

A rather stable week for equity markets, with Europe finishing with small changes but the US recovering more from last week's levels. There was not much news besides the usual tweets by President Trump, which continue to create volatility in the short term. This time, it was the NAFTA agreement (the trade agreement between the US, Canada and Mexico) which was again attacked by Mr Trump, after a long period of relative calmness on this front, as all parties continue the negotiations for the restructuring of the agreement. Still, the markets chose to focus on some glimpse of light on the tax reform legislation, which has been one of the main drivers of Trump's campaign and one of the main drivers of the equity rally right after the election. On Friday-Saturday we had the Jackson Hole conference, which is the annual conference of the world's Central bankers and has traditionally sparked significant market moves as in the recent years the chiefs of the FED and the ECB have chosen this platform to express views that would lead to significant changes in monetary policy. This time both Mrs Yellen and Mr Draghi chose to make no reference whatsoever to any future monetary policy decisions, which was exactly what traders wanted to push the EUR past the 1.1900 mark and light up the rally again. On the positive side for the EUR currency, the PMI index came in at a 6 year high in the Eurozone (ie. the Purchasing Manager Index which although it is a "soft" data, ie a survey of intentions to buy, it has good correlation with GDP).

The week was rather light also in terms of corporate news, but it was a good week for the top holdings of our high conviction list as : Cisco (+3%) managed to reverse the previous week's weakness after investors found the opportunity to buy on weakness and as the company will be on of the top beneficiaries if the tax reform legislation finally passes (as many other technology firms with billions of cash abroad), IBM (+3%) got a lift from an upgrade by Morgan Stanley and a price target 35% higher than current levels and Starbucks (+3%) also received upgrades by brokers after its recent drop to attractive levels. On the opposite side, shares of retailers (Carrefour -3%, Sainsbury -1%) were down as Amazon announced the completion of the Whole Foods acquisition and the reduction in prices for certain items. The fear for a price war with the large retailers who already suffer from thin margins led to the drop of their share prices.

Government Bonds remained close to their highest levels of the last 3 months, as the market continues to see a divided and undecided FED and an ECB which might start tapering its bond purchases but would be still buying bonds even at a lower rate. The 10 year US Treasury finished the week where it started at 2.18% and the 10 year German Bund also at 0.38%

Gold also remained elevated, especially after the speeches by Yellen and Draghi which led to the USD sell-off. Still it remains below the psychological resistance of 1300\$, but has managed to maintain the 1285\$ level which now provides support.

The EURUSD spent most of the week above its now big support level at 1.1700 and managed to break out to 1.1920 on late Friday as traders found the opportunity of Draghi's neutral stance to drive the currency higher. As mentioned a few weeks ago, the levels of 1.20-1.21 are very significant and the obvious targets of this rally. It makes the ECB very uncomfortable as it not only influences the inflation negatively , just as it had already shown signs of going down again, but it also tightens financial conditions ie it is like increasing interest rates. These side effects will not be ignored by the ECB members when they meet in two weeks.

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	21813.7	10.4	0.6	17883.6	22179.1
S&P500	2443.1	9.1	0.7	2083.8	2490.9
Nasdaq Composite	6265.6	16.4	0.8	5034.4	6460.8
Russell 2000	1377.5	1.5	1.4	1156.1	1452.1
Germany DAX30	12167.9	6.0	0.0	10174.9	12951.5
France CAC40	5104.3	5.0	-0.2	4310.9	5442.1
Eurostoxx50	3438.6	4.5	-0.2	2922.8	3666.8
Swiss SMI	8906.2	8.3	0.4	7585.6	9198.5
UK FTSE 100	7401.5	3.8	1.2	6654.5	7599.0
Italy FTSEMIB	21746.5	13.1	-0.3	15922.4	22065.4
Greek ASE	835.3	29.8	1.3	548.7	859.8
Japan Topix	1597.0	5.3	0.1	1287.4	1642.3
China SSE Composite	3331.5	8.2	0.8	2969.1	3331.9
Hong Kong Hang Seng	27848.2	27.3	3.0	21488.8	27878.4
MSCI Emerging Markets	1085.4	25.9	2.4	839.0	1085.4
MSCI World	1944.6	11.0	0.7	1657.1	1974.8

