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SECURITIES
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Weekly Report 14.5.2018



Weekly Trading Information – Markets update

Equity markets rallied to their best levels in two months, led by the US and the high beta German market, while the Italian market was a clear underperformer as politics continue to haunt local stocks. After intensive negotiations the anti-systemic Five Star party has agreed to create a government together with the League, part of the Center-Right coalition. The fact that the anti-systemic parties have significantly toned down their anti-Euro rhetoric, even before elections, is making the effect on the markets rather muted. The Bank of England kept interest rates unchanged, as expected, with a 7-2 vote. President Carney had guided accordingly during an interview, hence the fall in the value of the GBP was rather small, as it had already discounted this a few weeks ago. Inflation in the US continues to be announced below expectations. In April, the core CPI (which excludes the food and energy prices) rose 0.1% vs expectations for 0.2%, giving the markets another reason for relief that the FED will not increase rates more aggressively. President Trump, after a period of relative absence, put his mark on the markets again by announcing the cancelation of the nuclear deal with Iran, sending oil prices to levels last seen in 2014. The reaction in equity markets was surprisingly positive, a sign perhaps of fatigue with regard to how fearful Trump's decisions/threats really are. To add to this point, President Trump tweeted over the weekend that he is in talks with the Chinese President to resolve the situation with the Chinese Telecom equipment giant ZTE, just a month after he decided to ban US companies from doing business with it, essentially stripping the Chinese company from its US suppliers. Still however, a further big rise in oil prices would most likely light up fears for runaway inflation as well as create damage to profit margins of companies, which will see their raw material costs rise. It is our view that the market will be increasingly looking at how operating margins are affected, not only by the rise of commodity prices, but equally important by the evolution in wages/personnel cost.

It was a busy week for earnings announcements in Europe. Siemens (+6%) announced better sales and new orders across all market segments and raised its 2018 earnings guidance by 6%. Dufry (+6%) announced a 7% growth in sales, but most importantly higher EBITDA margins by more than 1%. Imperial Brands (+6%) managed to rebound from multi-year lows after its results were much better than expectations, as investors focused on the market share gains against its competitors. Pharmaceuticals (Roche -2%, Sanofi -3%) did not have a great week, as the sector continues to be plagued by the situation in the USA, where a) drug prices continue to drop and b) the sector is a favorite theme for politicians to make public impressions. However, valuations remain very attractive and in a world of potentially higher inflation, it is one of the few sectors which has seen wages going down, helping margins be sustained or even be improved. The rally in commodity prices as well as oil helped shares of BHP BILLITON (+6%) reach their highest level since 2014, right before the big drop in commodity prices.

The 10 year US Treasury yield touched again the magical number 3%, only to move lower again and finish the week at 2.96%. The 10 year German Bund was almost unchanged, hovering around 0.56%.

Gold traded in a rather tight range (1'310-1'320\$), finding support by the fact that the USD lost ground at the end of the week and bond yields moved lower after touching their resistance point.

The EURUSD continued its slide and tested an important support level at 1.1850, only to find buyers and finish the week at 1.1960, helped by the lower than expected inflation numbers from the US and the lower US yields.

	Level	YTD %	Weekly %	52 week high	52 week low
DOW JONES	24831.2	0.5	2.3	26616.7	20553.5
S&P 500	2727.7	2.0	2.4	2872.9	2352.7
NASDAQ	7402.9	7.2	2.7	7637.3	5996.8
RUSSELL 2000	1606.8	4.6	2.6	1615.5	1349.4
XETRA DAX	13001.2	0.6	1.4	13596.9	11726.6
CAC 40	5541.9	4.3	0.5	5567.0	4995.1
ESTX 50	3565.5	1.8	0.4	3708.8	3261.9
SMI P	8993.5	-4.1	1.0	9616.4	8501.2
FTSE 100	7724.6	0.5	2.1	7792.6	6866.9
FTSE MIB	24159.3	10.6	-0.7	24544.3	20537.4
ATHENS	822.4	2.5	-0.2	895.6	700.1
TOPIX JAPAN	1795.0	-1.2	1.3	1911.3	1548.0
SSE CHINA	3162.9	-4.4	2.3	3587.0	3022.3
HANG SENG	31122.1	4.0	4.0	33484.1	25025.1
MSCI-EM	1164.5	0.5	2.5	1273.1	988.4
WORLD	2132.0	1.4	2.0	2249.7	1873.0

Certificates	Price	YTD %	Weekly %
KENDRA HIGH CONVICTION	101.92	+1.3	+1.5
KENDRA HIGH INCOME	102.01	+2.5	+0.4



