



## global weekly

Investment  
Communication  
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**Sell in May? Not this year**

A gradually improving global economy and continued quantitative easing by central banks is creating an environment where equities in the US and Germany are reaching all-time highs. Within bond markets, we are still positive, but it may be time to take some profits.

**Equity markets continue to gain**

The well-known investment phrase, "sell in May and go away" is not catching on this year. The bulls continued to be in charge the first full week in May. This week the Dow Jones Index and the S&P 500 hit new all-time highs, and even the German DAX entered uncharted territory. This is on the back of gradual improvement in the global economy and the continued quantitative easing by central banks.

We are still in the midst of the earning season in Europe, with about 90% of the S&P 500 Index companies having reported so far. Companies are beating analysts' estimates on the bottom line, but are often missing top-line estimates. This signals that a portion of earnings growth is due to cost cutting rather than from revenue gains, a trend that is consistent with a slowly growing economy.

Quality growth companies are capable of escaping this pattern and are performing well. In the subsector chemicals, Symrise and International Flavors & Fragrances reported good results this week, with high margins and growth. They are both active in flavors and fragrances, the most specialised area of the chemical industry.

Within industrials, Kuka, a robotic maker that we discussed in our 12 April Equities Thematic Note, 'Closing the Productivity Gap,' had a good quarter. Kuka is one of the world's leading manufacturers of automated production equipment for the automotive industry. For Q1, it beat revenue expectations and received an order for about 360 robots from Siemens Healthcare.

In another part of the industrials sector, European airline companies are in the midst of deep cutbacks and restructuring. Price fighters, such as EasyJet and Ryanair are expected to report growth in their businesses on 15 and 20 May.

**Equity index performance in local currencies**

|                 | Value    | One week | Year-to-date |
|-----------------|----------|----------|--------------|
| MSCI ACWI       | 374.64   | 1.0%     | 10.3%        |
| S&P 500         | 1626.67  | 1.8%     | 14.1%        |
| EuroStoxx 50    | 2773.16  | 0.9%     | 5.8%         |
| DAX             | 8262.55  | 2.3%     | 9.2%         |
| Nikkei 225      | 14607.54 | 5.9%     | 40.5%        |
| Hang Seng Index | 23321.22 | 2.8%     | 2.9%         |

**Important rating changes**

| Company                            | From | To     |
|------------------------------------|------|--------|
| Gilead Sciences                    | Buy  | Buy/RL |
| Industrial & Commercial Bank China | Buy  | Hold   |
| Baker Hughes                       | Buy  | Hold   |
| Fedex                              | Buy  | Hold   |

**Government bond yields**

|                       | Yield | One week | One year |
|-----------------------|-------|----------|----------|
| US Treasuries 2-year  | 0.23% | 2.5bp    | -3.3bp   |
| German Bunds 2-year   | 0.02% | 4.0bp    | -5.0bp   |
| Japan 2-year          | 0.11% | -0.1bp   | 0.5bp    |
| US Treasuries 10-year | 1.86% | 20.5bp   | -1.2bp   |
| German Bunds 10-year  | 1.33% | 13.6bp   | -21.1bp  |
| Japan 10-year         | 0.69% | 12.6bp   | -17.2bp  |

**Spreads**

| Index              | Spread   | One week | One year |
|--------------------|----------|----------|----------|
| CDX NA IG          | 70.94bp  | -3.31bp  | -32.58bp |
| iTraxx Euro 5-year | 92.50bp  | -2.43bp  | -63.66bp |
| JPM EMBI+          | 261.50bp | -11.06bp | -77.58bp |

Performance data is as of 12:00 pm Friday, 10 May

Source: Bloomberg

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A number of European financials, insurers and banks, reported results this week. The picture was, on average, improved. Allianz, HSBC, Munich RE, SocGen and ING all beat analyst estimates, while Standard Chartered and Aegon disappointed. For next week, European real estate is on the agenda (PSP Swiss property, Corio, Vastned Retail). We expect the real estate segment will most likely show once again quality properties in prime locations reporting growth, while rents of lower-quality property companies will be negatively impacted by the European recession.

### Stock to watch: Mead Johnson Nutrition

Recent media reporting has been focused on the increasing scarcity of baby milk formula in western markets. This is caused by strong demand for unofficial exports to China, driven by parents who prefer western brands. This is especially true after locally-manufactured formula laced with the industrial chemical melamine killed six infants in 2008 and caused another 300,000 to fall ill.

Earlier this year, shops in Australia were forced to restrict sales of infant formula, as Chinese customers and tourists bought it in bulk to send home or to sell online. In Hong Kong, export restrictions are also in place. Nonetheless, food retailers in the UK and in the Netherlands are reporting shortages. Large producers of baby formula, such as Danone and Nestle, should benefit from this demand, although Mead Johnson Nutrition, a pure baby food producer with a very large exposure to China, is even better positioned.

### Bond market update

Peripheral yields have declined to levels not seen since the early days of the sovereign credit crisis, although spreads remain elevated. The decline over the past few weeks has pushed peripheral yields to near three-year lows. These movements have aroused caution among some investors. We remain constructive on peripheral spreads, despite the low level of yields. Here's why:

- ▶ Attractive carry.
- ▶ An accommodative ECB.
- ▶ Global liquidity glut.
- ▶ Backstop support from the ECB's Open Market Transaction programme.
- ▶ Limited near-term tail risk.

