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Weekly Report 15.1.2018

Weekly Trading Information – Markets update

Equity markets have had one the best starts of the year of the last 20 years, with Europe lagging behind yet again, despite fundamentals being in its favor. Technology, Financials and Commodity linked sectors have been leading in these first days of trading, while interest rate sensitive sectors (Defensives, Telecoms, Real Estate) have been struggling, as yields on government bonds have been steadily rising during the last weeks. It was a second week of relative drama in the bond markets, as investors were confronted with news from the Bank of Japan, which as the ECB did last year, started minor adjustments to its bond buying program. Rumors from China, that it had significantly reduced its purchases of US government bonds and which were later denied by Chinese officials, had already soured the mood. It was the turn of the ECB to give the bond market another blow, as the minutes of its December meeting showed an increased willingness to change its forward guidance with respect to rates. As a reminder, the market does not expect any interest rate increase before the end of 2019/start of 2020, a view that is starting to being challenged, as also shown by the spike of the EUR.

In an environment of rising interest rates, Financials had a very good week (Societe Generale +3%, BNP +6%) while the spike in Oil prices helped some Energy stocks reach new highs since 2015 (Shell +2%, ENI +2%). The rise of commodities was beneficial to our recent addition of Mining companies (Newmont +3%, BHP Billiton +6%), while high dividend sectors like Telecoms were sold (Vodafone -3%, Deutsche Telekom -3%), and it appears that in the high dividend sectors, opportunities start to arise again. The following two weeks are full of Q4 earnings announcements, primarily in the US and volatility in specific names is expected to increase, as valuations are starting to look stretched. The companies' guidance on the new tax legislation will also be greatly scrutinized by the investors.

Government bonds fell significantly, with the US 10 year Treasury yield reaching 2.55%, very close to the previous high of 2.65% seen last year , while the German 10 year Bund yield rose to almost 0.55%, last seen in April of 2017. The current levels of US government bonds could be an interesting entry point again (see also chart of the week).

Gold's rally has brought the metal back above various resistance points and closed the week at 1'340$. Although one could argue that the rally is overdone, its long term picture looks bright, as noted a few months ago when crucial long term buy technical signals were triggered.

The EUR spiked higher to 1.2200, having broken the 1.200 level at the start of the year and after the ECB's minutes showed "hawkishness" with respect to path of interest rates. The JPY has rallied in the last two weeks, in response to the BoJ adjustment of its long term bonds buying program. It remains a currency, as already noted, that could rise significantly from current levels, given its huge undervaluation and safe haven status in periods of markets turmoil.

Global Equity Indices

	Price	%YTD	% WTD
Dow Jones Industrials	25803.2	4.4	2.0
S&P500	2786.2	4.2	1.6
Nasdaq Composite	7261.1	5.2	1.7
Russell 2000	1592.0	3.7	2.0
Germany DAX30	13245.0	2.5	-0.6
France CAC40	5517.1	3.8	0.8
Eurostoxx50	3612.6	3.1	0.1
Swiss SMI	9546.6	1.8	-0.1
UK FTSE 100	7778.6	1.2	0.7
Italy FTSEMIB	23429.8	7.2	2.9
Greek ASE	851.1	6.1	2.6
Japan Topix	1876.2	3.2	-0.2
China SSE Composite	3428.9	3.7	1.1
Hong Kong Hang Seng	31412.5	5.0	1.9
Emerging Markets	1208.2	4.3	0.6
MSCI World	2185.3	3.9	1.3