High Conviction Portfolio

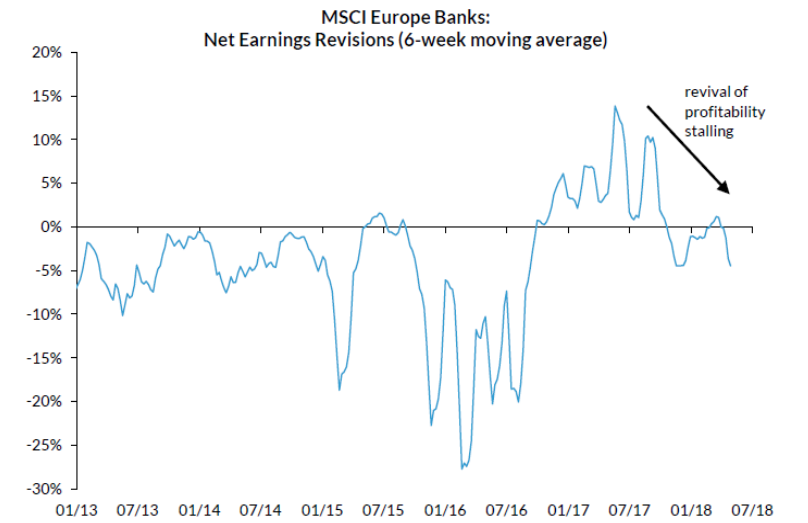
Chart of the Week

	YTD %	Weekly %	DIV YIELD	CURRENCY	SECTOR
Societe Generale	-0.7	0.4	5.2	EUR	Financials
Siemens	-0.6	5.8	3.2	EUR	Industrials
Lloyds	-1.4	2.6	4.6	GBp	Financials
Dufry AG	3.1	6.1	2.6	CHF	Consumer Discretionary
Carrefour SA	-8.8	-1.5	2.8	EUR	Consumer Staples
Nokia	37.3	5.1	3.6	EUR	Information Technology
Roche Holding AG	-9.9	-1.6	3.7	CHF	Health Care
Imperial Brands	-12.7	6.4	6.3	GBp	Consumer Staples
Danone	-7.5	-0.5	2.9	EUR	Consumer Staples
Nestle	-7.4	1.6	3.0	CHF	Consumer Staples
UCB	-4.8	1.6	1.9	EUR	Health Care
Barclays	5.6	4.3	1.4	GBp	Financials
IBM	-6.0	0.2	4.4	USD	Information Technology
BNP Paribas	0.8	0.2	4.8	EUR	Financials
Vonovia	-4.6	-3.7	3.3	EUR	Real Estate
Valeo	-8.2	0.7	2.2	EUR	Consumer Discretionary
BHP	12.4	6.9	4.3	GBp	Materials
Spotify	NULL	1.6	0.0	USD	Information Technology
Sanofi	-11.3	-2.7	4.6	EUR	Health Care
Deutsche Telekom	-3.5	-1.6	4.5	EUR	Telecom Services
Telefonica	2.7	0.5	4.8	EUR	Telecom Services
Vodafone	-10.6	-0.2	6.3	GBp	Telecom Services
Biogen	-11.4	4.5	0.0	USD	Health Care
GlaxoSmithkline	10.9	-0.2	6.7	GBp	Health Care
SUEZ	-19.4	-2.0	5.5	EUR	Utilities
Arkema	7.6	3.3	2.1	EUR	Materials
WPP	-2.2	2.3	4.6	GBp	Consumer Discretionary
Adient	-29.0	1.5	2.0	USD	Consumer Discretionary
Altran Technologies	3.4	-1.5	1.8	EUR	Information Technology
Straumann	-0.1	1.0	0.7	CHF	Health Care

Shares of European banks have been a big disappointment lately, especially given their relative attractive valuation as well as the big rise in yields, with which they are positively correlated. If one looks at the below chart, their performance is no surprise. Analysts have been revising down their earnings expectations, during the last 6 months and especially after quarterly results. In general, there is a very high correlation between the performance of a stock and the earnings revisions done by the analysts. As expectations are being revised down stock prices follow and vice versa.

Having reduced exposure to the Financial sector in the High Conviction portfolio, we would be monitoring the situation to look for opportunities to increase again. Fundamentally the sector remains attractive on both absolute and relative terms.

Chart 15 : Net Earnings Revisions of Banks in Europe



Source: Datastream, Kepler Cheuvreux



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