

Global Weekly

Still on the table

Investment
Communication
17 February 2017

Treasury yields – moving inversely to prices – rose this week, after Federal Reserve Chair Janet Yellen signalled that a March rate hike remains on the table. Equity markets climbed too, with the S&P 500 touching a new record high.

Janet Yellen on Tuesday painted a positive picture of the US economy, during a semi-annual testimony before the Senate Banking Committee. Although she suggested that the outlook was uncertain, Yellen indicated that “waiting too long to remove accommodation would be unwise.” She highlighted that changes in fiscal policy could affect the economic outlook. Although the door is left open for a rate hike in March, Yellen’s testimony did not suggest any sense of urgency to hike rates. Indeed Fed policymakers have said that they are waiting for more clarity on fiscal stimulus before resuming rate hikes. We expect the Fed to hike rates three times this year: in June, September and December – although the chances of a March move have increased.

January’s headline retail sales in the US slowed down slightly to 0.4% month-on-month after a strong 1% growth the previous

Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	444.5	1.3	5.4
S&P 500	2347.2	1.3	4.8
AEX Index	390.8	0.2	1.6
EuroStoxx 50	3290.2	0.6	0.0
DAX Index	11711.2	0.4	2.0
Nikkei 225	19234.6	-0.7	0.6
Hang Seng Index	24033.7	1.9	9.2

Performance data as of Friday, 17 February 2017

Source: Bloomberg

month. The slowdown came from a decline in auto sales, which fell 1.4% month-on-month in January (after a considerable increase of 3.2% in December). Otherwise, sales increased in most categories, particularly spending on gasoline. Meanwhile, core retail sales (excluding food, gas and building materials), which are more closely related to the consumer spending component of GDP, continued to show a sharp increase. This report shows that consumption remains solid. At the same time, consumer confidence surveys, which are more forward looking, have been at elevated levels. We have forecasted US

GDP growth of 2.4% in 2017, mainly as a result of stronger consumption and investment growth.

Bond markets update

US government bond yields are at the high end of the trading range that was established in December 2016. US bond markets are a strong indicator for global bond market sentiment. Institutional investors significantly reduced their exposure to long-maturity Treasuries last year. The latest Treasury International Capital data painted a more balanced picture for December, with institutional investors slightly favouring the buy side, due to improved yields, and private investors accelerating their Treasury selling. Markets are predicting that Fed policy rates will move higher during the summer (which is also our base case scenario). Fed Chair Janet Yellen this week expressed her willingness to lift rates, implying that a rate hike at the upcoming March meeting cannot be ruled out.

Companies typically try to refinance the bulk of their finance needs in the first half of the year. Private investors have reduced their Treasury exposure to make room for new corporate bond issues. Currently, this creates better liquidity and tight pricing. This trend could continue until markets become convinced that the Fed will hike rates sooner than currently expected and/or the new US administration is faced with significant push-back on the implementation of election promises. Taking into account all the above, the current US Treasury yield curve range could be challenged in the coming weeks, possibly leading to higher overall bond yield curves.

Equity markets update

The positive earnings season continued to impact markets this week, with companies bearing the fruit of improving fundamentals we have been observing since December. More than half of US firms' results are in, with about 67% beating consensus estimates. Roughly half of Asian and European firms have reported so far, with larger differences between sectors.

Consumer discretionary and financial stocks have led global sectors in the past few months, but weakened relative to health care, US consumer staples and European IT in recent weeks. Energy and telecoms remain down for the year. NN Group and Nestlé reported disappointing earnings this week. Good news came from Air France-KLM: the stock rose after the airline reported better-than-expected earnings and provided a less grim guidance for 2017.

Chinese stocks trading in Hong Kong rallied at the start of the week, supporting global all-time highs. In the US, the S&P 500 also reached a new record level, partly on earnings

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	1.20	0.5	45.2
German Bunds 2-year	-0.81	-1.2	-29.9
Japan 2-year	-0.24	-3.3	-9.8
US Treasuries 10-year	2.42	1.1	59.9
German Bunds 10-year	0.31	-0.8	4.1
Japan 10-year	0.09	0.3	3.7

Spreads

	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	63.69	-1.10	-52.71
iTraxx Euro 5-year	74.72	-0.33	-33.90
JPM EMBI+	336.81	-1.24	-127.61

Performance data as of Friday, 17 February 2017

Source: Bloomberg

Corporate earnings calendar

	Date
Grandvision	20 Feb
Koninklijke Bam Groep, BHP Billiton Limited, HSBC Holdings, Newmont Mining Corp, Home Depot, Wal-Mart Stores	21 Feb
ASR Nederland, Accor, Bayer, Ctrip.com International, Fresenius Medical Care, Fresenius, HP, Iberdrola, Lloyds Banking Group, Mobileye, Tesla, Vallourec, Wolters Kluwer	22 Feb
Apache Corp, Axa, Baidu, Barclays, Bouygues, British American Tobacco, Centrica, Compagnie De Saint Gobain, Delta Lloyd, Glencore, Henkel, Orange, Peugeot, ProSiebensat.1 Media, Ramsay Health Care, Relx, Repsol, Telefonica, Vale, Veolia Eirionnement, Vivendi	23 Feb
BASF, Brunel International, Bureau Veritas, Fugro, Noble Group, Proximus	24 Feb

and partly on optimism fuelled by president Trump's hints at comprehensive tax reforms to be announced "soon." US tax reforms are largely expected to take a business-friendly shape and to provide tax relief to US companies and consumers, reflecting the priorities of the broader Republican Party. If the border tax adjustment proposal is included, however, more complex implications may take markets some time to digest.

At the geopolitical level, worries remain about possible Russian involvement in the US elections and members of Trump's administration allegedly maintaining business ties with Russia. In Europe, investors seem preoccupied with

upcoming elections in several European countries. Fears of right-wing nationalism have tampered optimism in European markets, despite solid fundamentals and consensus estimates indicating higher forward earnings.

Currencies outlook

Investor sentiment towards the US dollar is improving, supported by President Trump's more conciliatory comments towards Japan and China especially. Moreover, the market has turned its focus towards Fed rate hikes again. Better-than-expected retail sales data (published on Wednesday) and higher consumer inflation have resulted in higher US Treasury yields and investors are pricing in a larger probability of a rate hike in March. This has pushed the US dollar higher across the board.

However, it is somewhat surprising that the US dollar has not risen more strongly. If sentiment would have been US dollar bullish, Yellen's comments and this week's US data would have sent EUR/USD below 1.04 and USD/JPY above 116. What does this tell us? For a start, a higher US dollar is a consensus trade and investors are already positioned for it. The net-long speculative positions are not excessive but still high. It could be that investors use any rally in the US dollar to close their US dollar long positions because they are losing conviction.

Second, investors may start to become more concerned about inflation and that the Fed may be behind the curve. Therefore, their expectations are for lower real yields, which is lowering the appeal of the US dollar and increasing that of gold. Finally, investors may be concerned about political developments in the US and thereby shying away from buying the US dollar aggressively. Whatever the reason may be, this behaviour is a warning sign that the last leg of the US dollar could already be behind us. This is not our central view, but the risk is increasing.

Published this week

Equity thematic update: Profiting from the connected world

The stellar growth of mobile internet has evolved into an increasingly connected world. The big online platforms are benefitting, which creates opportunities for investors.



Market comment: Should investors be wary of US Treasuries?

Foreign investors markedly scaled back their US debt holdings in recent months. ABN AMRO's Mary Pieterse-Bloem confirms that now is not a good time to look for opportunities in US Treasuries.



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