

KENDRA
SECURITIES
HOUSE SA

Weekly Report 15.10.2018



Weekly Trading Information – Markets update

Global equities fell significantly, with most indices dropping 4-5%, as the "last man standing" this year (i.e. the US indices) succumbed to selling pressure. The rise of the US bond yields to the highest level in almost eight years was cited by market participants as the major catalyst for the selloff in equities, which was initially led by pressure on the technology shares, only to spill over, very soon, to the broad market. Technically, the S&P500 closed below its 200 day moving average on Thursday (usually a negative sign, but not always a good indicator) but rallied back to close just above it on Friday (a positive development). This has happened already three times this year (i.e. a "touch-and-go" on the 200-day average) and in all three instances, US equities moved higher.

In any case, it was an eventful week in many fronts, with Inflation numbers out of the US being announced lower than expected for September (0.1% monthly change vs 0.2% expected), with news about the Chinese hacking US Telecommunication companies and with Brexit discussions reaching a climax, days before the deadline and hours before the EU is faced with yet another hot potato , that of the official submission of the Italian budget. The market will also focus this week on the announcement of the FED minutes of its previous meeting, in an attempt to gauge the willingness of its members to proceed with the expected interest rate increases in December and in 2019.

The Q3 corporate earnings season is getting in full traction , especially in the US, which should attract attention again away from politics. On Friday, major US banks announced better than expected results, although their shares failed to move higher. In Europe, shares of Banks have reached a new two year low, in a clear demonstration that fears about an implosion of Italy and further turmoil in Emerging Markets (to which they are highly correlated) are heavily being discounted as a base scenario. In a week of an equity market meltdown, Telecoms managed to outperform (Telefonica +0.5%, Deutsche Telekom -1%), especially after the announcement by Deutsche Telekom that commercial use of 5G could be offered as soon as 2020. The, beaten down, auto-sector managed also to outperform (Valeo -1%) even after the announcement by the EU of the new targets for CO₂ emission reduction by 2030, which was higher than expected, and wished for, by Europe's manufacturers (35% reduction vs 30% initially considered). The fact that the auto-sector reacted in a very orderly fashion shows that perhaps the sector is oversold and most negative news are already deeply discounted in the shares of the companies.

Government bond yields moved lower (i.e prices moved higher), as the 10 year US Treasury yield reached 3.25%, which for many is the inflection point for many asset classes. The yield fell to 3.15%, as the turmoil in equities led to investors seeking refuge at the US Treasuries. The 10 year German Bund yield also moved lower, to close at 0.49% from 0.60% the previous week.

Gold managed to break out of its short term range on Friday, to close at 1'220\$, the highest level in three months. Gold's move is more related to the soft inflation numbers out of the US and the fall in both the USD and the yields, and to a lesser extent to the turmoil in equity markets. Of course, the turmoil has provided an additional tailwind.

The EUR rose to almost 1.1600, as the equity turmoil was seen as having the US as an epicenter, and the soft inflation numbers out of the US gave it a further boost. It seems that the 1.1500 level is hard to be broken, on the downside, unless there is material deterioration in the Italian-EU relations. The GBP will be in focus as we are entering the final stages of the Brexit negotiations. There appears to be an increased willingness on the part of the EU to have a positive outcome soon, as they want to send a message to the markets , ahead of the Italian budget negotiations.

	Level	YTD %	Weekly %	52 week high	52 week low
DOW JONES	25340.0	2.5	-4.2	26951.8	22855.9
S&P500	2767.1	3.5	-4.1	2940.9	2532.7
NASDAQ	7496.9	8.6	-3.7	8133.3	6517.9
RUSSELL SMALL CAP	1546.7	0.7	-5.2	1742.1	1436.4
EUROPE STOXX50	2900.4	-8.7	-4.3	3283.2	2884.5
EUROSTOXX 50	3194.4	-8.8	-4.5	3708.8	3193.4
GERMANY DAX	11523.8	-10.8	-4.9	13596.9	11514.6
FRANCE CAC40	5096.0	-4.1	-4.9	5657.4	5038.1
SWISS SMI	8660.4	-7.7	-4.2	9616.4	8372.9
UK FTSE 100	6995.9	-9.0	-4.4	7903.5	6866.9
ITALY FTSE 100 MIB	19256.0	-11.9	-5.4	24544.3	19254.8
ATHENS GENERAL	628.3	-21.7	-4.6	895.6	610.5
JAPAN TOPIX	1676.0	-6.3	-5.0	1911.3	1645.2
CHINA CSI300	3148.6	-21.3	-7.8	4403.3	3095.0
HONG KONG	25519.9	-13.8	-2.9	33484.1	25125.2
EMERGING MARKETS	980.1	-15.4	-2.1	1273.1	954.7
WORLD	2063.4	-1.9	-4.1	2249.7	2009.6

Certificates	Price	Weekly %	YTD
KENDRA HIGH CONVICTION	94.7	-3.1%	-5.9%
KENDRA HIGH INCOME	92.1	-3.0%	-4.9%

