KENDRA
SECURITIES
HOUSE SA

Weekly Report 17.12.2018

Weekly Trading Information – Markets update

An interesting week evolved as US equity markets were extremely volatile and finished in the red, but European equities managed to eke out gains for the week, albeit in a volatile fashion as well. As it happened in mid October with Emerging Markets which seem to have already found a bottom, it might well be the case that Europe is also starting to be considered oversold by investors. It was an eventful week which started with the cancellation of the Brexit vote and then we had the confidence vote by her own party members, which was eventually won by Prime Minister May. Her attempt to go back to Brussels for a calibration of the deal has, for now, been met with cold reception by EU officials, but the market's consensus is that they will grant some form of "assurances" on the Irish issue that will make things move forward. Eurozone equities fared better among European peers, as France's Macron seems to be bowing to pressure to show a more "French" image and Italy's government seems to be also bowing to pressure to present a revised budget which is more in line with the EU rules. The ECB meeting on Thursday did not produce any surprises, as the QE (bond buying program) is now history and President Draghi managed to pass a message of cautiousness but without panic. As is the case with the FED, markets are starting to price a much slower path of interest rate increases for next year for the ECB. The ECB lowered only slightly its forecasts for the 2019 Eurozone growth and inflation expectations (GDP of 1.9% instead of 2.0%, inflation 1.6% instead of 1.7%).

In a positive gesture with respect to the ongoing trade tensions, China will cut import taxes on imported cars from the US, while the arrested CFO of Huawei was released by the Canadian authorities, on bail, until the courts decide the next steps. The FED is meeting this week, with an increase of interest rates almost a certainty, but the markets will eagerly await for the press conference which will follow, to gauge the change in tone for the rates path for 2019. In the meantime, the inflation numbers out of the US were announced in line with expectations, and there seems to be one less headache from this front for the FED to be convinced for a pause in this hiking cycle.

It was a rather positive week for stocks which are highly correlated with China, as Miners and Materials (BHP Billiton +5%, Wacker Chemie +9%) and automakers (Volkswagen +3%) outperformed after their share prices had been hammered in the previous period. Healthcare moved lower (UCB -1%, Biogen -1%) and as the sector had been performing rather well in the past few months, investors could start rotating out of it and moving back to economy-sensitive stocks (cyclicals). In the US, Industrial stocks have been sold aggressively as recession fears are becoming a consensus, making some high quality names rather attractive again. In this context, we added FEDEX in the High Conviction list as its shares reached valuation levels last seen before President Trump's election.

Government bonds were rather stable after the rally of the previous two weeks. The 2.80-2-90% region for the 10 year US Treasuries is a significant level, and this will be broken to the downside only on a severe deterioration of macroeconomic data or another deep correction in equity markets. As we have been positive on long end US rates when they hit 3.20%, we would be cautious at these levels and wait for a rise in yields to buy again.

Gold hit resistance at 1'250 and moved lower to 1'240, because the USD moved higher again. Gold will manage to break out of its resistance at 1'250 only if the USD begins a meaningful correction lower, the catalyst for this move being the FED and the interest rate path for 2019.

The EURUSD touched its major support again at 1.1280 only to finish back above 1.1300. The move was sparked by the ECB's perceived delay , if any, interest rate increases in 2019. The 1.1300 levels will be hard to break on the downside.

	Level	YTD %	**Weekly %**	52 week high	52 week low
DOW JONES	24100.5	-2.5	**-1.2**	26951.8	23344.5
S&P500	2600.0	-2.8	**-1.3**	2940.9	2532.7
NASDAQ	6910.7	0.1	**-0.8**	8133.3	6630.7
RUSSELL SMALL CAP	1410.8	-8.1	**-2.6**	1742.1	1407.1
EUROPE STOXX50	2844.8	-10.5	**0.6**	3283.2	2779.2
EUROSTOXX 50	3092.6	-11.7	**1.1**	3687.2	3007.5
GERMANY DAX	10865.8	-15.9	**0.7**	13596.9	10585.8
FRANCE CAC40	4853.7	-8.6	**0.8**	5657.4	4732.0
SWISS SMI	8713.7	-7.1	**-0.3**	9616.4	8372.9
UK FTSE 100	6845.2	-11.0	**1.0**	7903.5	6673.6
ITALY FTSE 100 MIB	18910.8	-13.5	**0.9**	24544.3	18399.4
ATHENS GENERAL	645.2	-19.6	**-0.5**	895.6	592.7
JAPAN TOPIX	1594.2	-12.4	**-1.7**	1911.3	1572.3
CHINA CSI300	3154.8	-21.5	**-0.5**	4403.3	3009.5
HONG KONG	26105.3	-12.8	**0.1**	33484.1	24540.6
EMERGING MARKETS	971.9	-16.1	**-1.0**	1273.1	934.8
WORLD	1942.6	-7.6	**-1.2**	2249.7	1927.6

Certificates	Price	**Weekly %**	YTD
KENDRA HIGH CONVICTION	88.1	**+0.3**	-12.4%
KENDRA HIGH INCOME	88.7	**+0.8**	-6.7%

