

Global Weekly

Who was that man?

Investment
Communication
3 March 2017

President Donald Trump was described as “surprisingly presidential” by many news organisations after his speech to Congress this week. Markets liked what they saw.

The positive market reaction following US President Donald Trump’s speech to the US Congress this week adds weight to the perception that risks are receding and the pace toward normalisation is quickening.

Macroeconomic data is strengthening and political risk is declining in both the US and Europe. The more conciliatory approach by Donald Trump, which was in evidence in his Tuesday address, increases the likelihood that some version of his tax reform and infrastructure plans will be implemented by a unified Republican Congress and presidency.

Strong underlying US fundamentals are expected to propel rate hikes by the Federal Reserve starting in March. ABN AMRO Group Economics expects that 2017 could see three rate hikes, depending on economic data and fiscal developments.

Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	446.7	0.3	5.9
S&P 500	2381.9	0.6	6.4
AEX Index	503.1	1.6	4.1
EuroStoxx 50	3376.1	2.2	2.6
DAX Index	13004.0	1.7	4.6
Nikkei 225	19469.2	1.0	1.9
Hang Seng Index	23552.7	-1.7	7.1

Performance data as of Friday, 3 March 2017

Source: Bloomberg

Equity markets update

Equity markets were largely dominated by Trump’s first Congressional address this week. Though he did not add significant detail to his plans, the market welcomed his softer-toned speech. So far, this keeps the broad strokes of fiscal spending on health care, infrastructure and defence intact. Global markets continued at a relaxed pace, backed by a constructive fundamental environment with positive macroeconomic data in all regions, underpinning a globally synchronized upturn.

The earnings season also continues to point to a healthy corporate environment at the start of a year of projected double-digit earnings growth. Results were, on aggregate, a touch ahead of expectations. From a sector perspective, telecoms and utilities have reported lower-than-expected organic growth and profits, while technology firms in particular have been better than expected this earnings season and delivered upbeat outlooks. The successful initial public offering of Snap may be a bellwether for sentiment towards the information technology sector.

Following the run-up in markets, market valuations have become stretched in absolute terms, especially in the US. Nevertheless, given the truth of the adage that “bull markets don’t die of old age,” and the relative attractiveness of stocks versus other asset classes, funds continue to flow into equities. So far, there are no signs that fundamentals are likely to turn in the near term. Moreover, the increasing odds of rate hikes by the US Federal Reserve and the US pro-growth agenda continue to support a moderately bullish stance on equities.

Bond market update

The difference between 2- and 30-year US Treasury rates narrowed and approached a level not seen since before the election of Donald Trump. Shorter-term interest rates are dominated by the Federal Reserve, which now seems to be leaning towards more rate hikes this year than had been anticipated. The muted response at the longer end of the interest rate curve suggests scepticism in bond markets, as investors are waiting for clear signals of a fiscal push. Although scant at the moment, we believe these signals will come and push longer US rates to a higher level. Tax cuts will be prioritised by the administration, but additional measures will also be needed to keep the impact of additional spending “deficit neutral,” which avoids the need for a 60% majority vote on the plan by the US Congress.

We believe that the prioritisation of tax cuts and reforms are positive for US corporate credits. High-yield and investment-grade companies will benefit to a similar extent from the proposed tax changes. A higher coupon return and a likely extended business cycle tip the balance in favour of US high yield over European high yield.

Tapering discussions in the eurozone are back, as recent data suggest that inflation targets are in sight. Nonetheless, we expect that the European Central Bank will maintain its existing monetary policy to restrain any volatility that could arise from upcoming European elections.

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	1.311	16.6	46.4
German Bunds 2-year	-0.857	9.9	-27.2
Japan 2-year	-0.289	-1.9	-9.9
US Treasuries 10-year	2.483	17.0	64.8
German Bunds 10-year	0.296	11.3	12.8
Japan 10-year	0.073	1.0	8.8

Spreads

	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	60.37	-2.27	-39.90
iTraxx Euro 5-year	70.64	-4.35	-24.90
JPM EMBI+	332.10	-0.24	-89.76

Performance data as of Friday, 3 March 2017

Source: Bloomberg

Corporate earnings calendar

	Date
Corbion, D’ieteren	6 Mar
Casino Guichard Perrachon, MTR Corp, TKH Group	7 Mar
Adidas, Boskalis Westminster, Deutsche Post	8 Mar
Aviva, Carrefour, Linde, Merck Kgaa, Refresco Group, Wharf Holdings	9 Mar

Asset allocation

The ABN AMRO asset allocation consists of a moderate overweight in equities, a large underweight in bonds and an overweight in cash. Within alternative investments, real estate is overweight and a neutral stance is taken to hedge funds.

Currency outlook

Currency forecasts have been adjusted. On the next page are the new forecasts.

Published this week

Market Comment: Trump’s speech to Congress

Despite Donald Trump not providing many policy details in his much-awaited speech last night, equity expert Maurits Heldring and fixed-income expert Chris Huys see reasons for investors to seek exposure to specific equity and bond segments in the US.



FX Forecasts

	02-Mar	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
EUR/USD	1.0532	1.05	1.05	1.05	1.10	1.15	1.15
USD/JPY	114.23	114	117	115	110	110	108
EUR/JPY	120.31	120	123	121	121	127	124
GBP/USD	1.2272	1.25	1.25	1.25	1.25	1.30	1.30
EUR/GBP	0.8582	0.84	0.84	0.84	0.88	0.88	0.88
USD/CHF	1.0108	1.02	1.02	1.02	1.00	0.97	0.98
EUR/CHF	1.0646	1.07	1.07	1.07	1.10	1.12	1.13
AUD/USD	0.7616	0.74	0.74	0.74	0.76	0.78	0.79
EUR/AUD	1.3828	1.42	1.42	1.42	1.45	1.47	1.46
NZD/USD	0.7103	0.70	0.70	0.70	0.71	0.72	0.74
EUR/NZD	1.4828	1.50	1.50	1.50	1.40	1.60	1.55
USD/CAD	1.3373	1.33	1.33	1.33	1.32	1.30	1.28
EUR/CAD	1.4084	1.40	1.40	1.40	1.45	1.50	1.47
USD/SEK	9.0490	9.29	9.24	9.14	8.64	8.04	7.83
EUR/SEK	9.5301	9.75	9.70	9.60	9.50	9.25	9.00
EUR/NOK	8.8858	9.00	9.00	8.75	8.50	8.50	8.25
USD/NOK	8.4372	8.57	8.57	8.33	7.73	7.39	7.17
EUR/DKK	7.4334	7.46	7.46	7.46	7.46	7.46	7.46

Source: ABN AMRO Group Economics

Investment Strategy & Portfolio Expertise
Group Economics

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