



global weekly

Investment
Communication

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It's sentiment, not data

Disappointing data from a variety of indicators point to slowing global growth. The impact is already being felt in bond markets, as swings in sentiment result in heightened volatility

Data is secondary

Market sentiment is changing and with these changes comes volatility. This week, after the outlook for global economic growth dimmed, fixed income markets reacted with lower bond yields. As a result, expectations have increased that monetary authorities will continue to provide liquidity and the ECB is expected to join this scenario. Last week ABN AMRO Group Economics adjusted its rates forecast. We now expect the ECB to cut the refinancing rate in May.

Lower interest rates for longer has consequences. There are large fixed income investors who have taken sizable positions in anticipation of higher rates. With the change in market sentiment, these higher rates are now delayed.

As a result, there is a large segment of the market now caught on the wrong side of a trade, who must buy back short positions. It is exactly this type of situation that is leading to temporary rallies and increased volatility.

And the impetus for changes in sentiment is not abating. Eurozone credits benefit in the short term from the tail wind of declining peripheral yields, as Italy moves toward forming a new government. Other European countries are also benefiting for the search for yields. At the same time, despite superior longer-term fundamentals, the US faces near-term challenges, as it deals with the impact of lower growth and the consequences of fiscal tightening.

The risk for the markets lies in the political risk for the US, Japan and the eurozone. Germany is also going to the polls in September, but the political debate could impede the already slow repair measures for the eurozone and the development of an EU-wide banking union. This would again bring the issue of eurozone solidarity back into the news, which in turn could lead to more volatility from sentiment-driven and emotional market swings.

Equity index performance in EUR

	Value	One week	Year-to-date
MSCI ACWI	365.19	2.5%	7.5%
S&P 500	1585.16	2.8%	11.1%
EuroStoxx 50	2704.41	4.3%	1.9%
DAX	7832.86	4.7%	2.6%
Nikkei 225	13884.13	4.3%	33.6%
Hang Seng Index	22547.71	2.4%	-0.5%

Important rating changes

Company	From	To
Apple	Buy/RL	Buy
ANZ Bank	Buy	Hold
Deutsche Bank	Buy	Hold
Caterpillar	Buy	Hold
Microsoft	Buy	Hold

Government bond yields

	Yield	One week	One year
US Treasuries 2-year	0.22%	0.1 bp	-3.5 bp
German Bunds 2-year	0.00%	-0.5 bp	-8.6 bp
Japan 2-year	0.12%	0.1 bp	1.7 bp
US Treasuries 10-year	1.69%	0.1 bp	-24.4 bp
German Bunds 10-year	1.23%	-0.6 bp	-45.7 bp
Japan 10-year	0.58%	-1.9 bp	-32.6 bp

Spreads

Index	Spread	One week	One year
CDX NA IG	79.01bp	-5.93 bp	-16.83 bp
iTraxx Euro 5-year	106.66bp	-6.93 bp	-36.33 bp
JPM EMBI+	280.74bp	-3.22 bp	-50.11 bp

Performance data is as of 12:00 pm Friday, 19 April

Source: Bloomberg

In this issue

- It's sentiment, not data
- Equity roundup
- Asset allocation
- Earnings season update
- Currency outlook
- What's coming

We believe that markets have become more sensitive to changes in sentiment than to economic data. In fact, economic data now appears to be a secondary consideration for bond markets.

Equity roundup

US stocks rise, but not by as much as in Europe

Strong corporate earnings, lower Treasury bond yields and elections in Italy all impacted US equities positively during the week. The market was also supported by better-than-expected jobless claims, indicating that the labour market is improving.

Although the corporate guidance remained cautiously optimistic at best, US equities experienced a shift from defensive into cyclical stocks. This week, strong gains were seen in materials, energy and information technology, but were offset by moderate losses in the telecom, consumer staples and health care sectors. As a result, the S&P 500 Index advanced by 2.8%, underperforming Europe and most of the rest of the world.

Economic data have been mixed at best and May is approaching fast, which is relevant if you believe in the old saying, “sell in May and go away.” With few incentives for the market, we believe the odds in the short-term are for a consolidation rather than a break in recent highs.

Good week for European equities

News from Europe was disappointing with declines in euro-zone Purchasing Manager Index (PMI) surveys and the German Ifo business climate index. Data related to the expectations portion of the Ifo index suggest that the German economy has cooled significantly in Q2. The PMI surveys were weak across the board and appear to confirm an ongoing contraction in the economy.