Currencies	Price
EURUSD	1.1310
EURCHF	1.1285
GBPUSD	1.2585
EURJPY	128.3
USDJPY	113.5

Commodities	Price
Gold USD	1'240
Gold EUR	1'094
Silver USD	14.60
Oil (Crude USD)	51.3
Oil (Brent USD)	60.2

High Conviction Portfolio

	YTD %	**Weekly %**	CURRENCY	INDUSTRY
BHP Billiton	6.2	**5.3**	GBp	Metals & Mining
Siemens	-13.7	**2.6**	EUR	Industrial Conglomerates
IBM	-21.8	**0.5**	USD	IT Services
Vodafone	-31.6	**-1.3**	GBp	Wireless Telecommunication Services
Deutsche Telekom	2.1	**0.0**	EUR	Diversified Telecommunication Services
UCB.SA	13.3	**-0.6**	EUR	Pharmaceuticals
Lloyds	-22.6	**-2.5**	GBp	Banks
Walt Disney	4.4	**0.2**	USD	Entertainment
AT&T	-22.3	**0.3**	USD	Diversified Telecommunication Services
Vivendi	-5.0	**0.2**	EUR	Entertainment
Barclays	-22.0	**2.6**	GBp	Banks
Credit Suisse	-35.6	**0.9**	CHF	Capital Markets
Societe Generale	-30.7	**-2.0**	EUR	Banks
Carrefour SA	-17.3	**2.4**	EUR	Food & Staples Retailing
Volkswagen	-11.3	**3.0**	EUR	Automobiles
Arkema	-22.6	**-2.0**	EUR	Chemicals
BNP Paribas	-33.2	**0.0**	EUR	Banks
Wacker Chemie	-50.9	**9.2**	EUR	Chemicals
Valeo	-61.4	**-4.1**	EUR	Auto Components
Imperial Brands	-25.1	**1.5**	GBp	Tobacco
Dufry	-34.1	**-3.6**	CHF	Specialty Retail
Altran Technologies	-44.4	**-0.6**	EUR	IT Services
Biogen	-1.3	**-0.7**	USD	Biotechnology
Eurofins Scientific	-35.0	**1.3**	EUR	Life Sciences Tools & Services
FEDEX	-26.2	**-8.6**	USD	Air Freight & Logistics
Straumann	-6.2	**3.8**	CHF	Health Care Equipment & Supplies
Jack Henry & Associates	12.3	**-1.8**	USD	IT Services
Travis Perkins	-30.5	**0.6**	GBp	Trading Companies & Distributors
Adient	-76.9	**-13.5**	USD	Auto Components

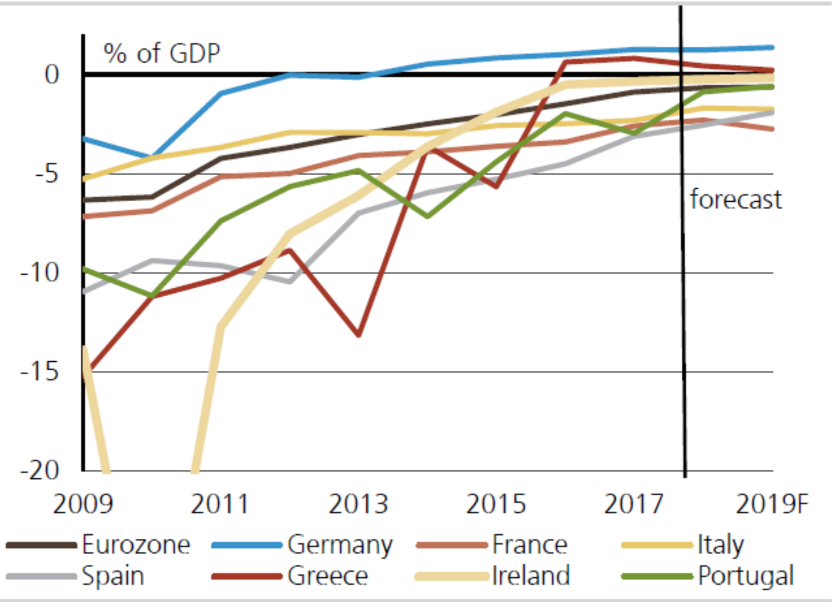
YTD: year to date return,
Weekly %: weekly return

Chart of the Week

It has been one of our themes for 2019, that after almost a decade of "belt-tightening" in Europe (ie decreased government spending/higher taxes in order to improve the big budget deficits of the early 2010s) the time might have come for a relaxation of this fiscal policy. Although far away from a similar, aggressive move made by the US government in 2017, the EU could be considering a change in attitude towards deficits as soon as the next few months.

With European Parliament elections due in May, with global growth impacted by trade tensions and with the ECB hitting the brakes on monetary stimulus, the baton passes on to the EU bureaucrats to provide a plan for sparking growth in Europe. Such a development will have significant positive implications for European equities.

Figure 7: Fiscal balances, % of GDP



Source: European Commission, Haver, UBS estimates

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