



global weekly

Investment
Communication

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More stimulus, not less

Easing was in the air this week. The ECB cut rates and the Fed indicated it could possibly increase its asset purchase programme. On the back of this, bond markets rallied and so did equity markets in the US.

Easing is in the air

The ECB cut rates this week, as expected, in response to continuing disappointing data from the eurozone. It lowered its policy rate by 0.25% to 0.50% and reduced the marginal lending rate from 1.5% to 1%. Mario Draghi also let it be known that the ECB has an open mind about a negative deposit rate, which sent bund yields and the euro lower.

The ECB's commentary suggests that it has a clear easing bias. With the risk that inflation may become stuck uncomfortably low, ABN AMRO Group Economics expects that there is a significant chance of further monetary easing by the ECB over the next few months.

The US Federal Reserve also had easing on its mind. Next to maintaining the federal funds rate, which is the overnight interbank lending rate, at the current level of 0-0.25%, the central bank also reaffirmed its bond purchases at the current pace of USD 85 billion per month, "until the outlook for the labour market has improved substantially."

The statement by the Federal Open Market Committee, released this week, also said that the Fed is "prepared to increase or reduce the pace of its purchases." This fuelled market expectations that the Fed might actually increase its pace if macroeconomic data continues to be disappointing. Our base case remains that the Fed will continue to buy USD 85 billion of longer-term Treasuries and agency mortgage-backed securities every month until the end of the year. But the risks are rising that the Fed will step up the pace of purchases.

US bonds and equities respond positively

US equities and bonds both benefited from the FOMC's statement. US bond markets continued their rally over the week on the back of disappointing macro data and the FOMC's signal, as it allayed market concerns over a possible tapering of the Fed's asset purchase programme.

Equity index performance in local currencies

	Value	One week	Year-to-date
MSCI ACWI	367.92	0,9%	8,3%
S&P 500	1,597.59	0,8%	12,0%
EuroStoxx 50	2,718.90	1,2%	3,1%
DAX	7,961.71	1,6%	4,6%
Nikkei 225	13,694.04	-1,1%	31,7%
Hang Seng Index	22,689.96	1,3%	0,1%

Important rating changes

Company	From	To
Vinci	Buy	Hold
Amazon.com	Hold	Buy
Credit Suisse Group	Hold	Sell
Total Sa	Buy	Hold
Capgemini	Buy	Hold

Government bond yields

	Yield	One week	One year
US Treasuries 2-year	0.20%	-0,7 bp	-5,8 bp
German Bunds 2-year	-0.02%	-1,5 bp	-10,0 bp
Japan 2-year	0.11%	-1,2 bp	0,5 bp
US Treasuries 10-year	1.65%	-3,0 bp	-29,1 bp
German Bunds 10-year	1.19%	-1,3 bp	-42,3 bp
Japan 10-year	0.56%	-2,6 bp	-32,7 bp

Spreads

Index	Spread	One week	One year
CDX NA IG	74.25 bp	-4,76 bp	-21,66 bp
iTraxx Euro 5-year	93.88 bp	-12,26 bp	-46,96 bp
JPM EMBI+	272.56 bp	-8,18 bp	-52,08 bp

Performance data is as of 12:00 pm Friday, 3 May

Source: Bloomberg

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The S&P 500 Index reached a new record high of almost 1,600. Despite mixed economic data, stocks also benefited from the Fed's statement. On the earnings front, the pharmaceutical sector had a difficult week. Merck reported a disappointing first quarter, as competition from generic drugs intensified. In addition, Pfizer cut its full-year forecast following a weak first quarter. Three out of four companies in the S&P 500 have now reported quarterly figures and the majority of results, about 70%, were better than analyst expectations.

Rally in European bond markets

Bond markets in Europe continued their rally this week, feeding on a eurozone economy that continues to contract and inflation following a downward path and now approaching dangerously low levels.

Despite the ECB rate cut, one of the main problems for the central bank is that its monetary policy is not transmitted evenly across the euro area. As a result of a fragmentation problem in the European monetary system, companies and households in the (southern European) economies that are most in need of lower interest rates, may actually not be able to benefit from them.

Peripheral bond markets performed well over the week, despite weak economic data from Spain pointing to further contraction and rising unemployment. The Spanish deficit for 2012 came in at 7%, compared to the 6.3% target agreed with eurozone leaders.

