Kendra Securities House

Weekly Trading Information - 12.6.2017

During an eventful week, the major equity markets finished mixed, with Europe broadly on the negative side and the US showing a wide divergence between Technology (Nasdaq -2%) and "older economy" stocks (Dow Jones +0.2%). The U.K. elections attracted the most attention, as expected, with the Conservatives losing their majority and being forced to a coalition with the Irish unionists. The GBP fell immediately on the election outcome, but having already corrected in the weeks leading to the election day, its future path from current levels is far from certain. Many analysts argue that given the election outcome the final Brexit version might end up being a softer one than previously feared, and hence a GBP-friendlier one. The first round of the French elections went smoothly for Macron, looking to get a comfortable majority in the second round, a result which has been largely expected by the markets. The ECB meeting was a rather non-event for the markets, as Draghi gave no new information on what they are planning to do with respect to the quantitative easing program, while he specifically stated that there was no discussion whatsoever on when they will start "tapering", ie reducing the amount of the monthly purchases of bonds. They also lowered slightly their forecasts for the Eurozone inflation and raised their GDP forecasts for 2017. Overall, the ECB had a slightly negative effect on the EUR , which has found significant resistance close to the 1.1300 area, as mentioned before. The FED meeting on Wednesday could provide a catalyst for the next move.

On the corporate side, the most notable event was the big correction in the high momentum technology stocks (Google, Facebook, Amazon, Apple etc) on Friday, falling each around 4% with no real news but panic selling creeping in, as it usually happens when there is too much euphoria and too "crowded" trades. Equity investors in these stocks have enjoyed big gains, especially in the last weeks, which drove even more investors in chasing the momentum, while volatility fell again to levels showing absolute complacency (chart of the week). Hence what happened on Friday looks like a very normal consequence, and we could be in for a wild ride in the coming weeks, if volatility picks up again. In this environment , defensive and value stocks did really well (Abbvie +4%, American Express +3%) while we also witnessed a rotation into energy stocks on Friday (Energy sector +2%) and Miners (Rio Tinto +2%). Our stance remains defensive both on the exposure level and the stock level, favoring defensive names and attractive valuations. In other news, Roche suffered a setback (-6%) after lab results on their upcoming and more expensive drug against breast cancer did not show a big improvement in order to justify patients to migrate to it, hence the market is reducing their high expectations on it. We had reduced the position in Roche a few weeks ago, but maintain a small position and now we would be looking for levels to add to it. Financials and Energy stocks could see buying interest again, if momentum shifts away from the high flying technology stocks.

Government Bonds were rather unchanged , as yields are already close to their lowest levels in months. The 10year US Treasury bond finished at 2.20% and the German 10year Bund yield at 0.26%.

Gold had a volatile week. It rallied initially only to find sigificant resistance, as expected, at 1295$ and corrected to close at 1265$, down almost 1.5% for the week.

Another trade which is getting crowded and bound to also "burst" is the long EURUSD trade. Short term speculators, according to the published data, have accumulated long positions at the highest levels of the last 4 years, which leaves them vulnerable to any setback. Given the FED's meeting this week one should expect that the current stretched positioning in long EURUSD should make 1.1300 a hard obstacle to overtake and maintain it.

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	21272.0	7.6	0.3	17063.1	21305.4
S&P500	2431.8	8.6	-0.3	1991.7	2446.2
Nasdaq Composite	6207.9	15.3	-1.6	4574.3	6341.7
Russell 2000	1421.7	4.8	1.2	1085.9	1433.8
Germany DAX30	12815.7	11.6	-0.1	9214.1	12878.6
France CAC40	5299.7	8.9	-0.9	3956.0	5442.1
Eurostoxx50	3586.1	9.0	-0.2	2678.3	3666.8
Swiss SMI	8845.9	7.6	-2.2	7475.5	9137.0
UK FTSE 100	7527.3	5.4	-0.3	5788.7	7599.0
Italy FTSEMIB	21122.4	9.8	0.9	15017.4	21828.8
Greek ASE	782.1	21.5	-0.6	517.1	800.1
Japan Topix	1591.7	4.9	0.1	1192.8	1613.2
China SSE Composite	3158.4	1.3	-0.4	2807.6	3301.2
Hong Kong Hang Seng	26030.3	17.0	0.4	19662.7	26090.3
MSCI Emerging Markets	1018.2	18.1	0.3	794.6	1019.1
MSCI World	1922.8	9.8	-0.6	1566.7	1936.3

High Conviction Portfolio

	Price	%YTD	% WTD	52 wk high	52 wk low
Roche	247.80	6.5	-6.5	273.00	218.30
Novartis	78.80	6.3	-0.8	82.80	67.40
Abbvie	69.67	11.3	3.6	69.83	55.10
Generali	14.07	-0.4	0.1	16.00	9.76
American Express	80.31	8.4	2.3	82.00	57.16
Geberit	450.40	10.3	-1.2	462.30	350.50
Sainsbury	265.00	6.3	-3.7	283.60	211.50
Fluor	46.35	-11.7	1.7	58.37	44.02
Disney	105.62	1.3	-1.5	116.09	90.32
Capgemini	92.93	15.9	-1.0	97.33	71.10
Kudelski	16.85	-4.5	-1.5	21.60	15.50
BAE Systems	677.00	14.5	1.0	678.50	464.80
Lloyds	70.01	12.9	1.0	73.58	46.74
Imperial Brands	3562.50	0.6	-2.4	4154.00	3324.00
Cisco	31.37	3.8	-1.9	34.60	27.13
IBM	154.10	-7.2	1.3	182.79	142.50
ADO Properties	38.33	19.7	-0.2	40.19	29.45
Daimler	65.46	-7.4	-0.6	73.23	50.83
Fnac	67.30	4.8	0.6	70.80	46.04
Starbucks	62.19	12.0	-3.7	64.87	50.84
Dufry	162.30	27.8	-0.4	172.60	105.10
Carrefour	23.14	1.1	-1.2	24.84	20.08
Pepsico	115.94	10.8	-1.5	118.12	98.50
International Paper	54.89	3.4	0.9	58.86	39.24
Adient	67.42	15.1	-5.1	76.09	39.67
Royal Dutch Shell	23.96	-7.8	0.4	26.87	20.81
Suez	16.40	17.0	1.2	16.92	12.73
ACS	35.95	19.8	0.9	36.54	21.70
Danone	66.91	11.1	-0.6	70.53	57.66
Newmont Mining	34.30	0.7	0.8	46.07	30.19
Rio Tinto	3264.50	3.4	3.4	3718.50	1891.00
Nestle	80.95	10.8	-2.4	83.65	67.00
ENI	13.90	-10.1	-1.1	15.92	12.18

Chart of the Week

Volatility in equity markets as measured by the VIX Index, fell below 10 last week, the lowest point in more than 10 years, and of one the lowest ever. As seen in the 20 year chart, such low volatility is never sustainable and it is destined to go higher in the near future. Higher volatility usually means correction in the equity markets and better buying opportunities.