Currencies	Price
EURUSD	1.1550
EURCHF	1.1430
GBPUSD	1.3120
EURJPY	129.30
USDJPY	112.10

Commodities	Price
Gold USD	1.220
Gold EUR	1055
Silver USD	14.60
Oil (Crude USD)	71.8
Oil (Brent USD)	81.2



High Conviction Portfolio

	YTD %	Weekly %	CURRENCY	SECTOR
Carrefour SA	-11.3	2.0	EUR	Consumer Staples
IBM	-8.2	-5.5	USD	Information Technology
Siemens	-14.1	-5.4	EUR	Industrials
Deutsche Telekom	-6.4	-1.1	EUR	Communication Services
Lloyds	-14.6	-1.3	GBP	Financials
Vodafone	-35.7	-5.8	GBP	Communication Services
Sanofi	2.7	-3.0	EUR	Health Care
Societe Generale	-17.2	-3.1	EUR	Financials
BHP Billiton	3.5	-3.6	GBP	Materials
BNP Paribas	-19.8	-3.7	EUR	Financials
Barclays	-18.8	-4.6	GBP	Financials
Valeo	-48.6	-1.9	EUR	Consumer Discretionary
Newmont Mining	-14.6	4.8	USD	Materials
Imperial Brands	-20.5	-4.9	GBP	Consumer Staples
Telefonica	-14.5	0.4	EUR	Communication Services
AB Inbev	-21.6	-3.2	EUR	Consumer Staples
Vivendi	-4.3	-2.1	EUR	Communication Services
Credit Suisse	-22.9	-5.5	CHF	Financials
UBS	-21.2	-6.2	CHF	Financials
Arkema	-3.6	-8.1	EUR	Materials
Altran Technologies	-41.9	-4.6	EUR	Information Technology
Travis Perkins	-34.3	1.2	GBP	Industrials
UCB.SA	11.2	-4.7	EUR	Health Care
Wacker Chemie	-39.7	-7.8	EUR	Materials
Walt Disney	4.7	-1.9	USD	Communication Services
Dufry	-25.5	1.1	CHF	Consumer Discretionary
Biogen	3.9	-3.3	USD	Health Care
Eurofins Scientific	-17.3	-5.4	EUR	Health Care
Straumann	-3.6	-5.7	CHF	Health Care
Adient	-61.7	-11.5	USD	Consumer Discretionary

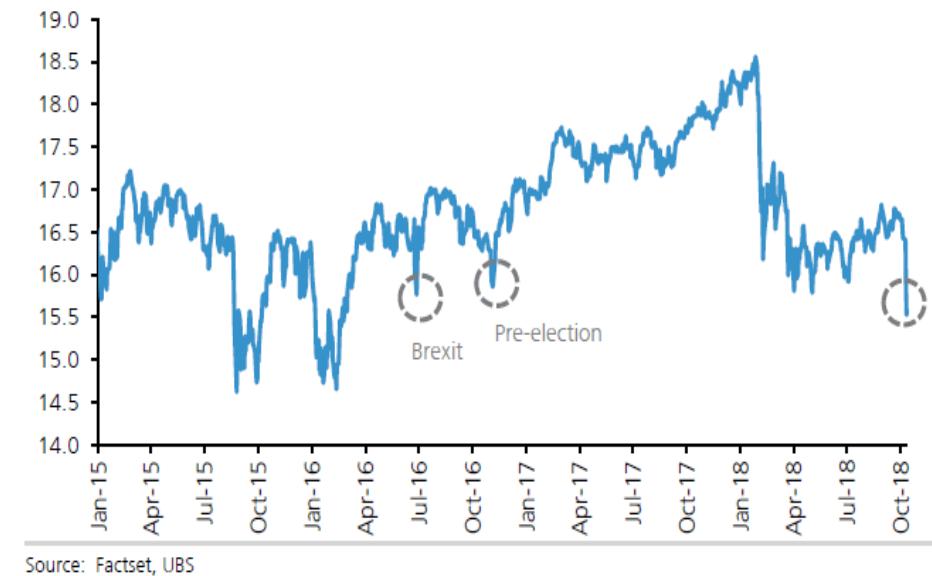
YTD: year to date return,
Weekly %: weekly return

Chart of the Week

The 7% fall of the S&P500 Index this week in conjunction with the fall of the previous week has brought the forward Price to Earnings ratio (P/E) of the index back to around 15.5.. levels which in the recent past have coincided with the Brexit referendum and the November 2016 elections.

Of course, this P/E is based on the analysts' forward expectations for 2019 earnings growth, which currently stands at around 9%. If analysts start revising down their estimates and/or actual earnings are significantly lower than that the actual P/E for the index will increase again. Still, US equities are again starting to appear fairly valued, down from rather expensive

Figure 4: S&P 500 NTM P/E



Source: Factset, UBS



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