



KENDRA
SECURITIES
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Weekly Report 5.2.2018



Weekly Trading Information – Markets update

Global equities hit a brick wall last week, as the bond yields in the USA and in Eurozone kept rising at a faster pace, with the S&P500 losing 4% and European markets losing all January gains. The selloff started with the FED meeting on Wednesday which was interpreted as being determined to move with perhaps more interest rate increases than anticipated and took the form of a stampede on Friday as the labor market in the US shows signs of overheating. Wages in the USA showed the highest increase of the last years, sparking an inflation scare. The selloff on Friday also sparked memories of 1987, as options activity exploded to record highs (see chart of the week), much like the crash of October 1987, while January 2018 had been the second best month on record for US equities since.. January 1987. Bonds and equities moving in the same direction is a rare phenomenon historically, which creates turmoil in financial markets. It has happened in an ugly manner in the summer of 2013, when the FED first mentioned the possibility of normalization of interest rates. It happened again, to a less extent, last year in Europe, when the market realized that the ECB will start its own normalization of rates in the next 1-2. As fundamentals remain strong, the current turmoil is welcome and needed as the S&P500, for example, had moved for two straight years without a correction of 5-10%.

In corporate news, NOKIA (+13%) was a clear outperformer as it announced results well ahead of expectations, with Q4 profit higher by 7% and most importantly a bright guidance for 2018-2020, with respect to the 5G capital spending plans of big telecoms, which should boost its revenues. Trading at a Price/Book of 1.5 and 13 times earnings (2019), with a 4% dividend yield, Nokia is a real value stock in the Technology sector and it remains a high conviction stock. The French water & waste management Suez, which was recently added, also showed resilience (+3%), despite the negative correlation of utilities with interest rates. Pharmaceuticals were weak as, among other factors, President Trump in his state of the union speech, promised to lower the prices of drugs significantly. This has created opportunities in stocks like Roche (-3%) and Sanofi (-5%). As we remain significantly underweight the sector, we would be looking to increase positions again in these stocks.

Government bonds faced significant pressure as the 10year US Treasury yield broke out of its previous high (2.65%) and reached 2.85% on Friday. The 3% yield has been characterized by many as the number where the equity rally becomes a bear market, hence fear will dominate the markets for the days to come. From a valuation point of view, the current US yields look attractive as the US economy cannot currently withstand higher rates, with record leverage again. If rates were to break higher and equities sell off for more than 15-20%, then the FED will back up from raising rates, and the bonds will rally back.

Gold moved lower despite the inflation scare, as it is negatively correlated with interest rates. The move lower comes also as its prices had rallied towards resistance at 1'360 and a correction was around the corner. Support levels can be found in the region of 1'300-1;320\$.

The USD found support from the good macro data and the rise in yields. It looks as if the 1.2500 level against the EUR will provide some floor in the short term.

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	25521.0	3.2	-4.1	19964.2	26616.7
S&P500	2762.1	3.3	-3.9	2285.4	2872.9
Nasdaq Composite	7240.9	4.9	-3.5	5647.6	7505.8
Russell 2000	1547.3	0.8	-3.8	1335.0	1615.5
Germany DAX30	12785.2	-1.0	-4.2	11479.8	13596.9
France CAC40	5365.0	1.0	-3.0	4733.8	5567.0
Eurostoxx50	3523.3	0.6	-3.4	3214.3	3708.8
Swiss SMI	9220.7	-1.7	-3.1	8297.8	9616.4
UK FTSE 100	7443.4	-3.2	-2.9	7096.8	7792.6
Italy FTSEMIB	23202.7	6.2	-2.7	18424.3	24050.2
Greek ASE	875.4	9.1	-0.3	602.4	895.6
Japan Topix	1864.2	2.6	-0.8	1452.2	1911.3
China SSE Composite	3462.1	4.7	-2.7	3016.5	3587.0
Hong Kong Hang Seng	32601.8	9.0	-1.7	22997.5	33484.1
MSCI Emerging Markets	1230.8	6.2	-3.3	918.9	1273.1
MSCI World	2171.5	3.2	-3.4	1792.3	2249.7



