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# Weekly Report 12.3.2018

# Weekly Trading Information – Markets update

Equity markets rallied back strongly, after a volatile week, which included the resignation of a "moderate" advisor to President Trump, making the markets worry that the "hardcore" wing of the government is now fully in charge. The ECB revealed a rather relaxed stance against inflationary pressures, while they downgraded their forecast for the 2019 inflation rate. However, they also took out a phrase from the announcement, that had been there for almost two years and which was leaving the door open for an increase in bond purchases in size or duration, if need arose. Hence, it is a certainty that the QE program of the ECB will probably finish in 2018, or be slightly extended at a much lower rate per month. Financial markets were relieved by the final text of President Trump's tariffs announcement on steel and aluminum, as these excluded two key trade partners (Mexico, Canada) while keeping the door open for exclusion of other counterparties in the future. Most importantly, the strong employment report out of the US which was released on Friday (Non Farm Payrolls +313'000 vs expectations for +200'000) did not show any wage inflationary pressures, like it did last month which sparked the deep correction. The average hourly earnings increased at a much lower than expected rate, while unemployment ticked higher to 4.1% , from 4.0% the previous month. The markets await the February inflation numbers out of the US this week, while it is the time of the Swiss National Bank to update the markets on its own monetary policy. Will it give any hints for a normalization of its extraordinary, deeply negative interest rate policy ? The market does not expect it to do so, at this meeting.

In trying to assess the nature of the recent weakness in the markets, it is worth noting the fact that the Technology sector has stood up well (Nasdaq is back over its high in January), a sign which usually correlates with a correction within a bull market rather than the start of a bear market. It is also worth mentioning the outperformance of the Pharmaceutical sector (Roche +4%, Sanofi +4%, UCB +3%) after a long period of underperformance, a sign of perhaps an inflection point in sector allocation. Telecoms also had a very positive week (Telefonica +4%, Vodafone +4%, Deutsche Telekom +3%). Going forward and as markets look to heal from the sharp correction of the previous weeks, one should perhaps start looking to increase positions in defensive sectors again (Pharma, Telecoms being two of them), as the second half of the year might prove equally volatile.

Bonds traded within tight ranges. The 10 year US Treasury moved between 2.86%-2.90% and the 10 year German Bund moved between 0.65%-0.67%. The recent stabilization of the bond market has provided calm to equity markets as well, but with the FED meeting coming up and the US 10 year yield so close to the 3% mark, one cannot exclude the possibility of another bout of turmoil if these levels are surpassed abruptly.

Gold confirmed again the buying interest in the 1'310$ area, as it jumped again higher when it reached that level. There is no clear indication on the short term path of the precious metal, as inflation fears maintain the buying interest, while yields going up is a big headwind on its path.

The EUR moved lower as the ECB did not scare the markets this time, only to find the usual buying interest below 1.2300. it seems the currency is stuck in its current trading range 1.2150-1.2550, for now.

| | | YTD % | WTD | 52 week high | 52 week low |
|---|---|---|---|---|---|
| DJ INDU AVERAGE | 25335.7 | 2.5 | 3.3 | 26616.7 | 20379.6 |
| S&P 500 | 2786.6 | 4.2 | 3.5 | 2872.9 | 2322.3 |
| NASDAQ | 7560.8 | 9.5 | 4.2 | 7560.8 | 5769.4 |
| RUSSELL 2000 | 1597.1 | 4.0 | 4.2 | 1615.5 | 1335.0 |
| XETRA DAX | 12346.7 | -4.4 | 3.6 | 13596.9 | 11831.0 |
| CAC 40 | 5274.4 | -0.7 | 2.7 | 5567.0 | 4953.6 |
| ESTX 50 | 3420.5 | -2.4 | 2.9 | 3708.8 | 3306.7 |
| SMI | 8931.9 | -4.8 | 3.5 | 9616.4 | 8491.6 |
| FTSE 100 | 7224.5 | -6.0 | 2.2 | 7792.6 | 7062.1 |
| FTSE MIB | 22745.6 | 4.1 | 3.8 | 24050.2 | 19442.7 |
| ATHENS | 821.6 | 2.4 | 1.0 | 895.6 | 629.7 |
| TOPIX | 1741.3 | -5.6 | 0.4 | 1911.3 | 1452.2 |
| CHINA | 3326.1 | 0.0 | 1.6 | 3587.0 | 3016.5 |
| HANG SENG | 31524.9 | 3.6 | 1.3 | 33484.1 | 23438.9 |
| EMERGING MARKETS | 1207.2 | 4.2 | 2.1 | 1273.1 | 926.1 |
| WORLD INDEX | 2149.3 | 2.2 | 2.8 | 2249.7 | 1831.3 |

