



Global Weekly

Besides Trump

**Investment
Communication
3 February 2017**

Again, Trump was dominating the news this week, but financial markets also moved their focus to increasing political tension in Europe, higher inflation expectations and the earnings season.

Bond markets update

All the spotlights were on Trump this week, but bond markets hardly reacted to all the turmoil. They were either resilient or reacting to other drivers instead. German Bund and US Treasury yields moved a little bit lower, while corporate spreads – both investment-grade and high-yield – moved slightly higher, all within tight trading ranges.

Emerging market bond spreads also moved within tight trading ranges, around the lows from before Trump's election in November. At these lows, emerging market bonds are expensive, considering the risks that are building for emerging markets from the protectionist policies of the new US administration. As we fear that the current developing weakness in emerging market currencies may spill over to emerging

Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	434.0	-0.4	2.9
S&P 500	2,280.9	-0.7	1.9
AEX Index	485.5	-0.1	0.5
EuroStoxx 50	3,253.6	-0.9	-0.6
DAX Index	11,628.0	-1.3	1.5
Nikkei 225	18,918.2	-2.8	-1.0
Hang Seng Index	23,129.2	0.3	5.1

Performance data as of Friday, 3 February 2017

Source: Bloomberg

market bonds, we reduced our stance on this sub-asset class from neutral to negative (see also the Investment Strategy of 1 February).

Bond markets hardly seemed to react to Trump and ignored the Fed meeting this week. They did, however, react to higher inflation numbers and increasing political tensions in Europe. Long-term inflation expectations (five years) touched 1.8% again, indicating that markets now believe the European Central Bank (ECB) will actually reach its inflation target.

We do not expect core inflation to begin a sustained upward trend, though, until the turn of next year. As such, we continue to think that the first ECB rate hike will take place in 2019 and not in 2018. The ECB is also not likely to further reduce its bond purchases in the second half of this year already. Not only because core inflation remains too low and stable, but probably even more because sovereign spreads moved sharply higher across the board. Italy is one of the drivers of this development. The Italian court ruled to remove a second round of voting to achieve an absolute majority for the winner. This has opened a way for former Italian Prime Minister Matteo Renzi to make a quick comeback in elections before this summer, without much risk of the anti-euro Five Star Movement seizing power.

Markets have now moved back into an environment that looks somewhat like the period before last year's Italian referendum, due to ongoing problems in Italian banking and market speculation that the asset purchasing programme could end this year already. This suggests that buying opportunities could now be developing.

Equities update

Equity markets were driven by Trump but also by the ongoing earnings season. Trump's announcement for an immigration ban on seven Muslim-dominant countries caused a strong push back. As a result, equity markets showed some hesitance and increased volatility. Clearly, investors have difficulties with assessing the potential impact of Trump's announcements on the economy and corporate earnings outlook, or – in other words – to distinguish noise from fundamentals.

With regard to the earnings season so far, the reported results are on aggregate a touch ahead of expectations. The dispersion between results, however, is quite significant. Some companies clearly disappointed, whereas others surprised encouragingly. Regarding sectors, IT is on balance positively surprising with trendsetters such as Apple and Microsoft coming in ahead of expectations. They were also upbeat on their outlook. The consumer staples sector is, however, showing quite meagre results. So far, companies in this sector are reporting in-line profits with lower-than-expected organic growth.

On balance, markets moved sideways to a touch down over the past week. From a regional perspective, emerging markets are still outperforming developed markets. Within developed markets, the US, Europe and Japan have been largely performing in tandem. With respect to our positive stance on equity, we believe the fundamental drivers are still supportive. Macro data are constructive and the earnings season encouraging. At the same time, vigilance is required with regard to interpreting the outcome and impact of Trump's policy.

