KENDRA
SECURITIES
HOUSE SA

Weekly Report 1.10.2018

Weekly Trading Information – Markets update

The last week of the month and the 3rd quarter presented a very mixed picture for equity markets. The major US markets were down, Eurozone stocks and especially Italy collapsed on Friday, while Nasdaq, the UK and Switzerland finished in positive territory. The explanation is quite simple as Oil prices rallied more than 5% last week which helped the Energy-heavy UK index to post gains, while Pharmaceuticals had a positive week as well, helping the Pharma-heavy Swiss index. The Eurozone stocks were under severe pressure on Friday as Italy's government leaked that the final government deficit number for 2019 stands at 2.4% (vs the initial plans for 1.6% and the 3% Maastricht rule) disappointing the market (and us) which were expecting a moderation by the populist government. The details of the budget have not been published yet and the reassurance by the Finance Minister over the weekend that the plans are for a reduction of public debt in the coming years could soften the selling pressure in the days to follow.

In the US, the FED's meeting did not provide any major surprise as they raised interest rates by 25bps, to a new range of 2.00-2.25%, while maintaining the bias for a fourth increase this year, at the December meeting. Interestingly, they removed the word "accommodative" from the text of the announcement, sparking a debate as to what this means. By saying that monetary policy is not accommodative any more is explained by most analysts that we are getting close to the "neutral" rate of interest rates and the debate now is whether the FED will chose in 2019 to go intro "restrictive" mode (i.e. raise rates at a much higher level that the "neutral" rate or pause there). The current expected number of interest rates in 2019 as officially expressed by the FED members is still three, bringing the rate to 3% by the end of 2019. We maintain the view that the FED's actions in 2019 will determine the fate of almost all asset classes next year.

Eurozone Banks (Societe Generale -2%, BNP -3%) lost most of their gains of the previous weeks in just a couple of days as the Italians revealed their intention to go for a 2.4% government deficit rather than a more market friendly of below 2%. As Oil prices rallied so did Energy stocks (Shell +4%), but Chemicals dropped significantly (Arkema -4%, Wacker Chemie -9%) as higher energy prices increase their costs, without being able to pass on to their clients all the time. The auto-sector moved again lower after the previous week's rally (Valeo -9%) after the profit warning of BMW. Miners had a stable week (BHP -0.5%) as Rio Tinto and Glencore announced an increase of their share buyback amounts, in a clear message that very high cash flows will be returned to shareholders. We maintain a positive view on the sector.

Government bond prices moved higher as the 10 year US Treasury yield found significant resistance at the 3.11% level (also the previous high in May) and closed the week at 3.05%. The move was even more dramatic in Germany's 10 year Bund yield which during the week had reached 0.53% , especially after Draghi's comments about a potentially "rigorous" inflation in the Eurozone, only to drop to 0.45% in a matter of hours as the Italian situation soured the sentiment in Europe.

Gold failed again to show its "safe-haven" status as in traders' minds it continues to trade as a USD hedge rather than a protection currency. As the Italian situation erupted, USD rallied against the EUR and Gold lost the 1'200 levels again to finish at 1.190$. For EUR investors however, the prices of Gold against EUR were almost unchanged, thanks to the drop in EUR.

The EUR fell to the lower levels of its current range against the USD , close to the 1.1550 region, but recovered to 1.1600 as the markets have to digest at the same time the news about a possible change in tone by the FED ahead of 2019 as wells as the China-USA situation which enters its final stages in the fourth quarter. The failure to have a more pronounced move in EURUSD as well as the fact that the Swiss Franc did not move higher despite the selloff in Italian assets on Friday probably show that the markets are willing to give Italy a second chance to calm the markets.