The next stage of the sovereign crisis will have relatively more bank-risk, given the agenda of the banking union, stress tests and the early implementation of bank bail-in plans. Here's our advice:

- ▶ Stay positive on government bonds and utility credits in the eurozone periphery.
- ▶ Keep focused on credit risk (peripheral risks) to benefit from carry.

- ▶ Remain biased for lower yields, and consider Spanish and Italian government bonds instead of expensive Dutch and German government bonds.
- ▶ Take profit on core government bonds (Germany and the Netherlands) and consider investing in Spanish and Italian (peripheral) or French and Belgium government bonds, which still represent credit risk spread within the European government bond universe.
- ▶ Investors concerned about a potential reversal could consider taking profit and put money in cash, as there is currently no other fixed income alternative.

We remain positive on bond markets, but it is prudent to take some profit here and there. On 2 May, the Global Investment Committee reduced the overall corporate credit allocation to the investment grade universe. (For more information, read the GIC Update, 3 May 2013.)

We will roll out our new Opportunistic bond universe in the next couple of weeks. For more information on global bond markets, read the latest Bond Markets Monthly, published today.

### Asset allocation

The latest action by the Global Investment Committee occurred on 2 May, when it reduced the fixed income allocation by partially taking profit on investment-grade credits and adding the proceeds to cash. The committee also reaffirmed its overweight positions 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).

### Currency outlook

US dollar strength increased after Federal Reserve official Charles Plosser said that he would favour reducing the monthly pace of bond purchases next month, as unemployment would probably fall to 7% by the end of this year. Plosser, a non-voting member of the FOMC, has a more optimistic view of the economy than most Fed policymakers. We maintain our view that the Fed will maintain its USD 85 billion monthly pace of bond purchases until the end of 2013.

The euro has been relatively resilient this week, against the backdrop of the dovish comments from the ECB last week. The euro versus the US dollar moved towards 1.30 again, as the US dollar strengthened. Next week eurozone GDP data will be released, which could give direction to the euro.

The Japanese yen weakened past the JPY 100 mark against the US dollar after the comments from the Fed's Plosser triggered US dollar strength. The weak yen momentum continued after today's morning data from the Japan Ministry of Finance, which reignited market expectations that the yen carry trade will continue.

As we communicated in our FX monthly of 18 April, we expect another leg down in the yen. This reflects our view that there will be more monetary stimulus, a revival of the carry trade and an increase in Japanese outward investment. The BoJ will continue to step up its bond purchases later in the year, which should exert downward pressure on Japanese yields. In turn, this should increase the incentive for domestic investors to seek higher returns overseas. We expect the yen to weaken towards JPY 110 against the US dollar later this year.

#### Currency forecasts

|         | Today  | Q2 2013 | Year-end 2013 |
|---------|--------|---------|---------------|
| EUR/USD | 1.3016 | 1.30    | 1.20          |
| GBP/USD | 1.5421 | 1.49    | 1.41          |
| USD/JPY | 101.28 | 104     | 110           |

Source: ABN AMRO Group Economics

## New publications

### Accelerated Global Yield Compression: Bond Markets Monthly

Investor sentiment towards Europe has improved remarkably since the ECB's commitment to 'do whatever it takes' to save the euro. But the resurgent fear of systemic risk highlights that the essential problems in the eurozone are far from resolved.

This month's issue includes Research & Strategy's outlook for the bond market, a rundown on government and credit markets, plus important external rating changes in April as well as changes in the recommended bond list.

### Divided Opinions on China: China country note

The view on China has been complicated recently, with growing concern about off-balance sheet lending, asset quality at financial institutions and the effectiveness of measures to rein-in the housing market. We believe, however, that the government is taking the right steps to address China's problems and continue to recommend an overweight position in Chinese equities.

## Macro focus & calendar

There were a couple of positive developments during the week that are in line with our view that the current weakening of the global economy will be relatively short-lived. Central banks globally continue to stimulate activity. During the week, we saw rate cuts in Australia, South Korea, and Poland, after the ECB and the Reserve Bank of India reduced rates last week. The message from this is clear: central banks around the globe are continuing to underpin the world economy.

German data suggests that the eurozone's largest economy will bounce back in the first quarter, after a sharp drop in Q4, even though the eurozone as a whole is set to stabilise. Indeed, factory orders rose by a stronger-than-expected 2.2% in March, building on a similar gain the month before. Industrial production data also beat expectations, rising by 1.2% in March.

Finally, in the US, initial jobless claims unexpectedly fell by 4,000 to 323,000 in the week ending 4 May. As a result, the four-week moving average dropped to the lowest level since November 2007, implying that the pace of job losses continues to slow, despite growth being set to soften in the second quarter. This suggests that companies see the current soft patch as short-lived and are likely to counter the slowdown in growth by hiring fewer people or reducing the amount of hours worked. The fact that companies perceive the soft patch as temporary, bodes well for a stronger recovery towards the end of the year. Below is a calendar of macro data to watch next week.

### Important dates next week

|                          |    | Date   |
|--------------------------|----|--------|
| Retail sales             | CN | 13 May |
| Retail sales             | US | 13 May |
| CPI                      | IN | 14 May |
| ZEW economic sentiment   | DE | 14 May |
| GDP                      | DE | 15 May |
| GDP                      | EZ | 15 May |
| Empire manufacturing     | US | 15 May |
| PPI                      | US | 15 May |
| Industrial production    | US | 15 May |
| Nat'l Assoc Homebuilders | US | 15 May |
| Inflation                | EZ | 16 May |
| CPI                      | US | 16 May |
| Phila Fed bus outlook    | US | 16 May |
| UMI consumer sentiment   | US | 16 May |

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