

global weekly

Investment
Communication
14 October 2016

Jittery markets

Equity market volatility has increased over the past few weeks and longer-term bond yields have been rising. There is wariness regarding US rate hikes and the possibility that other central banks may be beginning to be less accommodative.

Equities were a bit lower this week, with markets being sensitive to news on interest rate developments and company results. Investors are assessing whether we are moving from the current low interest rate environment to a new phase of monetary tightening by central banks. Against this background, equity investors this week preferred value-oriented segments over interest-rate-sensitive segments. The sectors utilities, health care and telecoms underperformed, whereas financials and energy outperformed.

The third-quarter earnings season started off with more negative than positive company news. Aluminium producer Alcoa lowered its outlook and its stock declined. The company is considered a 'bellwether' (meaning its performance may be indicative for a broader market) because it supplies to other industries and reports at an early stage of the earnings season. Alcoa gave a subdued outlook for its aerospace and US automotive divisions. Illumina, leader in DNA sequencing instruments, also lowered its guidance. This led to added pressure on health care stocks. The health care sector was already underperforming in the past few weeks, as presidential candidate Hillary Clinton, who wants to lower drug prices, is leading in the US election polls. Smartphone producer Samsung issued a recall of its new Galaxy Note 7 for safety reasons and announced it was stopping production of the device. Sector peer Apple gained on the news.

Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	410.0	-1.5	2.7
S&P 500	2132.6	-1.3	4.3
AEX Index	450.4	0.1	1.9
EuroStoxx 50	2975.0	0.6	-7.6
DAX Index	10414.1	0.7	-1.7
Nikkei 225	16856.4	-0.3	-11.4
Hang Seng Index	23233.3	-3.0	6.0

Performance data as of Friday, 14 October 2016

Source: Bloomberg

Reporting calendar

Bank of America Merrill Lynch, Boeing, IBM	17 Oct
Johnson & Johnson, Intel, Goldman Sachs, Kuehne & Nagel, Philip Morris, Yahoo!	18 Oct
Halliburton, Morgan Stanley, Akzo Nobel, ASML, AmEx, Abbott Lab., Ebay	19 Oct
Schlumberger, Microsoft, Actelion, Verizon, China Mobile	20 Oct
TomTom, Ericsson, TeliaSonera, SAP, Yara Int., Daimler, General Electric, McDonald's, CSM	21 Oct

The earnings season continues over the next weeks. Investors will mainly focus on company outlooks for 2017. For the MSCI World Index, analysts expect earnings per share to grow by 1.5% in 2016, accelerating to 13% in 2017.

Bond markets update

Yields on core government bonds, moving inversely to prices, retreated somewhat in the second part of the week, as softer Chinese macro data resulted in a flight to safety. Growth in Chinese exports came abruptly to an end, on the back of weaker global trade. We expect that US yields will continue to

rise. Minutes from the latest Fed meeting revealed that the September vote was a close call. Moreover, US labour conditions continue to show improvement. The ECB, by contrast, expects that inflation targets will only be met in 2019. We therefore do not see the ECB reducing its asset purchases anytime soon and expect yields on euro core government bonds to remain low. Adverse political events in the periphery could also drive European core yields lower.

European investment-grade credit spreads hardly moved this week. Fears surrounding Deutsche Bank have moved to the background for now and new corporate bond supply is easily being absorbed by the market. Fundamentals remain supportive for euro credits, as companies are not eager to take on more balance sheet risk in the current low growth environment. Next week, the large US banks (which we prefer to their European counterparts) will start reporting results for the third quarter. We expect US bank earnings and capital levels to remain stable, which would support spreads.

Macro update

The minutes of the 21 September meeting of Federal Reserve policymakers showed that many participants agreed that “the case for increasing the target range had strengthened in recent months.” Although many preferred to wait for further evidence of continued progress of the economy, several Fed members stated that it was a “close call.” Those in favour of waiting considered that there was still slack in the labour market and saw few signs of inflation pressures in wage and price developments. In contrast, some members considered that the economy was moving to full employment and inflation towards the 2% target. As a result, they mentioned that a delay could require a faster pace of rate hikes in the future. We believe that a November rate hike is unlikely given the proximity of US elections. However, we expect a rate hike in December.

In Europe, Germany’s ZEW economic sentiment indicator only modestly increased in October. This reflects that survey participants still see a lot of risks surrounding the German economy during the next six months. Worries about Deutsche Bank and the eurozone financial sector more generally, as well as political risks and the rise of Euroscepticism, probably weighed on sentiment as well. We expect the German economy to expand at a rate of around 0.3-0.4% quarter-on-quarter in both the third and the fourth quarter.

