



global weekly

Investment
Communication
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Did you notice? It's earnings season

As US government workers troop back to the office, it is time to see what the effect of the debt-ceiling stalemate has been on equity, bond and currency markets. With the Washington political mess dominating headlines, it was easy to overlook that the earnings season is underway.

Shares continue their upward trend

Most equity markets around the world rose during the week, helped by the agreement between the Democrats and Republicans to raise the US debt ceiling and to terminate the government shut-down. The major US indices, including the Dow Jones Index, S&P 500 Index and the NASDAQ, were all up by around 2-3% compared with last week. A calmer mood among investors was also visible in the VIX volatility index, which retreated after reaching a three-month high last week.

In Europe, the STOXX 600 Index rose slightly, driven by a strong performance from the banking sector. Asia performance was also positive, with all major indices moving higher.

Bond market returning to normal

Bond markets also reacted positively to the US Congress managing to reopen the government and allow new sovereign borrowing. Treasury bills spiked directly following the announcement of the deal on Wednesday. Yields on the shorter-maturity Treasury bills normalised from the elevated levels seen over recent weeks. They are still higher than before the debt-ceiling negotiations, reflecting a decreased risk of default. Since the government agreement is only temporary, we expect short-maturity US debt to continue to discount a somewhat higher default premium, at least until a more definitive solution is found.

For ten-year government bonds, including both Treasuries and Bunds, yields declined slightly after the debt-ceiling deal. In the longer term, the fiscal situation in the US seems to have only temporarily tweaked benchmark yield curves. Ever since the decision to not begin tapering asset purchases, after the 18 September meeting of the Federal Open Market Committee, bond markets have been discounting slightly lower yields across maturities and flattening yield curves. They are waiting

Equity index performance in local currencies

	Value	One week (%)	Year-to-date (%)
MSCI ACWI	393.52	1.8	15.8
S&P 500	1733.15	2.4	21.5
EuroStoxx 50	3010.39	1.4	14.5
DAX	8811.98	1.0	15.8
Nikkei 225	14561.54	2.6	40.1
Hang Seng Index	23314.45	1.6	2.9

Important rating changes

Company	From	To
Akzo Nobel	Hold	Sell
Wells Fargo & CO	Buy	Hold
Gilead Sciences	Buy	Hold
Qualcomm	Buy	Hold
Weight Watchers Int'l	Buy	Hold

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.304	-4.0	0.8
German Bunds 2-year	0.173	-0.9	7.5
Japan 2-year	0.109	0.4	0.7
US Treasuries 10-year	2.555	-12.7	73.6
German Bunds 10-year	1.836	-3.3	20.2
Japan 10-year	0.620	-3.6	-15.1

Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	71.25	-7.49	-18.50
iTraxx Euro 5-year	87.54	-8.47	-29.06
JPM EMBI+	327.20	-5.68	77.04

Performance data is as of 12:00 pm Friday, 18 October

Source: Bloomberg

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for clearer signals of the future direction of the economy and monetary policy.

Credit markets, both investment grade and high yield, are performing well, benefiting from lower benchmark yields and stable spread performance. New issuance has been very low, reflecting the same wait-and-see attitude noted for government bonds. We expect larger amounts of issuance during the coming months, as companies continue to lock-in low borrowing costs. Despite the heavier issuance, we expect spreads to perform well over the coming months: corporate fundamentals are healthy and spreads are again becoming less sensitive to rising yields.

Currency markets remain sceptical

Currency markets had been paralysed by the US fiscal debate. In circumstances of risk aversion, the Japanese yen and the US dollar often outperform other currencies. But as the US was the epicenter of the market uncertainty, the dollar was under some pressure. Still, the Japanese yen rose, due to modest safe-haven inflows.

We believe that skepticism remains in currency markets about the US government's fiscal deal. Indeed, the focus will now most likely shift to the damage caused by the shutdown and whether this will be large enough to prompt the Fed to further delay its tapering decision into 2014. While we think that a December taper remains the most likely outcome, it is clear that the risks of a March move have risen significantly. Last, but not least, the next fiscal battle is already looming on the horizon. The prospect of a weaker-than-expected US economy and a delay of tapering by the Fed has hurt the US dollar across the board.

Dollar forecast revised

While we remain positive on the US dollar, we have revised our US-dollar forecast. We believe that the case for significant US dollar strength remains in place, but it may take longer to materialise. For more information, read the 18 October 2013 FXWatch.

Currency forecasts

	Today	Q4 2013	Year-end 2014
EUR/USD	1.3693	1.28	1.20
GBP/USD	1.6216	1.54	1.50
USD/JPY	97.65	105	110

Source: ABN AMRO Group Economics

Earnings season in full swing

The earnings season is now fully underway. In the US, most companies reported figures in line with or ahead of expectations. For example, PepsiCo had a decent quarter driven by a strong snacks business. Also drug company Johnson & Johnson's quarterly figures surprised positively, due to successful sales of new drugs. The IT sector bellwethers IBM and eBay,

however, missed expectations. IBM published disappointing revenues, due to a weak performance in emerging markets and continuing pressure on hardware sales. And eBay shocked the market by stating that US e-commerce growth "is dramatically decelerating" in recent months. The internet company's shares lost more than 5%, as the company also voiced a cautious tone regarding the holiday season.

