



global weekly

Investment
Communication
30 August 2013

Fundamentals deserve all the attention

Possible Western military action against Syria turned investor sentiment sour for the bigger part of this week. At the end, however, fundamentals were again gaining the upper hand.

Macro update

Syria loomed large over the global financial markets at the beginning of this week, continuing the downturn in sentiment that began during Monday's US session. This followed the increased probability of Western military strikes against the regime of President Bashar al-Assad. Markets turned into a classic risk-off mode, with equity markets declining, but Treasuries, core eurozone bonds, the yen and gold all benefiting from safe-haven demand. We nevertheless expect the markets to soon focus on fundamentals again. Because, at the risk of sounding repetitive, economic data continue to suggest that global economic growth is gaining traction.

And indeed, there were enough positive data to celebrate this week. The biggest surprise was the US Q2 GDP, which was revised upward from 1.7% to 2.5%. Net trade and inventories were a bit stronger than expected. The Q2 GDP estimate also revealed that profits grew by 3.9% (non-annualised) in Q2, after a 1.3% drop the quarter before. This marked the strongest increase since Q4 2011 and bodes well for the outlook for investment.

Germany's Ifo business climate indicator jumped from 106.2 in July to 107.5 in August, beating the consensus forecast of a more moderate rise to 106.9 and rising to well above the long-term average value of 101. The jump in the headline index resulted from a rise in the current conditions index and a rise in the expectations index. The latter index tends to move closely in line with GDP growth and at its current level it is consistent with continuing solid growth of the German economy. It should remain the driving force behind the ongoing moderate recovery of the eurozone. In the US, the Conference Board's measure of consumer confidence rose to 81.5 in August, from 81.0 the month before, keeping it in an upward trend.

At first sight, the only dissonant data were the durable goods orders in the US, which fell by 7.3% in July. This was consid-

Equity index performance in local currencies

| | Value | One week (%) | Year-to-date (%) |
|-----------------|----------|--------------|------------------|
| MSCI ACWI | 365.45 | -1.8 | 7.6 |
| S&P 500 | 1638.17 | -1.1 | 14.9 |
| EuroStoxx 50 | 2758.31 | -2.7 | 4.4 |
| DAX | 8194.55 | -2.8 | 7.5 |
| Nikkei 225 | 13388.86 | -2.0 | 28.8 |
| Hang Seng Index | 21677.14 | -0.9 | -4.3 |

Important rating changes

| Company | From | To |
|----------|------|------|
| Allergan | Hold | Buy |
| Vodafone | Buy | Hold |
| ABB | Hold | Buy |

Government bond yields

| | Yield (%) | One week (bp) | One year (bp) |
|-----------------------|-----------|---------------|---------------|
| US Treasuries 2-year | 0.39 | 0.3 | 13.70 |
| German Bunds 2-year | 0.23 | -3.7 | 26.20 |
| Japan 2-year | 0.11 | 0.2 | 1.10 |
| US Treasuries 10-year | 2.77 | -11.9 | 114.20 |
| German Bunds 10-year | 1.84 | -8.0 | 51.80 |
| Japan 10-year | 0.72 | -3.3 | -8.70 |

Spreads

| Index | Spread (bp) | One week (bp) | One year (bp) |
|--------------------|-------------|---------------|---------------|
| CDX NA IG | 82.54 | 1.7 | -20.5 |
| iTraxx Euro 5-year | 104.93 | 1.9 | -46.9 |
| JPM EMBI+ | 373.54 | 18.2 | 60.5 |

Performance data is as of 12:00 pm Friday, 30 August

Source: Bloomberg

In this issue

| | |
|---|---|
| Macro update | 1 |
| Bond markets update | 2 |
| Equities update | 2 |
| Stock to watch: Ahold, Delhaize, Sligro and Carrefour | 2 |
| Currency outlook | 3 |
| Asset allocation | 3 |
| Next week's calendar | 3 |

erably worse than the expected drop of 4%. The weakness in the orders report was mostly concentrated in transportation orders, which can be very volatile from month to month. Excluding transportation, orders only fell by 0.6%. As this is the first drop in four months, orders (ex. transportation) remain in a positive trend.

Bond markets update

Sentiment on the bond markets was dominated by the developing situation in Syria. The resulting risk aversion triggered safe-haven flows into bond markets in the first half of the week, but dried up after the prospect of an immediate military intervention had faded. Usually, the impact of geopolitical developments on fixed income markets is short-lived, provided the situation does not escalate. The better-than-expected US Q2 GDP data confirms our view that growth will accelerate later this year. This also reinforces our base case scenario that the Fed will start tapering its bond purchase program next month. Economic readings from the eurozone confirm that the fragile economic recovery continues. Over the week, US 10-year Treasury yields were almost unchanged, while German 10-year Bund yields declined.

Spreads of peripheral countries underperformed versus the core countries in Europe. Dutch finance minister and president of the Eurogroup Jeroen Dijsselbloem joined his German colleague Wolfgang Schäuble in saying that Greece may need a new aid package in 2014. Although the country has made progress with reforms, we believe Greece will not be able to avoid another haircut in order to make its debt burden sustainable. Italian yields also underperformed. A proposed property tax in Italy led to tension within the coalition government. Berlusconi's People of Liberty party threatened to withdraw its support for the government if the property tax on first homes was not withdrawn.

