KENDRA
SECURITIES
HOUSE SA

Weekly Report 22.10.2018

Weekly Trading Information – Markets update

We had a rather mixed picture for equity markets last week, during an attempt of stabilization after the recent steep falls. The Swiss and the UK market stood out with positive returns, amid investors buying shares of food companies and pharmaceuticals. Italy was again a source of weakness, as the EU's first reaction to the announced budget was that of public criticism, fueling the fears for a "war" between the two parties. On a positive note, a number of Italian government officials seem to favor a moderation and a revision of the budget's deficit to lower levels. But most importantly, Moody's downgrade of the Italian government debt to Baa3, over the weekend, left it in "investment grade" and it came with an upgrading of the outlook to "stable" from "negative", in a sign that no more immediate downgrades are expected. This could lead to a relief rally of Italian bonds and stocks today as the week starts. The markets will also keenly await the ECB meeting on Thursday, to gauge any change of stance. In emerging markets, Chinese stocks rallied on Friday and today by more than 4% each day, after a possible intervention by state-controlled funds, which seem to have been very active buying during the last two days.

In the US, the FED minutes revealed a willingness to move interest rates to a "restrictive level" , i.e. increasing them above the so called "neutral" rate, the actual level of which is a current hot debate. For many economists the current levels of interest rates (2.25-2.50%) are the new neutral rate. For others this is placed closer to 3-3.25%. As a reminder, the FED removed the phrase "accommodative" to describe its monetary policy, pointing to the fact that they themselves probably see current levels very close to the neutral rate. This debate will have serious implications next year, when according to the official forecasts the FED is expected to raise rates three times, in addition to the probable December 2018 increase. If all these materialize, the FED rates will stand at 3.25-3.50% at the end of 2019. Will this be characterized already "very restrictive" and be the peak of rates or just will it be seen as simply getting to the "neutral" ? As mentioned many times in our reports, this debate will have implications on assets classes as early as the first quarter of 2019.

Corporate earnings for the 3rd quarter are in full swing. Carrefour shares rallied (+7%) after it announced sales better than expected as well as expenses lower than expected, pointing to an early success of the new strategy implemented by the new CEO last year. On the negative side, IBM shares slumped (-7%) as the company's revenue growth slowed down although its profit was announced a little better than expected. The transformation of the company, however, is bearing fruits as the margin expansion and the growth of its new strategic sectors are expanding, which should give hope for a long term rebound of the shares which trade at just 10 times its earnings with a 4.5% dividend yield. The auto sector cannot seem to find a bottom (Valeo -7%) after Daimler's profit warning, which comes a few weeks after a similar by BMW. However, there seems to be so much negativity priced in the auto related stocks , that shares managed to rebound from the initial shock and offering a buying opportunity not seen in a decade, with automobile manufacturers trading at almost book value.

The 10 year US Treasury yield moved close to the high of the year at 3.21% after the FED minutes showed a willingness to keep raising rates into "restrictive" territory, but did not break out to new highs. The 10 year German Bund yield on the contrary moved lower, to 0.40% (from 0.50%) as investors bought the safety of Germany and sold Italy.

Gold moved in a rather tight range, after breaking out to 1'220 the previous week. It traded between 1'220 and 1'230, with the USD's moves influencing it more than the Italian crisis or equity turmoil at this junction.

The EUR fell again below 1.1500 , as the Italian situation seemed to be the focus of the market again, but it has rebounded yet again above this level, after the Moody's downgrade, which was less harsh than expected. Overall, we stand by the view that the USD will be difficult to rally sustainably, barring a complete blow out of Italy, which is not the base case.

	Level	YTD %	**Weekly %**	52 week high	52 week low
DOW JONES	25444.3	2.9	**0.4**	26951.8	23201.8
S&P500	2767.8	3.5	**0.0**	2940.9	2532.7
NASDAQ	7449.0	7.9	**-0.6**	8133.3	6517.9
RUSSELL SMALL CAP	1542.0	0.4	**-0.3**	1742.1	1436.4
EUROPE STOXX50	2940.6	-7.5	**1.4**	3283.2	2884.5
EUROSTOXX 50	3210.8	-8.4	**0.5**	3708.8	3180.6
GERMANY DAX	11553.8	-10.6	**0.3**	13596.9	11459.1
FRANCE CAC40	5084.7	-4.3	**-0.2**	5657.4	5038.1
SWISS SMI	8872.1	-5.4	**2.4**	9616.4	8372.9
UK FTSE 100	7049.8	-8.3	**0.8**	7903.5	6866.9
ITALY FTSE 100 MIB	19080.2	-12.7	**-0.9**	24544.3	18754.2
ATHENS GENERAL	624.8	-22.1	**-0.6**	895.6	610.5
JAPAN TOPIX	1698.2	-6.9	**-0.6**	1911.3	1645.2
CHINA CSI300	3273.0	-22.2	**-1.1**	4403.3	3009.5
HONG KONG	26174.0	-14.6	**-0.9**	33484.1	25090.3
EMERGING MARKETS	971.5	-16.1	**-0.9**	1273.1	954.7
WORLD	2062.3	-2.0	**-0.1**	2249.7	2009.6

Certificates	Price	**Weekly %**	YTD
KENDRA HIGH CONVICTION	97.7	**-0.6%**	-6.5%
KENDRA HIGH INCOME	95.1	**-0.2%**	-5.1%

