



global weekly

Investment
Communication
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No medals for muddling

The eurozone economy is muddling through and global economic growth is unspectacular. Nonetheless, there is hope that things should improve from here.

Although global economic growth is unspectacular, industrial production numbers are showing signs of improvement. German industrial production, for example, increased by 0.8% in June, slightly beating analysts' expectations. In addition, UK retail sales unexpectedly rose in July, implying that the Brexit vote did not have a very negative effect on British consumer behaviour (yet). All in all, chances of a consumer-led recession in the UK have decreased.

In the US, July nonfarm payrolls were stronger than expected. If this can be sustained, it would indicate that the economy is doing better than disappointing GDP growth indicates and would suggest that private consumption growth will remain robust.

Most risk indicators currently reflect a stable market environment, with low volatility, declining correlations and abundant liquidity. Equity markets are relatively calm, with several indices trading around new highs.

Equities update

The MSCI All Countries Index rose by almost 1.5% this week. Regional performance diverged, with Europe and Asia doing well, while the US lagged a bit. The US nonfarm payroll data, released 5 August, helped market sentiment. There were few other macroeconomic indicators making an impact.

The second-quarter earnings season is coming to an end and also did not have a large impact on sentiment. In the US, more

Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	420.8	1.3	5.4
S&P 500	2185.8	1.0	6.9
AEX Index	455.1	1.6	3.0
EuroStoxx 50	3049.0	2.3	-6.9
DAX Index	10742.8	3.3	-0.3
Nikkei 225	16919.9	4.1	-11.1
Hang Seng Index	22768.2	2.8	3.9

Important rating changes

Company	From	To
Microsoft	Buy	Hold
HSBC	Buy	Hold
China Railway Group	Buy	Hold
Pfizer	Hold	Buy
First Solar	Hold	Buy

Performance data as of Friday, 12 August 2016

Source: Bloomberg

than 2,000 companies have reported, with 65% beating earnings estimates. This is a strong result compared to previous quarters over the past five years. Expectations, however, had been revised downward before the earnings season started. Europe also had a good earnings quarter, although, as usual, it was not as strong as in the US. The information technology and health care sectors performed well, while utilities and energy disappointed.

Despite the better-than-expected results, both Europe and the US reported a decline in earnings and sales on a yearly basis. This was also the case in previous quarters. We expect this to change in the fourth quarter. Earnings expectations for 2017 point to earnings growth of 13% for the world index.

Nevertheless, with a price-to-earnings ratio for 2017 of almost 16x, very low levels of volatility and margin improvement becoming more difficult, we continue to take a neutral stance toward equities.

Reporting calendar

Company	Date
Yanzhou Coal Mining, Agricultural Bank of China, Angang Steel	15 Aug
Home Depot, TKH Group, BHP Billiton	16 Aug
China Unicom (Hong Kong), Parkson Retail, Netease, Cathay Pacific Airways, Tencent, Ping An Ins. Group, CTrip.Com Int., Cisco Systems, Target, Staples, CSLCarlsberg, Delta Lloyd, Heijmans, Soho China	17 Aug
Enel Green Power S.P.A., Lenovo, Aluminum Corporation Of China, Wal-Mart, Applied Materials, Vestas Wind Systems, Swisscom, China Resources Power, Nestle, Ordina, BAM, Brambles, Sydney Airport, Boskalis Westminster, Whitehaven Coal, Swire Properties, Swire Pacific, Li & Fung, China Merchants Bank	18 Aug
Bank of East Asia, China Resources Enterprise, Deere & Co, Vopak, China National Building Material, Estee Lauder, PSP Swiss Property, Lend Lease, Santos, Brunel, Woodside Petroleum	19 Aug

Bond markets update

This week was a week where records were broken: Dutch 10-year government bond yields (which are again in negative territory) and UK 10-year bond yields fell to record lows. Spanish 10-year bond yields also fell below 1% for the first time. With the Bank of England (BoE) following the Bank of Japan and European Central Bank in buying government (and corporate) bonds, yields (and borrowing costs) continue to fall to new lows, and therefore leading bond prices to new highs. The BoE experienced some turbulence with its buying programme, as the central bank missed its target of buying GBP 1.17 billion worth of government bonds. Investors were prepared to sell just GBP 1.12 billion.

The German Bunds and US Treasury markets were less exciting. At the short end of the yield curve, German Bunds tightened by 3 basis points (bps) on average, whereas at the short-end US Treasuries widened by 5 bps. The Treasuries auction, however, drew near-record bids from foreign central banks and mutual funds. Last Wednesday, the US Treasury sold USD 23 billion of 10-year notes at the lowest yield in four years.

European investment-grade credits (-3 bps) and US investment-grade credits (-5 bps) tightened this week. European and US high yield tightened even more, with European high yield

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.736	1.2	6.9
German Bunds 2-year	-0.625	-0.6	-33.9
Japan 2-year	-0.197	-0.1	-18.6
US Treasuries 10-year	1.543	-4.6	-60.6
German Bunds 10-year	-0.091	-2.2	-69.4
Japan 10-year	-0.110	-1.2	-46.3

Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	71.50	0.22	-5.48
iTraxx Euro 5-year	66.77	0.46	-1.82
JPM EMBI+	348.99	-18.67	-73.30

Performance data as of Friday, 12 August 2016

Source: Bloomberg

tightening by 16 bps and US high yield by 34 bps. At first sight it seems that US outperformed European corporates, but on a risk-adjusted basis, both European investment-grade and European high-yield bonds had a better performance over the past week compared to their US counterparts.

Currency outlook

Despite better-than-expected US nonfarm payroll data published last week, the US dollar underperformed. Financial markets remain unconvinced that the Fed will raise interest rates anytime soon. The Japanese yen strengthened from 102 to 101 against the US dollar, as real yield differentials between the US and Japan narrowed. Weaker crude oil prices also supported the yen. The euro continued to trade sideways, mostly between 1.10 and 1.12 against the US dollar, given the lack of strong catalysts. The British pound sterling continued to ease lower to 1.30 against the US dollar, as the economic outlook remains dim.

Asset allocation

At the Global Investment Committee meeting on 11 August, no changes were made to the asset allocation. The committee maintained its neutral allocation to equities and an underweight positioning in bonds. Commodities and real estate remain overweight. The committee continues to take a neutral stance towards hedge funds.

Investment Strategy & Portfolio Expertise Group Economics

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