Kendra Securities House

Weekly Trading Information - 17.7.2017

Equity markets managed to rebound last week, with the Dow Jones and the S&P500 closing at new record highs and the European stocks recovering some of the lost ground. The situation was more impressive with the emerging markets (MSCI Emerging Markets +4%) as the falling USD is a positive catalyst for them. It all started with FED's Yellen testifying to the Senate, where she mentioned that the falling inflation is somewhat of a concern, in stark contrast with her european counterparts who two weeks ago labelled the falling inflation as temporary and of no major concern. She also hinted that the much awaited reduction of the FED's balance sheet could be announced relatively soon but at the same time they will be careful with the projection of the interest rates. The June inflation numbers in the US which were announced on Friday (1.6% vs expected 1.7%) reinforced the FED's concern (see chart of the week). Bottomline is that the markets are now assigning only a 50% probability for another interest rate increase in 2017, a rather positive environment for equities and a blow to the USD again. However, the Central Bank of Canada raised interest rates by 25bps, reminding the markets that the world's Central Banks are indeed in a normalization (increasing interest rates) mode. In the UK the labor market continues to show surprising strength, with the unemployment announced at 4.5%, the lowest number since the 1970s. All eyes on the ECB this Thursday, with the markets awaiting anxiously to see if the recent hawkiness of Draghi was indeed misinterpreted or was a preview of immediate action (ie announcement of the tapering of the QE).

The Q2 earnings season started officially with three major US banks (Citigroup, JPMorgan, Wells Fargo) announcing better than expected earnings, but with a questionable quality (based on tax credits or one-off items) and hence their shares dropped on average 2%. It was surprising to see that for all three banks, the net interest income (the difference between income from loans and expense on deposits) did not improve significantly , despite the rising rates environment while their trading income suffered from the low volatility regime. Pepsico (-0.5%) announced better sales and earnings than expected, but did not raise its guidance for the full year, hence disappointing slightly its investors. The falling USD helped the Materials sector (Newmont Mining +4%, International Paper +3%, Rio Tinto +3%) while Healthcare managed to rebound as well (Roche +2.5%).

Government Bonds managed to stabilize after the rather "dovish" Yellen testimony and moved higher after the US inflation numbers were announced. The US 10 year Treasury finished the week at 2.31%, while the German 10 year Bund was relatively unchanged at 0.53%.

Gold managed to rebound from the 1205$ level, where it had dropped at the beginning of the week. It was boosted by the fall of the USD and the fact that the market has lowered its expectations for the US interest rates, to finish the week at 1228$.

The EURUSD is testing again the 1.1500 levels, as it has become the traders' beloved theme and is being bought on every minor correction. The ECB meeting on Thursday will be a major test for the currency. Draghi has a very difficult task in order to avoid saying something that would make the EUR going to 1.2000 in a matter of a few days and at the same time prepare the markets for the ECB's , much expected, conclusion of the QE in 2018.

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	21637.7	9.5	1.0	17883.6	21681.5
S&P500	2459.3	9.8	1.4	2083.8	2463.5
Nasdaq Composite	6312.5	17.3	2.6	5018.5	6341.7
Russell 2000	1428.8	5.3	0.9	1156.1	1433.8
Germany DAX30	12631.7	10.0	2.0	9923.6	12951.5
France CAC40	5235.3	7.7	1.8	4293.3	5442.1
Eurostoxx50	3525.9	7.2	1.8	2892.5	3666.8
Swiss SMI	9034.6	9.9	1.7	7585.6	9148.6
UK FTSE 100	7378.4	3.3	0.4	6615.8	7599.0
Italy FTSEMIB	21492.3	11.7	2.3	15922.4	21828.8
Greek ASE	856.5	33.1	2.3	547.0	857.8
Japan Topix	1625.5	7.0	1.1	1262.9	1628.6
China SSE Composite	3222.4	2.8	-1.0	2932.0	3301.2
Hong Kong Hang Seng	26389.2	20.6	4.1	21488.8	26416.7
MSCI Emerging Markets	1047.1	21.4	4.4	839.0	1047.1
MSCI World	1948.1	11.2	1.8	1657.1	1951.2

High Conviction Portfolio

	Price	%YTD	% WTD	% from high	52 wk high	52 wk low
Roche	245.90	5.7	2.2	-10%	273.00	218.30
Novartis	79.90	7.8	1.1	-5%	84.35	67.40
Sanofi	84.58	10.0	1.1	-9%	92.97	66.72
Abbvie	73.11	16.8	1.5	-1%	73.67	55.10
Generali	15.39	9.0	2.6	-4%	16.00	10.50
American Express	85.28	15.1	1.1	-1%	85.85	59.51
Barclays	208.50	-6.7	0.2	-15%	244.40	145.25
Lloyds	66.94	7.9	0.6	-9%	73.58	50.29
Geberit	457.90	12.2	2.4	-2%	467.30	369.30
Fluor	45.16	-14.0	-0.4	-23%	58.37	43.65
BAE Systems	612.00	3.5	-0.9	-10%	682.50	515.00
ACS	34.58	16.8	2.4	-5%	36.25	23.32
Capgemini	93.16	16.2	2.7	-4%	97.33	71.10
Kudelski	17.10	-3.1	2.1	-21%	21.60	15.50
Cisco	31.42	4.0	1.7	-9%	34.60	29.12
IBM	154.24	-7.1	0.9	-16%	182.79	147.79
Sainsbury	245.70	-1.4	-0.3	-13%	283.60	220.14
Imperial Brands	3499.50	-1.2	1.3	-16%	4154.00	3324.00
Danone	65.94	9.5	0.5	-7%	70.53	57.66
Carrefour	21.77	-4.9	2.3	-12%	24.84	20.08
Pepsico	114.93	9.8	-0.5	-3%	118.24	98.50
Nestle	84.00	15.0	2.6	-2%	86.00	67.00
Daimler	64.87	-8.3	2.2	-11%	73.23	56.56
Adient	68.85	17.5	1.8	-10%	76.09	39.67
Disney	105.09	0.8	1.7	-9%	116.09	90.32
Fnac	75.58	17.7	3.8	0%	75.58	50.50
Starbucks	58.76	5.8	1.2	-9%	64.87	50.84
Ladbrokes	113.10	-2.5	-1.0	-31%	164.80	110.30
Newell Brands	53.81	20.5	1.0	-3%	55.45	43.43
Dufry	162.00	27.6	1.8	-6%	172.60	105.10
Royal Dutch Shell	23.47	-9.7	1.3	-13%	26.87	20.81
ENI	13.24	-14.4	2.2	-17%	15.92	12.18
Rio Tinto	3448.00	9.2	2.6	-7%	3718.50	2253.50
Newmont Mining	33.30	-2.3	4.0	-28%	46.07	30.20
International Paper	58.15	9.6	3.2	-1%	58.95	43.55
Suez	16.26	16.0	0.5	-4%	16.99	12.73
ADO Properties	37.99	18.7	4.6	-5%	40.19	29.45

Chart of the Week

Inflation looks to have peaked a few months ago, and is forcasted to stabilize at current levels or slightly lower in the coming months. Hence the case for aggressive action by the Central Banks does not look supported by the actual data or the forecasts for inflation, at least for now. Policy gradualism should help alleviate the fears and should be supportive for equity markets.
For the latter however, one must also wait the corporate earnings announcements in order to get a clearer picture of the companies' health status, after the impressive Q1.

Exhibit 2: Inflation subdued in both the US and EU, supporting policy gradualism

Source: Haver Analytics, Morgan Stanley Research forecasts