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Weekly Report 29.1.2018



Weekly Trading Information – Markets update

US equities continued their rally, based primarily on the weak dollar and the ongoing enthusiasm about the Tax reform which is expected to boost the S&P500 profits by almost 10% this year. The EUR rally towards 1.25 is having an impact on Eurozone equities, which finished the week almost unchanged, with the exception of the FTSE100 which dropped 0.8%, due to the strengthening pound. Currencies played a major role in markets last week and are expected to dominate news and direct the moves in the short term. The ECB maintained its guidance for raising interest rates well after the end of QE (September 2018), with markets anticipating now the first move in the summer of 2019. The Bank of Japan also maintained unchanged its purchases of bonds and ETFs, but the slight mention by Mr. Kuroda that inflation is picking up, made the JPY rally towards levels of last September. The US Treasurer, Mr Mnuchin, made a rare public comment on the USD, that the US is enjoying a weak dollar, contrary to the strong dollar public policy of all administrations of the last decades. Later, Mr Trump and Mr Munchin himself claimed that his words were misinterpreted, but damage had been done. It is very likely that if the USD strengthens from current levels, US equity markets will stall, given also their impressive rally since the start of the year.

In corporate announcements, Logitech (+12%) announced earnings 10% ahead of expectations with growth in all segments and markets, while the company anticipates 12-14% in sales growth in 2018. Carrefour (+6%) finally presented its new 5year strategy, with the main points being the 2bn cost reduction, the closure of many unprofitable stores and most importantly the cooperation with Tencent (the "Chinese Amazon") which will invest in Carrefour China. Starbucks (-5%) announced 2% growth in sales, little lower than planned (3-5%) and its stock suffered from profit taking after a recent rally. The company, however, maintained its target for 11-12% growth of earnings in 2018. All three companies remain in the top holdings in the high conviction list.

Government bonds were again weak, with yields breaking out from recent highs. The US 10 year Treasury yield closed at 2.65%, while the German 10 year Bund yield finished at 0.63%. An ongoing rise in interest rates will most probably hurt the defensive equity sectors (Food, Pharma etc) and the high dividend sectors, but benefit Financials. However, given the big move already in rates and in these sectors (which have already underperformed) one finds attractive opportunities both in USD interest rates and rate linked equity sectors (utilities, telecoms). We added back French waste management and water company, SUEZ, to the High Conviction List, after selling it last year and after a drop of 20% since January and 27% since the sale.

Gold found resistance at 1'360\$, a major resistance point. As yields move higher and the USD's fall is contained around current levels, Gold could probably move sideways to lower, to its support levels of 1'300 and 1'320.

The EUR passed through resistance at 1.2300 , the moment Mr Munchin spoke of the merits of a weak dollar and Mr Draghi could not do much about it in the ECB press conference, rather than expressing his discomfort for public comments on currencies. The EUR will find strong resistance at 1.2500 for the moment.

Global Equity Indices					
	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones	26616.7	7.7	2.1	19784.8	26616.7
S&P500	2872.9	7.3	2.1	2267.2	2872.9
Nasdaq Composite	7505.8	8.7	2.3	5576.1	7505.8
Russell 2000	1608.1	4.7	0.7	1335.0	1615.5
Germany DAX30	13340.2	3.3	-0.7	11479.8	13596.9
France CAC40	5529.2	4.1	0.0	4733.8	5567.0
Eurostoxx50	3647.4	4.1	0.0	3214.3	3708.8
Swiss SMI	9515.6	1.4	0.1	8264.8	9616.4
UK FTSE 100	7665.5	-0.3	-0.8	7093.6	7792.6
Italy FTSEMIB	23857.0	9.2	0.5	18424.3	24050.2
Greek ASE	878.1	9.4	3.6	602.4	886.2
Japan Topix	1879.4	3.4	-0.5	1452.2	1911.3
China	3558.1	7.6	2.0	3016.5	3574.9
Hong Kong	33154.1	10.8	2.8	22997.5	33223.6
Emerging Markets	1273.1	9.9	3.3	909.2	1273.1
MSCI World	2248.9	6.9	1.9	1785.2	2248.9



	Price	%YTD	% WTD	% from high	52 wk high	52 wk low
Roche	231.45	-6.1	-1.3	-15%	273.00	226.10
Sanofi	73.48	2.3	0.7	-21%	92.97	69.79
Straumann	717.00	4.1	-0.8	-4%	746.00	382.00
Societe General	46.70	8.5	3.0	-11%	52.26	40.66
Bnp Paribas	68.28	9.7	2.0	-1%	69.17	53.96
Barclays	210.00	3.4	4.7	-14%	244.40	177.30
Lloyds	71.26	4.6	-0.4	-3%	73.58	61.81
Siemens	121.06	4.2	-2.1	-9%	133.50	108.00
Logitech	40.35	22.6	12.3	-1%	40.82	28.10
IBM	167.34	9.1	3.1	-8%	182.79	139.13
Imperial Brands	2915.00	-7.8	-3.2	-26%	3956.50	2853.60
BHP Billiton	1582.40	3.9	-1.9	-5%	1662.40	1103.00
Carrefour	19.40	7.5	5.7	-18%	23.69	16.31
Nestle	81.00	-3.3	-1.6	-6%	86.40	71.45
Adient	72.30	-8.1	0.5	-16%	86.42	59.10
WPP	1292.50	-3.7	-6.7	-33%	1928.07	1238.45
Starbucks	57.99	1.0	-5.3	-11%	64.87	52.58
Suez	11.75	-19.9	-14.8	-31%	16.99	11.38
Dufry	150.70	4.0	1.9	-13%	172.60	129.90
Deutsche Telecom	14.58	-1.5	1.0	-20%	18.15	14.36
Telefonica	8.50	4.7	3.0	-16%	10.18	8.10
Vodafone	225.60	-3.9	0.0	-6%	239.65	186.50

YTD: year to date,
WTD: week to date

There has been a strong relationship between European equities performance vs the US since the start of 2017 and the big EUR rally. As shown, Europe has significantly underperformed the USA, as the EUR has been appreciating (shown in light brown, but inverted). If one takes the view that in the medium term, the EUR will probably stabilize around current levels (1.20-1.25), then one should expect the US equities to stall and European equities to start performing better again.

Figure 1: European Equities vs US (local FX) vs EUR/USD (inverted)



Source: UBS European Equity strategy, Thomson Datastream



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