High Conviction Portfolio

Chart of the Week

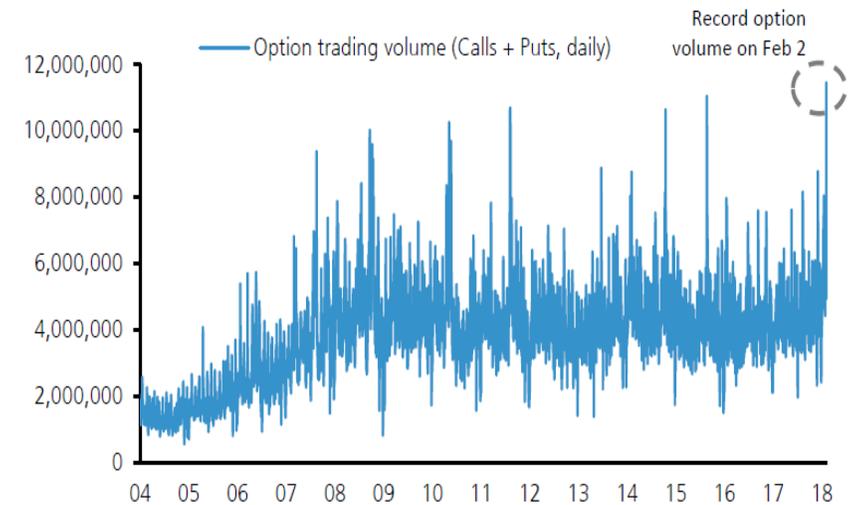
	Price	%YTD	% WTD	% from high	52 wk high	52 wk low
Roche Holding AG	224.15	-9.1	-3.2	-18%	273.00	221.15
Novartis AG	82.64	0.3	-5.8	-6%	88.30	72.20
Sanofi SA	69.95	-2.6	-4.8	-25%	92.97	69.66
Straumann Holding AG	660.00	-4.1	-7.9	-12%	746.00	382.00
BNP Paribas SA	66.00	6.0	-3.3	-5%	69.17	53.96
Societe Generale SA	45.93	6.7	-1.7	-12%	52.26	40.66
Barclays PLC	195.56	-3.7	-6.9	-20%	244.40	177.30
Lloyds Banking Group PLC	68.75	1.0	-3.5	-7%	73.58	61.81
Siemens AG	114.88	-1.1	-5.1	-14%	133.50	108.00
Logitech International SA	38.76	17.8	-3.9	-5%	40.82	28.40
Nokia Oyj	4.40	13.0	13.5	-26%	5.96	3.81
Siemens	114.88	-1.1	-5.0	-14%	133.50	108.00
IBM	159.03	3.7	-5.0	-13%	182.79	139.13
Imperial Brands PLC	2858.00	-9.7	-2.0	-28%	3956.50	2853.60
Carrefour SA	18.69	3.6	-3.7	-21%	23.69	16.31
Nestle SA	79.42	-5.2	-2.0	-8%	86.40	71.45
Adient PLC	64.60	-17.9	-10.7	-25%	86.42	59.10
Starbucks Corp	55.77	-2.9	-3.8	-14%	64.87	52.58
WPP PLC	1293.00	-3.6	0.0	-33%	1928.07	1238.45
Dufry AG	143.50	-1.0	-4.8	-17%	172.60	129.90
Valeo SA	61.38	-1.4	-4.7	-9%	67.80	55.23
Vodafone Group PLC	219.50	-6.6	-2.7	-8%	239.65	191.25
Deutsche Telekom AG	13.81	-6.7	-5.3	-24%	18.15	13.71
Telefonica SA	8.05	-0.9	-5.3	-21%	10.18	8.01
BHP Billiton PLC	1537.20	1.0	-2.9	-8%	1662.40	1103.00
Suez SA	12.15	-17.0	+3.0	-29%	16.99	11.38
Vonovia SE	37.87	-8.5	-5.5	-11%	42.68	30.55

YTD: year to date,
WTD: week to date

Is it 1987 all over again ..?

Derivative products/Options were to blame for the October 1987 market crash, and on Friday when the Dow Jones lost the "diabolic" number of 666 points, options trading reached a record high. Such spike in volume and a positive correlation between bonds and stocks (they both sold off furiously) led many of the, so called, "quant" funds, which are managed solely by computers, run for the exits in all asset classes. The bright side is that when corrections are the product of primarily technical reasons, rather than fundamentals, they are usually short lived. But they are fierce in nature.

Figure 8: Option trading volume at record levels



Source: CBOE/Haver, UBS



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