

Kendra Securities House
Weekly Trading Information - 29.5.2017

The US equity markets rebounded strongly after last week's correction, posting new record highs, while European markets finished almost flat with headwinds from the rally of the EUR starting to appear. It was a rather eventful week, which started with the downgrade of China's debt rating by Moody's, to A1 from Aa3, a double A rating which China had enjoyed unchanged for almost three decades. A rather symbolic move as the markets did not bother with it almost at all, but chose to focus on the minutes of the FED's last meeting three weeks ago. What we learnt from the minutes is that the FED is on track to deliver its second interest rate hike of the year in a few days, but remains skeptical about the future path of inflation (see chart of the week). It also gave some initial details of the plan to reduce the balance sheet, which will happen very gradual in order not to disrupt the markets. All markets (equities, bonds, gold) cheered these news with the exception of the USD, which was sold again as the perception about the interest rate hikes is beginning to change and bond yields remain in check. On Friday, polls in the U.K. showed that the Labor party is rebounding from its very low ratings a few months ago, to close the gap with the Conservatives to a mere 5%. The GBP was the major victim of this, while UK equities finished the week strong as a weak pound is beneficial to exporters. Oil had a rollercoaster week, as OPEC delivered on the much awaited extension of the production cuts, but failed to lower even further the daily production target, disappointing short term players with exaggerated expectations. Its price slumped 5% on the news, only to recover on Friday to levels close to the psychological 50\$ for crude.

Shares of BAE Systems (+4%) were boosted both by the weaker GBP, but also by the announcement of the 2018 US Government budget, which showed an increase in defense spending. Despite the fact that the share price has just posted a new record high, we remain invested, as military and civil aviation spending should increase in the coming years. Carrefour (+1%) announced its plans to list its Brazilian subsidiary in the local stock exchange, a move anticipated for the last three years and finally delivered. This is expected to create value to the company and help its share price recover more. On the negative side, shares of Daimler (-4%) slipped further after the company became the target of the German authorities while their offices were raided in order to find any evidence of misconduct with respect to diesel emissions. Having reduced significantly our positions many weeks ago, the situation is monitored for potential increase again, although we would probably choose to err on the cautious side.

Government Bonds were almost unchanged last week, as the yield of the 10year US Treasury barely moved and finished at 2.25% and the equivalent German Bund yield slipped slightly to 0.32%.

Gold managed to break out of its resistance of 1265\$ on Friday night and it remains to be seen if it can build on that and approach again the 1300\$ level. Upcoming political events (UK, French elections) should provide support to the metal, while the FED's June interest rate hike is mostly already priced in.

Another volatile week for the USD, primarily against the EUR as the FED's minutes pictured a rather dovish image with respect to how high the yields can move in the next period. Having reached significant resistance level around 1.1250-1.1300, EURUSD will most probably consolidate at current levels and slightly lower as the markets are going to wait for the plentiful of events in June (European elections, FED etc) to decide of the next move in its price.

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	21080.3	6.7	1.3	17063.1	21169.1
S&P500	2415.8	7.9	1.4	1991.7	2418.7
Nasdaq Composite	6210.2	15.4	2.1	4574.3	6217.3
Russell 2000	1382.2	1.9	1.1	1085.9	1425.7
Germany DAX30	12602.2	9.8	-0.3	9214.1	12841.7
France CAC40	5336.6	9.8	0.2	3956.0	5442.1
Eurostoxx50	3579.0	8.8	-0.2	2678.3	3666.8
Swiss SMI	9042.0	10.0	0.2	7475.5	9137.0
UK FTSE 100	7547.6	5.7	1.0	5788.7	7554.2
Italy FTSEMIB	21210.6	10.3	-1.7	15017.4	21828.8
Greek ASE	778.4	20.9	-0.7	517.1	800.1
Japan Topix	1569.4	3.3	0.6	1192.8	1590.7
China SSE Composite	3110.1	0.2	0.6	2794.7	3301.2
Hong Kong Hang Seng	25639.3	16.5	1.8	19662.7	25724.4
MSCI Emerging Markets	1017.0	17.9	2.1	794.6	1017.0
MSCI World	1912.2	9.2	0.9	1566.7	1916.2

