



Investment Strategy

Positive environment for equities

Investment Strategy
& Portfolio Expertise

17 May 2017

At its meeting on 11 May, ABN AMRO affirmed the existing asset allocation. Equities continue to be favoured over bonds. The view on real estate is also positive and commodities are avoided. A neutral stance is taken toward hedge funds. Within bond portfolios, ABN AMRO suggests taking profits in Italian government bonds and using the proceeds to invest in European inflation-linked bonds.

Equities remain the engine of portfolio growth

The positive environment for stock investing is continuing. Over the past week, US stock indices reached new highs and European momentum continued. Market volatility remains low. With the French election of 7 May producing a market-friendly result, stock investors are back to focusing on fundamentals. The ongoing first-quarter earnings season is slightly better than expected. A solid 12.5% growth, on average, is seen among the 60% of companies that have reported globally. ABN AMRO's preferred regions for stock investing are Europe and emerging markets.

Bumpy road for bonds

After the French elections, Bund yields moved away from safe-haven levels, towards the upper end of the range in which they have been trading this year. US Treasuries followed at a distance, but did not return to the levels seen in March. It appears that European political risk is being priced-out of bond yields. The reflation theme, however, has not reignited, as US President Donald Trump remains behind on fulfilling his election promises.

The momentum in the global economy, with positive surprises seen in Europe, is keeping the normalisation of interest rates on track. Credit spreads, which experienced a relief rally on the outcome of the French election, are also maintaining their performance. Political risk in Europe remains, with attention now turning to Italy. Polls indicate a tight race between the governing parties and the two anti-Europe parties.

Inflation-linked bonds preferred over Italian sovereigns

ABN AMRO suggests taking profits in Italian government bonds, after the relief rally related to the French elections, and replacing the position with European inflation-linked bonds. Italian sovereign spreads are expected to widen again,

from 180 to 240 basis points by year-end, in the run up to Italian elections in February. (This switch recognises that the European inflation-linked bond market segment typically includes a 30% allocation to Italian inflation-linked bonds.) European inflation-linked bonds have become much cheaper over the past few months, as inflation expectations declined. In a rising rate environment, opportunities to reduce duration (interest-rate sensitivity) through this switch is also suggested to be considered.

Global Investment Committee

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