



## global weekly

Investment  
Communication

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**Asia grabs attention**

The significant monetary stimulus by the Bank of Japan continued to make waves this week, increasing risk appetite and sending bond yields higher. Headlines from Asia also dominated, with good news from China and Japan, while North Korea continues to battle for attention on the world stage. US data appears to have weakened, but it's not as bad as it looks.

**US: down but not out**

Since March, there's been a sharp deterioration in US data. In particular, disappointing non-farm payrolls showed weakness across the board. In conjunction with other indicators, it leads us to believe that GDP growth will slow in Q2. Growth in the first quarter now seems to have been exceptionally stellar.

Despite the less positive news, economic fundamentals look strong enough for the US recovery to regain momentum toward the end of the year, when the drag of the current fiscal headwinds is expected to ease. With this in mind, we think the Fed will continue its purchase of long-term assets at a pace of USD 85 billion until the end of the year, before any tapering begins.

**US equities continue to rise**

US equity prices continued upward this week, finding good news in China, Japan and emerging markets. The S&P 500 and Dow Jones Industrials indices climbed to record highs, supported by a strong rebound in the transportation and semiconductor indices. The advance was broad, with all ten sectors moving upward.

Cyclical sectors, such as financials, materials and industrials led the way. The financials sector benefited from speculation over an extension of the bailout loans to Portugal and Ireland, and materials was boosted from positive newsflow out of China and rising commodity prices.

**Bond markets affected by Japan action**

There are some doubts about the Fed's ability to implement a smooth exit from its monetary easing, in light of the sharp increase in duration on its balance sheet. This was highlighted in the March FOMC minutes released this week and cited as

**Equity index performance in EUR**

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	366.1	3.0	7.7
S&P 500	1,593.4	2.1	11.7
EuroStoxx 50	2,674.3	2.2	0.3
DAX	7,871.6	1.3	2.0
Nikkei 225	13,485.1	5.1	29.7

**Important rating changes**

Company	From	To
Société Générale	Hold	Buy
Sanofi-Aventis	Hold	Buy
Samsung Electronics	Hold	Buy
Adidas	Hold	Sell
Gildemeister	Not rated	Buy

**Government bond yields**

	Yield (%)	One week change (bp)	One year change (bp)
US Treasuries 2-year	0.23	-0.4	-6
German Bunds 2-year	0.01	-0.5	-11.8
Japan 2-year	0.12	3.3	1.8
US Treasuries 10-year	1.76	1.6	-28.9
German Bunds 10-year	1.26	2.7	-52.4
Japan 10-year	0.60	9.4	-33.7

**Bond index yields**

Index	Spread (bp)	One week change (bp)	One year change (bp)
CDX NA IG	81.61	-5.09	-15.10
iTraxx Euro 5-year	110.76	-7.47	-23.65
JPM EMBI+	266.95	-17.41	-69.91

Performance data is as of 12:00 pm Friday, 12 April.

Source: Bloomberg

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one of the key costs of the quantitative easing programme. We expect the FOMC to update its exit strategy principles and to downplay the role of asset sales.

Japan's significant monetary stimulus programme could result in inflows into US Treasuries and German bunds, leading to lower yields. This will be especially true if hedge funds and money market funds need to begin to cover short positions.

There's been a major shift among credit investors, who now expect low interest rates for longer, based on Fed governors' continued expressions of support for asset purchases. As a result, high-grade credits have outperformed high-yield on a risk-adjusted basis. Despite a recent tightening in credit spreads, we maintain our current positive stance on investment and noninvestment grade credits.

### **Asia dominates**

Asia is grabbing headlines lately, as the BoJ reiterates its economic growth plans, North Korea rants and data from China eases market concerns of monetary tightening.

In China, lower inflation data, released this week, alleviated concern over the likelihood of policy tightening. The Chinese inflation index declined to 2.1% year-on-year (yoy) in March from 3.2% yoy in February. China's economy has apparently avoided a hard landing. This was also confirmed by the gain in the growth of imports, visible in March trade figures.

### **Korea tensions to resolve by month-end**

Despite the recent war-like stance of North Korea, we see long-term drivers for Korean equities (neutral). This is despite a decline of more than 7% on the MSCI Korea Index since the first sign of North Korea's belligerence in early March.

We believe the recent underperformance in Korean equities is in part due to the won's appreciation against the yen (6.8%) year to date. We are retaining our neutral stance on Korean equity, based on longer-term market drivers and believe the tensions with North Korea will be resolved by month-end. For more information, read our Korea Country Note, "No different this time."