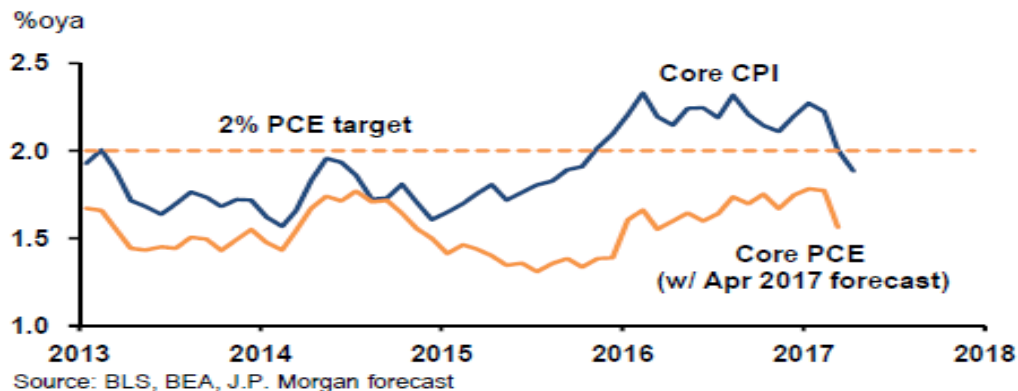
High Conviction Portfolio

	Price	%YTD	% WTD	52 wk high	52 wk low
Roche	266.60	14.6	-0.1	273.00	218.30
Novartis	78.60	6.1	-0.2	82.80	67.40
Abbvie	66.06	5.5	0.7	68.12	55.10
Generali	14.35	1.6	-5.2	16.00	9.76
American Express	77.46	4.6	0.9	82.00	57.16
Geberit	449.90	10.2	0.5	462.30	350.50
Sainsbury	281.70	13.0	2.7	283.60	211.50
Fluor	44.98	-14.4	-1.9	58.37	44.05
Disney	108.41	4.0	0.8	116.09	90.32
Cargill	92.67	15.6	-1.1	97.33	71.10
Kudelski	17.55	-0.6	0.3	21.60	15.50
BAE Systems	665.50	12.5	4.0	667.50	464.80
Lloyds	71.74	15.6	-0.1	73.58	46.74
Imperial Brands	3680.50	3.9	0.3	4154.00	3324.00
Cisco	31.50	4.2	0.9	34.60	27.13
IBM	152.49	-8.1	0.3	182.79	142.50
ADO Properties	37.86	18.3	2.2	40.19	29.45
Daimler	65.38	-7.6	-3.7	73.23	50.83
Fnac	62.80	-2.2	0.1	70.80	46.04
Starbucks	63.30	14.0	3.2	63.42	50.84
Dufry	163.60	28.8	-2.9	172.60	105.10
Carrefour	23.12	1.0	1.1	24.84	20.08
Pepsico	117.91	12.7	3.7	118.00	98.50
International Paper	52.42	-1.2	2.6	58.86	39.24
Enel	4.81	14.8	2.6	4.81	3.54
Royal Dutch Shell	24.29	-6.5	-1.7	26.87	20.81
Suez	16.32	16.4	0.5	16.92	12.73
ACS	35.76	19.1	0.2	36.54	21.70
Danone	66.55	10.5	1.1	70.53	57.66
Newmont Mining	34.11	0.1	1.4	46.07	30.19
Rio Tinto	3190.00	1.0	0.7	3718.50	1853.00
Nestle	82.85	13.4	0.6	83.45	67.00
ENI	14.31	-7.5	-4.9	15.92	12.18

Chart of the Week

Inflation in the US has started to go down again since the start of the year, below the FED's target of 2%. According to the last meetings' minutes, the FED discussed extensively this worrying situation, although they broadly believe that it is a rather transitory phenomenon than a lasting one. Still, the markets took notice, and they have started questioning the future path of interest rates, especially for 2018 and 2019.

Figure 1: Two measures of core inflation



Source: BLS, BEA, J.P. Morgan forecast