



Investment Strategy

The momentum continues

Investment Strategy
& Portfolio Expertise

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The positive factors that have supported equities since the fourth quarter of last year are expected to continue. This is in line with a belief that the expansion phase of the business cycle is not diminishing, and, instead, we are seeing one of the longest periods of uninterrupted US growth since the end of World War II.

In this environment, ABN AMRO continues to favour stocks over bonds. Within alternative investments, real estate is favoured, while a neutral stance is taken to hedge funds and there is no position in commodities. A large reserve of cash is ready to be deployed as opportunities arise.

Equities remain engine of growth

There are a number of positive factors supporting stock investing, including robust macroeconomic fundamentals that point to a synchronised global upturn and low interest rates, expectations for double-digit earnings growth in 2017 and positive longer-term earnings-per-share growth, which could propel multiples higher.

European equities are favoured over US equities, based on superior earnings growth, more attractive valuations and the earlier stage of the business cycle in Europe than in the US. Political risk had held back European equities, given the number of upcoming elections in Europe. Political risks, however, are abating. Dutch election results, where populist candidates performed less well than expected, eased concerns of a nationalist wave across Europe. The situation in Germany is also stabilising, given solid economic growth and high employment. The outcome of the French presidential election remains uncertain, although recent polls point to a market-friendly result.

Bonds remain unattractive

Both US Treasury yields and Bund yields have moved to the lower end of the range in which they have been trading since November, after a sudden surge following the election of Donald Trump as US president. The move lower in yields is related to the pricing out of Trump-induced reflation. The decline in rates cannot be explained by the macroeconomic picture, which is still improving.

European inflation fell more than expected in March. This has contributed to lowered inflation expectations in bond markets. It also countered speculation regarding an early tightening of the ECB's monetary policy. Such speculation is now more muted in bond markets. We believe that government bond yields will rise progressively, based on a broadening economic recovery. The corporate bond segment also leans towards this view, as credit spreads are stable. In addition to economic risk, political risk is noticeable in bond markets, as is evident from peripheral eurozone government bond spreads, which have widened versus German Bunds.

Strong fundamentals in real estate

The improving business environment is supporting the real estate sector and is reflected in high occupancy rates. An exception is in the retail real-estate investment trust segment, which continues to be hurt by the move to online shopping. Valuations in the sector remain acceptable and a dividend yield of 4% provides an attractive income. ABN AMRO retains its positive view of real estate investment, although rising US bond yields and the interest-rate sensitivity of the sector are a concern.

Commodities continue to be avoided

ABN AMRO continues to shun commodities, based on low expected returns and muted diversification benefits. Despite a recent rise in oil prices, the longer-term outlook for energy prices is not favourable, given US production increases.

Conclusion

The economic recovery is expected to continue and there are no signs of building inflationary pressures or strong current account imbalances. Fundamentals are now driving markets and monetary policymakers are taking steps to returning to more normal interest rates and "business as usual." ABN AMRO maintains an appetite for risk premiums in undervalued areas or among recent laggards, such as European equities and high-yield credits.

Some market volatility can be expected in coming weeks, in response to political events, such as the French presidential elections and the new geopolitical dynamics created by the Trump administration. These periods will be assessed as opportunities to seek assets where risk is appropriately rewarded.

Global Investment Committee

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