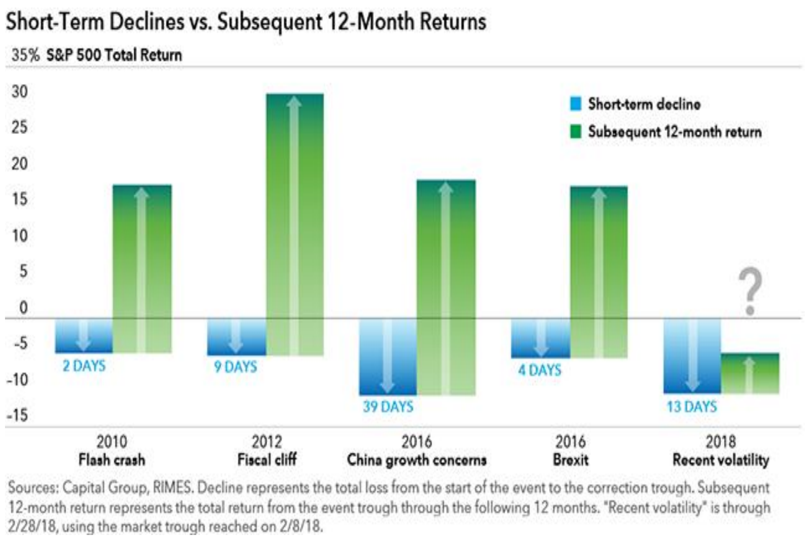
# High Conviction Portfolio

| | YTD % | WTD | DIV YIELD | CURRENCY | SECTOR |
|---|---|---|---|---|---|
| **Societe Generale** | 6.8 | 1.7 | 4.8 | EUR | Financials |
| **Siemens** | -9.0 | 2.6 | 3.5 | EUR | Industrials |
| **Lloyds** | -1.1 | 0.4 | 4.5 | GBp | Financials |
| **Dufry AG** | -6.6 | 3.9 | 0.0 | CHF | Consumer Discretionary |
| **Carrefour SA** | -3.2 | 0.4 | 2.6 | EUR | Consumer Staples |
| **Nokia** | 23.1 | 3.1 | 4.0 | EUR | Information Technology |
| **Roche Holding AG** | -7.1 | 5.2 | 3.6 | CHF | Health Care |
| **Imperial Brands** | -18.1 | 0.3 | 6.6 | GBp | Consumer Staples |
| **UCB** | 0.6 | 3.3 | 1.8 | EUR | Health Care |
| **Barclays** | 3.8 | 2.7 | 1.4 | GBp | Financials |
| **IBM** | 3.8 | 3.1 | 3.8 | USD | Information Technology |
| **BNP Paribas** | 1.1 | 0.1 | 4.8 | EUR | Financials |
| **Vonovia** | -7.5 | 4.1 | 3.4 | EUR | Real Estate |
| **Valeo** | -11.8 | 4.3 | 2.3 | EUR | Consumer Discretionary |
| **BHP** | -5.7 | 1.6 | 5.0 | GBp | Materials |
| **Daimler** | -4.1 | 0.8 | 5.4 | EUR | Consumer Discretionary |
| **Sanofi** | -8.7 | 3.4 | 4.5 | EUR | Health Care |
| **Deutsche Telekom** | -10.6 | 2.7 | 4.9 | EUR | Telecommunication Services |
| **Telefonica** | 0.6 | 4.3 | 4.9 | EUR | Telecommunication Services |
| **Kering** | -1.3 | 3.4 | 1.5 | EUR | Consumer Discretionary |
| **Vodafone** | -11.9 | 4.0 | 6.4 | GBp | Telecommunication Services |
| **SUEZ** | -20.4 | 6.2 | 5.6 | EUR | Utilities |
| **Starbucks Corp** | 1.8 | 2.7 | 2.1 | USD | Consumer Discretionary |
| **WPP** | -10.2 | -4.9 | 5.0 | GBp | Consumer Discretionary |
| **Logitech** | 13.4 | 4.3 | 1.6 | CHF | Information Technology |
| **Adient** | -20.3 | 3.3 | 1.8 | USD | Consumer Discretionary |
| **Altran Technologies** | 2.4 | 2.2 | 1.7 | EUR | Information Technology |
| **Straumann** | -6.3 | 6.6 | 0.7 | CHF | Health Care |

*YTD: year to date return,*
*WTD: week to date return*

# Chart of the Week

Since the financial crisis of 2008/09 the S&P500 has been on a clear uptrend. However, during these ten years, there have been instances of sudden drops (5-15%), like the one we have been experiencing since the end of January. The below chart shows that in all these instances the market was higher by more than 15% on average. It is very difficult to forecast if the current correction, which reached 10% from its peak, is another short term correction or the beginning of a larger move down. The technical signs are that it could be just a correction within a bull market. However and despite our preference for equities vs bonds, one has to maintain a defensive stance, investing in high quality names that can weather better a downturn.



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