In this environment, European stocks rose, rebounding from last week, when markets saw the biggest weekly drop in five months. By market close on Thursday, the STOXX Europe 600 was up more than 4% for the week, driven by a strong performance in financials, consumer discretionary and energy sectors.

Asia equities do well

Top performing markets in Asia Pacific this week included MSCI Australia (+2.9%), Japan (+2.2%) and South Korea (+2%), while our favourite markets, such as Thailand (-0.78%) and Indonesia (-0.25%) took a breather.

Despite both PC-related and Apple-related demand disappointment, Asia ex-Japan large-cap IT names continue to see huge EPS upgrades, underpinned by margins, execution and

market-share gains. Korean IT-stocks led these upgrades, with Samsung Electronics (Buy) seeing upside from its handsets and memory businesses and LG Electronics (Hold), supported by margin expansion at its handsets division. These two stocks remain our top picks within our Korean universe.

Negative news flow, including shadow banking, local government debt, debt rating and outlook downgrades from both Fitch and Moody's, continued to haunt China over the past couple of weeks. As a result, we will be publishing a China Country Note next week to address the concerns and explain our view.

Asset allocation

No changes have been made to the overall tactical asset allocation recommended by the Global Investment Committee (GIC). The recommended allocation is an overweight position in equity and property, an underweight position 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, read the latest Global Investment Committee Update.

Earnings season update

Of the 195 S&P 500 Index companies that have posted Q1 results so far, 73% have beat profit estimates and 45% have topped revenue projections, pushing earnings growth estimates up to 2.2% from 1.7% a week ago. Although the earnings season seems to be slowing down, there are still 135 constituents of the S&P 500 index scheduled to report their results.

In Europe, 82 constituents of the STOXX Europe 600 Index are scheduled to report this week. Among the high-profile companies are Siemens, Swiss Re, UBS, BP, Royal Dutch and DSM.

In Asia, 18.4% of the market cap has reported, with upgrades to 2013e consensus EPS narrowly focussed on big-cap stocks such as Samsung Electronics (Buy) and TSMC (Hold). The good news is that the range seems to be improving, with 44% of stocks that have reported associated with upgrades from the prior 33%. If the turnaround in earnings-per-share revisions is maintained, it could provide a powerful catalyst for Asian equities' performance.

Currency outlook

The US dollar was hurt this week due to softer than expected domestic data releases. However, the currency rebounded as data in Europe remained weak.

Weak data out of Europe and market speculation that the ECB would cut interest rates weighed on the euro. The improve-

ment of the political situation in Italy, added to euro support.

With the yen, every bout of strength, due to profit-taking in yen short positions, was met with renewed selling interest. In May, there is usually net outward investment from Japanese investors. This is expected to spur further yen weakness.

Despite the weaker-than-expected manufacturing outlook in China, investors continue to position for further strength in the currency, in anticipation of potential widening of the trading band. We expect the yuan to strengthen towards 6.05 against the US dollar at the end of this year.

Currency forecasts

	Today	Q2 2013	Year-end 2013
EUR/USD	1.3047	1.30	1.20
GBP/USD	1.5302	1.49	1.41
USD/JPY	99.25	104	110

Source: ABN AMRO Group Economics

What's coming

		Date
Pending home sales	US	29 April
Eurozone unemployment rate	EU	30 April
Consumer confidence	US	30 April
Case Shiller house prices	US	30 April
Manufacturing PMI	CN	1 May
ISM manufacturing	US	1 May
FOMC rate decision	US	1 May
ECB rate decision	EU	2 May
Trade balance	US	2 May
Non-manufacturing PMI	CN	3 May
Unemployment rate	US	3 May

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Currency forecasts

	Today	Q2 2013	Year-end 2013
EUR/USD	1.3315	1.30	1.20
GBP/USD	89.97	0.90	95.0
USD/JPY	119.79	117	114

Source: ABN AMRO Group Economics

For more information: https://www.abnamro.nl/en/commercialbanking/publications.html?pos=vku_groupeconomics

Government bond yields

	This week	Year-to-date
US Treasuries	xx.x%	xx.x%
German bund	xx.x%	xx.x%
Japan	xx.x%	xx.x%

US corporate bond yields

	This week	Year-to-date
Investment Grade	xx.x%	xx.x%
High-yield	xx.x%	xx.x%
xxxxx	xx.x%	xx.x%

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



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