

# global weekly

Investment  
Communication  
29 July 2016

## Not out of the woods yet

The second-quarter earnings season is going well and the ECB's asset purchases are supporting corporate credits. But there are also political risks, problems at Italian banks and dented growth in the eurozone.

The earnings season is underway and so far results are more positive than expected. No large differences are seen between US and European results. Negative surprises have been few and mostly confined to oil-related segments.

The problems with Italian banks is being watched closely. Fallout is expected to be limited to the Italian market and spillover to other markets is not expected. Meanwhile, the government bonds of Italy are holding up surprisingly well.

The Federal Reserve appeared more positive, but there was no rate-hike signal with its meeting this week. The US job market has slowed since the beginning of the year because of weak demand, and US data remains uncertain. ABN AMRO Group Economics expects the Fed to remain on hold, with no rate hike in 2016. The first hike is now expected in early 2017.

The ECB kept its policy rates and the target for asset purchases on hold as expected last week. In the press conference following the decision, ECB President Mario Draghi stressed that there was much uncertainty about the outlook, but that the central bank was ready to act if needed once a clearer picture emerged. This would possibly be in September in light of the central bank's new forecasts.

While eurozone data has improved recently, including in the UK, it is based largely on data from before the Brexit vote. Group Economics believes that the UK is headed for recession

## Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	413.1	0.1	3.4
S&P 500	2170.1	0.2	6.2
AEX Index	448.1	-1.2	1.4
EuroStoxx 50	2966.1	0.3	-8.7
DAX Index	10274.9	1.7	-3.9
Nikkei 225	16569.3	-0.3	-12.9
Hang Seng Index	21891.4	-0.3	-0.1

## Important rating changes

Company	From	To
Newmont Mining	Hold	Sell
UBS	Buy	Hold
LVMH	Buy	Hold
Rio Tinto	Hold	Sell
Danone	Buy	Hold

Performance data as of Friday, 29 July 2016

Source: Bloomberg

and that the Brexit vote will have a negative impact on the eurozone economy, albeit likely a moderate one.

The oil price has recently weakened. Group Economics expects oil prices to bottom at around USD 40 in the third quarter, with improvement coming in the fourth quarter.

## Equities update

The second-quarter earnings season is in full swing and had the most impact on sentiment this week, with even the meeting of the Fed having little effect on markets. Worldwide equity market returns were mixed, while the MSCI All Countries Index was unchanged. The main indices in the US hardly moved,

Europe had the biggest gains, while Japan had the largest loss. China closed lower. Overall, volatility remains low.

In the US, more than 50% of the companies comprising the S&P 500 Index have reported their results. Both earnings and sales are generally beating expectations. A full 81% of company earnings results were better than expected. Expectations had been revised downward, however, before the earnings season started.

Europe is not yet halfway through the earnings season. But of the companies that have reported, 58% had earnings results that were better than expected, while sales were more or less in line with expectations. So far, no large differences are seen between US and European results.

The information technology sector in particular is doing well, with better-than-expected results from Facebook. Apple also did not disappoint. Among the big oil players, Shell and BP disappointed, while Total had a robust quarter.

