Kendra Securities House

Weekly Trading Information - 20.11.2017

A second week of losses for European equities brought the indices close to very important technical levels and made the fall of November the longest streak of down days for more than a year. The collapse of the negotiations between Mrs Merkel's party and the Free Democrats over the weekend does not bode well for the sentiment, at least for the European open of the markets. With respect to macroeconomic data, inflation numbers in the three major regions (USA, Eurozone, UK) were announced in line with expectations, showing little changes from the previous month and challenging the Central Banks' views that inflation will accelarate due to the improvement in the economies. In the U.K., the Brexit progress is stealing the attention, as expected, with the last rumors speaking of a compromise by the British side on the amount of compensation paid to the E.U. to higher levels, which should satisfy the European side and make the negotiations move on to the crucial issues (like people movement and trade agreements). The US equity markets managed to outperform, with the help of Technology and smaller capitalization stocks, after the passage by the House of the Tax reform bill. However, the legislation must now face intense debates and discussions in at the Senate level, a process which could delay significantly the final implementation of it. Still, stocks that would benefit significantly from the lowering of the corporate rate to 20% from 35% (such as Telecoms and Financials) outperformed the market (see chart of the week).

Technology stocks managed to perform well during a week of further turmoil in the markets. Cisco (+6%) announced better than expected earnings but the most significant positive news was the growth in subscription type revenues rather than "one off sales", in the company's long process to transform itself to more of a software company than the declining business of hardware. Vodafone (+5%) also announced positive results with the most noteworthy being the increase of the 2017 and 2018 earnings guidance for 10% growth and a significant improvement in operating margins. News that Warren Buffet decreased further his position in IBM (-1%) hurt the shares momentarily but the stock is trading at very attractive levels given its dividend and its recent very positive results. Hence the market's reaction was much more muted than in the summer when the market first found out about Buffet's decision to exit the stock and it fell more than 10%. Sentiment on Energy stocks soured after the Norwegian Sovereign Wealth Fund, the world's largest investor with assets close to 1tn $, announced its intention to gradually reduce to zero its exposure in oil stocks (Shell -4%, ENI -4%). Given the recent rally of the sector, the announcement was seen as a great excuse to take profits and bring the sector to better entry levels again.

Government Bonds rallied from their recent lowes, as the inflation numbers came out in check and as equities struggled. The US 10 year Treasury yield closed at 2.32% and the German 10 year Bund yield closed at 0.36%.

Gold managed to move higher during the last hours of trading on Friday, breaking out of the 1285$ resistance zone and approaching the psychological level of 1300$, to close at 1295$. Despite its recent struggle, Gold looks to be on a new uptrend after the technical breakout from its seven year bear market.

The EUR broke out of 1.1700, with no signficant news, showing the market's desire to see the common currency higher and testing the resolve of the "bears' at the 1.1700-1.730 significant area. The EUR touched a high of 1.1850, but the news out of Germany over the weekend will probably make the currency to test again the 1.1700-1.1730 area which for now it has become again support.

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	23358.2	18.2	-0.3	18853.8	23602.1
S&P500	2578.9	15.2	-0.1	2180.4	2597.0
Nasdaq Composite	6782.8	26.0	0.5	5238.2	6806.7
Russell 2000	1492.8	10.0	1.2	1308.4	1514.9
Germany DAX30	12993.7	13.2	-1.0	10402.6	13525.6
France CAC40	5319.2	9.4	-1.1	4479.7	5536.4
Eurostoxx50	3547.5	7.8	-1.3	2984.5	3708.8
Swiss SMI	9183.6	11.7	0.5	7695.6	9327.7
UK FTSE 100	7380.7	3.3	-0.7	6678.7	7599.0
Italy FTSEMIB	22093.0	14.9	-2.1	16039.6	23133.4
Greek ASE	712.5	10.7	-3.0	599.5	859.8
Japan Topix	1763.8	15.9	-0.2	1428.3	1844.1
China SSE Composite	3382.9	8.5	-0.5	3016.5	3450.5
Hong Kong Hang Seng	29199.0	32.8	0.3	21488.8	29341.9
MSCI Emerging Markets	1136.5	31.8	0.7	841.6	1136.5
MSCI World	2033.2	16.1	-0.3	1696.9	2054.3

High Conviction Portfolio

	Price	%YTD	% WTD	% from high	52 wk high	52 wk low
Roche	230.10	-1.1	1.1	-16%	273.00	218.30
Novartis	83.30	12.4	2.0	-2%	85.40	67.80
Sanofi	75.43	-1.9	-2.6	-19%	92.97	73.39
Generali	15.22	7.8	-3.5	-5%	16.08	11.09
Barclays	185.00	-17.2	3.3	-24%	244.40	177.30
Lloyds	65.99	6.4	-0.7	-10%	73.58	56.50
Vinci	84.86	31.2	0.6	-2%	86.76	49.93
ACS	32.77	9.2	-1.2	-11%	36.75	26.47
Soitec	68.78	133.9	3.4	-4%	71.29	18.20
Logitech	35.14	38.3	0.0	-10%	39.00	23.85
Cisco	35.90	18.8	5.6	-2%	36.67	29.12
IBM	148.97	-10.3	-0.1	-19%	182.79	139.13
Sainsbury	227.60	-8.7	-2.0	-20%	283.60	224.10
Imperial Brands	3049.00	-13.9	-4.2	-23%	3956.50	3019.00
Danone	68.92	14.5	-0.1	-4%	72.00	57.99
Unilever	47.59	21.7	-2.5	-9%	52.31	36.24
Carrefour	16.56	-27.7	-5.5	-31%	24.08	16.31
Nestle	84.40	15.5	1.1	-2%	86.00	67.00
Adient	76.19	30.0	-1.6	-12%	86.42	51.74
Disney	103.44	-0.7	-1.3	-11%	116.09	96.20
Fnac	79.55	23.9	-0.3	-5%	83.99	55.00
Starbucks	56.93	2.5	-0.2	-12%	64.87	52.58
Newell Brands	28.56	-36.0	-2.5	-48%	55.07	27.46
Dufry	143.50	13.0	1.7	-17%	172.60	121.70
Royal Dutch Shell	26.24	1.0	-4.4	-7%	28.25	22.73
ENI	13.73	-11.2	-4.7	-14%	15.92	12.33
Deutsche Telecom	14.96	-8.5	-0.8	-18%	18.15	14.31
Telefonica	8.53	-1.3	-0.9	-18%	10.42	7.46
Vodafone	228.70	14.4	5.1	-2%	233.90	186.50
AT&T	34.51	-18.9	0.8	-20%	43.03	32.55

Chart of the Week

According to UBS analysis the sectors which will show the biggest impact on their profitability with a 25% corporate tax rate are:

Telecoms (+12% in profit) followed by Financials and Consumer Discretionary with almost 8% increase.

Technology and Utilities are the sectors with the lowest benefit of this low corporate rate.

Given the strong rally of Technology shares in 2017 and the upcoming legislation, one could potentially expect a significant sector rotation in 2018.