

Global Weekly

Running on more engines

Investment
Communication
2 June 2017

Europe and emerging markets are taking over from the US as the engines of economic growth. Despite politics dominating markets this week, fundamentals remain strong.

Domestic momentum in many important economies has picked up and is set to become the main driver of growth in the remainder of 2017. While the US had led the recovery, other growth engines, such as Europe and emerging markets, are now starting up. In this environment, ABN AMRO prefers equities over bonds, and, in particular, the stocks of European and emerging markets countries. More information regarding this view can be found in the ABN AMRO mid-year investment outlook, "[Running on more engines](#)," published this week.

Market overview

Both equity and bond markets over the last week have appeared to seek safer ground in the face of renewed political risks. There is growing uncertainty related to shifting polls regarding next week's vote in the UK and also in reaction to US President Donald Trump's continuing troubles related to Russia and possible consequences from the US leaving the Paris Climate Accord. While developed equity markets have levelled off, emerging-markets Asia is doing well. In bond

Equity index performance in local currency

	Value	One week change (%) [*]	Year-to-date (%)
MSCI ACWI	466.4	0.4%	10.6%
S&P 500	2,430.1	0.6%	8.5%
AEX Index	527.0	-0.2%	9.1%
EuroStoxx 50	3567.0	-0.3%	8.4%
DAX Index	12,664.9	0.5%	10.3%
Nikkei 225	19,860.03	0.9%	3.9%
Hang Seng Index	25,809.22	0.7%	17.3%

Performance data as of Thursday, 1 June 2017

Source: Bloomberg

markets, the effect of the possibility of early elections in Italy caused some isolated minor concerns. For both equity and bond markets, political concerns are temporarily winning out over macroeconomic and business fundamentals, which remain strong.

Equities market update

Sentiment in equity markets shifted into neutral this week, as the positive afterglow of the earnings season wore off and the market refocused on digesting a stream of largely geopolitical

news. With the conclusion of the G7 summit, President Donald Trump's domestic worries again took centre stage, together with less positive US economic data. Markets pulled back slightly from recent all-time highs, tilting slightly to more defensive sectors, such as health care, consumer staples and utilities. Large-cap information technology companies seem to be the main cyclical focus for institutional investors.

Momentum in emerging markets continues, although with large contrasts among regions. Emerging markets Asia, which we prefer, moved higher, while Latin America and Eastern Europe seem for the moment to have peaked. This is occurring as western developed markets take a breather. We expect that as the quiet summer period starts in earnest, the largest surprises for the wary investor will be news-driven, while fundamentals remain strong.

In Europe, momentum has slowed. During the week markets were flat, despite continuing inflows into funds and momentum in currency markets. UK election worries related to Theresa May's Tory party also weighed on markets and the pound, as doubts rose over the outcome of the vote.

Bond markets update

Global ten-year government bonds yields have been trading in a continuous W-shape pattern over the last six months, as global economic data continues to be supportive. It looks like this pattern could continue over the summer, as progress on core inflation is painfully slow across developed markets. Euro area core inflation remains stuck at just below 1%, despite the steady fall in unemployment. A similar pattern is occurring in the US.

Given a more optimistic outlook for demand growth, policymakers are expected to guide markets towards a gradual normalization of monetary policies. The ECB will meet on 8th of June and the Fed on 14th of June. Policy uncertainty has long been a part of investor risk factors and is linked to busy electoral agendas, with elections in the UK, France Germany and likely Italy coming up. The prospect of Italian elections taking place earlier than expected is driving Italian spreads wider over German Bunds. The periphery is no longer moving as one block: Spain is stable and Portugal has come in by 100 basis points over the last three months.

Currency outlook

The US dollar has failed to profit from some stronger US data, while the euro has been fairly resilient in the wake of comments by ECB president Mario Draghi and lower eurozone

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	1.29	-0.2	40.5
German Bunds 2-year	-0.72	-2.9	-20.0
Japan 2-year	-0.16	0.6	7.7
US Treasuries 10-year	2.21	-3.7	41.1
German Bunds 10-year	0.29	-3.7	17.7
Japan 10-year	0.05	0.9	15.6

Spreads

	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	60.44	-2.01	-17.16
iTraxx Euro 5-year	61.79	0.50	-13.03
JPM EMBI+	327.06	0.40	-66.05

Performance data as of Friday, 2 June 2017

Source: Bloomberg

inflation data. Next week the focus is on the ECB. If it sounds accommodative, there could be some profit-taking in the euro. Another important event next week is the UK elections. A victory by Theresa May is now priced-in to sterling.

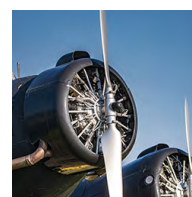
Asset allocation

The ABN AMRO asset allocation consists of a strong overweight in equities, a strong underweight in bonds and a large cash position. Within alternatives, real estate is overweight and hedge funds are neutral. There is no position in commodities.

Published this week

Investment Outlook: Running on more engines

Europe and other economies are taking over from the US as the engines of economic growth. Despite a possible slowdown in China, the global economic recovery has become self-sustaining.





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