

Kendra Securities House
Weekly Trading Information - 7.8.2017

Equity markets continued their recovery last week, especially in Europe after the local indices hit significant support levels and there is growing perception that the EUR rally has probably gotten away of itself. There is a notable fatigue in the Technology sector (Nasdaq -0.4%) after a very strong 6 month period. The most important macroeconomic announcement of last week was the labor market data out of the US, which were much better than expected (Non Farm Payrolls rose by 209'000 vs expectations of about 180'000) while wages also showed some strength. These news sparked a mini USD rally and could be the catalyst for a (temporary ?) stop in the EUR rally. In Europe, inflation in Eurozone was announced at 1.3%, as expected and still much lower than the 2% target. The EUR's rally will only make inflation go down in the coming 6-9 months , which is a typical "delay" before currency movements feed into consumer prices. Oil prices however could provide a positive boost in the same period if they continue going up. The Bank of England voted against raising interest rates with a 6-2 vote, as expected, while it also downgraded slightly its forecast for GDP growth to 1.6% for 2018 against a previous forecast of 1.9%.

The Q2 earnings reports continue to dominate equity markets. Dufry (+3%), the largest Duty Free operator, announced sales growth of 8.9% and much better margins than expected while they announced their intentions to float through an IPO their North America business. Its shares would have broken much higher lately, having not been for the "clouds" that cover one of its largest single shareholder, the Chinese HNA Group which recently bought the 20% of the company. The Chinese Group has been under increased scrutiny in China about its corporate structure. Generali (+4%) announced in line earnings but its capital adequacy ratio improved much better than expected. With a 5% dividend and a P/E of less than 10, it remains a core holding in the broad financial sector. Danone (+5%) was strong on Friday with no obvious reason or any news, while there could be speculation for more aggressive acquisition moves in the sector. In that respect, Unilever could receive a renewed bid and hence its shares could be considered again a buy. On the negative side, the US construction company Fluor (-10%) announced an unexpected loss for Q2, after it had to write-down more assets than it was already expected by the markets , although its underlying business performed slightly better than expected. Shares now trade at a two year low, which could provide support in the immediate term.

Government Bonds moved higher as inflation numbers in the developed markets continue to slow down and as the Bank of England did not deliver any "hawkish" message with respect to rates. Even the good US unemployment numbers did not manage to move the bonds much. The 10-year US Treasury yield finished the week at 2.26% (from 2.31%) while the 10-year German Bund finishes at 0.47%, down from 0.53%.

Gold's rally stalled at 1270\$ and fell to 1255\$ as equity markets rebounded at the end of the week and as the USD found some pulse in order to move higher. Gold in EUR terms appears to be at attractive support levels, technically.

The EURUSD fell more than 1% on Friday, to touch a low of 1.730 as stop losses were triggered after the good unemployment data of the US. It came back to 1.1800 as buyers of the EUR continue to come in every time there is a correction. It remains to be seen if the recent highs of almost 1.1900 will be the peak of this cycle, in the medium term. Technically it appears so.

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	22092.8	11.8	1.2	17883.6	22092.8
S&P500	2476.8	10.6	0.2	2083.8	2484.0
Nasdaq Composite	6351.6	18.0	-0.4	5034.4	6460.8
Russell 2000	1412.3	4.1	-1.2	1156.1	1452.1
Germany DAX30	12297.7	7.1	1.1	10174.9	12951.5
France CAC40	5203.4	7.0	1.4	4310.9	5442.1
Eurostoxx50	3507.4	6.6	1.1	2922.8	3666.8
Swiss SMI	9177.0	11.6	1.7	7585.6	9187.0
UK FTSE 100	7511.7	5.2	1.9	6654.5	7599.0
Italy FTSEMIB	21935.8	14.0	2.4	15922.4	21961.7
Greek ASE	829.5	28.9	1.2	548.7	859.8
Japan Topix	1631.5	7.9	0.4	1278.1	1638.6
China SSE Composite	3262.1	5.1	0.0	2959.0	3305.4
Hong Kong Hang Seng	27562.7	25.8	2.2	21488.8	27747.4
MSCI Emerging Markets	1067.3	23.8	0.4	839.0	1070.0
MSCI World	1967.8	12.4	0.4	1657.1	1971.4

