



Global Weekly

# ...and relax

**Investment  
Communication  
26 May 2017**

Calm returned on the financial markets after last week's political turbulence. Even though the continued oil production cut of the OPEC disappointed, equity markets went further up.

## Equity markets

Investor sentiment continues to be positive for equities. Equity markets gradually recovered from the previous week's turmoil around Trump and Brazil and resumed their way upward. Equity indices in the US are again trading around all-time highs and in Europe around their two-year highs.

US markets were positive on the budget plans presented by US President Donald Trump. Defence stocks - which benefited from deals signed during his trip to Saudi Arabia - and retail stocks reported solid results. In Europe, equity markets were supported by continued improving macroeconomic data, offsetting some weakness in stocks that are sensitive to the recent euro strengthening. The Chinese stock market, however, suffered from the Chinese credit rating downgrade by Moody's.

## Equity index performance in local currency

	Value	One week change (%) <sup>*</sup>	Year-to-date (%)
MSCI World	464.88	1.1%	10.2%
Euro Stoxx 50	3,584.55	-0.1%	8.9%
AEX Index	527.46	0.1%	9.2%
DAX Index	12,621.72	-0.1%	9.9%
S&P 500 Index	2,415.07	1.4%	7.9%
Nikkei 225	19,813.13	1.1%	3.7%
Hang Seng Index	25,630.78	1.8%	16.5%

Performance data as of Thursday, 25 May 2017

Source: Bloomberg

All eyes were on the meeting of the organisation of petroleum exporting countries (OPEC), where, as expected, adhering countries decided to prolong their output cuts. This failed to give further support to the oil price, however, and investors sold on the news. In its wake, energy stocks were under pressure.

The US Federal Reserve (Fed) meeting minutes reassured markets that the central bank is still on track to gradually raise interest rates. This will continue to provide support for equities, in our eyes, as equities offer a more attractive yield than other asset classes -such as bonds- in this gradually rising, but continued relatively low interest-rate environment.

## Bond markets update

Market sentiment continued to improve this week after the US political turbulence of last week. In fact, the lack of Trump-related headlines was probably supportive for market sentiment and some of the deals made with Saudi Arabia over the weekend were seen as a positive for markets. After the low this month of 32 basis points (bps) on the 10-year German interest rate, we are close to passing the 40 bps mark. Bond prices declined. The new global flash purchase managers indices (PMIs) helped on both sides of the Atlantic.

Credit-rating agency S&P has moved Brazil's sovereign BB rating to credit watch negative and Moody's has cut China's sovereign credit rating by one notch to A1/Stable. The rating is now at the same level as Japan but below that of Taiwan. Regarding Greece, following another round of talks, creditors failed to reach agreement on debt relief for the country. Germany and the IMF supposedly disagree about the amount of debt relief required to assure economic stability in Greece.

In April, the European Central Bank (ECB) reduced its amount of asset purchases from EUR 80 billion per month to 60 billion, but refused to inform investors how this would be split between sovereign and corporate bonds. Weekly notifications of the bonds bought by the ECB, though, have given investors the impression that the division was relatively the same. However, this week's notification showed an increase in corporate bond buying which made investors think that the corporate bond tapering maybe was not that much after all.

## Commodity outlook

On Thursday, the coalition between OPEC and non-OPEC countries decided to extend its production cut agreement of 1.8 million barrels per day in total by another nine months until the first quarter of 2018. With this agreement, the coalition tries to create time and stability. No strategy is set yet for after this period. During the coming nine months, the oil producers expect the near record-high inventory levels to drop towards five-year averages and to result in a rebalancing of the market where supply meets demand. By ending the global oil glut during the coming months, the alliance expects to have created a floor under oil prices at around USD 50 per barrel.

## Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	1.288	1.5	41.9
German Bunds 2-year	-0.687	0.1	-16.5
Japan 2-year	-0.168	-0.4	7.2
US Treasuries 10-year	2.246	1.0	41.7
German Bunds 10-year	0.346	-2.0	20.1
Japan 10-year	0.037	0.2	16.2

## Spreads

	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	62.06	-1.52	-15.22
iTraxx Euro 5-year	61.89	-1.15	-8.97
JPM EMBI+	326.66	-11.21	-64.30

Performance data as of Friday, 26 May 2017

Source: Bloomberg

## Reporting calendar

China Resources Beer Holding	31 May
Metro AG	31 May
China State Construction Int	1 June
Elektro AB-B SHS	1 June
Lululemon Athletica Inc	1 June
Mobileye NV	1 June
Cooper COS Inc/The	1 June

According to the Saudi Arabian oil minister Khalid Al-Falih, a build-up of US oil production in 2017 will not be enough to derail this strategy.

The ABN AMRO forecast for the end of the second quarter is USD 50 per barrel, still fully in line with the current market conditions. For year-end, we forecast USD 60 per barrel for both Brent and WTI oil. During the meeting, oil prices fell under severe pressure (-4% at some point) as investors were disappointed that OPEC had not done more to convince markets. We do not see any reason to lower this forecast based on the comments at the OPEC press conference, but we will continue to monitor the market closely.

## Macro update

Eurozone core inflation jumped to 1.2% y-o-y in April from 0.7% y-o-y in March. That move looked unsupported by fundamentals and we speculated that this may reflect an early Easter effect. At the same time, underlying inflation in the eurozone remains incredibly weak. It appears that the ECB is starting to put more weight on strong economic growth as a future lead indicator of inflation, than on subdued

current underlying inflationary pressures. So it still seems likely that the ECB will gradually move towards scaling down its accommodative policy, especially given its (self-imposed) limits to further extending the asset programme into 2018.

Portugal's economy has made a remarkable recovery in recent quarters. Economic growth has been well above growth in the eurozone since the second quarter of 2016. In the first quarter of 2017, quarterly growth in Portugal was even more than twice as high as that in the eurozone, while the y-o-y growth rate jumped to 2.8% (eurozone total growth is 1.7%). Nonetheless, the government debt ratio continued to rise, reaching 130.4% of GDP in 2016, up from 129.0% in 2015, which was largely due to the ongoing recapitalization of a state-owned bank. Looking forward, we expect that Portugal's economy will continue to grow solidly and that its government finances will improve. Nevertheless, at these levels of debt, it remains vulnerable to contagion from, for instance Italy, which has weaker fundamentals, once the asset purchasing programme ends.

## Asset allocation

Our overall asset allocation consists of a strong overweight in equities, a large underweight in bonds and an overweight in cash. Within alternatives, real estate is overweight, a neutral stance is taken to hedge funds and there is no allocation to commodities.

## Published this week

### **Investment Strategy: Positive environment for equities**

In the last few days, markets in the US have corrected, as the troubles around the Trump administration have increased. This issue was discussed at Thursday's meeting of the ABN AMRO Investment Committee. Despite a jump in market volatility, it remains at a relatively low level.



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