

Equity markets continued to move higher, however at a slower rate than the previous two weeks, with Europe outperforming the US and the UK staging the best performance among the big markets. It was the FED's turn to be on the spotline last week with its own decision to start the reduction of its balance sheet which had ballooned by several trillion USD in the last 8 years, after the 2008 financial crisis. It also hinted that December could still be the month of the third interest rate increase of 2017, despite the market's perception of no more rate hikes this year. Consequently, the market was quick to assign a 70% probability to such an outcome, which gave a short-lived boost to the USD. In Europe, news from the German election will dominate this week, with Chancellor Merkel poised to govern for a fourth term, but with weakened power and the "grand coalition" with the Socialists over. Although market reaction should be muted until more clarity evolves, one should not ignore that the fact that most probably she will include in a new coalition the Free Democrats and the Greens might have some implications on specific sectors (for instance the auto industry, hence a possible initial correction of auto stocks should be expected). In other European news, the macroeconomic figures continue to point to acceleration of growth, which helped the EUR recover from its slump after the FED meeting. "Leakages" from the ECB also appeared in the news, according to which there are still big disagreements with respect to the timing of its tapering of the bonds purchases, while Mr Draghi was very clear that October should be the month of announcing decisions. Again, these leakages helped the EUR's fall for a few hours only. In the U.K. the announcement of impressive growth in retail sales for August helped the GBP sentiment further and boosted the local equity market. In other news, perhaps the most interesting announcement was that of the S&P's downgrading of China to A1 from AA-, with no major impact on the markets.

During a week of a slow move higher in equity markets, shares of Financials showed the best performance (Generali +2%, Barclays +3%, Lloyds +2%) while shares of defensive sectors such as Food producers moved lower, as these are usually negatively correlated with interest rates going higher, as was the case last week (Danone -1%, Nestle -1%, Unilever -3%, Pepsico -3%). However, the focus of the week was the Telecom sector, as there was speculation that T-mobile (Deutsche Telecom's subsidiary) and Sprint might merge in the US. This sparked a rally in the sector (AT&T +4%, Vodafone +1%), which has been underperforming for a number of years vs the broad market (see chart of the week). As we have recently added to the sector in our high conviction portfolio, we will continue to do so on any market correction, with a possible addition of Deutsche Telekom. Shares of U.K. engine and other aircraft material manufacturer BAE Systems surged higher (6%) after Qatar announced a multibillion dollar purchase of Eurofighter jets.

Government Bonds sold off after the FED's decision and the improvement in equity markets. The US 10 year Treasury yield finished the week at 2.25%, while the European bonds fell more in comparison, with the 10 year German Bund yield reaching again 0.45% after being at 0.25% two weeks ago.

The rise in interest rates was negative for Gold which broke below 1300\$ and is testing its support at 1285-1290\$. These are levels where one could accumulate again as geopolitics and primarily the slowing of the US economy in the 3rd quarter (which will be attributed to the hurricanes) might provide support to the metal.

The EUR continues to be bought on every dip, showing impressive resilience around the 1.1850 levels. It remains to be seen whether the uncertainty stemming from Germany's elections could make it break lower, although it seems not to be the case for now. On the upside it is obvious that the 1.20-1.21 area will be a very difficult level to overcome in the coming weeks.

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	22349.6	13.1	0.4	17883.6	22419.5
S&P500	2502.2	11.8	0.1	2083.8	2508.9
Nasdaq Composite	6426.9	19.4	-0.3	5034.4	6477.8
Russell 2000	1450.8	6.9	1.3	1156.1	1452.1
Germany DAX30	12592.4	9.7	0.6	10174.9	12951.5
France CAC40	5281.3	8.6	1.3	4342.6	5442.1
Eurostoxx50	3541.4	7.6	0.7	2922.8	3666.8
Swiss SMI	9136.7	11.2	1.2	7585.6	9198.5
UK FTSE 100	7310.6	2.3	1.3	6676.6	7599.0
Italy FTSEMIB	22530.8	17.1	1.4	15922.4	22613.5
Greek ASE	773.9	20.2	-0.3	559.9	859.8
Japan Topix	1664.6	10.0	0.4	1287.4	1679.8
China SSE Composite	3352.5	7.6	-0.4	2969.1	3391.6
Hong Kong Hang Seng	27880.5	25.4	0.3	21488.8	28248.1
MSCI Emerging Markets	1102.3	27.8	0.0	839.0	1112.9
MSCI World	1994.6	13.9	0.3	1657.1	1999.4

High Conviction Portfolio

	Price	%YTD	% WTD	% from high	52 wk high	52 wk low
Roche	248.00	6.6	2.0	-9%	273.00	218.30
Novartis	83.45	12.6	1.3	-1%	84.35	67.40
Sanofi	84.12	9.4	3.4	-10%	92.97	66.72
Abbvie	87.48	39.7	0.1	-2%	89.69	55.10
Generali	15.56	10.2	1.6	-3%	16.08	10.50
Barclays	191.55	-14.3	2.6	-22%	244.40	155.95
Lloyds	66.91	7.9	2.4	-9%	73.58	50.45
Fluor	40.93	-22.1	1.2	-30%	58.37	37.04
BAE Systems	632.00	6.8	6.0	-7%	682.50	516.48
Vinci	80.18	23.9	-0.1	-1%	80.82	49.93
ACS	31.30	4.2	-2.9	-15%	36.75	25.94
Kudelski	11.40	-35.4	-2.6	-41%	19.30	11.40
Cisco	33.37	10.4	2.9	-4%	34.60	29.12
IBM	145.13	-12.6	0.2	-21%	182.79	139.13
Sainsbury	233.30	-6.4	-1.9	-18%	283.60	224.10
Imperial Brands	3227.50	-8.9	-3.0	-22%	4128.50	3112.50
Danone	66.70	10.8	-0.8	-4%	69.52	57.66
Unilever	49.13	25.6	-3.0	-4%	51.31	36.22
Carrefour	16.55	-27.7	-1.5	-33%	24.84	16.31
Pepsico	111.85	6.9	-2.6	-6%	119.39	98.50
Nestle	80.55	10.3	-0.5	-6%	86.00	67.00
Daimler	66.60	-5.8	0.5	-9%	73.23	59.01
Adient	82.95	41.6	3.4	-1%	83.56	39.67
Disney	98.60	-5.4	0.1	-15%	116.09	90.32
Fnac	82.32	28.2	6.2	-1%	83.04	55.00
Starbucks	55.09	-0.8	0.8	-15%	64.87	50.84
Newell Brands	41.39	-7.3	-4.2	-25%	55.07	41.25
Dufry	156.40	23.1	3.0	-9%	172.60	114.00
Royal Dutch Shell	24.83	-4.4	3.5	-8%	26.87	20.81
ENI	13.78	-10.9	-0.2	-13%	15.92	12.18
Vodafone	208.25	4.2	0.9	-11%	233.90	186.50
AT&T	38.59	-9.3	4.0	-10%	43.03	35.10

Chart of the Week



The European Telecoms Index (orange) has significantly underperformed the broad market (purple) during the last 5 years. It is still down 5% from its 2012 levels while the market is up 5%. With the news about the industry booming better (revenue growth, 5G deployment, mergers etc) this difference might start to close in the coming period, hence we will be adding to the sector on weakness.