

Global Weekly

Trump bump

Investment
Communication
27 January 2017

So far so good. Markets are in a positive mood, given improving confidence indicators, an earnings season that, so far, is positive and the pro-growth stance of US President Donald Trump.

US President Donald Trump is surprising the electorate by doing exactly what he said he would. In his first week at his new job, he has signed Executive Orders related to the building of a wall along the Mexican border and has withdrawn from the Trans Pacific Partnership. Stock markets continue to be encouraged by his pro-business policies.

But markets also have solid fundamentals and the earnings season to be pleased with. While still "early days," the US earnings season has so far been slightly better than expected. Confidence indicators also continue to improve, including the Philly Fed Index and manufacturing indicators in the US, eurozone and Japan. Germany's January Ifo Business Climate Index, an early indicator of economic developments, however, was lower than expected and bears watching.

Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	436.0	1.3	3.3
S&P 500	2,296.7	1.1	2.6
AEX Index	485.3	-0.1	0.4
EuroStoxx 50	3,302.4	0.1	0.4
DAX Index	11,817.9	1.6	2.9
Nikkei 225	19,467.4	1.7	1.8
Hang Seng Index	23,360.8	2.1	6.2

Performance data as of Friday, 27 January 2017

Source: Bloomberg

Equity markets update

After a holiday breather in the past few weeks that slowed the "Trump trade," markets moved slightly higher in the days after the inauguration. Investors appear to be in a holding pattern, as policymaking and earnings season both begin in earnest.

Initial US earnings have been largely in line with expectations, except for some disappointing results in the telecom sector. Cyclical sectors, such as the information technology, materials and consumer discretionary sectors, continue to lead markets.

Of note in the health care sector is Johnson & Johnson's successful revised bid to take over Swiss drugmaker Actelion, with the target company's share price rising significantly on the announcement.

In the US, Trump's first few executive orders have addressed issues such as withdrawal from the Trans Pacific Partnership trade pact, expediting the Keystone XL and Dakota Access pipelines, which had been held up by environmental review, government hiring freezes and relief from the "burdensome" costs of Obamacare. These orders have been interpreted by equity markets as either expected or as positive in the short term. Longer-term uncertainty remains, however, with markets looking to price the possibility of tariffs and changes to the corporate tax code.

In global markets, the US continued to outperform Europe. Japan started the week lower, amid mild equity outflows and safe-haven currency inflows. Emerging markets have recovered from their post-Trump nadir on a softening dollar and a slight retreat of US Treasury yields. We do not believe this trend's continuation should be taken for granted, with the Trump administration taking a hard initial stance on China, trade agreements and the strength of the US dollar. We do not yet believe in a bullish case for emerging-markets stocks, given our house view of pressure from rising yields and a strengthening US dollar.

Bond markets update

Interest rates rose this week as US President Donald Trump effectively took over the Oval Office, and producer confidence indices signalled global growth momentum being at a six-year high. US ten-year interest rates are hovering around the 2.6% level, and those for Germany climbed 10 basis points (bp) this week to 0.5%. The increases stemmed from Trump policy rhetoric, which is stimulative for both growth and inflation.

The Dow crossed its highest point ever this week, and corporate bonds also soared. European investment-grade credits outperformed government bonds this month, even when the circumstances were not at all favourable. January's issuance of new bonds was four -times higher than last year, which was in itself a record-high for the month of January. High-yield bonds returned 0.8% this month, which is very good, considering that interest rates have gone up considerably.

As expected, the Italian Constitutional Court ruled against the two-round election system, leaving Italy with a system which is likely to continue to lead to fragmented government. After the ruling, early elections in Italy are more likely, but the

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	1.234	4.4	39.9
German Bunds 2-year	-0.661	1.9	-21.5
Japan 2-year	-0.203	3.8	-17.8
US Treasuries 10-year	2.517	4.9	51.7
German Bunds 10-year	0.470	5.1	2.8
Japan 10-year	0.076	1.7	-13.3

Spreads

	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	63.99	-2.16	-39.06
iTraxx Euro 5-year	70.15	1.15	-21.39
JPM EMBI+	349.65	-1.13	-101.72

Performance data as of Friday, 27 January 2017
Source: Bloomberg

Corporate earnings calendar

	Date
Apple, Nucor, Valero Energy, Thermo Fisher Scientific, Mastercard, Mizuho Financial Group, Anadarko Petroleum, H&M, Illumina, Eli Lilly, Simon Property Group, UPS, Exxon Mobil, Pfizer, Lyondell Basell, Givaudan	31-Jan
Facebook, Johnson Controls, Tyco International, Dominion Resources, Baxter International, BBVA, KPN, Siemens, Unibail-Rodamco, Swatch, Roche	01-Feb
Visa, Amgen, Conocophillips, Daimler, Amazon.com, Deutsche Bank, Royal Dutch Shell, ING, Astrazeneca, Infineon Technologie	02-Feb

probability of a Eurosceptic government is reduced. Italian spreads rose this week. We have noticed, with the upcoming French elections that the French yield spreads are slowly creeping towards peripheral yield spreads.

Currency outlook

We remain positive on the US dollar (USD) given our view that the Fed is likely to raise interest rates more aggressively (75 bp) this year than what is priced-in by financial markets (50 bp). In the current environment, the US dollar is driven by cyclical factors and further increases in the US dollar go hand-in-hand with a rise in equities, cyclical bonds, higher official rates, higher US Treasury yields and higher real rates.

We expect the US dollar to rise as long as the market perception is that the Trump administration will be positive for US economic growth without too sharp a rise in inflation. We

expect the euro to weaken further versus the US dollar, driven by eurozone political uncertainty and monetary policy divergence across the Atlantic. We expect EUR/USD to break below parity and to reach 0.95 over the next six months. We have, however, increased our year-end EUR/USD forecast from 0.95 to 1.00.

Asset allocation

The current asset allocation consists of an overweight equities, an underweight bonds and an overweight allocation to cash. Within alternatives, commodities and real estate are overweight and a neutral stance is taken to hedge funds.

Published this week

Equity sector note: Consumer Discretionary (positive)

We moved from a neutral to a positive view on consumer discretionary. We expect the sector to benefit from improving economic growth, higher consumer confidence and wage inflation in the US.

Investment Strategy & Portfolio Expertise
Group Economics

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