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Weekly Report 12.2.2018



Weekly Trading Information – Markets update

It was the worst week since 2016 for global equities, with the main developed market indices falling 5-6%, while emerging markets did not escape this time (MSCI EM -7%), China -9%). The good news is that the correction in the US indices stopped at the crucial level of 10% from the highs, which is considered a "healthy" correction, although when it happens in two weeks time, it feels much worse. What drives the correction this time, in stark contrast with the corrections of the previous years, is inflation fears rather than the opposite, ie deflation fears that spooked the market previously. Hence this correction is driven by yields rising, defensive stocks and markets underperforming while growth stocks doing relatively better. Overall it paid to be defensive up to now, but perhaps we are approaching the point of "a new start" for the markets, at much better valuations. The key to the short term future of the markets is inflation expectations and the stabilization of the bond market. It is interesting that it is the first time since 2015, ie since the FED started raising rates, that the market expects a higher number of interest rate increases in 2018, than the central bank's own forecast. Usually, the market was pricing in a lower number of rates and it was getting it right. The Bank of England's meeting last Thursday did little to sooth investors' pain, as it announced that they too might have to move interest rates higher than the market is expecting. The fact that the FED has a new Chairman, who just sworn in two weeks ago, adds to the nervousness.

In corporate news, Société Générale (-4%) announced much better results than expected, with revenues growing 6%, and most importantly much better trading revenues than its peers. It remains the top position in the portfolio. As a general comment, the huge spike in volatility should help the global financials' revenues from trading recover in Q1 of this year, which would be a plus for their stocks performance in 2018. As a reminder, all banks announced a significant drop in trading revenues in 2017, as volatility was proclaimed dead. Nokia's share performance (-1%) was impressive during a week of chaos, showing that the market is changing its stance towards the company after its recent results, but primarily due to its guidance for the next two years and its attractive valuation.

Bonds managed to stabilize, at the highest levels of yields seen two weeks ago. The US 10 year Treasury yield (2.86%) is sitting dangerously close to the 3% level, which had been considered a major inflection point for the markets. The current equity market correction is essentially discounting the break of this point. The 10 year Bund closed at 0.76%.

Gold moved lower to test the 1'310 levels and moved to close higher at 1'320. Its price action is "torn" between the inflation fears and equity turmoil which is positive and the rising yields, which is putting selling pressure. At current levels of 1'310-1'320\$, Gold looks like a good addition to portfolios.

The EUR has returned to a price range of 1.22-1.23, after testing and failing 1.2500. On the downside, it looks like the 1.2150 levels will be hard to overcome, as the market is paying increasing attention to the increasing deficits of the US government, thanks to the new fiscal policies (ie tax reform).

Global Equity Indices					
	Level	%YTD	%WTD	52 wk low	52 wk high
Dow Jones Industrials	24190.9	-2.1	-5.2	20204.8	26616.7
S&P500	2619.6	-2.0	-5.2	2311.1	2872.9
Nasdaq Composite	6874.5	-0.4	-5.1	5717.4	7505.8
Russell 2000	1477.8	-3.8	-4.5	1335.0	1615.5
Germany DAX30	12107.5	-6.3	-5.3	11645.1	13596.9
France CAC40	5079.2	-4.4	-5.3	4806.5	5567.0
Eurostoxx50	3326.0	-5.1	-5.6	3264.8	3708.8
Swiss SMI	8682.0	-7.5	-5.8	8409.2	9616.4
UK FTSE 100	7092.4	-7.7	-4.7	7073.0	7792.6
Italy FTSEMIB	22166.8	1.4	-4.5	18535.5	24050.2
Greek ASE	828.8	3.3	-5.3	611.7	895.6
Japan Topix	1732.0	-4.7	-7.1	1452.2	1911.3
China SSE Composite	3129.9	-4.6	0.8	3016.5	3587.0
Hong Kong Hang Seng	29507.4	-0.7	-9.5	23438.9	33484.1
Emerging Markets	1142.9	-1.3	-7.1	922.9	1273.1
MSCI World	2050.9	-2.5	-5.6	1806.5	2249.7



