



Global Weekly

Fundamentals overpower doubts

Investment
Communication
10 February 2017

Strong fundamentals and a positive earnings season are providing market stability in an environment of rising political risks.

Market and macroeconomic fundamentals remain strong, with no great changes seen over the past week. The earnings season continues to be better than analyst expectations, and confidence indicators, logistics data and most German orders data show signs of strengthening. Political risks, in both Europe and the US, are the clouds on the horizon. Europe's political risk is reflected in the French and Italian bond markets; and political risk in both the US and Europe is seen in the equity risk premiums paid to investors.

According to ABN AMRO Group Economics, the Greek bailout remains very messy and chaotic. Nick Kounis, Macro & Financials Markets Research Team, wrote this week that "we expect that a way forward will be found at the last minute as usual, but in the meantime there will be continued uncertainty. In any case, Europe has arguably bigger problems, given rising political risk and concerns about the impact of an eventual end of quantitative easing on vulnerable countries. We are

Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	4372	0.2	3.6
S&P 500	2,307.9	0.5	3.1
AEX Index	490.3	0.9	1.5
EuroStoxx 50	3,280.1	0.2	-0.3
DAX Index	11,695.9	0.4	1.9
Nikkei 225	19,379.9	2.4	1.4
Hang Seng Index	23,575.0	1.9	7.2

Performance data as of Friday, 10 February 2017

Source: Bloomberg

particularly concerned about poor fundamentals in Italy and Portugal." For more information, read the 8 February 2017, [Daily Insight](#).

Equities outlook

Over the past week, equity markets have held to levels hovering around one-year highs. The main influences on markets are the earnings season and the potential impact of politics on earnings.

The earnings season continues to be a bit ahead of expectations. Among the 30% of companies that have reported so far, nearly 60% of them have beat analyst estimates. The earnings outlook given for 2017 is solid and in line with expectations. Management teams appear cautious, which is usual for the start of the year. Market consensus continues to expect solid earnings-per-share growth of 13% in 2017.

As for the potential impact of politics, Europe is increasingly in the picture. There is rising focus among investors on the outcome of the French elections at the end of April, now that right-wing candidate Francois Fillon has come under pressure. Investors are also wondering what the impact could be of potential new Trump policies in the US, especially the US border tax. We argue that a lower corporate tax rate is good for US companies, while a border tax adjustment could hurt European exporters.

Taken together, fundamentals remain supportive for equity markets. There is improving macroeconomic growth, earnings acceleration and unstretched valuations, in a low-rate environment.

Interest rates declined this week, which affected some interest-rate sensitive sectors. The utilities sector had the best performance, while financials underperformed. The energy sector declined in reaction to lower oil prices, as higher-than-expected oil inventory data pressured prices.

Bond markets outlook

US Treasuries were up earlier this week, due to silence regarding US President Donald Trump's fiscal stimulus measures, while other unconventional political measures were causing outrage. Trump's fiscal plans, with details expected in two or three weeks, will likely be in the lead for pushing inflation, as US wage growth remains disappointing. But with both Trump and the US Congress clearly in favour of lower taxes, we maintain the view that fiscal stimulus will emerge and rates should accordingly go up again.

One idea for fiscal stimulus is the much debated border tax adjustment. This measure will likely be more contentious to get through Congress, especially considering the implications. If it materialises, we believe it would be good for US corporates broadly and bullish for US credit spreads versus other regions. We are closely following these developments.

The clash between Europe and the International Monetary Fund on how to proceed with the Greek bailout package did not hamper recovery in spreads of the remaining periphery

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	1.19	-1.1	50.0
German Bunds 2-year	-0.79	-3.7	-26.8
Japan 2-year	-0.21	1.8	1.0
US Treasuries 10-year	2.42	-5.0	74.6
German Bunds 10-year	0.33	-8.4	8.6
Japan 10-year	0.08	-1.1	6.7

Spreads

	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	64.71	0.28	-54.09
iTraxx Euro 5-year	73.99	2.46	-43.23
JPM EMBI+	338.05	-2.18	-135.88

Performance data as of Friday, 10 February 2017

Source: Bloomberg

Corporate earnings calendar

	Date
Teva Pharmaceutical	13 Feb
Actelion, Michelin, Credit Suisse Group, Devon Energy Corp, EDF, Randstad Holding	14 Feb
Air Liquide, Akzo Nobel, Applied Materials, Barrick Gold Corp, Cisco Systems, Credit Agricole, Danone, Koninklijke DSM, Heineken, Intl Flavors & Fragrances, Marathon Oil Corp, Pepsico, Kraft Heinz, Vastned Retail, Wessanen	15 Feb
Air France-KLM, Arcadis, Davita, Nestlé, NN Group, Schneider Electric, Telenet Group Holding	16 Feb
Aegon, Allianz, Deere & Co, VF Corp, Vopak	17 Feb

countries. Greece remains an isolated issue, but sentiment could change if negotiations end in deadlock. Europe, however, seems fairly happy with the progress made by Greece so far and Greece enjoys very generous lending terms. Despite some strong words, we expect all parties to reach a deal on an extension of the programme as soon as possible and in whatever form is necessary.

Currency outlook

Overall, we believe that there is more "upside" potential for the US dollar to strengthen, and further "downside" or weakening potential for the euro. At the start of the week, the euro fell across the board, as investors turned their focus towards the political events in the eurozone. This includes a number of scheduled elections, including in France, Germany, the Netherlands and, very likely, Italy.

What is interesting to note is that EUR/USD appears to have topped out at around 1.08 once more, which we believe is a bearish sign. We expect the US dollar to rally on stronger-than-expected US data in an environment of constructive investor sentiment. We expect the euro to weaken because of more focus on eurozone politics and an accommodative ECB.

Asset allocation

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

Investment Strategy & Portfolio Expertise
Group Economics

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