

Global Weekly

Countdown to inauguration

Investment
Communication
13 January 2017

With one week to go until Donald Trump's inauguration, markets are trying to figure out the details of the new administration's economic plans. A look at Trump's Cabinet picks may be insightful as far as trade policies are concerned.

President-elect Trump has put together his Cabinet nominees. The nominees will be voted by the Senate in the coming days. Trump's appointments could shed some light on future trade policy. A couple of these appointees have a protectionist stance, including Peter Navarro, Robert Lighthizer and Wilbur Ross. Other cabinet members seem to favour free trade, including Steven Mnuchin and Rex Tillerson. Moreover, his inner circle of advisers, including Terry Branstad, Trump's choice for ambassador to China, also appears to favour free trade. On top of this, policymaking decisions will be supported by experienced government officials. This will offer an analytical and balanced view to policymaking.

Meanwhile, international institutions, including the World Trade Organization, will provide the necessary checks and balances. It is also the case that countries may retaliate if US policy

Equity index performance in local currency

| | Value | One week change (%) | Year-to-date (%) |
|-----------------|---------|---------------------|------------------|
| MSCI ACWI | 430.6 | 0.2% | 2.1% |
| S&P 500 | 2270.4 | -0.3% | 1.4% |
| AEX Index | 485.5 | -0.3% | 0.5% |
| EuroStoxx 50 | 3301.9 | -0.6% | 0.3% |
| DAX Index | 11569.0 | -0.3% | 0.8% |
| Nikkei 225 | 19287.3 | -0.9% | 0.9% |
| Hang Seng Index | 22937.4 | 1.9% | 4.3% |

Performance data as of Friday, 13 January 2017

Source: Bloomberg

becomes very protectionist. This could make protectionist proponents more cautious. There is no guarantee of the direction that trade policy will take in the coming years. However, we expect more 'nuanced protectionism' than has been announced so far.

Equity markets update

Equity indices moved in a tight range this week. The Dow Jones is hovering just below the 20,000 mark. The information

technology sector outperformed and telecom underperformed, both by around 1.5%. Luxury watch manufacturers such as Richemont and Swatch surged more than 10%, after Richemont reported sales for the third quarter (ending on 31 December 2016) that beat estimates. Sales gains were most notably seen in Asia. Stocks of luxury watch makers have been severely underperforming since 2013, as these companies struggled with a difficult sales environment, especially in Asia.

Dialysis service provider Fresenius Medical Care, together with DaVita, has been subpoenaed by the US Centers of Medicare & Medicaid Services on alleged deals with non-profit organisation American Kidney Fund, which would favour these companies' products. Fresenius traded more than 6% lower on Monday, after the subpoena news broke.

This week marks the kick-off of the fourth-quarter earnings season. Bank of America, JPMorgan and Wells Fargo will report their quarterly results today; next week, Citigroup, Goldman Sachs, ASML and IBM, among others, will follow. It will be interesting to see whether these companies have become more optimistic about the future, as macro data was very promising in recent months.

Bond markets update

US Treasury yields came down across the yield curve, after President-elect Donald Trump disappointed investors by providing only limited details on his economic stimulus plan at a press conference on Wednesday. US 10-year yields consolidated at around 2.30%, marking a decline versus the high of 2.59% that was reached at year-end 2016.

US and eurozone governments and corporates placed a significant amount of new bond issues this week, surprising the bond market how eager investors were to invest in bonds at current yield levels. There is a consensus that we could see gradually higher bond yields during 2017, but this does not keep institutional investors from investing in bonds now. Against this background, we believe the risk of substantial corporate spread widening is limited during the first quarter of 2017.

The decision of the Italian constitutional court to reject a proposal to hold a referendum on Italian labour market reforms was very well received by bond investors, as it lowers the risk of early elections. Eurozone peripheral debt, such as Spanish and Italian bonds, benefited, with risk spreads moving to lower levels. Friday, after market close, rating agency DBRS will release a review of its rating on Italy, currently a low single-A rating. Based on recent developments, we foresee no change.

Government bond yields

| | Yield (%) | One week (bp) | One year (bp) |
|-----------------------|-----------|---------------|---------------|
| US Treasuries 2-year | 1.171 | -4.1 | 26.1 |
| German Bunds 2-year | -0.730 | 0.4 | -34.4 |
| Japan 2-year | -0.227 | -1.4 | -19.0 |
| US Treasuries 10-year | 2.359 | -6.1 | 26.5 |
| German Bunds 10-year | 0.318 | 2.2 | -24.8 |
| Japan 10-year | 0.044 | -0.9 | -15.1 |

Spreads

| | Spread (bp) | One week (bp) | One year (bp) |
|--------------------|-------------|---------------|---------------|
| CDX NA IG | 66.33 | 2.04 | -34.17 |
| iTraxx Euro 5-year | 70.03 | 1.70 | -17.09 |
| JPM EMBI+ | 355.36 | 1.58 | -84.94 |

Performance data as of Friday, 13 January 2017

Source: Bloomberg

Corporate earnings calendar

| | Date |
|--|--------|
| Blackrock, Wells Fargo, Infosys, JPMorgan, Bank of America | 13 Jan |
| CSX, Morgan Stanley | 17 Jan |
| Citigroup, Netflix, Goldman Sachs, Kinder Morgan, ASML, CapitaCommercial Trust | 18 Jan |
| WNS, International Business Machines, American Express, Schlumberger, General Electric | 19 Jan |
| | 20 Jan |

Direct consequences of a downgrade (not our view) should be limited, as Italian banks could make use of direct ECB funding.

Currency outlook

Since the US presidential elections, the Japanese yen has dropped by 9% versus the US dollar. At the same time, the 10-year Treasury yield has risen sharply while the 10-year Japanese bond yield has remained anchored. This is because the Bank of Japan has been broadly successful in keeping 10-year Japanese bond yields close to its target of zero, by purchasing Japanese government bonds. We have revised down our yen forecasts. We now see more room for the yen to decline towards a range of 120-125 against the US dollar (last year's peak) in the coming quarters.

Since the end of last week, the British pound sterling has been the weakest performing currency among G10 currencies, declining by around 1.5% versus the US dollar. This follows comments from UK Prime Minister Theresa May, which suggested she would prioritise restrictions on the free

movement of trade to achieving full access to the single market. This has revived fears of a hard Brexit in currency markets. We expect sterling to remain under pressure as hard Brexit fears could well remain in the market. In the longer term, however, we expect the UK government trying to achieve an agreement that balances access to the single market and some control over EU immigration into the UK. This should lead to a stabilisation in sterling at around 1.20 by year-end. The picture is less clear versus the euro. We expect the euro to decline as well, on loose ECB policy and political uncertainty in 2017. Once hard Brexit fears start to fade again and both forces (ECB easing and political uncertainty) push the euro lower, EUR/GBP could move below 0.80 again.

Asset allocation

At the meeting of the ABN AMRO Global Investment Committee on 5 January, no changes were made to the asset allocation. It consists of a strong overweight in equities and an underweight in bonds. Within alternative investments, commodities and real estate are overweight, and there is a neutral stance toward hedge funds.

Published this week

Bond sector note: Banks – brighter skies ahead

We now take a positive stance towards bank bonds (previously neutral), as we believe they should benefit from improved fundamentals. Within the sector, US and UK banks remain our favourites.

Investment Strategy & Portfolio Expertise Group Economics

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