	Level	YTD %	**Weekly %**	52 week high	52 week low
DOW JONES	26458.3	7.0	**-1.1**	26769.2	22333.0
S&P500	2914.0	9.0	**-0.5**	2940.9	2508.0
NASDAQ	8046.4	16.6	**0.7**	8133.3	6454.9
RUSSELL SMALL CAP	1696.6	10.5	**-0.9**	1742.1	1436.4
EUROPE STOXX50	3067.9	-2.6	**0.0**	3283.2	2884.5
EUROSTOXX 50	3399.2	-1.5	**-1.0**	3708.8	3261.9
GERMANY DAX	12246.7	-5.2	**-1.5**	13596.9	11726.6
FRANCE CAC40	5493.5	4.3	**-0.1**	5657.4	5038.1
SWISS SMI	9088.0	-3.1	**1.0**	9616.4	8372.9
UK FTSE 100	7510.2	-2.3	**0.3**	7903.5	6866.9
ITALY FTSE 100 MIB	20711.7	-5.2	**-3.8**	24544.3	20236.3
ATHENS GENERAL	691.7	-11.8	**1.3**	895.6	675.8
JAPAN TOPIX	1817.3	0.0	**0.7**	1911.3	1645.2
CHINA CSI300	3438.9	-14.7	**0.8**	4403.3	3191.4
HONG KONG	27788.5	-7.1	**-0.6**	33484.1	26219.6
EMERGING MARKETS	1047.9	-9.5	**-0.3**	1273.1	1003.3
WORLD	2184.0	3.8	**-0.7**	2249.7	1991.3

Certificates	Price	**Weekly %**	YTD
KENDRA HIGH CONVICTION	99.3	**-1.6%**	-1.3%
KENDRA HIGH INCOME	95.5	**-1.3%**	-2.1%

Currencies	Price
EURUSD	1.1590
EURCHF	1.1380
GBPUSD	1.3020
EURJPY	132.0
USDJPY	113.8

Commodities	Price
Gold USD	1.190
Gold EUR	1025
Silver USD	14.60
Oil (Crude USD)	73.5
Oil (Brent USD)	83.2

High Conviction Portfolio

	YTD %	**Weekly %**	CURRENCY	SECTOR
Carrefour SA	-8.5	**-0.5**	EUR	Consumer Staples
IBM	-1.4	**-0.1**	USD	Information Technology
Siemens	-5.0	**0.1**	EUR	Industrials
Deutsche Telekom	-6.2	**-0.1**	EUR	Telecom Services
Lloyds	-12.9	**-4.2**	GBp	Financials
Vodafone	-30.0	**-3.8**	GBp	Telecom Services
Sanofi	6.6	**2.8**	EUR	Health Care
Societe Generale	-14.1	**-2.3**	EUR	Financials
Barclays	-15.4	**-2.7**	GBp	Financials
BNP Paribas	-15.3	**-3.3**	EUR	Financials
Imperial Brands	-15.6	**0.5**	GBp	Consumer Staples
Telefonica	-16.1	**-0.5**	EUR	Telecom Services
AB Inbev	-19.2	**-3.7**	EUR	Consumer Staples
Newmont Mining	-19.5	**-4.3**	USD	Materials
UCB.SA	17.0	**-0.6**	EUR	Health Care
Vivendi	-1.1	**0.5**	EUR	NULL
Valeo	-39.9	**-8.7**	EUR	Consumer Discretionary
Arkema	5.1	**-4.3**	EUR	Materials
Royal Dutch Shell	6.4	**3.4**	EUR	Energy
Travis Perkins	-32.0	**-4.0**	GBp	Industrials
Altran Technologies	-40.3	**-0.4**	EUR	Information Technology
BHP Billition	9.8	**-0.4**	GBp	Materials
Wacker Chemie	-33.2	**-8.6**	EUR	Materials
Roche Holding AG	-3.5	**1.1**	CHF	Health Care
Credit Suisse	-15.2	**-3.4**	CHF	Financials
UBS	-13.6	**-2.2**	CHF	Financials
Dufry	-23.6	**-6.1**	CHF	Consumer Discretionary
Biogen	10.9	**2.3**	USD	Health Care
Straumann	7.2	**0.5**	CHF	Health Care
Eurofins Scientific	-3.7	**2.0**	EUR	Health Care
Adient	-50.1	**-11.0**	USD	Consumer Discretionary

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

Chart of the Week

Emerging Market equities have rebounded from their recent lows, which coincided with a 20% drop from the January highs (a drop which is usually referred to as "bear market" territory). It is currently probing resistance on the upper boundary of the downtrend channel since January.
As mentioned a few weeks ago, this asset class could provide significant upside from current levels, especially in the long term. Given the high correlation of Emerging Markets to European equities, if such a scenario materializes , it should help the European region as well.

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- 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.
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