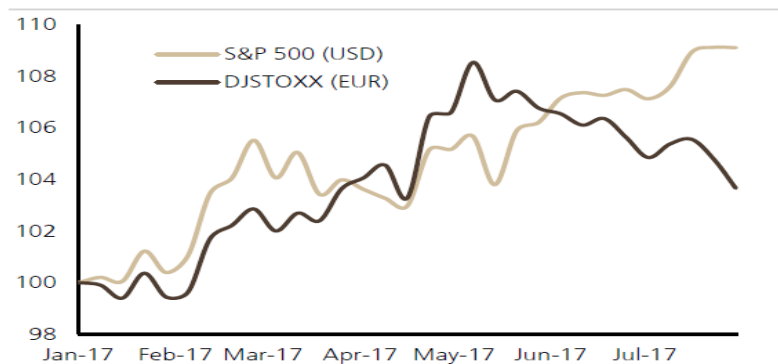
High Conviction Portfolio

	Price	%YTD	% WTD	% from high	52 wk high	52 wk low
Roche	248.00	6.6	2.3	-9%	273.00	218.30
Novartis	82.60	11.5	1.2	-2%	84.35	67.40
Sanofi	81.61	6.1	0.0	-12%	92.97	66.72
Abbvie	70.99	13.4	0.8	-5%	75.04	55.10
Generali	15.93	12.8	4.3	0%	16.00	10.50
American Express	85.97	16.1	1.4	0%	86.33	59.51
Barclays	210.35	-5.9	2.6	-14%	244.40	148.35
Lloyds	66.81	7.7	0.5	-9%	73.58	50.29
Geberit	482.00	18.1	5.3	-1%	486.90	379.20
Fluor	40.06	-23.7	-10.1	-31%	58.37	38.78
BAE Systems	586.50	-0.8	-3.1	-14%	682.50	516.48
ACS	32.20	7.3	-1.5	-12%	36.75	24.37
Capgemini	92.10	14.9	-0.5	-6%	97.49	71.10
Kudelski	15.70	-11.0	1.0	-27%	21.60	15.25
Cisco	31.80	5.2	0.9	-8%	34.60	29.12
IBM	145.16	-12.5	0.6	-21%	182.79	143.64
Sainsbury	252.50	1.3	2.4	-11%	283.60	224.10
Imperial Brands	3308.00	-6.6	-0.2	-20%	4154.00	3112.50
Danone	67.05	11.4	5.3	-5%	70.53	57.66
Carrefour	20.70	-9.6	0.1	-17%	24.84	20.08
Pepsico	116.37	11.2	-0.2	-2%	118.24	98.50
Nestle	83.25	14.0	1.9	-3%	86.00	67.00
Daimler	60.53	-14.4	1.1	-17%	73.23	59.01
Adient	64.91	10.8	-1.0	-15%	76.09	39.67
Disney	107.69	3.3	-2.1	-7%	116.09	90.32
Fnac	79.19	23.3	-0.7	-4%	82.39	52.70
Starbucks	55.44	-0.1	2.7	-15%	64.87	50.84
Ladbroke's	129.90	12.0	2.5	-21%	164.80	110.30
Newell Brands	50.69	13.5	-2.7	-9%	55.45	43.43
Dufry	158.40	24.7	2.9	-8%	172.60	108.30
Royal Dutch Shell	24.27	-6.6	2.4	-10%	26.87	20.81
ENI	13.55	-12.4	2.2	-15%	15.92	12.18
Chevron	110.11	-6.4	1.8	-7%	119.00	97.53
Rio Tinto	3546.00	12.3	1.2	-5%	3718.50	2253.50
International Paper	53.93	1.6	-1.5	-9%	58.95	43.55
Suez	15.56	11.0	1.3	-8%	16.99	12.73
AT&T	38.43	-9.6	-1.5	-12%	43.48	35.81
ADO Properties	39.90	24.6	3.7	-1%	40.19	29.45

Chart of the Week

As mentioned before the fall in European markets has brought the indices to levels before the French elections, which were the primary catalyst for the European outperformance. The EURUSD rally has taken its toll on equities, as expected and earnings revisions are coming down for Eurozone equities. However, if the current EUR rally is seen as temporary and it can quickly go back to levels of 1.13-1.16, then Europe should start attracting new flows again. We took advantage of this weakness to increase European exposure in the High Conviction portfolio a few days ago.

Figure 39: Performance YTD – Macron rally seems to have faded. (5.5%)



Source: Thomson Datastream. UBS European Equity Strategy