

Global weekly

We survived!

Research & Strategy
21 December 2012

Asset allocation	I			II		
	Saa	Taa	•	Saa	Taa	•
Money	5	18	13	5	7	2
Bonds	90	74	-16	70	58	-12
Equities	0	0		15	20	5
Alternatives	5	8	3	10	15	5
Hedge funds	5	8	3	5	8	3
Real estate	0	0		3	5	2
Commodities	0	0		2	2	

Asset allocation	III			IV		
	Saa	Taa	•	Saa	Taa	•
Money markets	5	0	-5	5	0	-5
Bonds	55	46	-9	35	25	-10
Equities	30	39	9	50	60	10
Alternatives	10	15	5	10	15	5
Hedge funds	5	8	3	5	8	3
Real estate	3	5	2	3	5	2
Commodities	2	2		2	2	

Asset allocation	V			VI		
	Saa	Taa	•	Saa	Taa	•
Money	5	0	-5	5	0	-5
Bonds	15	11	-4	0	0	
Equities	70	79	9	85	90	5
Alternatives	10	10		10	10	
Hedge funds	5	5		5	5	
Real estate	3	3		3	3	
Commodities	2	2		2	2	

Saa = Strategic asset allocation Taa = Tactical asset allocation • = Deviation

Macro forecasts for 2013 (%)				
	Real GDP Growth		Inflation	
	ABN AMRO	Market	ABN AMRO	Market
US	2.0	2.1	1.7	2.0
Eurozone	0.3	0.3	1.4	1.7
UK	1.3	1.4	1.8	1.9
Japan	1.4	1.4	0.1	0.0
Other countries*	2.5	2.3	1.9	1.8
EM Asia	6.9	7.0	5.3	4.4
Latin America	4.3	3.8	6.1	6.5
EEMEA**	3.1	3.3	4.9	5.9
World	3.5	3.5	3.8	3.4

All Forecasts are annual averages of quarterly year-on-year changes.

*Australia, Canada, Denmark, New Zealand, Norway, Sweden and Switzerland **EEMEA: Eastern Europe, Middle East and Africa.

Source: ABN AMRO Group Economics, Consensus Economics, EIU

Macro

Some thoughts for 2013

From euro break-up to financial system risks to a hard landing in China to the US fiscal cliff, there was no shortage of uncertainties for investors to worry about in 2012. As we move into 2013, most of these risks should be diminishing. The ECB's OMT programme has significantly reduced the risk of a euro break-up, while a vast array of data suggest that China's economy has bottomed out. Granted, the US fiscal cliff has not been resolved, but we continue to think that leaders will find a solution to reduce the pace of fiscal consolidation next year.

It therefore seems fair to expect some strengthening of global growth in 2013. Indeed, global central banks' actions to reduce systemic risks and loosen policy, a gradual return of confidence, a turn in the inventory cycle and pent-up demand should all give the economy a lift next year. Still, there are factors that will limit the upward momentum. Even with a solution to the fiscal cliff, there will be significant budget cuts in the US, while austerity in the eurozone will be ongoing. Meanwhile, the big emerging markets have not put in place a 2008-9 style bazooka. Overall, we expect that global growth will accelerate to 3.2% in 2013, up from 2.9% in 2012.

Despite a recovery in global growth, we do not expect to see a sharp rise in inflation. The upswing in demand for commodities, helped by China's rebalancing towards consumption, is likely to be rather moderate, while the supply situation is more unfavourable to price gains than in the past. Meanwhile, with economic slack remaining elevated, in particular in the advanced economies, inflation should remain constrained.

Global Investment Committee decisions

There are no changes in the asset allocation. Through the 'Overweight' in Equity and Property, together with the 'Underweight' in Cash and Fixed Income, the tactical asset allocation is positioned to benefit from the upcoming cyclical recovery. The 'Overweight' position in Hedge Funds is intended as an alternative for Fixed Income, and also counterbalances some of the market volatility's impact on portfolios.

The next Global Investment Committee will be on January 10, 2013. In the meantime, markets and economies will be closely monitored and appropriate action taken if required.

Government bond yields

	10-2yr (bp)	2-yr (%)	10-yr (%)
UST	148	0.27	1.75
German Bund	139	0.00	1.39
Gilts	157	0.33	1.90
JGB	67	0.08	0.75
EMBI+	247	-----	-----
iTraxx Euro 5-yr	113	-----	-----

Central banks watch

	Current	Date	Expectation
ECB	0.75	10 January 2013	No change
Fed	0.0-0.25	30 January 2013	No change

German 10-year Bund - Bloomberg



Bonds

Last week's highlights (17 - 21 December)

The past weeks have shown just how resilient investment grade corporate spread curves are to conditions that lead to rising rates and tighter credit spreads - such as a relatively benign process in mitigating the fiscal cliff. Investment grade spreads (CDX.IG) have tightened more than 8 basis points (bps) and 10-year interest rates increased nearly 20bps. Non-investment grades tightened more than 50bps. However, the government bond yield curve has changed very little and will remain steep around current levels, unless the economy deteriorates and credit risk increases.