#### Reporting calendar

Company	Date
Williams Companies, Mitsubishi UFJ Financial Group, Sumitomo, Heineken, Porsche Holding, Veolia Environnement, Air Liquide, Intertek, CLP	01 Aug
AmerisourceBergen, TNT Express, Ecolab, Pfizer, Cummins, Avon Products, Electronic Arts, Honda Motor, DSM, Procter & Gamble, Devon Energy, Fresenius Medical Care, Fresenius SE, Infineon Technologies, Archer-Daniels Midland Company, Emerson Electric, CVS Caremark, Metro, Vastned Retail, BMW, Mosaic, KDDI Corp, Huaneng Power Int.	02 Aug
Metlife, Occidental Petroleum, Transocean, Mediatek, Dominion Resources, Agrium, Kuka, Time Warner, Marathon Oil, Continental AG, Humana, Twenty-First Century Fox, Société Générale, ING, Crédit Agricole, AXA, Rio Tinto, Rio Tinto, Standard Chartered, HSBC, Deutsche Post, 3D Systems, Hang Seng Bank, Mitsui & Co, Starhub	03 Aug
Enel Green Power S.P.A., LinkedIn, Fluor, Stratasys, Teva Pharmaceutical Industries, Bank of East Asia, Mitsubishi Estate, Motorola Solutions, Priceline.com, Regeneron Pharma, Merck KGAA, Viacom, Duke Energy Corp., Prosieben, Beiersdorf, Fraport, Siemens, Apache, Becton Dickinson & Co, Kellogg Company, Toyota Motor, Alcatel-Lucent, Nokia, Fugro, Downer Edi, Aviva, Capitaland Limited, Mitsui Fudosan, Genting Singapore	04 Aug
Nippon Telegraph & Telephone, Tata Motors, RBS, Novo Nordisk, Fraser and Neave, Allianz, Holcim, Sumitomo Realty & Development	05 Aug

#### Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.720	4.5	4.1
German Bunds 2-year	1.600	6.7	-72.5
Japan 2-year	-0.610	5.6	-38.3
US Treasuries 10-year	0.018	6.0	-76.2
German Bunds 10-year	-0.331	3.6	-33.3
Japan 10-year	-0.230	3.7	-63.0

#### Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	74.30	3.28	3.61
iTraxx Euro 5-year	70.38	2.69	7.78
JPM EMBI+	370.61	9.37	-44.04

Performance data as of Friday, 29 July 2016

Source: Bloomberg

Though results of European financials were mixed, almost all stocks declined after reporting. Within the industrials sector, a number of companies issued a more cautious guidance, with the exception being Schneider Electric, which raised its outlook. Amgen (health care), Adidas (consumer discretionary) and Simon Property (financials) also increased their guidance, while there were profit warnings from Gilead (health care), Coca-Cola (consumer staples) and Ford (consumer discretionary).

Next week, the results of the European bank stress tests will be a main focus for equity markets. The results will be published after the close of the trading day on Friday, 29 July.

#### Bond markets update

This week, growth concerns abated as business sentiment data and consumer confidence for both Europe and US held up. Longer yields on both US Treasuries and German Bunds were down slightly this week, as a renewed lower oil price pushed inflation expectations downwards. Investors are becoming more skeptical towards the effectiveness of central bank actions to spark inflation. Data however is pointing towards a slight increase in core inflation.

The weekly excess returns for European corporate credits was +0.37% for investment grade and +0.43% for high yield. Every industry outperformed, confirming our view that the ECB's corporate asset purchase programme will have broad credit market impact. So far, 38% of the ECB's bond purchases have been utilities and automobile manufacturers. We also see appetite for higher risk names, such as the German utility, RWE, and for longer maturities.

No plan has yet emerged from the Italian prime minister's office regarding a bank rescue. Spreads on European financials and Italian sovereign bonds have edged slightly upwards. Should matters escalate, the Italian government could be preparing to provide an emergency recapitalisation and decide to deal with the EU backlash afterwards.

### Currency outlook

The Japanese yen outperformed major currencies this week; USD/JPY dropped from above 106.50 to below 104. The Bank of Japan left the policy rate (7-2 vote) and monetary base target (8-1 vote) unchanged today. This disappointed market expectations and supported the yen.

Since 23 June, the US dollar has risen. At first, the decision of the UK to leave the EU resulted in safe-haven flows. Afterwards, investor sentiment improved and better-than-expected US data again supported the US dollar. Expectations of a Fed rate hike this year and in the coming years have increased somewhat, but they remain low. Initially, this week's statement by Fed policymakers supported the US dollar and the EUR/USD recorded a low of 1.0961. Afterwards, the dollar gave back all of its gains and EUR/USD approached 1.11 on Thursday.

## Investment Strategy & Portfolio Expertise Group Economics

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