

Global Weekly

Strong fundamentals support markets

Investment
Communication
31 March 2017

Equity and bond markets are stabilising. Macroeconomic data and market fundamentals continue to be strong, while political risks have lessened.

In the US, the positive effect of President Trump's pro-growth policies may be lessening, as a consequence of the Republican party's inability to bring its health care bill to a vote in the House of Representatives. Expectations of US fiscal stimulus may also be diminished, given that the Republican's domination in the House, Senate and Executive branch does not appear to ensure the easy passage of legislation. Strengthening fundamentals, however, overshadow these political stumbling blocks. This view is confirmed by the continued good performance of the cyclical portion of the market.

In the eurozone, the economy is gaining some momentum, with economic growth running at comfortably above-trend rates. This is one reason behind our change in view regarding the European Central Bank's (ECB) monetary policy. We now expect that the ECB will make an earlier exit from its super accommodative policy than we had expected. It is still a long

Equity index performance in local currency

	Value	One week change (%) [*]	Year-to-date (%)
MSCI ACWI	450.8	0.7	6.9
S&P 500	2,368.1	1.0	5.8
AEX Index	515.7	0.8	6.7
EuroStoxx 50	3481.6	1.1	5.8
DAX Index	12,256.4	1.6	6.8
Nikkei 225	19,063.2	-1.0	-0.3
Hang Seng Index	24,301.1	-0.2	10.5

^{*}Thursday close compared with Friday last week

Performance data as of Thursday, 31 March 2017

Source: Bloomberg

way off, however. Our new view is that the ECB will start to reduce its monthly purchases in January 2018 by EUR 10 billion per month. This would lead to an end of the programme by June 2018. The central bank is expected to follow this with a 10-basis-point increase in the deposit rate in September 2018. For more information, [read Change of ECB View](#), published by ABN AMRO Group Economics.

Equities update

After a weak start, stock markets rebounded during the week. Most major global indices, however, were only slightly higher compared with the week before. The German DAX was among the best performing indices, and it reached a new all-time high. Investors were not unnerved by the UK government triggering the Article 50 process to leave the EU. In the automobile sector, however, Ford warned that a tariff-free trade agreement with the EU is a necessity for the UK car industry to remain competitive. So, investors will keep a close eye on the negotiations that will be taking place between the UK and the EU in the coming months.

The best-performing sectors this week were energy, information technology (IT) and consumer discretionary. Large IT companies, such as Apple and Facebook, set new all-time highs. In the consumer discretionary sector, US apparel players, such as PVH and Under Armour, performed well. In Europe, automotive stocks outperformed, led by Ferrari. Investors clearly preferred cyclical stocks this week, which also explains why utilities, consumer staples and telecoms underperformed.

Although the earnings season is over now, there was still a lot of company-specific news this week. First of all, the European Commission blocked Deutsche Börse's attempt to take over the London Stock Exchange. Furthermore, the Chinese internet giant Tencent took a 5% stake in electric-car producer Tesla, which is an indication of the company's ambition in electric vehicles and autonomous driving. Clothing retailer Hennes & Mauritz shares dropped to the lowest level in more than three years, as the company warned for pricing pressure and higher inventories. Finally, there was good news from the travel & leisure subsector. Cruise operator Carnival raised its guidance for 2017, based on strong bookings and rising prices, with the company's shares reaching a new all-time high. Moreover, the travel operators Thomas Cook and TUI stated that bookings for the summer season in Europe are clearly higher compared with last year, with the exception of Turkey.

Bond markets update

US Treasury ten-year bond yields have fallen back to the lower band of the trading range (2.3% to 2.6%) that has been seen since December 2016. Eurozone data is now accelerating even faster than US data on a nominal and relative basis. This is now reflected in tightening spreads and the EUR/USD exchange rate. Given the very recent slowing of US-based "soft" survey data, as well as the legislative disappointment for the new Trump administration, investors are now looking more globally for opportunities.

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	1.28	2.5	56.1
German Bunds 2-year	-0.74	1.1	-24.9
Japan 2-year	-0.19	6.9	-0.5
US Treasuries 10-year	2.42	0.7	65.1
German Bunds 10-year	0.34	-6.5	18.4
Japan 10-year	0.06	0.5	10.0

Spreads

	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	66.81	-1.04	-11.47
iTraxx Euro 5-year	74.24	-0.88	1.23
JPM EMBI+	329.44	-3.56	-67.93

Performance data as of Friday, 31 March 2017

Source: Bloomberg

Federal Reserve Board members Eric Rosengren and John Williams are not ruling out more than three hikes this year. We do not expect a huge risk-on spread tightening, however, as we are in the middle of the debate of how central banks could take their next step in further tightening. We are already for a number of months in the current trading range. You might conclude that there are numerous technical factors to keep us within the current range. The US debt ceiling discussion, at the end of April, could be a next challenge to higher interest rates.

Asset allocation

The overall asset allocation remains unchanged. It consists of a moderate overweight in equities, a large underweight in bonds and a significant overweight in cash. Within alternatives, real estate is overweight, a neutral stance is taken to hedge funds and there is no allocation to commodities. The latest move in the asset allocation occurred within equities. There was a regional shift to European equities at the expense of US equities. This was in light of the economic upturn and abating political risks in Europe. At the sector level, there was a switch from energy to industrials, as the industrials sector is expected to benefit from improving global economic growth prospects.

Investment Strategy & Portfolio Expertise Group Economics

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