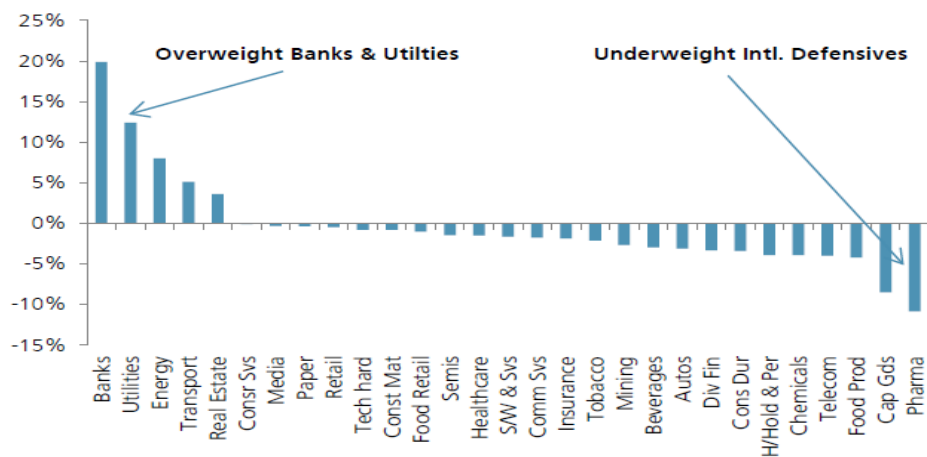
High Conviction Portfolio

	Price	%YTD	% WTD	% from high	52 wk high	52 wk low
Roche	242.00	4.0	0.2	-11%	273.00	218.30
Novartis	80.20	8.2	0.5	-5%	84.35	67.40
Sanofi	82.10	6.8	-0.2	-12%	92.97	66.72
Abbvie	72.48	15.7	3.6	-3%	75.04	55.10
Generali	15.23	7.9	-1.8	-5%	16.08	10.50
American Express	85.47	15.4	0.1	-3%	87.77	59.51
Barclays	194.30	-13.0	-0.7	-20%	244.40	155.95
Lloyds	64.91	4.6	1.6	-12%	73.58	50.45
Fluor	37.77	-28.1	0.3	-35%	58.37	37.04
BAE Systems	599.00	1.3	2.7	-12%	682.50	516.48
ACS	32.24	7.4	-0.2	-12%	36.75	24.75
Kudelski	12.35	-30.0	-3.9	-36%	19.40	12.25
Cisco	31.44	4.0	3.5	-9%	34.60	29.12
IBM	143.74	-13.4	2.9	-21%	182.79	139.13
Sainsbury	236.10	-5.3	-0.4	-17%	283.60	224.10
Imperial Brands	3242.00	-8.5	2.3	-22%	4135.50	3112.50
Danone	66.70	10.8	0.8	-5%	70.53	57.66
Unilever	49.92	27.6	0.1	-3%	51.31	36.22
Carrefour	19.73	-13.8	-3.2	-21%	24.84	19.61
Pepsico	115.85	10.7	-1.5	-3%	119.39	98.50
Nestle	80.60	10.3	-0.3	-6%	86.00	67.00
Daimler	62.17	-12.1	3.1	-15%	73.23	59.01
Adient	68.30	16.6	3.5	-10%	76.09	39.67
Disney	102.41	-1.7	1.7	-12%	116.09	90.32
Fnac	77.20	20.2	-1.0	-6%	82.39	52.70
Starbucks	54.36	-2.1	3.1	-16%	64.87	50.84
Newell Brands	48.12	7.8	-3.1	-13%	55.07	43.43
Dufry	149.70	17.9	-1.6	-13%	172.60	112.40
Royal Dutch Shell	23.33	-10.2	0.5	-13%	26.87	20.81
ENI	13.11	-15.3	-1.1	-18%	15.92	12.18
Chevron	108.23	-8.0	1.6	-9%	119.00	97.53
Rio Tinto	3661.00	15.9	6.8	-2%	3742.50	2253.50
Suez	15.84	13.0	0.6	-7%	16.99	12.73
Vodafone	219.60	9.9	0.3	-6%	234.05	186.50
AT&T	37.99	-10.7	1.7	-12%	43.03	35.81

Chart of the Week

The EUR's rally is creating the most concerns for Eurozone companies revenues and profits, especially if this rally continues. Even if the EUR stays at current levels for a few quarters there will be some impact on the companies with significant exposure to exports to countries out of the eurozone. In that scenario, according to UBS research, the best strategy would be to overweight Banks and Utilities, which have a high domestic exposure. In our high conviction list, these two sectors in Eurozone will probably be further increased in the coming period. Top picks include BNP Paribas and Veolia Environment.

Figure 15: Eurozone Stock Screen: Sector Weights Relative to European Market



Source: Thomson Datastream, UBS European Equity strategy