



global weekly

Investment
Communication
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Things to do in Jackson Hole, Wyoming

For a day or two, a remote valley is the centre of the financial world: central bankers, finance ministers and economists are gathering at the US Federal Reserve's annual symposium in Jackson Hole, Wyoming.

Federal Reserve Chair Janet Yellen will deliver a speech in Jackson Hole today (10:00 ET/16:00 CET), which will be of particular interest to investors looking for clues on the Fed's rate hike trajectory. Recent statements by Federal Reserve policymakers have left investors more confused about the monetary policy outlook. The more cautious Fed members believe that the structure of the US economy has changed and are suggesting to consider a rethink of monetary policy. Their preference is to 'wait and see'.

Other policymakers, however, suggest that there is still a possibility of the Fed hiking rates soon. Yellen's speech will likely give some relevant insight on this topic. We continue to expect the Fed to keep rates on hold until early next year, as inflation remains too soft to justify a rate hike anytime soon. Moreover, the US growth outlook and international developments are still uncertain.

The Purchasing Managers' Index (PMI) for the eurozone, published on Tuesday, indicated that the economy continues to grow, albeit at a slow pace. The eurozone composite PMI edged higher in August, rising to 53.3, up from 53.2 in July. The slight increase was evenly spread amongst the manufacturing output index and the services sector activity index. At its current level, the index signals an ongoing modest recovery of the eurozone economy, with GDP growing close to the level of the second quarter (0.3% quarter-on-quarter).

Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	418.5	-0.4	4.8
S&P 500	2,172.5	-0.7	6.3
AEX Index	449.1	0.1	1.6
EuroStoxx 50	2,987.7	0.4	-8.8
DAX Index	10,529.6	-0.4	-2.2
Nikkei 225	16,360.7	-1.1	-14.0
Hang Seng Index	22,939.8	0.0	4.7

Important rating changes

Company	From	To
Ackermans & Van Haaren	Hold	Sell
RWE	Hold	Buy
Marathon Oil	Hold	Sell

Performance data as of Friday, 26 August 2016

Source: Bloomberg

Equity markets update

Both American and European markets moved within a tight range this week. Now that the earnings season is nearing its end, markets are focussing on macro data and the way the Fed interprets these numbers. The Jackson Hole symposium may shed more light on whether the Fed will raise interest rates this year.

Consolidation in agribusiness continues. Two of the most prominent seed players in the world are about to be taken over. Earlier this year, Syngenta's board announced that it is recommending a takeover of the seed company by state-owned chemical concern ChemChina. Markets, however, were sceptical, as there were substantial regulatory hurdles to be

passed, especially in the US. But on Monday, ChemChina won US approval for its USD 43 billion takeover of Syngenta. Syngenta's shares went up 10%. Monsanto followed Tuesday with a 2% gain, as negotiations between Bayer and Monsanto are advancing towards a deal. Monsanto rejected Bayer's initial offer in May and an improved bid in July. But now, these companies seem to be negotiating again. If the deal succeeds, it would create the world's largest producer of seeds and crop protection products.

The earnings season is drawing to a close. WPP, one of the world's largest advertising companies, reported excellent quarterly results on Wednesday. Although companies worldwide are keen on cost savings and a bit reluctant to make new investments, advertising – especially digital advertising – keeps on growing above average. Food retail concern Ahold's second-quarter results, published on Thursday, showed strong sales growth. Especially in the Netherlands, sales and margins surprised on the upside.

Reporting calendar

Company	Date
Datang International Power Generation, China Shipping Development, Eiffage, D'Ieteren	29 Aug
BOC Hong Kong Holdings, Bank of China, China Shipping Container Lines, Industrial And Commercial Bank Of China Ltd., Zoomlion Heavy Industry Science And Technology, China Railway, Tsingtao Brewery, Ackermans van Haaren	30 Aug
CTrip.Com Int., Salesforce.com, China Communications Construction, Bouygues, China Merchants Holdings (International)	31 Aug
Enel Green Power S.P.A., Pernod Ricard, Cooper Companies, Lululemon Athletica	01 Sep

Bond markets update

Short-term US yields – moving inversely to bond prices – edged higher this week, on the back of overall healthy economic data. Nevertheless, foreign central bank and fund appetite for 5-year US Treasuries remained strong. Investors still believe that if the Fed decides to hike rates, the impact will be limited and gradual.

New issuance in euro investment-grade credits was slow in the past weeks. Moreover, the new-issue pipeline is surprisingly empty, with financials and governments being the main issuers. The level of pending merger & acquisition deals in Europe is grinding lower as well, probably due to macro uncertainty following the Brexit vote. This puts a lid on corporate

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.78	7.2	17.3
German Bunds 2-year	-0.62	0.5	-37.8
Japan 2-year	-0.19	1.3	-19.3
US Treasuries 10-year	1.56	2.6	-51.0
German Bunds 10-year	-0.07	1.1	-80.0
Japan 10-year	-0.09	-0.3	-47.0

Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	71.48	0.74	-13.93
iTraxx Euro 5-year	68.20	0.21	-6.41
JPM EMBI+	346.31	1.95	-105.51
Performance data as of Friday, 26 August 2016			
Source: Bloomberg			

leverage expansion. These factors have a positive impact on euro investment-grade credits, which are also supported by the ECB's asset purchase programme.

Large inflows in the past months led to considerable tightening of emerging market corporate spreads. Companies in emerging markets still strongly rely on commodities, which are stabilising but by no means showing sustainable upward trends. We therefore remain comfortable with our allocation to emerging market sovereigns and euro credits.

Currency outlook

Price action in currency markets has been lacklustre this week, ahead of Fed Chair Janet Yellen's speech at Jackson Hole. The main mover was the British pound, which recovered for the second consecutive week as speculators reduced their short positions. Market bets that the Bank of England will follow up with more monetary stimulus this year have declined. We expect the current recovery of the pound versus the US dollar to find strong resistance around 1.3366.

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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