, we cut our overweight equities position to a moderate overweight. We continue to believe equities offer a better return than other asset classes, but earnings growth is low and multiple expansion is limited.

Bond markets update

The market is increasingly positioning for the scenario that the US Federal Reserve (Fed) leaves its monetary policy unchanged for 2016. This is also the view of ABN AMRO Group Economics. Major central banks in the eurozone, Japan, Denmark, Sweden and Switzerland have implemented negative policy rates, by charging a negative interest rate on bank reserves deposited at the central bank or by pushing the main lending rate target below zero. This is in addition to other unconventional measures to provide further monetary stimulus.

These loose central bank policies are driving global government bond markets into negative yield territory and as such, make US Treasuries look attractive. The yield on US 10-year Treasuries is nearing its February low of 1.66% and may even reach its all-time low of 1.38% (July 2012). Japan continues to hit all-time lows (-0.1%). Also German Bund yields are likely to test new lows as the pace of the ECB's asset purchasing programme remains high.

Eurozone peripheral bonds are slowly following the rally seen in German Bunds. Investors' appetite for new government bonds is high. Spain was able to place its longest-dated bond ever (50-year) very successfully, although the country has not formed a government yet after the elections and the EU is preparing sanctions for Spain as the country is missing its budget deficit target. Furthermore, new issuance activities are typically high during May and June. We expect to see similar appetite for new issuance from financial and corporate bonds.

Currency update

Within currencies, the spotlights were on the Brazilian real. Since the start of this year, the real has been the top performer among emerging markets currencies. The strong recovery in commodity prices and a downward adjustment in US Fed rate hike expectations have given strong support to the real. However, political developments have also been among the major drivers behind the rally in the real. Changes in the real this week show how sensitive the currency is towards political developments.

At the start of the week, the new leader of the Lower House annulled the impeachment vote of 17 April against Brazilian President Dilma Rousseff. This resulted in a 4% drop of the

real. Later, the leader of the Senate said that the impeachment vote in the Senate would go ahead. Subsequently, his decision and pressure on the new Lower House leader resulted in a reversal of the cancelation of the impeachment vote.

Thursday, the Senate voted to suspend Rousseff from office to face an impeachment trial. Vice-president Michel Temer will take over the office for 180 days. Financial markets have widely anticipated this. The real could move somewhat higher on the outcome but most was already reflected in the real. Overall, we expect the real to come under some pressure in the coming weeks. Our year-end forecast for USD/BRL is 3.5.

Macro update

In the eurozone, weak industrial production data in Germany and France in March provided an early sign that the eurozone economy slowed in the second quarter after the surge in growth in the first quarter, which may itself be revised down. German industrial production fell by 1.3% m-o-m. French industrial production declined by 0.3% m-o-m. We think the eurozone economy remains on a modest recovery trajectory.

In the meanwhile, Greece and its creditors continued to make slow progress towards the completion of the first review of its new programme. Several eurozone finance ministers signalled that the review could be (finally) completed on 24 May. This would open the way for the payment of the second aid tranche as well as debt relief discussions.

According to sources, the eurozone and the IMF still need to agree on the specifics of these measures, including crucially, under what conditions they would be triggered. However, finance ministers suggested that the gap between the two sides was narrowing. Following an eventual successful completion of the review, the difficult issue of debt relief will be discussed. In other words, a long and difficult road still lies ahead for Greece and significant risks remain.

In the US, there are very few signs that inflation pressures in the US are building up. We expect, for example, a modest pick-up in wage inflation, but we think that modest GDP growth and subdued inflation abroad will cap the upward pressure on prices. The preferred inflation measure for the Fed, the core PCE, increased by 1.7% y-o-y in March, after hovering around 1.3% for almost a year. Over the last few days, some Fed officials have been floating the idea that the Fed could allow inflation to overshoot. We think that headline inflation will return to the 2% target, but that it will require the Fed to remain accommodative. This supports our view of no rate hikes this year.

Asset allocation

At its meeting on 12 May 2016, the Global Investment Committee left the asset allocation unchanged. It continues to call for a moderate overweight in equities and an underweight in bonds. Commodities are overweight, with neutral allocations to both real estate and hedge funds.

Investment Strategy & Portfolio Expertise

Group Economics

Disclaimer

© Copyright 2016 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO"), Gustav Mahlerlaan 10, 1082 PP Amsterdam / P.O. box 283, 1000 EA Amsterdam, The Netherlands. All rights reserved. This material was prepared by Global Advisory of ABN AMRO. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to in this material may not be appropriate or suitable for the specific investment objectives, financial situation, knowledge, experience, or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. ABN AMRO or its officers, directors, employee benefit programs or co-workers, including persons which were involved in preparing or issuing this material, may from time to time hold long- or short-positions in securities, warrants, futures, options, derivatives or other financial instruments referred to in this material. ABN AMRO may offer and render at any time investment banking-, commercial banking-, credit-, advice-, and other services to the issuer of any security referred to in this material. Pursuant to offering and rendering such services, ABN AMRO may come into possession of information not included in this material and ABN AMRO may prior or immediately after publication thereof have acted based on such information. In the past year, ABN AMRO may have acted as lead manager or co-lead manager with regard to a public offering of securities from issuers as mentioned in this material. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither ABN AMRO nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without ABN AMRO's prior express consent. This document is solely intended for dissemination amongst private/retail customers in a PC country. Distribution to private/retail customers in any jurisdiction that would require registration or licensing of the distributor which the distributor does not currently have, is not permitted. Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

US Securities Law

ABN AMRO Bank N.V. is not a registered broker-dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 Act") and under applicable state laws in the United States. In addition, ABN AMRO Bank N.V. is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, absent specific exemption under the Acts, any brokerage and investment advisory services provided by ABN AMRO Bank N.V., including (without limitation) the products and services described herein are not intended for U.S. persons. Neither this document, nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person.

Other jurisdictions

Without limiting the generality of the foregoing, the offering, sale and/or distribution of the products or services described herein is not intended in any jurisdiction to any person to whom it is unlawful to make such an offer, sale and/or distribution. Persons into whose possession this document or any copy thereof may come, must inform themselves about, and observe, any legal restrictions on the distribution of this document and the offering, sale and/or distribution of the products and services described herein. ABN AMRO can not be held responsible for any damages or losses that occur from transactions and/or services in defiance with the restrictions aforementioned.

Company disclosures

ABN AMRO may beneficially hold a major shareholding or a significant financial interest of the debt of these companies. ABN AMRO currently maintains a market in the security of these companies and otherwise purchases and sells securities of these companies as principal. ABN AMRO may have received compensation for investment banking services from these companies, its subsidiaries or affiliates during the previous 12 months. All disclosures made herein refer to ABN AMRO and its affiliates.

Personal disclosures

The information in this opinion is not intended as individual investment advice or as a recommendation to invest in certain investments products. The opinion is based on investment research of ABN AMRO Research & Strategy. The analysts have no personal interest in the companies included in this publication'. Their remuneration for this work is not, was not and will not be related directly or indirectly to the specific recommendations or views expressed in this opinion.