Google, however, is feeling no such pain, delivering results that were a positive surprise. The company now controls one-third of the global online advertising market. Its good results pushed its shares to an all-time high of close to USD 1,000.

In Europe, luxury goods manufacturer LVMH saw its shares plunge after reporting a disappointing quarter. LVMH suffered from declining growth in its fashion and leather segments, as its new handbag line is not selling as strongly as expected. In the food sector, the news was generally negative as well. Nestlé results were weaker than expected, as emerging markets and western Europe disappointed. Danone's results were hurt by a recall of baby nutrition products in Asia. As a result, the company lowered its growth and profit forecasts for the year.

Reporting calendar

Company	Date
McDonald's, Halliburton, SAP, Akzo Nobel, Philips, Binckbank, China Mobile, Texas Instruments	21 Oct
Amgen, Novartis, Stora Enso, Kimberly-Clark, KPN, Du Pont, Sigma-Aldrich, STMicroelectronics, United Tech, EMC	22 Oct
Heineken, Fortum, Caterpillar, Eli Lilly, Iberdrola, General Dynamics, Arcadis, AT&T, Thermo Fisher, Motorola, Bristol-Myers Squibb, Glaxo	23 Oct
Ericsson, Microsoft, Daimler, Int'l Paper, ABB, Southwest Airlines, Logitech, 3M, Colgate-Palmolive, Nestle, Santander, Credit Suisse, Altria Group, Canon, Amazon, Ford	24 Oct
UPS, Wessanen, BASF, Belgacom, USG, Ten Cate, NTT Docomo, Solvay, P&G, Samsung	25 Oct

Stock to watch: KPN

KPN (EUR 2.25 – Hold) shares declined by up to 10% after América Móvil (AMX) announced this week that it would drop its EUR 2.40 per share offer for the Dutch telecom. AMX walked away after an agreement on price could not be reached. KPN management indicated that AMX was not willing to pay more than EUR 2.40 per share, despite the fact that Telefónica had raised its offer for KPN's German subsidiary, E-Plus, and KPN negotiated a favourable deal with the Dutch tax authorities related to the sale.

We do not rule out that AMX and KPN could get back to the negotiating table at some stage. However, Dutch law prohibits AMX from making a new offer within six months. In the

meantime, KPN's operational performance may come under pressure from increasing competition in the Netherlands, especially in the mobile market. We see a stand-alone value of EUR 2.30 per share for KPN. Uncertainties regarding the competitive environment remain high and approval for the E-Plus takeover is still needed. We consequently maintain our Hold rating for KPN.

Asset allocation

Overall asset allocation unchanged; regional equity allocation adjusted

No change to the overall asset allocation was made at the Global Investment Committee meeting on 17 October 2013. The asset allocation continues to reflect a strong overweight in equities, a strong underweight in bonds, neutral allocations to property and commodities and a hedge fund allocation only in the defensive (overweight) and the more balanced (neutral) profiles.

Within equities, however, the committee increased the regional allocation for Europe, moving from neutral to overweight at the expense of North America, where the allocation was decreased from neutral to underweight.

The upgrade of European equities was made against a backdrop of diminishing systemic uncertainty and improving fundamentals. The committee believes that the recovery potential, in term of valuations and earnings, is now larger for European than US equities. For more information, read the GIC Update published today.

New publications

Opportunities in the automotive sector: equities sector note

The global automotive market is having a difficult year, as many economies around the world are still not out of the woods. However, we expect the car sector to rebound in 2014 and the BRIC countries to remain drivers for growth in the coming years. We see upside in stocks such as Daimler, Fiat and General Motors. In addition, investors can play the European automotive sector via ETFs.

GIC Update

For more information, see Asset allocation above.

Clients are invited to contact their ABN AMRO Private Banking Advisor for publications mentioned in the Global Weekly. Core publications are also directly available on ABN AMRO's Research App for the iPad, which can be downloaded from Apple App stores.

Next week's calendar

Important dates next week

		Date
Retail sales	US	21 Oct
Business inventories	US	21 Oct
Housing starts	US	21 Oct
Industrial production	US	21 Oct
Existing home sales	US	21 Oct
Unemployment	US	22 Oct
FHFA house price index	US	23 Oct
Consumer confidence	US	23 Oct
PMI manufacturing	CN	24 Oct
PMI manufacturing & services	US	24 Oct
New homes sold	US	24 Oct
CPI	JP	25 Oct
Ifo business climate	DE	25 Oct
New durable goods orders	US	25 Oct
Uni. Michigan consumer confidence	US	25 Oct

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