



global weekly

Investment
Communication

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Calming words

Bond markets calmed and equity markets rose this week as central bankers (again) took turns issuing reassurances that rates will be on hold for some time. Markets seem to have finally gotten the message that tapering is distinct from rate hiking.

Bond market update

This week, US Treasuries settled down, after Federal Reserve Chairman Ben Bernanke said the US economy continues to need a highly accommodative policy. The minutes of the Fed meeting, released on Thursday, revealed that Fed officials want more evidence of a recovery of the US labour market before tapering bond purchases.

European markets and central bankers behaved similarly. German yields declined after comments from ECB board member Joerg Asmussen, who hinted that the ECB may keep rates low for more than 12 months. He also said that he would not rule out a new long-term refinancing option programme to provide liquidity to European banks.

Eurozone periphery limps along

Spreads of peripheral countries were supported this week. Greece received its bailout payment, the Portuguese government managed to not collapse (at least in the near term) and the effect of S&P's downgrade of Italy was low key.

Eurozone finance ministers released the much-needed EUR 4.8 billion bailout payment to Greece after the government promised to further reduce its civil servant workforce. Despite some progress, we still believe that to make its debt burden sustainable, Greece will not be able to avoid another haircut.

And, while Portuguese Prime Minister Coelho managed to patch together a new cabinet, it is likely that the new coalition will have to compromise on the implementation of reforms demanded by the European Commission, ECB and International Monetary Fund. The government has already indicated it may ask for an easing of Portugal's 2014 fiscal targets.

Equity index performance in local currencies

| | Value | One week | Year-to-date |
|-----------------|----------|----------|--------------|
| MSCI ACWI | 369.81 | 3,2% | 8,8% |
| S&P 500 | 1675.02 | 3,7% | 17,4% |
| EuroStoxx 50 | 2681.32 | 3,5% | 1,9% |
| DAX | 8158.80 | 5,1% | 7,8% |
| Nikkei 225 | 14506.25 | 1,4% | 39,5% |
| Hang Seng Index | 21302.05 | 2,1% | -6,0% |

Important rating changes

| Company | From | To |
|----------------------------|------|--------|
| Wells Fargo | Buy | Hold |
| Vastned Retail | Buy | Sell |
| Agricultural Bank of China | Buy | Hold |
| Baxter Int'l | Buy | Buy/RL |
| Pepsico | Buy | Hold |

Government bond yields

| | Yield | One week | One year |
|-----------------------|-------|----------|----------|
| US Treasuries 2-year | 0,32% | -4,8 bp | 5,3 bp |
| German Bunds 2-year | 0,10% | -0,9 bp | 12,1 bp |
| Japan 2-year | 0,12% | -0,8 bp | 3,5 bp |
| US Treasuries 10-year | 2,53% | 2,6 bp | 101,2 bp |
| German Bunds 10-year | 1,57% | -7,6 bp | 30,1 bp |
| Japan 10-year | 0,81% | -3,4 bp | 3,2 bp |

Spreads

| Index | Spread | One week | One year |
|--------------------|--------|----------|-----------|
| CDX NA IG | 78.27 | -4,93 bp | -33,29 bp |
| iTraxx Euro 5-year | 105.75 | -6,47 bp | -61,86 bp |
| JPM EMBI+ | 349.32 | 13,15 bp | -5,58 bp |

Performance data is as of 12:00 pm Friday, 5 July

Source: Bloomberg

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Finally, the downgrade of Italy by S&P had a limited impact on the country's yields. The rating agency lowered Italy's credit rating to BBB from BBB+ and assigned a negative outlook to the country. Italy is now rated two notches above noninvestment grade. A worsening domestic outlook was the main reason for the revision.

The muted reaction in Italian bonds yields can largely be explained by the fact that Italian financial institutions and domestic private investors are the largest holders of Italian government bonds. Furthermore, S&P's rating is now in line with Moody's.

Credits still in demand

Rising yields, outflows and fears of sovereign event risk have not dampened demand for credits, however, which remains strong, especially in Europe. There is healthy demand for new issues, bolstered by fund managers adding to their long-term conviction trades on weaker days. The upcoming earnings season is expected to support credit fundamentals, and we expect default rates to remain low for the foreseeable future.

Equity market update

Over the past week, global equity markets staged an impressive comeback with new records reached in the US. This rally makes up most of the losses incurred since the end of May, when worries about rising interest rates led to a loss of confidence in equity investments. We continue to stay firmly focused on the positive developments in growth and corporate profitability in the US; with Europe and Japan following but still lagging; and emerging markets continuing their growth path, albeit at a somewhat slower pace.