A strong push in Japanese equities saw the Nikkei 225 hitting levels last seen mid-2008. Later in the week, however, Japanese markets corrected as the yen strengthened. As you can read in our second Japan Country Note in two weeks, "Bold Action by Bank of Japan," we believe the rally in Japanese equities could continue until the elections in July.

### **Europe concerns remain**

Uncertainty in Europe continues. Leaked documents on

Thursday signaled that Cyprus may need to raise an extra EUR 6 billion as part of its bail-out. This means there is now a high risk that another revision (number four and counting) to its bailout programme may be needed. As Group Economics wrote in today's Daily Insight, "The bailout of Cyprus is making the eurozone's rescue of Greece look like a textbook model of efficiency."

Other European issues waiting to be resolved include an agreement on a new president in Italy, which could ultimately lead to a new government or a call for new elections.

In general, however, the peripheral eurozone countries are clawing back their competitiveness and current account deficits are shrinking more quickly than could have been anticipated.

Over the week, European equities rose by about 2%.

### **Stocks to watch**

#### **Alcoa: Buy**

The earnings season unofficially started last week with Alcoa, which reported better-than-expected results. Revenues were lower (-3% yoy), but this was expected. Better margins were a result of cost cutting as well as sales from downstream markets, responding to demand from the car, airline, packaging and construction industries. Alcoa's upstream businesses of aluminum and metals production continue to suffer from lower pricing and overcapacity.

### **Earnings season update**

While only 6% of S&P 500 Index companies have reported in the current earnings season, almost two-thirds have surpassed expectations. Forecasts for first-quarter earnings, however, have been scaled back, from an expected year-on-year rise of about 4.3% in January to today's 1.6%.

Although the earnings season will gain traction this week, expectations have been managed down. As a result, the market could more easily see companies beat expectations. Our focus will be on the impact of the stronger US dollar on margins and corporate guidance.

Sentiment for equities remains positive overall, especially for the US and Japan. As long as central banks maintain their loose monetary policies, we expect that any set back in equities will be treated as a buying opportunity. Worries over Cyprus and Italy, as well as the threat from North Korea may subdue investor enthusiasm.

### **Asset allocation**

The recommended tactical asset allocation continues to call for overweights in equity and property, an underweight in

bonds, a neutral position in commodities and a hedge fund allocation that varies relative to the risk profile of the portfolio. For more information, see the latest Global Investment Committee Update.

### Currency outlook

The Japanese yen has been the main mover in currency markets, with the BoJ's monetary programme reviving the carry trade. The recent softer US data resulted in an adjustment in expectations for the US economy. Weaker than expected data will continue to cap the upside of the US dollar.

The euro has strongly benefitted from the fall of the Japanese yen. As the sell-off of the yen versus the euro was at a higher pace than against the US dollar, the euro versus the US dollar moved higher.

At the beginning of the week, the Korean won fell under pressure, as North Korea's rhetoric took its toll. It later recovered somewhat. It remains highly sensitive to the current tensions.

### Currency forecasts

	Today	Q2 2013	Year-end 2013
EUR/USD	1.3078	1.30	1.20
GBP/USD	1.5356	1.49	1.41
USD/JPY	99.65	96	100

Source: ABN AMRO Group Economics

### New publications from Research & Strategy

The rules of the game have changed: Bond markets monthly Investor sentiment toward 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.

### Corporate hybrids: bond report

Corporate bonds with a mix of equity and debt characteristics are known as hybrids. With more than EUR 14 billion issued so far in 2013, corporate hybrids are proving attractive to both issuers and investors.

### Bold action by Bank of Japan: Japan country note

The Bank of Japan (BoJ) has taken bold steps to stimulate growth and to end deflation. Its actions will benefit property, financials and exporting companies.

### Indonesian equities outperform: Indonesia country note

Indonesian equity markets are expected to continue their successful performance, supported by four key drivers related to foreign direct investment inflows; increasing urbanization & the rise of the middle class; infrastructure investment and earnings upgrades.

### No different this time: Korea country note

North Korea's recent belligerence is likely to be economically motivated and may be connected to bolstering Kim Jong Un's credentials. Despite the geopolitical risks and short-term volatility, the neutral rating for Korean equities is maintained.

### What's coming

		Date
Industrial Production	CN	15 April
Fixed investments	CN	15 April
GDP	CN	15 April
ZEW Index	DE	16 April
Inflation (CPI)	US	16 April
Industrial Production	US	16 April
Producer prices	KR	16 April
Philly Fed business confidence	US	18 April

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