



# global weekly

Investment  
Communication  
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## Looking for clues

Financial markets are currently focussed on the timing of US rate hikes. Next week, investors' eyes will therefore be on the Jackson Hole speech of Fed chair Janet Yellen.

This week, the Federal Reserve minutes from the meeting of 26 and 27 July were released. As for the timing of interest rate hikes, the minutes did not provide too many clues. They showed that Fed members continued "to leave their policy options open", emphasizing that "the actual path of the federal funds rate would depend on the economic outlook as informed by incoming data".

For now, we remain of the view that the Fed will keep interest rates on hold for the remainder of this year, although acknowledging that chances of a rate hike in 2016 have increased. Regardless of the exact timing of Fed rate hikes, we believe that the Federal Reserve will only lift interest rates at a very slow pace. If the Fed increases its interest rate, we expect it would probably have little impact on the 10-year US Treasury.

In Europe, the ZEW Index – indicating German expectations of economic growth – showed that sentiment improved in August. In July, the index had plummeted following the UK's Brexit referendum. Still, sentiment remained below the level of June and also well below its long-term average value.

## Bond markets update

The European Central Bank (ECB) is dealing with a potential shortage of eligible securities to acquire for its asset purchasing programme. Germany showed in the latest draft of its budget publication an almost 11% drop in planned borrowing, meaning that ECB will have fewer Bunds to choose from. This could result in further support for peripheral government bonds, ignoring political risk in countries such as Italy.

## Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	421.5	0.1	5.5
S&P 500	2187.0	0.1	7.0
AEX Index	448.0	-1.3	1.4
EuroStoxx 50	2,962.2	-2.7	-9.3
DAX Index	10,502.0	-2.0	-2.2
Nikkei 225	16,545.8	-2.2	-13.1
Hang Seng Index	22,937.2	0.7	4.7

## Important rating changes

Company	From	To
Marathon Oil Corp	Hold	Sell
Rio Tinto	Sell	Hold
Linde	Buy	Hold
Symrise	Buy	Hold
China Telecom	Buy	Hold

Performance data as of Friday, 19 August 2016

Source: Bloomberg

Currently, bond markets are predominantly driven by their expectations of monetary policy and the absence of a correction in equity markets. On Friday 26 August, the Jackson Hole economic symposium will be held, an annual gathering of leading central bankers. This conference has been able to predict some of Fed's biggest monetary shifts. As such, next week, financial markets are looking for indications and clues for leading central banks' actions in the current environment with rates close to zero.

## Equities update

Equity markets were mostly flat this week. US markets showed slightly positive returns, but Europe lagged. A rebound

in commodity prices, especially oil, supported more cyclical sectors such as energy and materials.

#### Reporting calendar

Company	Date
Henderson Land Development	22 Aug
China Telecom, Petrochina	23 Aug
Cnooc, Hewlett-Packard, Glencore Xstrata, WPP	24 Aug
Enel Green Power S.P.A., Tiffany & Co., Ahold Delhaize, Vivendi	25 Aug
Eurocommercial Properties	26 Aug

Although the earnings season has almost finished, many Dutch companies still had to report. Within the insurance segment, both Delta Lloyd and NN reported better-than-expected Solvency 2 ratios. NN also surprised operationally.

Within the sector industrials, the picture of subsector construction & engineering was mixed. Boskalis had a good quarter due to better efficiency, BAM was in line, but Heijmans disappointed with again cost overruns on large projects. Vestas Wind Systems, a Danish wind turbine manufacturer, surprised positively as it raised its outlook due to margin expansion and increased demand.

This week, industrial gas companies Linde and Praxair confirmed to be in preliminary discussions about a merger. Stocks of both companies jumped on the news, however, it is doubtful whether this combination will pass the anti-trust regulators given the significant product overlap and the companies' substantial combined market share. It is therefore expected that divestments are needed to complete this deal, but of course, this reduces the positive opportunities for this deal.

#### Currency outlook

In the past week, the US dollar underperformed after the release of the minutes of the July Fed meeting. Commodity prices strengthened and this supported sentiment in currencies of commodity exporters. The Japanese yen exceeded the 100 level against the US dollar, as stop losses were triggered and as markets do not expect Japan to intervene in the currency market ahead of the G20 meeting in early September.

The euro strengthened to 1.13 against the US dollar as speculators unwind their short positions. The British sterling recovered from below 1.29 to 1.31 after inflation and employment numbers in the UK were better than expected. Looking ahead, we do not expect huge changes in the US dollar ahead of the speech of Fed Chair Janet Yellen at Jackson Hole on Friday 26 August.

#### Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.711	0.4	5.2
German Bunds 2-year	-0.625	0.4	-36.5
Japan 2-year	-0.210	-1.1	-21.4
US Treasuries 10-year	1.542	2.7	-58.5
German Bunds 10-year	-0.082	2.7	-70.0
Japan 10-year	-0.086	2.4	-45.6

#### Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	69.57	-2.23	-10.11
iTraxx Euro 5-year	66.56	-0.21	-2.75
JPM EMBI+	344.36	-4.63	-77.07

Performance data as of Friday, 19 August 2016

Source: Bloomberg

#### Asset allocation

The Global Investment Committee, at its meeting on Thursday 18 August, left the asset allocation unchanged. The asset allocation calls for a neutral positioning in equities and an underweight allocation to bonds. Commodities and real estate remain overweight; hedge funds have a neutral weighting.

#### Investment Strategy & Portfolio Expertise

#### Group Economics



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