



KENDRA
SECURITIES
HOUSE SA

Weekly Report 7.5.2018



Weekly Trading Information – Markets update

The fall of the EUR below 1.2000 against the USD gave European equity markets a further boost last week. Technology's comeback, thanks to Apple's positive news, helped the Nasdaq index differentiate itself from the overall negative environment in US stocks. We are currently facing a rather dangerous combination in the US, where growth is slowing down and inflation is going up (signs of the dreadful "stagflation" scenario), although the rate of the inflation ascend has, thankfully, slowed down as of late. The PCE Index (the favorite measure of inflation for the FED) reached 2% last month, which is the FED's target. Interestingly, in the FED's announcement on interest rates on Wednesday, they included for the first time the word "symmetric" when it comes to targeting the 2% inflation rate, meaning that inflation can overshoot this target without resorting to a faster pace of interest rate hikes. This development relieved some fears in the market that the FED might move faster and more aggressive now that inflation is at their target. The markets were further relieved when the April data for the US labor market were released on Friday, which showed a lower increase in wages than feared. However, job growth was also lower than expected, adding further to the skepticism about US growth in the coming months. In Europe, growth also disappointed, growing just 0.4% q/q in the first quarter of 2018, against a 0.7% growth at the end of 2017. At the same time, inflation for April in the Eurozone also was lighter than expected, with the core reading (which excludes food and energy) being announced at just 0.7%, the lowest in more than a year. Hence, Europe looks in a better shape currently, when it comes to stagflation fears. It is the Bank of England's turn to meet this week, and the market has already changed its view, and no rate hike is expected.

European bank shares had a rough week (Societe Generale -6%, BNP -1%, Barclays -2%) as Q1 results were uninspiring and eurozone yields moved lower. Overall we witnessed a mini rotation to higher beta stocks, including Technology related stocks (Siemens +4%, Nokia +4%, Altran Technologies +4%), as Apple announced results which beat the fearful expectations and Warren Buffet announced a further big investment in the company. Logitech announced a 13% increase in net profit vs the previous year and sales growth of 16%, with its shares rallying close to a record, which we used to sell the position, as it reached our target price. The UK advertising company WPP (+12%) rallied after the company announced an 8% growth in sales in constant currency and flat net profit growth, against the market's dire expectations of a continuous fall in profit. On the contrary shares of car seats maker Adient (-11%) slumped, as the company announced a 10% growth in sales, but at the same time operating margins were lower hurting overall profitability. Trading at just 5 times 2019 earnings and having already reduced significantly our position a few months ago, the stock is a candidate for adding to the position in the near future.

The bond market was rather stable, with the US 10 year Treasury yield trading in a tight range (2.93%-2.95%) while the 10 year German Bund yield moved lower to 0.54% from 0.58%, as inflation in the Eurozone moved lower.

Gold tested once again the low 1'300\$ area, as the USD rallied but found support after the lackluster labor market data out of the US and finished the week at 1'315\$. Interestingly, the price of Gold in EUR seems to be breaking out of its recent range and could move higher if such an event crystallizes and catches the eyes of the traders.

As mentioned last week, the EUR having broken its support at the 1.2150 region, slumped to break the 1.2000 psychological level and touched the 1.1900 area, only to find support after the US labor market data and finish the week at 1.1960. As long as the 1.200 and 1.2150 levels hold, the most likely path for the EURUSD now is a test of the 1.1700/1.1750 levels, before it can resume its uptrend.

	Level	YTD %	WTD	52 week high	52 week low
DOW JONES	24262.5	-1.8	-0.2	26616.7	20553.5
S&P 500	2663.4	-0.4	-0.2	2872.9	2352.7
NASDAQ	7209.6	4.4	1.3	7637.3	5996.8
RUSSELL 2000	1565.6	2.0	0.6	1615.5	1349.4
XETRA DAX	12819.6	-0.8	1.9	13596.9	11726.6
CAC 40	5516.1	3.8	0.6	5567.0	4995.1
ESTX 50	3550.6	1.3	0.9	3708.8	3261.9
SMI	8903.8	-5.1	0.7	9616.4	8501.2
FTSE 100	7567.1	-1.6	0.9	7792.6	6866.9
FTSE MIB	24335.0	11.4	1.7	24335.0	20537.4
ATHENS	823.9	2.7	-3.0	895.6	700.1
TOPIX JAPAN	1771.5	-2.5	-0.3	1911.3	1548.0
SSE CHINA	3091.0	-6.5	0.3	3587.0	3016.5
HANG SENG	29926.5	0.0	-1.2	33484.1	24358.7
EMERGING MKTS	1136.2	-1.9	-1.7	1273.1	978.3
WORLD INDEX	2089.4	-0.7	-0.3	2249.7	1873.0