High Conviction Portfolio

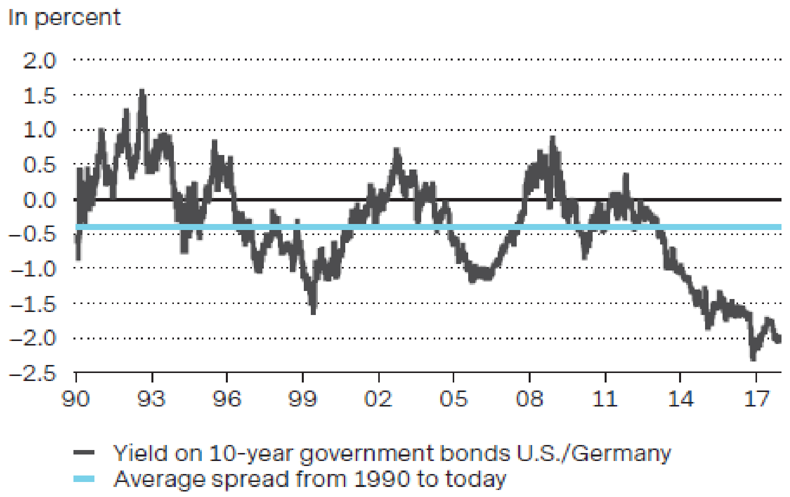
	Price	%YTD	% WTD	% from high	52 wk high	52 wk low
Roche	245.80	-0.3	-2.5	-10%	273.00	226.10
Novartis	83.88	1.8	-0.2	-2%	85.40	69.50
Sanofi	73.67	2.5	-0.9	-21%	92.97	71.06
Straumann	699.00	1.5	-1.3	-6%	746.00	382.00
Societe General	46.46	7.9	3.1	-11%	52.26	40.66
Bnp Paribas	67.46	8.4	5.6	-2%	69.17	53.96
Barclays	194.50	-4.2	-2.3	-20%	244.40	177.30
Lloyds	70.50	3.4	3.4	-4%	73.58	61.81
ACS	33.66	3.2	-0.8	-8%	36.75	28.34
Siemens	122.44	5.4	1.9	-8%	133.50	108.00
Logitech	34.61	5.2	1.6	-11%	39.00	24.70
Cisco	40.87	6.7	3.4	0%	40.93	29.84
IBM	163.14	6.3	0.4	-11%	182.79	139.13
Sainsbury	252.70	4.8	5.0	-11%	283.60	222.40
Imperial Brands	3160.00	0.0	-0.1	-20%	3956.50	3013.00
Newmont Mining	39.79	6.1	3.6	0%	39.84	31.42
BHP Billiton	1647.40	8.2	5.5	0%	1650.8	1103
Carrefour	17.79	-1.4	-3.9	-26%	24.08	16.31
Nestle	82.48	-1.6	-1.5	-5%	86.40	71.45
Adient	82.69	5.1	-1.4	-4%	86.42	59.10
Disney	112.47	4.6	0.8	-3%	116.09	96.20
WPP	1354.50	0.8	0.9	-30%	1928.07	1238.45
Starbucks	60.40	5.2	1.3	-7%	64.87	52.58
Newell Brands	32.26	4.4	0.9	-41%	55.07	27.46
Dufry	145.35	0.3	-1.0	-16%	172.60	129.90
Royal Dutch Shell	29.13	4.8	1.9	0%	29.15	22.73
ENI	14.72	6.7	2.0	-6%	15.69	12.94
Deutsche Telecom	14.46	-2.3	-3.3	-20%	18.15	14.38
Telefonica	8.20	0.9	-1.9	-19%	10.18	8.10
Vodafone	229.35	-2.4	-3.2	-4%	239.65	186.50
AT&T	36.90	-5.1	-3.3	-14%	42.69	32.55

YTD: year to date,
WTD: week to date

Chart of the Week

The difference between the US 10 year yield and the German 10 year yield is at its greatest level (in favor of the US) in its history. If this difference was to return to its long term average, it would mean that either the German bonds fall much more than the US ones in the coming months, or the US bonds rally from current levels more than the European. Perhaps the second scenario is more likely, but in any case this chart shows that, at current levels, an investor should favor again the US government bonds against EUR bonds, where yields are extremely low.

Chart 1: Greater divergence than ever between monetary policy in the U.S. and the euro zone



Source: Thomson Reuters Datastream, Vontobel

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