Kendra Securities House

Weekly Trading Information - 3.7.2017

Last week will be remembered as one of the worst weeks for investors in 2017, as all asset classes corrected lower (Equities, Bonds, Gold) with the notable exception of Oil, which managed to close higher. It all started with ECB President Draghi, speaking in a conference of Central Banks who hinted that in September the ECB will announce the slowing down ("tapering") of its bond buying program. Although this is something that is more or less anticipated by the markets for 2018, it was a surprise to hear Mr Draghi speaking about it now. The result was a rally in EURUSD which then made European equities suffer (Germany -3%, UK 1.5%) as expected. Then, it was the turn of FED President Mrs Yellen, in the same conference, who also spoke about "rich valuations" in financial markets and along with FED member Mr Fischer hinted that the FED will proceed with one final interest rate hike in 2017. In unisome, the Central Bank chiefs of Canada, Australia and the UK, in the same conference, mentiuoned that the period of low interest rates is probably coming to an end, thanks to the improving economies. All in all, the markets suddenly awoke to the reality that as economies globally are improving, interest rates will have to go higher, although the recent data globally are showing some fatigue from the recent highs. The delay in passing the healthcare reform law in the US as well as the fact that he IMF announced that it is lowering its forecast for the US GDP growth for 2017 to 2.1% from 2.3% did not help the situation in equity markets either. To finish off a rather bizarre and volatile week, Gold suffered a 1% drop in less than one minute on Tuesday, as millions of ounces were massively sold, a move that startled market participants and was attributed to a mistake by a trader. However damage was done.

Monday was a rather positive day for Nestle (+2%) as the activist hedge fund Third Point announced it had acquired 1% of the company's shares and presented its action plan so as the company can improve its profitability significantly in the coming years. It looks as if the food industry is becoming the target of activist investors (we remind the hostile buyout offer for Unilever a few weeks ago). Having sold Danone recently we could use current weakness to buy back the shares, as they also might become a target. It also offers defensiveness in a volatile environment. Healthcare stocks were down due to the delay of the healthcare reform law in the US (Roche -3%, Novartis -5%). Having reduced Roche at much higher levels, we are looking to buy back the shares as they are approaching attrative levels again. Energy stocks provide the best opportunity currently as Oil seems to have found a short term bottom. Shell and ENI are our top picks in Europe and Chevron in the US market.

Government Bonds were sold aggressively, after the Central Banks chiefs spooked the markets with their united hawkishness. The German 10 year Bund yield almost doubled in one week's time, closing at 0.46% from 0.25% (see chart of the week). The US 10 year Treasury also suffered and closed at 2.30% from 2.15%. As inflation expectations are again very low, Inflation Linked Bonds look attractive again.

Gold fell victim of a huge sell order and the rising interest rates , but managed to close again above its 200day moving average at 1241$. The volatility in equity markets did not attract any gold buying as markets were obsessed with interest rates, to which Gold is traditionally negatively correlated. If rates manage to stabilize this week, one would expect Gold to find support

The EURUSD was the biggest beneficiary of the turmoil, managing to break out of its recent range (1.11-1.13) and thanks to the explosion in volatility reached almost 1.1500. Many market participants consider 1.1500 to be the "pain" threshold for the ECB, meaning that they would not want to see the currency move higher in an uncontrollable fashion.

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	21349.6	8.0	-0.2	17713.5	21535.0
S&P500	2423.4	8.2	-0.6	2074.0	2453.8
Nasdaq Composite	6140.4	14.1	-2.0	4786.0	6341.7
Russell 2000	1415.4	4.3	0.0	1131.7	1433.8
Germany DAX30	12325.1	7.4	-3.2	9304.0	12951.5
France CAC40	5120.7	5.3	-2.8	4062.1	5442.1
Eurostoxx50	3441.9	4.6	-2.9	2742.7	3666.8
Swiss SMI	8906.9	8.4	-1.4	7585.6	9148.6
UK FTSE 100	7312.7	2.4	-1.5	6432.5	7599.0
Italy FTSEMIB	20584.2	7.0	-1.2	15293.1	21828.8
Greek ASE	823.7	28.0	0.4	520.4	828.3
Japan Topix	1611.9	6.1	0.0	1209.9	1627.5
China SSE Composite	3192.4	2.8	1.1	2922.5	3301.2
Hong Kong Hang Seng	25764.6	17.1	0.4	20304.4	26090.3
MSCI Emerging Markets	1010.8	17.2	-0.1	819.2	1019.1
MSCI World	1916.4	9.4	-0.4	1625.7	1938.7

High Conviction Portfolio

	Price	%YTD	% WTD	52 wk high	52 wk low
Roche	244.20	5.0	-3.4	273.00	218.30
Novartis	79.80	7.7	-4.7	84.35	67.40
Abbvie	72.51	15.8	-0.2	73.67	55.10
Generali	14.41	2.1	-0.6	16.00	9.76
American Express	84.24	13.7	2.5	85.39	58.25
Geberit	447.20	9.6	-2.5	467.30	354.50
Sainsbury	251.70	1.0	-0.7	283.60	212.60
Fluor	45.78	-12.8	4.0	58.37	43.65
Disney	106.25	1.9	1.8	116.09	90.32
Capgemini	90.48	12.9	-3.4	97.33	71.10
Kudelski	16.35	-7.4	-1.8	21.60	15.50
BAE Systems	633.50	7.1	-2.5	682.50	467.50
Barclays	202.75	-9.3	2.6	244.40	130.15
Ladbrokes	114.50	-1.3	0.0	164.80	108.70
Lloyds	66.15	6.6	-0.8	73.58	46.74
Imperial Brands	3448.50	-2.7	-3.5	4154.00	3324.00
Cisco	31.30	3.6	-2.5	34.60	28.17
IBM	153.83	-7.3	-0.2	182.79	147.79
ADO Propertiess	37.04	15.7	-5.0	40.19	29.45
Daimler	63.37	-10.4	-3.0	73.23	50.83
Fnac	70.89	10.4	6.2	71.50	48.00
Starbucks	58.31	5.0	-2.5	64.87	50.84
Dufry	157.10	23.7	-1.7	172.60	105.10
Carrefour	22.15	-3.2	0.6	24.84	20.08
Pepsico	115.49	10.4	-1.3	118.24	98.50
International Paper	56.61	6.7	-0.4	58.86	41.08
Adient	65.38	11.6	1.9	76.09	39.67
Royal Dutch Shell	23.24	-10.6	-1.3	26.87	20.81
Suez	16.22	15.7	-2.0	16.99	12.73
ACS	33.83	15.0	-3.2	36.00	23.16
Newmont Mining	32.39	-4.9	-4.2	46.07	30.19
Rio Tinto	3242.00	2.6	6.2	3718.50	2253.50
Nestle	83.45	14.2	1.6	86.00	67.00
ENI	13.16	-14.9	-3.1	15.92	12.18

Chart of the Week

This is the chart of the 10 year German Bond yield since the start of the year. It took it almost two months to reach 0.25% from 0.45% since beginning of May and it returned back even higher at 0.47% in a matter of one week. It remains to be seen if it can find support around the 0.50% area, where it has found throughout 2017.