

global weekly

Investment
Communication
28 October 2016

Global Weekly: Return to fundamentals

Equity earnings are recovering and market conditions are stabilising. We believe the US election is less relevant for investors than the improving fundamentals and continued attractiveness of stocks.

We have become more positive on stocks as a number of the factors that appeared to put equity markets in jeopardy during the year have gradually resolved. Global economic growth is modestly positive and resilient, emerging markets are improving and China has been effective in managing its growth and transition to a more domestic-focused economy.

What had been considered major events for financial markets, such as the US elections and the consequences of the Brexit vote, appear to be slowly moving to the background. For example, we do not expect that the US elections will have a big effect on financial markets. And the resolution of the Brexit vote is on a slow trajectory. We now expect a return to more normal market circumstances in the fourth quarter and for markets to again focus on fundamentals.

Equity market update

Equity markets moved sideways this week. With a flood of quarterly earnings releases, the prospects of a US interest rate hike and approaching elections in multiple countries temporarily moved to the background.

The long-awaited earnings release from Apple attracted attention. With earnings slightly ahead of expectations and a relatively cautious outlook, there were no real fireworks. Still the company is heading for a record Christmas quarter, which in itself is quite comforting despite slowing sales in China.

Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	411.8	-0.4	3.1
S&P 500	2133.0	-0.4	4.4
AEX Index	455.8	-0.3	3.2
EuroStoxx 50	3085.2	0.1	-5.7
DAX Index	10717.1	0.0	-0.3
Nikkei 225	17446.4	1.5	-8.3
Hang Seng Index	22954.8	-1.8	4.7

Performance data as of Friday, 28 October 2016

Source: Bloomberg

Within the energy sector, companies are turning increasingly more positive. This week, Technip raised its earnings and revenue guidance for the second time this year. The company is banking on a sustainable oil price of between USD 50-55, which should lead to more activity within the sector. The same was signalled by the oil services companies Halliburton and Schlumberger, both expecting oil exploration companies to increase investments and drilling activity, especially in North America. Various automotive companies also reported this week, including Volkswagen, GM, Ford and FiatChrysler. Although most companies exceeded expectations, shares in the sector hardly moved.

At its latest meeting, ABN AMRO's Global Investment Committee increased the allocation to equities, moving from neutral to a modest overweight position. This decision was largely taken on the back of improving momentum in both macroeconomic and earnings indicators. Following the same line of reasoning, it was also decided to reduce the defensive sector positioning by lowering the overweight position in consumer staples to neutral and increasing the position in financials from underweight to neutral.

Bond markets update

US Treasury and German Bund yields rose this week across all maturities. This was the result of benign economic and earnings data from the US and Europe as well as better-than-expected forward-looking manufacturing data, also in the US and Europe. Bond markets are also beginning to realise that a US interest rate hike is likely coming in December. Moreover, the marginal impact of the extensively accommodative monetary policy of the ECB is disappearing.

Despite limited detail, our take from last weeks' ECB meeting is that the central bank's policy is likely to remain accommodative for some time. But should conditions warrant, we expect tapering to be gradual and well communicated in order to avoid a severe market response.

The decision by rating agency DBRS to maintain Portugal's investment-grade rating was welcomed by the market and spreads came in swiftly following the announcement. Despite actions taken by the government to reduce the budget deficit and improve the banking sector, challenges remain for Portugal. The country's growth outlook is dim and debt levels remain elevated. At least for now, its bonds remain eligible for purchasing by the ECB. Any signal of ECB tapering its asset purchases would adversely affect Portuguese spreads.

Corporate credit spreads are also down this month, despite heavy investment-grade issuance. Early readings from third-quarter earnings reports support the euro-tilt to our corporate credit allocation. In general, growth outlooks remain positive and leverage at European corporates remains contained. In emerging markets, the pressure was off China this week, as rating agency Fitch sees the risk of a hard landing receding, due to actions taken by policymakers.

Asset allocation

ABN AMRO's asset allocation has been changed. The allocation to equities has been increased from neutral to overweight. Within equities, the consumer staples sector is reduced to neutral and the allocation to the financials sector has been increased to neutral. The allocation to bonds remains underweight and within alternatives, real estate and commodities remain overweight; hedge funds are neutral.

Currency outlook

The euro versus the US dollar has fallen by around 3% since the start of this month. It seems that the impact of the US

Reporting calendar

Anadarko Petroleum, Suedzucker, DBS Group Holdings, Dominion Resources, Southern, Zimmer Holdings Inc, Panasonic, Tokyo Electric	31 Oct
Pfizer, Emerson Electric, Devon Energy Corporation, Royal Dutch Shell, Occidental Petroleum Corp, Kellogg, TNT Express, BP, US Steel, Sony, Gilead Sci., Standard Chartered	01 Nov
Lufthansa, Estee Lauder, Time Warner, A/P Moeller - Maersk, Gas Natural, Qualcomm, Barry Callebaut	02 Nov
Dufry Group, Agrium, CBS, Swisscom, Air France-KLM, Beiersdorf, Veolia, Soc Generale, Fraport, Avon Products, Motorola, Becton Dickinson & Co, Apache, Repsol, Credit Suisse, ING, Singapore Air, Hochtief, Starbucks, Kon. DSM, Adidas, TKH Group	03 Nov
Commerzbank, BMW, Duke Energy, Intesa Sanpaolo, Holcim, Tel Italia, Eurocommercial Prop., Richemont	04 Nov

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.88	5.7	17.7
German Bunds 2-year	-0.62	4.5	-27.4
Japan 2-year	-0.24	1.4	-23.9
US Treasuries 10-year	1.85	11.9	-24.7
German Bunds 10-year	0.17	16.4	-26.9
Japan 10-year	-0.05	1.0	-33.3

Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	76.257	2.00428	-1.15381
iTraxx Euro 5-year	72.476	1.46399	1.142
JPM EMBI+	350.13	3.5	-49.57

Performance data as of Friday, 28 October 2016

Source: Bloomberg

presidential election polls has risen recently, with the dollar strengthening on the back of Clinton increasingly being the favourite to win. In addition, the dollar has gained strength on rising expectations in financial markets that the Federal Reserve will hike rates this year. Markets have priced in a more than 70% probability of a rate hike in December. The divergence between the Federal Reserve's and the ECB's monetary policies has supported the US dollar versus the euro.

Political uncertainty in Spain and the uncertainty about the rating outlook for Portugal have also weighed on the euro. The tide turned for the better, however, after Portugal kept its investment-grade rating and the political situation in Spain has

improved. As a result, downward pressure on the euro has diminished. In the near-term we therefore expect the exchange rate of the euro versus the US dollar to edge higher towards our year-end target of 1.10.

Published this week

Investment Strategy: Fundamentals coming into focus

The environment has become more positive for stocks, as the market's focus returns to fundamentals. The Global Investment Committee increased the allocation to equities to overweight.

Investment Strategy & Portfolio Expertise

Group Economics

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