

# global weekly

Investment  
Communication  
4 November 2016

## **“President Trump” makes markets nervous**

Donald Trump’s improving poll data hurt market sentiment this week. Equity prices fell and ten-year US Treasury yields moved lower, in response to safe-haven demand.

Market volatility increased this week, as poll data reported a narrowing lead for Hillary Rodham Clinton over Donald Trump. Markets are also probably responding to other factors, such as the increasing likelihood of a rate hike in the US in December and uncertainty related to the next moves of the ECB and other central banks.

Our view remains that the most likely outcome of the US elections is that Democratic candidate Clinton will win, with a Democratic majority in the Senate and a Republican majority in the House of Representatives. This result is also considered the most favourable for markets. While some short-term volatility around the time of the US elections had been expected, any medium-term market impact is unlikely.

Strong fundamentals are providing a stabilising force during the current market uncertainty. We continue to expect a return to more normal market circumstances over the fourth quarter and for the market to focus on fundamentals.

Company earnings are in good shape. The third-quarter earnings season, which is coming to a close, was positive. There were more companies reporting better-than-expected results than those that disappointed. The upturn in manufacturing that Group Economics had predicted over the past couple months is also underway. Manufacturing survey data improved in October in the US, eurozone and Japan. Economic growth in the US has also accelerated. Third-quarter US GDP grew

## **Equity index performance in local currency**

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	404.8	-1.5	1.4
S&P 500	2088.7	-1.8	2.2
AEX Index	439.9	-3.4	-0.4
EuroStoxx 50	2953.7	-4.1	-9.6
DAX Index	10245.8	-4.2	-4.6
Nikkei 225	16905.4	-3.1	-11.2
Hang Seng Index	22642.6	-1.4	3.3

Performance data as of Friday, 4 November 2016

Source: Bloomberg

to 2.9% (annualized), compared with just 1% over the past three quarters.

## **Bond markets update**

Interest rates are a function of growth and inflation expectations. Inflation expectations and interest rates have been rising over the last few months. This is a consequence of better macroeconomic fundamentals. The US Federal Reserve looks ready to increase its policy rate to prevent the economy from potentially overheating.

So how much of all of this is priced-in to bond markets? We can see this in inflation-linked bonds. The current expected inflation rate in the US is 1.7% per annum for the next ten years. The current ten-year yield is 1.8%, meaning that there is roughly a payout of 0.10% per annum due to growth. The level for the eurozone is -0.9%. This all seems rather odd. The mispricing is the consequence of the hyper-stimulative policies of central banks. This, of course, in due time, will reverse. What we do not know is when, to what extent, and how swiftly this reversal will take place, as the underlying economic growth

dynamics, and expectations thereof, have changed. They are also the subject of much debate. So this increase in interest rates does not conclusively mean that more good news is just around the corner.

This week, bond yields dropped as Donald Trump's standing in polls improved and oil prices started falling again. Italian bond yields soared with the constitutional referendum creeping closer.

### Equity markets update

Equities turned lower this week as Donald Trump's odds to become the next US President improved. European shares underperformed global indices, as the euro strengthened versus the US dollar. All sectors turned lower with the exception of the materials sector, which performed the best. Energy was the worst-performing sector, due to lower oil prices.

During the week, the health care sector outperformed – also in response to Trump's improving poll numbers. Hillary Clinton is seen as less friendly to the health care sector, as she advocates lower prices for medicines, which could hurt profitability. Major health care players, such as Gilead, Allergan and Pfizer reported their third-quarter earnings this week. The results were below expectations. Nonetheless, the sector outperformed the broader market this week.

The energy sector turned lower this week, despite earnings results that were, in general, better than expected. Most integrated oil companies reported their results. Total's results were a positive surprise, as actual production increased more than expected and the need for investment in 2017 was adjusted downward. Royal Dutch Shell's results were cheered by markets, as larger-than-expected cost reductions led to substantially higher earnings.

Many European financials companies reported this week and, in general, they beat expectations. On average, both revenue and expenses were better than expected and capital positions have strengthened.

### Asset allocation

After increasing the equities allocation to overweight at the October monthly meeting, ABN AMRO's Global Investment Committee left the asset allocation unchanged this week. The bond allocation is strongly underweight; the allocations to commodities and real estate are overweight; hedge funds are neutral.

### Reporting calendar

USG People, HSBC, PostNL, Aperam, IFF, Priceline.com, Rockwell Automation, Ryanair Holdings	07 Nov
Marks & Spencer, Adecco, Vestas Wind Systems, Crédit Agricole, ArcelorMittal, Vallourec, Deutsche Post, Henkel, Tyco International, Johnson Controls, TNT Express	08 Nov
HeidelbergCement, Alstom, Vivendi, Enel Green Power S.P.A., Kuka, E. ON	09 Nov
Lanxess, Deutsche Telekom, Walt Disney, Noble Group, Siemens, Aegon	10 Nov
Allianz	11 Nov

### Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.80	-5.1	-1.0
German Bunds 2-year	-0.64	-1.3	-31.5
Japan 2-year	-0.27	-2.6	-26.9
US Treasuries 10-year	1.79	-5.5	-43.3
German Bunds 10-year	0.15	-1.8	-45.1
Japan 10-year	-0.07	-1.6	-38.5

### Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	80.70	4.66	3.90
iTraxx Euro 5-year	75.84	3.21	5.51
JPM EMBI+	363.22	13.09	-10.50

Performance data as of Friday, 4 November 2016  
Source: Bloomberg

### Currency outlook

As a result of the narrowing of the US presidential election opinion polls, investor sentiment deteriorated this week. The US Dollar Index dropped by around 1.5%, mainly reflecting weakness versus the Japanese yen, the Swiss franc and the euro.

Currency markets in emerging markets have been relatively resilient, with the exception of the Mexican peso. In the foreign-exchange options market, demand for downside protection for the US dollar versus the yen and the Swiss franc has risen substantially. All this shows that if Trump would win, which is not our base-case scenario, the US dollar would be sold off and investor sentiment would deteriorate. This explains the recent fortunes of the yen, the Swiss franc and gold, which have gained recently due to their safe-haven characteristics.

Foreign-exchange markets will continue to closely follow US election-poll developments. If Clinton wins, which we expect, the US dollar will recover versus major currencies, and the Mexican peso will have a considerable comeback. In this scenario, the yen, the Swiss franc and gold will give up their recent gains.

## **Investment Strategy & Portfolio Expertise**

### **Group Economics**

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