



---

KENDRA  
SECURITIES  
HOUSE SA

# **Weekly Report 21.5.2018**



# Weekly Trading Information – Markets update

It was a week of significant outperformance of Eurozone equities against their US peers, helped by the ongoing fall in EUR and despite the fall in Italian stocks, due to political uncertainty. A leaked document which allegedly outlined the agreed principals between Five Star and League, the two parties which will form a government, pressured Italian stocks, as according to this document the new government would impose, among other things, the cancellation of 250bn EUR of Italian debt held by the ECB. This was later forcefully denied by both parties, but the Italian market never recovered. In the US, the focus was on the break of the magical number of 3% with respect to the 10 year US Treasury yield, after the April Retail Sales came out better than expected, but the focus soon turned to the improving relationships with China. Over the weekend, US Treasury secretary Mnuchin announced that tariffs imposed on China would be on hold for now, as the two countries have made progress to bilateral agreements which would lower the US trade deficit, without the need of a "war". Lastly, emerging market equities continued their recent fall, reaching their lowest level in six months, as the rallying USD is usually correlated with weakness in these markets. The improving China-USA trade talks could possibly offer some relief temporarily.

As the corporate earnings season is coming to a close, markets are turning again their attention on macroeconomic data as well as political developments. Last week, Eurozone banks were again weak, despite the rally in bond yields, with which their shares are usually positively correlated. At this stage and looking for opportunity to increase again exposure in Financials, the UK banks (Barclays, Lloyds) appear more attractive on a relative valuation basis. Interest rate sectors, such as Telecoms had a negative week (Deutsche Telekom -6%, Telefonica -5%, Vodafone -8%) despite their recent positive results and offer good entry points again. Vodafone announced an 8% increase in EBITDA but gave a conservative guidance for the full year and announced a surprise departure of its CEO, which led investors to sell the stock. As the stock is now back at levels where it yields more than 6%, we would be adding to it. On a positive note, SUEZ (+6%) attracted investor interest, as the company announced a 9% increase in Q1 revenues and EBITDA +3%, reassuring the market after the profit warning a few months ago. The Pharma sector continues to recover (UCB+4%, Sanofi +4%, Roche +1%, Glaxo +1%), as investors are increasingly attracted to low valuations, high yields and defensive characteristics of the sector.

The 10 year US Treasury yield as already mentioned finally broke through its resistance at 3.05% and finished the week at 3.10%. As is usually the case with events that have been much anticipated and much analyzed, there was no significant contagion to equity markets which held up well. The 10 year German Bund yield rose to 0.65% in sympathy, but the Italian turmoil brought buyers and the yield fell back to 0.55%.

Gold also broke out of its 3 month range (1300-1360), falling to 1'290\$ and now looking to test levels last seen six months ago. The rally in the USD in combination with the rise in bond yields are hurting the metal. Next level of support is in the 1'260-'1270 area.

The EURUSD broke down as traders found the perfect opportunity to sell the EUR (Italian politics) pushing the currency below 1.1850 and close to a significant support area 1.1700-1.1750. It remains to be seen whether current levels and up to 1.1500 will attract again investors and especially from the US, who have been selling Eurozone assets continuously since last year.

|                | Level   | YTD% | Weekly % | 52 week high | 52 week low |
|----------------|---------|------|----------|--------------|-------------|
| DOW JONES      | 24715.1 | 0.0  | -0.5     | 26616.7      | 20687.9     |
| S&P 500        | 2713.0  | 1.5  | -0.5     | 2872.9       | 2370.4      |
| NASDAQ         | 7354.3  | 6.5  | -0.7     | 7637.3       | 6070.2      |
| RUSSELL 2000   | 1626.6  | 5.9  | 1.2      | 1630.3       | 1349.4      |
| XETRA DAX      | 13077.7 | 1.2  | 0.6      | 13596.9      | 11726.6     |
| CAC 40         | 5614.5  | 5.7  | 1.3      | 5643.2       | 4995.1      |
| ESTX 50        | 3573.8  | 2.0  | 0.2      | 3708.8       | 3261.9      |
| SWISS SMI      | 8940.5  | -4.7 | -0.6     | 9616.4       | 8501.2      |
| FTSE 100       | 7778.8  | 1.2  | 0.7      | 7792.6       | 6866.9      |
| FTSE MIB ITALY | 23449.7 | 7.3  | -2.9     | 24544.3      | 20537.4     |
| ATHENS         | 782.8   | -2.4 | -4.8     | 895.6        | 700.1       |
| TOPIX JAPAN    | 1815.3  | -0.1 | 1.1      | 1911.3       | 1549.9      |
| SSE CHINA      | 3193.0  | -3.4 | 0.9      | 3587.0       | 3022.3      |
| HANG SENG      | 31047.9 | 3.8  | -0.2     | 33484.1      | 25124.1     |
| EMERGING MKTS  | 1137.7  | -1.8 | -2.3     | 1273.1       | 995.7       |
| WORLD INDEX    | 2120.8  | 0.8  | -0.5     | 2249.7       | 1878.9      |