Currencies	Price
EURUSD	1.1510
EURCHF	1.1470
GBPUSD	1.070
EURJPY	129.70
USDJPY	112.60

Commodities	Price
Gold USD	1.228
Gold EUR	1070
Silver USD	14.65
Oil (Crude USD)	69.40
Oil (Brent USD)	80.10

High Conviction Portfolio

	YTD %	**Weekly %**	CURRENCY	SECTOR
Carrefour SA	-5.1	7.0	EUR	Consumer Staples
IBM	-15.9	-8.3	USD	Information Technology
Siemens	-13.8	0.3	EUR	Industrials
Deutsche Telekom	-0.9	5.8	EUR	Communication Services
Lloyds	-17.5	-3.5	GBp	Financials
Vodafone	-35.1	1.0	GBp	Communication Services
Sanofi	8.3	5.4	EUR	Health Care
Societe Generale	-20.0	-3.4	EUR	Financials
BHP Billition	1.1	-2.4	GBp	Materials
BNP Paribas	-21.7	-2.4	EUR	Financials
Barclays	-19.5	-1.0	GBp	Financials
Valeo	-52.4	-7.4	EUR	Consumer Discretionary
Newmont Mining	-14.2	0.5	USD	Materials
Imperial Brands	-18.2	2.9	GBp	Consumer Staples
Telefonica	-14.2	0.3	EUR	Communication Services
AB Inbev	-21.4	0.2	EUR	Consumer Staples
Vivendi	-2.5	2.0	EUR	Communication Services
Credit Suisse	-24.4	-2.0	CHF	Financials
UBS	-22.7	-2.0	CHF	Financials
Arkema	-8.3	-4.9	EUR	Materials
Altran Technologies	-40.3	2.7	EUR	Information Technology
Travis Perkins	-38.1	-5.8	GBp	Industrials
UCB.SA	10.2	-0.9	EUR	Health Care
Wacker Chemie	-44.1	-7.3	EUR	Materials
AT&T	-15.5	1.9	USD	Communication Services
Walt Disney	10.6	5.6	USD	Communication Services
Dufry	-26.7	-1.6	CHF	Consumer Discretionary
Biogen	0.6	-3.2	USD	Health Care
Eurofins Scientific	-18.8	-1.9	EUR	Health Care
Straumann	-0.7	3.0	CHF	Health Care
Adient	-61.6	0.0	USD	Consumer Discretionary

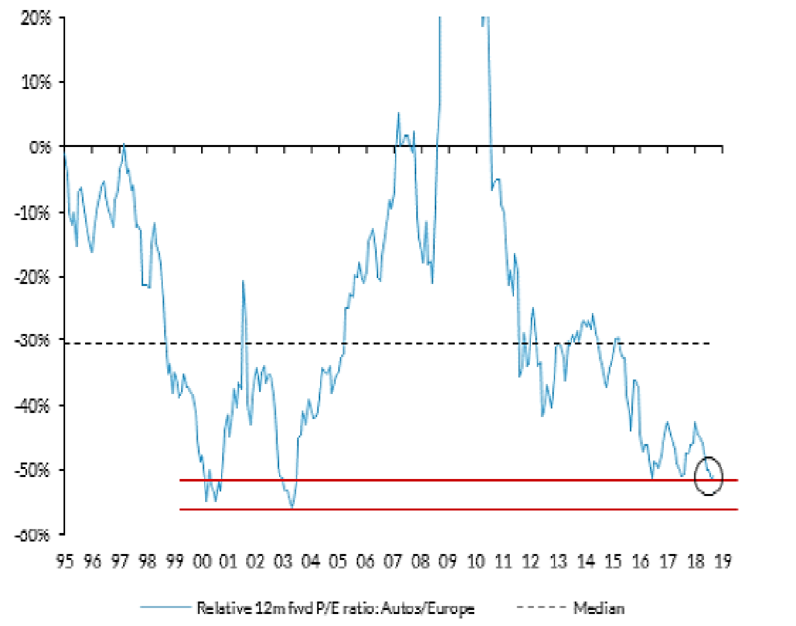
YTD: year to date return,
Weekly %: weekly return

Chart of the Week

The relative P/E of European automobile manufacturers vs the market is now back at levels last seen 15 years ago.

Although it is clear that the auto market has probably seen its peak in 2018, and in the coming months sales will be lower, the steep fall in share prices is discounting a deep collapse in earnings scenario. With valuations both on a P/E level and a Price to Book level back at crisis levels, auto related stocks offer a true value proposition with dividend yields in excess of 6% at current levels.

Chart 10: European Autos relative P/E multiple back to last 15 year lows



Source: Kepler-Cheuvreux

Disclaimer

- The content of this document has been produced from publicly available information as well as from internal research and rigorous efforts have been made to verify the accuracy and reasonableness of the hypotheses used. Although unlikely, omissions or errors might however happen.
- The data included in this presentations are based on past performances and do not constitute an indicator or a guarantee of future performances. Performances are not constant over time and can be positive or negative.
- Any investment decision needs to be discussed with your advisor and cannot be based only on this document.
- This document is strictly confidential and should not be distributed further without the explicit consent of Kendra Securities House SA.