This week's focus (24 - 29 December)

Spain: We think that Spain's reluctance to request ESM/ECB support and further slippage from its deficit reduction targets may put pressure on its sovereign rating in 1H 2013. We believe that any negative rating action on the sovereign might reignite fears about a downgrade of Spanish high-grade names into high yield and this could cause uncertainty. We would have the opportunity to add further Spanish government and corporate bonds. **Italy:** Lower sovereign yields should mitigate deleveraging needs. The 10-year Italian sovereign bond yield has dropped to 4.5% after peaking at 6.6% in mid-June, as policymakers have taken significant steps towards resolving the crisis in recent months. We expect this to improve Italian banks' access to funding and reduce the pressure to deleverage. We still prefer Italian government bonds to corporate bonds and would still avoid peripheral financials for the moment.

Currency forecasts

	Dec. 12	Mar. 13	Jun. 13	Sep. 13
EUR/USD	1.30	1.25	1.25	1.20
GBP/USD	1.63	1.56	1.56	1.52
USD/JPY	80	82	82	85

Foreign exchange

Last week's highlights (17 - 21 December)

EUR/USD almost touched 1.33 on a further improvement in the eurozone sentiment but the rally ran out of steam because of some uncertainty on the fiscal cliff. In Japan the LDP won the election. Prime minister-elect Abe added pressure on the Bank of Japan (BoJ) to further ease monetary policy. As expected the BoJ decided 10trn JPY increase in the asset purchase program. The yen consolidated after a sell-off seen in the recent weeks but USD/JPY remained above 84.

This week's focus (24 - 29 December)

Five big trends will drive FX markets in the coming year. First, we think that the reduction of systemic risks and the turn in the global industrial cycle will prove to be a positive cocktail for risk sentiment in financial markets. Second, there is likely to be a moderate recovery in global growth, bringing cyclical differences more sharply into focus. Third is the fall of safe havens. Fourth is the end of the commodity super cycle. Fifth is the return of 'currency wars', with likely selective flocking back to EM currencies, sparking a return of capital controls to limit the pace of appreciation. We expect the dollar to strengthen against the euro, especially in the second half of 2013.

Bloomberg – EUR/USD



Sector indices

Index	Level	P/E '13	Div (%)	%YTD
S&P 500	1443.7	12.6	2.2	14.8
Euro Stoxx	2640.2	10.6	4.5	14.0
Nikkei 225	9940.1	15.4	2.0	17.6
FTSE100	5898.0	10.7	4.0	5.8
AEX	343.4	10.8	4.6	9.9

Important rating changes

Company	From	To
Pernod-Ricard	Buy	Hold
Samsung Electronics	Buy	Buy/RL
Hong Kong Exchange & Clearing	Hold	Buy
Sinopec	Hold	Buy
International Paper	Buy	Hold
Hartford Financial	Sell	Hold

Equities

Last week's highlights (17 - 21 December)

Past week saw a minor correction of equity markets after a very good end of year rally with Asian and commodity-related markets outperforming. Optimism on the growth outlook for 2013 clearly favoured the more cyclical sectors, with financials taking a back seat.

This week's focus (24 - 29 December)

Political give and take on the Fiscal Cliff debate will continue to dominate sentiment and the Christmas break can lead to high volatility on low volumes. More news underpinning the dawn of a more positive trend for producer and consumer sentiment is likely.

Topic of the week

Industrial activity is set to improve in 2013 and with this; the services sector will also see a revival. Industrial services can be highly cyclical or less so with the Temporary Employment sector standing out as very closely tied to economic activity levels. A highly sustainable earnings stream continues to be seen in the Inspection and Testing area, in the cleaning, catering and maintenance business and in consultancy and design. For all parts of the industrial services areas mentioned we have a positive outlook and find valuations very attractive. Favourite buys are currently Dutch providers Randstad and Arcadis, the European testing companies Intertek and Bureau Veritas as well as Thermo Fisher of the US. Superior manufacturing support (cleaning, catering) is supplied by Ecolab of the US. In international transportation services we continue to like UPS.

Bloomberg – CRB Index



Commodities

Last week's highlights (17 - 21 December)

Most commodities traded somewhat higher after the stronger than expected data releases from China and the US but eurozone worries capped the upside. The move was short-lived as the US budget talks remained in focus and leads to some volatility as the deadline nears. Precious metals fell under heavy pressure mainly on the back of position squaring ahead of year-end.

This week's focus (24 - 29 December)

Our senior sector economist – Hard commodities Casper Burgering has just released the latest Metals Monitor – “When China shivers, the global metal industry shakes”. China is still an important stakeholder in metal markets, despite the current economic turmoil. Imports of copper and iron ore are especially relevant to China, given the fact that domestically these commodities are limited available or of low quality. Therefore, we have not seen the end of the Chinese strong demand for raw materials. However, the pace of demand growth will be quite lower than we have witnessed in the period 2003-2008. In fact, the high levels of Chinese demand for metals are not expected to return on the short term and some metal markets in China will be faced with the problem of overcapacity for a long time.

Commodity prices - Bloomberg

	20 December	13 December
Gold	1648	1697
Brent	110	108
Copper	7770	8074
Wheat	790	808

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