

# global weekly

Investment  
Communication  
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## Room to run

Markets were relieved this week when the US Federal Reserve did not hike rates and also scaled back expectations in terms of the number of rate hikes next year.

The rally across global financial markets continued after this week's reassuring message from Federal Reserve policy-makers. The Fed still appears to be on track for a rate hike this year; but Fed policymakers reduced their forecast for the number of rate hikes in 2017 from three to two, which comforted investors.

Fed Chair Janet Yellen said that slowing the rate hike cycle would give the US economy "a little more room to run." Although the economy was performing well, she suggested that most of the members of the Fed's policy committee thought it would be appropriate to give more time to see how it develops.

Equity markets rose and government bonds performed strongly in reaction. US ten-year Treasury yields declined by 3 basis points (bp) to 1.62%, which is broadly in line with our year-end forecast. There were more spectacular gains in the eurozone, where ten-year Bund yields declined by 8 bp to -8 bp.

We think that there is room for Bunds to rally further in coming months, as we expect that the European Central Bank will extend the length of its monetary easing programme in December. The riskier parts of the bond market performed even better than Bunds, with peripheral and credit spreads tightening. The losers from the Fed's softer stance toward rate hikes were predictably the US dollar and gold markets. Our base case remains for a very slow Fed tightening cycle (one hike this year and two next year), with risks tilted towards an even slower path back to more normal rates.

## Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	422.5	2.8	5.8
S&P 500	2177.2	1.8	6.5
AEX Index	453.8	3.4	2.7
EuroStoxx 50	3041.0	3.6	-6.9
DAX Index	10665.9	3.8	-0.7
Nikkei 225	16754.0	1.4	-12.0
Hang Seng Index	23751.4	1.8	8.4

Performance data as of Friday, 23 September 2016

Source: Bloomberg

## Equity markets update

Equities had a positive week driven by central bank policies. Nonetheless, indices remain in a sideways trend, as has been seen for the past three months. Markets were relieved when the Fed left interest rates unchanged. After the announcement, interest-rate sensitive sectors, such as utilities, energy and materials, outperformed.

Volatility, a commonly used indicator for market fear, has declined significantly, indicating that investors are comfortable with current market conditions. The first US Presidential debate between Hillary Clinton and Donald Trump on 26 September could disturb this relative calm.

The third-quarter earnings season starts 10 October, when US aluminium producer Alcoa traditionally presents its results. With few corporate events until then, markets will pay special attention to US macroeconomic data, such as the economic growth figures being released next Friday. It will also keep searching for clues regarding central bank actions.

## Bond markets update

With the two major central bank meetings out of the way, the bond market could stay within a trading range. In addition to the Fed's policy announcement, the Bank of Japan (BoJ) added "yield curve control" to its monetary stimulus policy this week and pledged to expand the monetary base until inflation overshoots its 2% target.

This surprise move is aimed at reducing the strain to bank earnings from its stimulus programme. The announcement should also lessen concern about the sustainability of the BoJ easing programme. The BoJ also showed its intention to guide the longer end of the Japanese government bond yield curve, with a concrete target for a ten-year yield of 0.00%. The shift to focus on the yield curve could enable the BoJ to keep its monetary easing framework in place for a longer period of time.

The actions of the Fed and BoJ this week reinforce expectations that central bank policies will remain supportive, as central banks continue to boost growth and push up inflation toward target levels. We expect no big change in our current views and positioning for our fixed income strategy.

## Currency outlook

The first reaction after the Fed monetary policy decision was for US Treasury yields and the US dollar to move higher, mainly because of the news that three Fed officials dissented by favouring a rate hike this week. Quickly afterwards, however, financial markets changed course.

The fact that the Fed moved once again in the direction of the market was reassuring. As a result, US Treasury yields and the US dollar moved lower, stocks and gold prices rose. We doubt that this result will trigger a new direction in currency and gold markets. We expect more range-trading for the remainder of this year. The euro versus the US dollar will likely stay in the 1.05 to 1.15 range for the near term, while we expect gold prices to stay within USD 1,300 to 1,350 per ounce range.

## Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.768	0.4	6.7
German Bunds 2-year	-0.669	-0.9	-41.2
Japan 2-year	-0.224	4.6	-23.1
US Treasuries 10-year	1.611	-8.3	-54.0
German Bunds 10-year	-0.089	-9.5	-68.5
Japan 10-year	-0.050	-0.6	-35.9

## Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	76.04	0.05	-7.52
iTraxx Euro 5-year	70.91	-0.26	-9.49
JPM EMBI+	337.68	-20.44	-85.31

Performance data as of Friday, 23 September 2016

Source: Bloomberg

## Asset allocation

The asset allocation continues to consist of a neutral allocation to equities and an underweight allocation to bonds. Real estate and commodities are overweight. There is a neutral stance to hedge funds. Within the bond portfolio, there was a reallocation from high-yield to investment-grade bonds. The intention was to take profits and to reduce the risk of the bond portfolio. The high-yield position was trimmed by half with this move.

## Published this week

### [Investment Strategy: Cautiously Optimistic](#)

It is not all plain sailing for the global economy, but we remain cautiously optimistic. Stocks continue to be preferred over bonds; and within stocks, those of emerging-markets Asia are preferred over US and European equities.



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