The formation of a government in Italy has certainly helped to improve risk sentiment, although the broad coalition that was elected will probably not be able to pass the reforms that are badly needed in order to generate economic growth.

European equities little changed

European equity markets were mostly unmoved by the ECB's rate cut, as it was widely anticipated. Draghi's saying that the economic risks in Europe remain on the downside, however, did not help equity markets.

Earnings reported by European companies during the week were mixed. The oil majors, Royal Dutch Shell and BP, published strong results. In addition, Deutsche Bank shares jumped, on a strong quarter and after announcing a EUR 3 billion equity issue. France's largest drug maker, Sanofi, however, disappointed as pressure from generic drugs hurt profitability.

Most European markets were closed on Wednesday for the May Day holiday. It is now about the half-way point in the European earnings season. Results have, on average, been in

line with expectations. From a sector perspective, most utility stocks have so far surprised positively, while most Industrial companies disappointed. Year-to-date, the Euro Stoxx 50 Index has gained almost 5%.

Stock to watch: KPN

KPN's EUR 3 billion rights offering remains ongoing. Shareholders have the right to purchase two new shares for every share held at a price of EUR 1.06 per share. The exercise period will end on Tuesday, 14 May, with trading in the newly issued shares set to commence on Friday, 17 May.

KPN will use the proceeds of the issue to strengthen its balance sheet and fund investments in its networks. In the meantime, investors have put their hopes on a potential cooperation between KPN and Telefonica in Germany. The two companies could decide to share their mobile networks, which could bring KPN some EUR 1 billion in synergy value. Telefonica is set to report on 8 May.

Asset allocation

The Global Investment Committee reduced the fixed income allocation by partially taking profit on investment-grade credits and adding the proceeds to cash. At its meeting on May 2, the committee also reaffirmed its overweight allocations in equity and property, a neutral in commodities and an underweight in bonds, with hedge fund allocations only in the 'defensive' profiles (overweight) and the more 'balanced' profiles (neutral).

For more information, see the Global Investment Committee Update published today.

Currency outlook

The US dollar moved sideways this week. It remains very sensitive to US data releases, which have come in more mixed and therefore failing to give strong direction to the US currency. Even though the market focused on the possibility of more stimulus to come from the Federal Reserve, this failed to hurt the US dollar.

At the start of the week, the euro was well supported, but it gave back some ground ahead of the ECB rate decision. The euro reacted in a volatile manner on the 50 bp cut in the marginal lending facility and 25 bp cut in the refinancing rate. But it was the dovish remarks of ECB Chairman Draghi that pushed EUR/USD below 1.31 again.

With the ongoing Golden Week holidays in Japan, the market is quite thin. During the week, the yen moved slightly higher, but the ECB rate decision pushed it aggressively lower again. More monetary easing seems to trigger the need to set up carry trades, where the yen, and other currencies with near-zero interest rates, are used as funding currency.

Currency forecasts

	Today	Q2 2013	Year-end 2013
EUR/USD	1.3073	1.30	1.20
GBP/USD	1.5543	1.49	1.41
USD/JPY	97.80	104	110

Source: ABN AMRO Group Economics

New publications

Global Investment Committee (GIC) Update and portfolio profiles

The GIC Committee reduced the fixed income allocation within the overall tactical asset allocation at its meeting on May 2. Profit was taken in investment-grade credits by reducing the allocation from 37.5% to 30%.

What's coming

Next week, markets will mainly focus on the large number of US macro data releases, looking for signs of recovery in the US labour and housing markets. Company earnings should give more insight in corporate fundamentals as the earnings season shifts toward Europe. We could very well see further yield- and spread compression next week, as bond markets continue to be supported by aggressive expansionary monetary policy at a global level, pushing investors towards higher yielding bond asset classes.

Important dates next week

		Date
China HSBC Services PMI	CN	6 May
Eurozone Services PMI Markit	EU	6 May
Eurostat retail sales eurozone	EU	6 May
Manufacturing orders	DE	7 May
Industrial production	DE	8 May
China import & export trade	CN	8 May
China CPI	CN	9 May
BoE official rate	GB	9 May
Initial jobless claims	US	9 May
Balance of payments	JP	10 May

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