| Certificates           | Price  | Weekly % | YTD  |
|------------------------|--------|----------|------|
| KENDRA HIGH CONVICTION | 102.14 | +0.2     | +1.4 |
| KENDRA HIGH INCOME     | 102.32 | +0.0     | +2.4 |



# High Conviction Portfolio

|                     | YTD % | WEEKLY% | DIV YIELD | CURRENCY | SECTOR                 |
|---------------------|-------|---------|-----------|----------|------------------------|
| Societe Generale    | -3.5  | -2.8    | 5.3       | EUR      | Financials             |
| Siemens             | 1.2   | 1.8     | 3.1       | EUR      | Industrials            |
| Lloyds              | -3.0  | -1.6    | 4.6       | GBp      | Financials             |
| Dufry AG            | -1.6  | -4.6    | 2.6       | CHF      | Consumer Discretionary |
| Carrefour SA        | -9.8  | -1.1    | 2.8       | EUR      | Consumer Staples       |
| Nokia               | 35.6  | -1.2    | 3.6       | EUR      | Information Technology |
| Roche Holding AG    | -8.9  | 1.1     | 3.7       | CHF      | Health Care            |
| Imperial Brands     | -12.4 | 0.2     | 6.4       | GBp      | Consumer Staples       |
| Danone              | -7.2  | 0.2     | 2.9       | EUR      | Consumer Staples       |
| Nestle              | -8.0  | -0.6    | 3.0       | CHF      | Consumer Staples       |
| UCB                 | -1.0  | 4.0     | 1.8       | EUR      | Health Care            |
| Barclays            | 2.2   | -3.2    | 1.4       | GBp      | Financials             |
| IBM                 | -6.1  | 0.0     | 4.3       | USD      | Information Technology |
| BNP Paribas         | -1.1  | -1.9    | 4.9       | EUR      | Financials             |
| Vonovia             | -4.8  | -0.2    | 3.4       | EUR      | Real Estate            |
| Valeo               | -6.3  | 2.1     | 2.1       | EUR      | Consumer Discretionary |
| BHP                 | 14.2  | 1.6     | 4.1       | GBp      | Materials              |
| Spotify             | NULL  | -3.8    | 0.0       | USD      | Information Technology |
| Sanofi              | -7.5  | 4.2     | 4.6       | EUR      | Health Care            |
| Deutsche Telekom    | -9.1  | -5.8    | 4.6       | EUR      | Telecom Services       |
| Telefonica          | -1.9  | -4.5    | 5.0       | EUR      | Telecom Services       |
| Vodafone            | -17.8 | -8.1    | 6.7       | GBp      | Telecom Services       |
| Biogen              | -12.0 | -0.7    | 0.0       | USD      | Health Care            |
| GlaxoSmithkline     | 12.5  | 1.5     | 5.4       | GBp      | Health Care            |
| SUEZ                | -14.3 | 6.3     | 5.3       | EUR      | Utilities              |
| Arkema              | 7.9   | 0.3     | 2.1       | EUR      | Materials              |
| WPP                 | -1.2  | 1.1     | 4.5       | GBp      | Consumer Discretionary |
| Adient              | -28.8 | 0.3     | 1.9       | USD      | Consumer Discretionary |
| Altran Technologies | 3.9   | 0.5     | 1.8       | EUR      | Information Technology |
| Straumann           | -1.6  | -1.5    | 0.7       | CHF      | Health Care            |

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

# Chart of the Week

Europe has started to outperform the US in recent weeks, and in particular since the EURUSD broke out of the lower boundary of its recent range. A few months ago Europe's underperformance reached levels which in the past had always been inflection points (2 standard deviations from average), hence the recent move was and is more than expected.

This outperformance is expected to continue and Europe looks more attractive currently both for EUR and USD investors. For USD investors, European equities offer a dividend yield of about 3.5% plus a further 3% positive carry yield if they hedge the EUR exposure, for a total yield of almost 7%.

### Exhibit 29:

Europe no longer extremely oversold but still significant room to run

**MSCI Europe vs MSCI World  
Standard Deviations From 12M Average**



Source: MSCI, Morgan Stanley Research



## 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.