Credit markets awakened after the summer holidays. German car maker BMW, French telecom operator Orange and French pharmaceutical company Sanofi, amongst others, issued new bonds. We expect that new issuance will be well absorbed by the market in the remainder of this year, as supply of new bonds will not be significantly higher than redemptions of existing bonds. New issuance from the financial sector, in particular, will be significantly less than the number of redemptions. This benign supply outlook and the strong demand for the asset class will support credit spreads in the remainder of the year.

Equities update

Equity investors reacted as they always do in times of political uncertainty and possible turmoil: they stepped out and took some profit to lower their exposures to stocks. For the most promising investments, of which profits are quite predictable for the next 18 months or so, buying interest quickly returned, however. In general, mature stock markets in countries which are expected to show solid GDP growth, clearly outperformed, with the US, the UK, Japan and China leading the way.

Syria may continue to weigh on sentiment but will eventually not have a major impact on the stock markets. Other problems are emerging that can further 'decouple' the mature markets from the less established ones. Much of this has to do with the 'liquidity squeeze' in the emerging markets, which is taking place as a result of the imminent tapering of the Federal Reserve's bond buying. The more industrialised Asian and other emerging economies should be able to keep pace with this positive development in the US and increasingly also in Europe. Those countries that heavily depend on foreign capital inflows, however, now face withdrawal of that capital and are seeing their currencies weaken. To this we can add the already evident pattern of lower commodity prices and the fact that some emerging countries have been too lenient on credit growth. The result is a very weak performance of the smaller Asian stock markets, India, and also several Latin American markets, such as Mexico and Brazil.

This redistribution effect may continue for a while and the resulting weakness might attract new buyers. Until the dust of all this upheaval settles, however, we recommend investing in the more safe and solid markets with good fundamentals and higher liquidity.

Stock to watch: Ahold, Delhaize, Sligro and Carrefour

Improving margins seem an indication that the difficult times for supermarkets, in particular, in Western countries are coming to an end. Large players, such as Ahold (with a large exposure to the US) and Carrefour, and also the UK supermarkets are benefiting from improving circumstances. Household incomes are becoming more secure and food prices in many categories are declining, as prices of food commodities such as coffee, sugar and grains are trending lower. New shopping habits, such as online buying, should also contribute to lower prices. Here, size does matter, however, and the larger companies will remain the most profitable. We currently have a Buy recommendation on Ahold, Delhaize and Sligro. We also see some more upside in Carrefour (Hold).

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Currency outlook

Short-lived rally in classic safe-haven currencies and gold

With sentiment in the financial markets clearly deteriorating, the rise of safe-haven assets was general. The sell-off in emerging market (EM), less liquid and commodity-sensitive currencies, the rally in the Japanese yen, the Swiss franc, the US dollar and gold are all evidence of a classic risk-off mode. This added to the already existing jitters that had more varied effects across asset classes, related to the possible fall-out from the Fed tapering its asset purchases and the rise in US Treasury yields (which partly reversed on Syria).

On Thursday, there were already tentative signs that the momentum behind the safe-haven move was waning. Equities edged up, the VIX dropped and gold prices came off their earlier peak. In any case we expect the risk aversion to ultimately prove to be short-lived. The era of the safe havens – from Treasuries and gold, to the franc and yen – fuelled by systemic risks and ultra-accommodative US monetary policy seems to be coming to an end.

Emerging market currencies to regain some traction

An improvement in risk appetite and government measures have helped to stem the weakness in EM currencies. Although it is too early to definitively declare that the worst is over, we do see a recovery in EM currencies over the next few months. Further improvement of the global economy and a gradual withdrawal of the Fed's monetary stimulus should revive investor risk appetite. At the same time stronger global growth will support EM exports. Finally, EM fundamentals are better than in past crises.

Currency forecasts

| | Today | Q3 2013 | Year-end 2013 |
|---------|--------|---------|---------------|
| EUR/USD | 1.3262 | 1.25 | 1.20 |
| GBP/USD | 1.5517 | 1.49 | 1.45 |
| USD/JPY | 98.2 | 106 | 110 |

Source: ABN AMRO Group Economics

Asset allocation

The Global Investment Committee has maintained the current asset allocation: a strong overweight in equity (profiles 2 to 6), a neutral in property and commodity (profiles 2 to 6) and a strong underweight in bonds (profiles 1 to 5), while hedge fund allocations occur only in the 'defensive' profiles (overweight) and the more 'balanced' profiles (neutral). Cash is overweight in risk profiles 1 to 4 and underweight in profiles 5 and 6.

Next week's calendar

Important dates next week

| | | Date |
|------------------------|-------|--------|
| HSBC PMI manufacturing | CN | 2 Sept |
| PMI manufacturing | EU | 2 Sept |
| Flash PMI final | US | 3 Sept |
| Construction spending | US | 3 Sept |
| ISM manufacturing | US | 3 Sept |
| HSBC PMI services | CN | 4 Sept |
| PMI services | EU | 4 Sept |
| GDP qoq | EU | 4 Sept |
| Retail sales | EU | 4 Sept |
| Policy rate | EU/JP | 5 Sept |
| ISM non-manufacturing | US | 5 Sept |
| Industrial production | DE | 6 Sept |
| Unemployment | US | 6 Sept |

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