High Conviction Portfolio

Chart of the Week

	YTD %	WTD	DIV YIELD	CURRENCY	SECTOR
Societe Generale	2.5	-3.9	5.0	EUR	Financials
Siemens	-7.9	-6.8	3.5	EUR	Industrials
Lloyds	-2.2	-3.2	4.1	GBp	Financials
Dufry AG	-8.0	-7.1	0.0	CHF	Consumer Discretionary
Carrefour SA	1.3	-2.2	3.8	EUR	Consumer Staples
Nokia	12.5	-0.4	4.3	EUR	Information Technology
Roche Holding AG	-12.4	-3.7	3.8	CHF	Health Care
Imperial Brands	-16.7	-7.7	6.5	GBp	Consumer Staples
Nestle	-9.7	-4.7	3.0	CHF	Consumer Staples
Barclays	-5.0	-1.4	1.6	GBp	Financials
IBM	-2.5	-6.0	4.1	USD	Information Technology
BNP Paribas	1.5	-4.2	4.8	EUR	Financials
Vonovia	-12.1	-3.9	3.1	EUR	Real Estate
Valeo	-6.5	-5.1	2.1	EUR	Consumer Discretionary
BHP	-3.1	-4.0	4.4	GBp	Materials
Daimler	-0.9	-1.5	5.2	EUR	Consumer Discretionary
Sanofi	-11.8	-9.4	4.7	EUR	Health Care
Deutsche Telekom	-12.4	-6.1	4.6	EUR	Telecom Services
Telefonica	-7.4	-6.6	9.7	EUR	Telecom Services
Kering	-6.6	-7.5	1.4	EUR	Consumer Discretionary
Vodafone	-14.1	-8.1	6.5	GBp	Telecom. Services
SUEZ	-24.4	-8.7	5.9	EUR	Utilities
Starbucks Corp	-5.0	-2.1	2.2	USD	Consumer Discretionary
WPP	-4.5	-0.9	4.7	GBp	Consumer Discretionary
Logitech	7.1	-9.1	1.7	CHF	Information Technology
Adient	-22.9	-6.0	1.8	USD	Consumer Discretionary
Straumann	-8.9	-5.0	0.7	CHF	Health Care

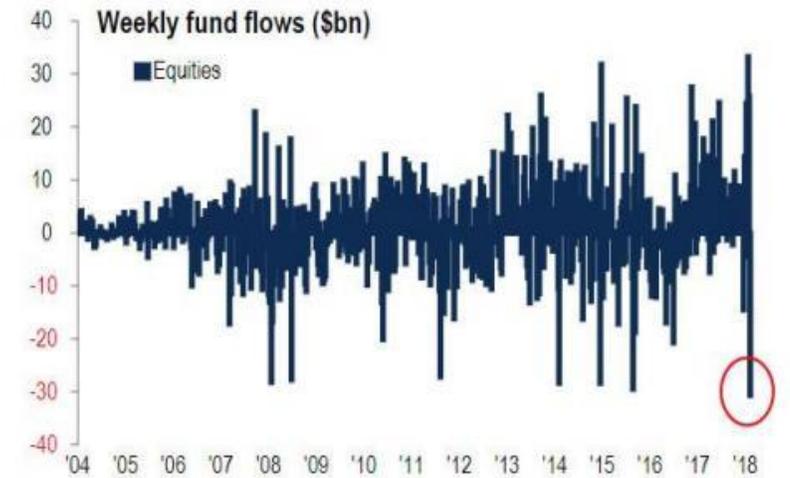
YTD: year to date,
WTD: week to date

A true contrarian measure, at least in the short term, is the inflows and outflows into equity funds in the USA, by retail clients. It was only three weeks ago that we had record weekly inflows as markets were rallying.

This past week, we had record weekly outflows, in a massive turnaround of investor sentiment and crazy swings in prices.

If history is any guide, these massive outflows should be taken positively, as the negative sentiment provides a basis for a rebound, if fundamentals remain as strong as lately.

Chart 2: Record outflows (\$30.6bn) from equity funds



Source: BofAML Global Investment Strategy, EPFR Global



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