With the focus over the past years firmly on the exciting developments in the East and with China emerging as a major global economic and political powerhouse, the West has been ignored somewhat by global investors.

Labelled as old style and seen lagging in growth, burdened by high unemployment and with almost no demand growth, due to the ageing of many western populations, the preference for the fast-growing economies of the emerging markets seemed obvious.

But change happens, especially if innovation is thriving. And growth alone, although a clear positive, is no longer the only driver of equity investment preferences. Growth driven by sheer volumes in the East is also now being joined by growth from new scientific and technological discoveries and developments in the West.

Innovation driving productivity and growth

Science and technology is propelling productivity to higher levels. Moreover, solutions are being found to many scarcity issues that were a consequence of growing demand from fast-growing markets. This has made wealth creation on a global scale possible again - and not just in fast-growth pockets.

And wealth should not be viewed only in monetary terms. Well-being, sustainability and happiness can also be enhanced by the new solutions being developed.

The impressive rise this year of the more technology-focused equity markets, including the US (+18% on average), Switzerland (+13%) and Germany (+7%) is evidence of a renewed appreciation of the strength of western know-how and expertise. Japan (+22%) is also regaining global respect.

Longer and healthier lives

Innovations that are making a difference include the application of new discoveries in human DNA analysis and in biotechnology in general. There have also been important advances in new technologies in information and automation and in the exploration and application of techniques involving new energy sources. Risks and disappointments will always accompany such trends, but overall, mankind is successfully managing the new challenges.

Investment opportunities

It is likely that equity investors will continue to favour investments in the leading global innovators. A sector that is truly global and affects almost everyone is health care. As life expectancy rates in general rise as wealth increases, the demand for effective and safe medications also grows.

Studies now in progress to fight diseases such as cancer, multiple sclerosis and rheumatism as well as to combat fast-spreading viral infections, such as hepatitis C and HIV, are set to lead to real solutions. As a result, we favour research leaders, such as Gilead Sciences (Buy/RL), Sanofi Aventis (Buy/RL), Amgen (Buy/RL) and Novartis (Buy/RL).

Currency outlook

With ECB officials trying to calm eurozone interest rate expectations and S&P downgrading Italy to BBB with a negative watch, the euro/dollar pushed to below 1.28 at the beginning of the week. On Wednesday the situation calmed down ahead of the FOMC minutes and Fed Chairman Bernanke's speech. This is the third time this year that the euro/dollar is losing momentum around 1.28.

The pair received strong support after the release of the FOMC minutes and Bernanke's relatively dovish tone accelerated the upward move. The euro/dollar rallied to just above 1.32 before losing momentum again. Such intraday volatility is not uncommon when a major central bank is expected to change its direction. Moreover, thinner market liquidity is also making the movements larger. Until the Fed announces the actual tapering of bond purchases, the financial markets are likely to remain volatile. We expect the dollar to get the upper hand this quarter on better-than-expected economic data. Our forecast for the end of September is 1.25.

Currency forecasts

| | Today | Q2 2013 | Year-end 2013 |
|---------|--------|---------|---------------|
| EUR/USD | 1.3018 | 1.25 | 1.20 |
| GBP/USD | 1.5081 | 1.49 | 1.45 |
| USD/JPY | 99.04 | 106 | 110 |

Source: ABN AMRO Group Economics

Asset allocation

The Global Investment Committee did not make any changes in the asset allocation this week. The overall tactical asset allocation therefore remains overweight in equity, neutral in property and commodities and with a strong underweight in bonds. Hedge funds are part of the portfolio only in the defensive (overweight) and more balanced (neutral) profiles.

Next week's calendar

Important dates next week

| | | Date |
|--------------------------------------|----|---------|
| GDP | CN | 15 July |
| Industrial production | CN | 15 July |
| Retail sales | US | 15 July |
| Empire State PMI | US | 15 July |
| Business inventories | US | 15 July |
| ZEW index | DE | 16 July |
| Core inflation | EC | 16 July |
| CPI | US | 16 July |
| Industrial production | US | 16 July |
| NAHB home builders' confidence index | US | 16 July |
| Housing starts | US | 17 July |
| Fed semi annual policy report | US | 17 July |
| Philly Fed business confidence | US | 18 July |

Contributors

Equity Research & Strategy Team

Edith Thouin - edith.thouin@nl.abnamro.com

Ralph Wessels - ralph.wessels@nl.abnamro.com

Bond Research & Strategy Team

Henk Wiersma - henk.wiersma@nl.abnamro.com

Jeroen van Herwaarden - jeroen.van.herwaarden@nl.abnamro.com

Group Economics

Georgette Boele - georgette.boele@nl.abnamro.com

Peter de Bruin - peter.de.bruin@nl.abnamro.com

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