Currencies outlook

Negative headlines concerning the UK arose once again on Thursday, adding to pressure on the already weak British

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.857	2.5	30.6
German Bunds 2-year	-0.658	1.4	-39.5
Japan 2-year	-0.276	0.2	-28.0
US Treasuries 10-year	1.772	5.3	-20.1
German Bunds 10-year	0.057	3.9	-48.3
Japan 10-year	-0.059	0.5	-36.1

Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	76.05	1.24	-7.86
iTraxx Euro 5-year	73.98	0.06	-7.42
JPM EMBI+	346.69	9.99	-63.67

Performance data as of Friday, 14 October 2016
Source: Bloomberg

pound. This time, the news came from Scotland, where First Minister Nicola Sturgeon said she will publish a draft Scottish Independence Referendum Bill next week. Reports also said that the EU’s shared budget is emerging as one of the “biggest political obstacles to a Brexit deal.” As a result of these developments, the pound dropped to its lowest level since 1990. Investor sentiment around the pound is extremely negative, which is reflected in the enormous net short positioning in the futures market. The direction of the pound seems to be a one-way street. However, we would like to stress the risks of a possible recovery in the pound. If economic data surprises on the upside, speculators might take profit on some of their short positions, pushing the pound higher.

Published this week

Goodbye monetary policy, here comes fiscal policy?

From 6-9 October, Chris Huys (fixed income expert at ABN AMRO Private Banking) and Arjen van Dijkhuizen (economist at ABN AMRO Group Economics) participated in the 2016 Annual Meetings programme of the IMF/World Bank and IFF and in related meetings with banks, rating agencies and asset managers. This report highlights the key takeaways from these meetings.

Asset allocation

ABN AMRO’s Global Investment Committee left the asset allocation unchanged at its meeting on 6 October. Equities are neutral; bonds are underweight and the allocations to commodities and real estate are overweight. There is a neutral stance to hedge funds.

Investment Strategy & Portfolio Expertise Group Economics



Disclaimer

General

The information provided in this document has been drafted by ABN AMRO Bank N.V. and is intended as general information and is not oriented to your personal situation. The information may therefore not expressly be regarded as a recommendation or as a proposal or offer to 1) buy or trade investment products and/or 2) procure investment services nor as an investment advice. Decisions made on the basis of the information in this document are your own responsibility and at your own risk. The information on and conditions applicable to ABN AMRO-offered investment products and ABN AMRO investment services can be found in the ABN AMRO Investment Conditions (Voorwaarden Beleggen ABN AMRO), which are available on www.abnamro.nl/beleggen.

Although ABN AMRO attempts to provide accurate, complete and up-to-date information, which has been obtained from sources that are considered reliable, ABN AMRO makes no representations or warranties, express or implied, as to whether the information provided is accurate, complete or up-to-date. ABN AMRO assumes no liability for printing and typographical errors. The information included in this document may be amended without prior notice. ABN AMRO is not obliged to update or amend the information included herein.

Liability

Neither ABN AMRO nor any of its agents or subcontractors shall be liable for any damages (including lost profits) arising in any way from the information provided in this document or for the use thereof.

Copyrights & distribution

ABN AMRO, or the relevant owner, retains all rights (including copyright, trademarks, patents and any other intellectual property right) in relation to all the information provided in this document (including all texts, graphic material and logos). The information in this document may not be copied or in published, distributed or reproduced in any form without the prior written consent of ABN AMRO or the appropriate consent of the owner. The information in this document may be printed for your personal use.

US Person

US Securities Law Disclaimer

ABN AMRO Bank N.V. ('ABN AMRO') is not a registered broker-dealer under the U.S. Securities Exchange Act of 1934, as amended (the '1934 Act') and under applicable state laws in the United States. In addition, ABN AMRO is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the 'Advisers Act' and together with the 1934 Act, the 'Acts'), and under applicable state laws in the United States. Accordingly, absent specific exemption under the Acts, any brokerage and investment advisory services provided by ABN AMRO, including (without limitation) the investment products and investment services described herein are not intended for U.S. persons. Neither this document, nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person.

Other jurisdictions

Without limiting the generality of the foregoing, the offering, sale and/or distribution of the investment products or investment services described herein is not intended in any jurisdiction to any person to whom it is unlawful to make such an offer, sale and/or distribution. Persons into whose possession this document or any copy thereof may come, must inform themselves about, and observe any legal restrictions on the distribution of this document and the offering, sale and/or distribution of the investment products and investment services described herein. ABN AMRO cannot be held responsible for any damages or losses that occur from transactions and/or services in defiance with the restrictions aforementioned.

Sustainability Indicator

Sustainability Indicator Disclaimer

ABN AMRO Bank N.V. has taken all reasonable care to ensure the indicators are reliable, however, the information is unaudited and subject to amendment. ABN AMRO Bank is not liable for any damage that constitute from the (direct or indirect) use of the indicators. The indicators alone do not constitute a recommendation in relation to a specific company or an offer to buy or sell investments. It should be noted that the indicators represent an opinion at a specific period of time considering a number of different sustainability considerations. The sustainability indicator is only an indication regarding the sustainability of a company within its own sector.