



## Investment Strategy

# Positive start of the year

## Investment Strategy & Portfolio Expertise

18 January 2017

**The sentiment in markets is positive, already since the end of 2016. Market sentiment is buoyed by growing confidence in global economic growth and the effect of a new president in the US who is focused on fiscal stimulus. Also, interest rates are not rising too quickly.**

Against this backdrop, ABN AMRO decided to maintain its positive advice for equities, its cautious stance toward bonds and a large position in cash. Within alternative investments, we remain positive on commodities and real estate, and neutral on hedge funds.

We have made two changes within our equity sector position. The consumer discretionary sector is increased to positive from neutral; and health care is reduced to neutral from positive.

### Positive momentum continues in equity markets

Global equity markets are continuing their positive performance that has been in evidence since the last quarter of 2016. The market sentiment for equities is driven by an environment of rising earnings expectations, confirmation of strengthening global growth and the expectation of fiscal stimulus in the US under President-elect Donald Trump. In

Europe, stocks are also supported by the European Central Bank's extension of its asset purchasing programme through December 2017, albeit at a reduced monthly amount.

In addition, an environment of low volatility is supportive for strong market sentiment to continue. In terms of risk, we believe sentiment remains favourable for risky assets, such as equities. The positive fundamentals that made us more positive toward equity in 2016 remain intact. Also, in the continued low rate environment, valuations are not viewed as aggressive, with a forward-looking global price earnings ratio for 2017 of 15,7x.

### Consumer discretionary to positive, health care to neutral

In light of accelerating economic growth, we have further increased the equity sector strategy's cyclical exposure. We have become positive toward the consumer discretionary sector and we moved the health care sector to neutral.

Consumer discretionary stocks are expected to outperform. Parts of the sector, such as automotive, luxury goods and travel, should benefit from improved growth in the US and in certain emerging markets as well, such as Brazil and Russia. The increasing wealth of Chinese consumers is expected to remain a driver of the consumer discretionary sector. The

valuation of the sector is in line with the market, while earnings growth is expected to be superior.

At the same time, the outlook for the health care sector has declined, based on pricing fears and a lacklustre new drug pipeline. The sector has also suffered from sector rotation and slowing momentum. Although the health care sector's performance has largely reflected these headwinds already over the last few months, downside risks related to pricing pressure in drugs are expected to continue.

### Bond markets expect rising rates

Bond rates have taken a pause after the strong surge in yields, in particular, over the last two months of 2016. But the rates are expected to continue rising, and if rates rise, bond prices tend to decrease. The bond market is anticipating further rate increases by central banks, but the current pause, combined with an improving economy, supports the performance of riskier assets, such as credits. As a result, spreads of investment-grade and high-yield corporate bonds, while at tight levels, continue to grind lower.

### Alternative investments stance unchanged

Our view on both commodities and real estate remains

positive. After a gain of more than 10% in 2016, the commodities sector has absorbed most of the upside potential. Nonetheless, there is still room for oil prices to appreciate in the second half of the year. The larger position in commodities also contributes to our cyclical stance. The strengthening US dollar, however, is expected to be a negative factor for most commodities.

We continue to be positive on real estate from an absolute return perspective. Also, the sector's fundamentals remain sound. We believe that the interest rate sensitivity going forward is muted, valuations are reasonable and the dividend yield is attractive. The performance of real estate has been under pressure recently. Given a rising rate environment, however, we expect these risks to be a relatively minor challenge to the unchanged and relatively attractive dividend yield of 4%.

For more information on our investment views, see the [Annual Investment Outlook, Growth Connectors in 2017](#).

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