



Global Weekly

An eventful week

**Investment
Communication
9 June 2017**

Due to political events, such as the UK elections, equity markets behaved cautiously. Bond markets were focused on the ECB and low inflation.

Macro update

The result of the UK snap election, called by Theresa May seven weeks ago, has ended differently than she had planned. In the midst of UK political uncertainty, markets remain calm.

In a race that became closer than expected, the Conservatives have seen their number of seats in the House of Commons decline. Not only was May denied the “mandate” she sought to strengthen her Brexit negotiations, her Conservative Party has lost the absolute majority.

The calm in markets seen before the election continues. On the early news of the election results, the British pound dropped modestly, as political risk is now being priced-in. Markets in Asia opened higher and European equity markets are unchanged or moving higher. Bond markets are also steady. Despite the unexpected election result, the vote is likely to have little medium-term impact on markets. (For more

Equity index performance in local currency

	Value	One week change (%)*	Year-to-date (%)
MSCI ACWI	467.2	-0.5	10.8
S&P 500	2433.8	-0.2	8.7
AEX Index	523.6	-0.6	8.4
EuroStoxx 50	3563.9	-0.8	8.3
DAX Index	12713.6	-0.9	10.7
Nikkei 225	19909.3	-1.3	4.2
Hang Seng Index	26063.1	0.5	18.5

Performance data as of Thursday, 8 June 2017

Source: Bloomberg

information, read the Market Comment - Markets calm as UK voters turn away from Conservatives.)

Thursday, the ECB changed its forward guidance, dropping the easing bias in terms of interest rates, in what is the first step on the path to move away from its unconventional loose policy. However, the bank kept a number of important elements, to signal that this process will be very slow.

We expect the ECB to signal tapering of asset purchases at the September 2017 meeting, when it will make further changes to its forward guidance. From January 2018 onwards, we expect tapering of asset purchases, with the monthly pace slowing by EUR 10 billion each month.

Equity markets update

Awaiting the outcome of political events such as the UK elections, a testimony from former FBI chief James Comey and an ECB policy decision, equity markets were lackluster over the week. Investors adopted a more cautious stance and were moving into safer parts of the markets.

From a regional perspective, the pattern was unchanged with emerging markets continuing to outperform, the US underperforming and Europe in the middle of the pack. Clearly, the political turmoil in the US regarding the actions of Trump to, for example, withdraw from the Paris Climate Treaty is to a certain extent leading investors to steer away from US markets.

From a sector perspective, information technology continues to perform well with both Amazon and Alphabet (Google) breaking through the magical USD 1000 share-price range. At the same time, the recent risk-off behaviour of investors also led more defensive parts of the markets, such as utilities and consumer staples, to outperform.

The energy sector was weak on the back of a disappointing production-cut agreement of the OPEC and increasing oversupply, which resulted in a renewed decline of the oil price. Hence, our underweight position in the energy sector continues to play out nicely.

Leaving aside the near-term political turbulence, we still believe the fundamental perspective for equity markets continues to be supportive with positive macro trends and encouraging earnings developments. Currently, corporate news flow is relatively soft in the run-up to the second-quarter earnings season. In general, investors are anticipating a favourable outcome for second-quarter earnings, which should confirm positive underlying growth trends.

Bond markets update

Global economic growth remains firmly on track, albeit a bit more convincing in Europe than in the US. Global inflation, however, is recently falling behind the curve. Notwithstanding the statistical quirks and lower oil prices, the pace of core inflation is failing to pick up, despite a global labour market that is reaching high levels that had been considered full employment in the past.

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	1.32	3.5	55.6
German Bunds 2-year	-0.74	-1.5	-19.6
Japan 2-year	-0.11	5.3	14.3
US Treasuries 10-year	2.20	4.1	51.4
German Bunds 10-year	0.25	-1.9	22.2
Japan 10-year	0.05	0.4	18.4

Spreads

	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	61.08	1.24	-14.35
iTraxx Euro 5-year	59.43	-2.34	-15.62
JPM EMBI+	324.49	-2.57	-55.28

Performance data as of Friday, 9 June 2017

Source: Bloomberg

With the US being the most advanced in the economic cycle, the country is now testing how low unemployment can go before serious wage pressure is finally triggered. The latest job report indicated no end to this search, with unemployment further declining and wages moving sideways: a mixed signal. We do not expect that this will stop the Fed from hiking rates in June.

Market-based inflation expectations have taken a significant step back since mid-February and explain how real rates can still trade around this year's highs. Nominal yields are now trading in the middle of this year's range. European inflation-linked bonds are now priced to see even lower core inflation over the next five years.

Following the ECB's meeting on Thursday, ECB President Mario Draghi balanced higher growth and lower inflation numbers and forecasts to convey a careful message of a very gradual reduction of monetary stimulus over a period of years. Markets were prepared for this message, with no signs of alarm.

Peripheral spreads tightened, due to Italian political developments, which are expected to increasingly capture the market's attention over the next few months. Spread widening over the last few weeks – in response to the risk of early elections – has provided a useful preview of what can be expected in the run-up to the Italian election, that will be held at the latest in March 2018.

Commodity update

Tensions surrounding Qatar and several Gulf countries have not had much of an impact on oil prices. The dispute was triggered

by Saudi Arabia, which accused Qatar of supporting extremism in the region. Other countries such as Egypt, Bahrain, Yemen and the UAE joined the sanctions imposed against Qatar. Qatar is expected to remain part of the OPEC production cut agreement (and if not, other producers will take Qatar's share). US inventories remain in focus. However, these weekly numbers show large swings which trigger higher volatility in oil prices. The longer-term trend does not yet show a clear shift towards significantly lower levels.

Asset allocation

The ABN AMRO asset allocation continues to consist 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

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