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	1.215	-0.5	49.1
German Bunds 2-year	-0.733	-5.9	-22.9
Japan 2-year	-0.230	-2.7	-4.8
US Treasuries 10-year	2.482	-0.3	59.5
German Bunds 10-year	0.437	-2.2	16.3
Japan 10-year	0.095	1.8	3.5

Spreads

	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	65.55	1.30	-44.24
iTraxx Euro 5-year	71.69	1.50	-32.28
JPM EMBI+	340.23	-9.42	-116.42

Performance data as of Friday, 3 February 2017

Source: Bloomberg

Corporate earnings calendar

	Date
Toyota Motor, Tel Italia, Ryanair, Binckbank	06 Feb
BNP Paribas, Emerson Electric, GEA Group, Walt Disney, Singapore Airl., General Motors, BP, Gilead Sci., Statoil, Neste Oil, Kraft Foods	07 Feb
Sanofi-Aventis, Vestas wind, Swisscom, Time Warner, A/P Moeller - Maersk, Exelon Corp, Daikin Ind., Gas Natural, TomTom, ABB, Syngenta, Glaxosmithkline, Rio Tinto, SBM Offshore	08 Feb
Puma, Commerzbank, Agrium, Soc Generale, Occidental Petroleum Corp, Kellogg, News Corp, ThyssenKrupp, Unicredit, Zurich financial, KBC, Yara Int, Coca-Cola, Total, L'Oreal, Viacom, Pernod-Richard	09 Feb
ArcelorMittal, Eurocommercial Prop., Nippon T&T, PPR, Renault	10 Feb

Macro update

The statement of the US Federal Reserve (Fed) meeting of January showed no major changes to the statement from the previous month. The policy rate was left unchanged as expected. We expect the Fed to raise rates three times this year.

There are discussions between US President Donald J. Trump and the Republican Party around tax reforms, which includes a significant tax cut. Expectations on the progress of the discussion remain positive. Although there is still doubt on how the tax reform will be implemented, our base scenario incorporates a significant tax overhaul, which would boost economic activity later in the year.

Eurozone economic growth picked up to 0.5% q-o-q in the fourth quarter of 2016, as was widely expected, up from 0.4% in the third quarter. Looking ahead, we expect growth to return to levels of around 0.3 to 0.4% in the first half of 2017, mainly because private consumption growth should slow down on the back of higher (energy price) inflation. Given the elevated level of political risks in Europe, growth may turn out lower, as there are elections in three of the five largest eurozone countries, possible early elections in Italy and Brexit.

Currency outlook

Emerging markets currencies tend to move in tandem with commodity prices, but since May 2016 there has been a divergence. Currencies of commodity-exporting countries such as the Brazilian real and the Russian ruble have continued to perform well, but trade-sensitive currencies such as the Singapore dollar and the Polish zloty have underperformed. We expect them to align internally and to move in tandem with commodity prices again.

Going forward we expect emerging markets currencies to weaken versus the US dollar this year. Despite our optimistic outlook on the global economy, we think that the upside in commodity prices is rather limited. Moreover, we expect the Fed to hike rates more than financial markets currently anticipate. In addition, we expect US Treasury yields to rise. This should result in a rise in the US dollar and weigh on commodity prices and emerging markets currencies. Also, investors will probably start to focus on the structural imbalances and political uncertainty again in the various emerging markets.

Asset allocation

ABN AMRO has made no changes to the overall asset allocation at its meeting on 26 January 2017. We maintain our positive view on equities, our cautious stance toward bonds and our large position in cash. Within alternative investments, we remain positive regarding commodities and real estate, with a neutral stance toward hedge funds.

Published this week

Investment Strategy: Reduce exposure to emerging-markets bonds

Within the bond portfolio, the decision was taken to signal to clients that, as applicable, exposure to emerging-markets bonds should be reduced.

Bond report - A negative stance on emerging-market bonds

Yield differentials between emerging-markets and developed-markets bonds have returned to the lows from before Donald J. Trump's election in November. At these lows, these bonds are expensive considering the risks that are building for emerging markets from the protectionist policies of the new US administration.

Investment Strategy & Portfolio Expertise Group Economics

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