Certificates	Price	YTD %	WTD
KENDRA HIGH CONVICTION	100.39	-0.2	+0.5
KENDRA HIGH INCOME	102.01	+2.0	+0.5



High Conviction Portfolio

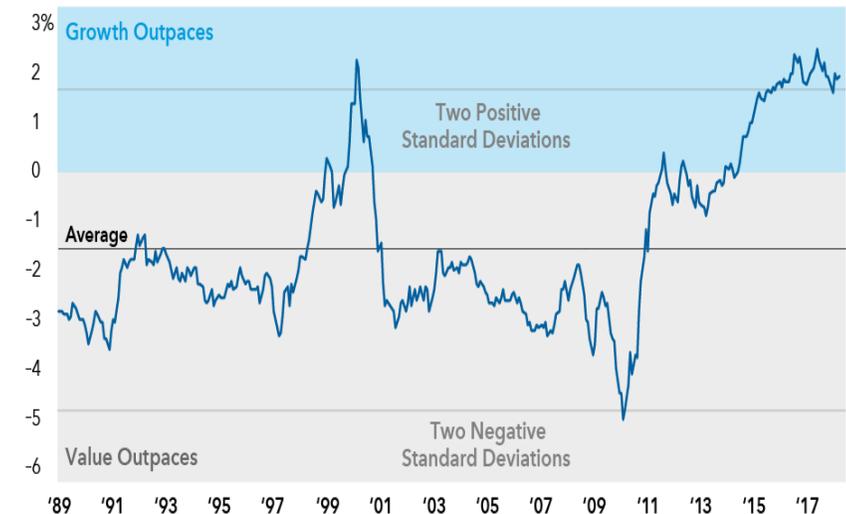
Chart of the Week

	YTD %	WTD %	DIV YIELD	CURRENCY	SECTOR
Societe Generale	-1.1	-6.1	4.9	EUR	Financials
Siemens	-6.0	3.5	3.4	EUR	Industrials
Lloyds	-3.9	0.9	4.7	GBp	Financials
Dufry AG	-2.9	-0.4	2.7	CHF	Consumer Discretionary
Carrefour SA	-7.4	-1.1	2.7	EUR	Consumer Staples
Nokia	30.7	2.8	3.9	EUR	Information Technology
Roche Holding AG	-8.4	3.3	3.7	CHF	Health Care
Imperial Brands	-17.9	-0.6	6.6	GBp	Consumer Staples
Danone	-7.0	-2.9	2.8	EUR	Consumer Staples
Nestle	-8.9	-0.4	3.1	CHF	Consumer Staples
UCB	-6.3	-0.2	1.9	EUR	Health Care
Barclays	1.2	-1.6	1.5	GBp	Financials
IBM	-6.2	-1.8	4.4	USD	Information Technology
BNP Paribas	0.7	-1.4	4.8	EUR	Financials
Vonovia	-0.9	-0.3	3.2	EUR	Real Estate
Valeo	-8.8	3.5	2.2	EUR	Consumer Discretionary
BHP	5.2	4.4	4.6	GBp	Materials
Spotify	NULL	-3.6	0.0	USD	Information Technology
Sanofi	-8.8	0.5	4.6	EUR	Health Care
Deutsche Telekom	-2.0	-0.3	4.5	EUR	Telecom Services
Telefonica	2.2	-1.1	4.8	EUR	Telecom Services
Vodafone	-10.4	0.0	6.3	GBp	Telecom Services
Biogen	-15.1	-2.3	0.0	USD	Health Care
GlaxoSmithkline	11.1	0.3	6.8	GBp	Health Care
SUEZ	-17.7	0.9	5.4	EUR	Utilities
WPP	-4.5	11.5	4.7	GBp	Consumer Discretionary
Adient	-30.1	-11.4	2.0	USD	Consumer Discretionary
Altran Technologies	5.0	3.6	1.8	EUR	Information Technology
Straumann	-1.0	0.3	0.7	CHF	Health Care

As our readers know, our high conviction portfolio is currently positioned heavily towards value stocks, ie the stocks with low valuations (P/E, P/B, high dividend, positive free cash flow, quality balance sheet). These stocks have been under-performing the growth stocks during the last years and especially in the period 2015-2017. The out-performance of growth stocks has hit levels that are two standard deviations away from the average and at a similar level of the 1999/2000 area, which marked the subsequent out-performance of value against growth.

As growth seems to be peaking and growth stocks are expensive or at best above fair value, stocks which belong in the «value» category should start out-performing again in the medium term. We see this happening already during the last 6 months.

Annualized Trailing 10-Year Relative Total Return MSCI World Growth Versus Value



Source: Thomson Reuters, as of 3/31/18. Capital Management Group



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