Kendra Securities House

Weekly Trading Information - 10.7.2017

Financial markets continued on a negative note last week with Equities finishing relatively stable , but Bonds and Commodities fell again. It was the week where markets tried to decipher what lies in the minds of the world's biggest central banks after the previous week's barrage of hawkish comments made by the various Central Bankers. The minutes of the last meetings of both the FED and the ECB were published last week. The FED minutes revealed that the consensus is broadly favoring a third interest rate hike this year , while there is a big divide as to when they will begin their balance sheet reduction. On the other hand, the ECB minutes showed that most members of the governing council agree that the recent drop in inflation is temporary, but they could also wait until inflation reaches and stays above their target (2%) before they remove any monetary accommodation (ie raise interest rates). However, there was discussion on when and how to communicate to the markets on the tapering of the bond purchases, which sparked again speculation that in the upcoming meeting of the 20th of July there will be announcements. It will be a difficult day for the ECB as bonds continue to sell-off and the EUR rallying in anticipation. On Friday, the unemployment data out of the US were announced better than expected, with job growth amounting to 222'000 new employees but wage growth continued to dissapoint, sparking again a debate of whether inflation will ever go up.

On the corporate side, the Q2 earnings announcements season is fast approaching, and in the next 3-4 weeks we will learn how companies did during this period, especially in the Eurozone given the surge of the EUR. The continuation of the bond yields trajectory to higher levels helped Financials have a solid week (Barclays +3%, Generali +4%). Shares of French retailer Fnac reached a new high (+3%) , which were used to take some profit and reduce the position. On the negative side, shares of large retailers Carrefour (-4%) and Sainsbury (-2%) were under pressure , despite them announcing better than expected sales results. Carrefour announced sales growth of 6% in Q2, much better than expected, but did not provide any update on earnings which spooked the market as it fears that margins suffered in order to achieve this sales growth (ie heavy discounts). The fear about margins is also what caused shares of Sainsbury to lose ground despite the 2.3% sales growth announcement and the 7% growth in clothing, a stark difference to other large retailers who continue to face pressure. Both stocks are "deep value" stocks, trading at very attractive levels which could be considered again good entry points. Healthcare stocks (Roche -1.5%, Novartis -0.9%, Abbvie -0.7%) are also reaching again attractive valuations, after their very recent sizable correction (see chart of the week). Despite the big drop in Oil prices again last week (Crude closing at 44$) , Energy stocks were rather stable (Shell -0.3%, Chevron -0.8%, ENI -1.5%) showing some resilience at current levels.

Government Bonds were again down, after the minutes of the Central Banks meetings. The situation in Europe was aggravated by the technical breakout of the 10 year German Bund yield over 0.50% (as per last week's chart) which caused a mini panic selloff, with the yield finally closing at 0.57%, the highest since January 2016. The 10 year US Treasury yield also rose to 2.37% from 2.30%.

Gold is suffering from yields going higher. When the support at 1237$ gave way, the selling continued more aggressively and finished the week at 1212$.

The EURUSD traded in a rather tight range (1.13-1.14) as the market is trying to decide the next move. On the downside, the 1.1300 level which was the previous resistance level, out of which it broke, has become for now a good support level as the market seems willing to push it higher to test the ECB's tolerance.

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	21414.3	8.4	0.3	17883.6	21562.8
S&P500	2425.2	8.3	0.1	2083.8	2453.8
Nasdaq Composite	6153.1	14.3	0.2	4901.3	6341.7
Russell 2000	1415.8	4.3	0.0	1152.2	1433.8
Germany DAX30	12388.7	7.9	0.5	9389.1	12951.5
France CAC40	5145.2	5.8	0.5	4102.7	5442.1
Eurostoxx50	3463.8	5.3	0.6	2768.6	3666.8
Swiss SMI	8883.3	8.1	-0.3	7585.6	9148.6
UK FTSE 100	7350.9	2.9	0.5	6515.2	7599.0
Italy FTSEMIB	21015.1	9.3	2.1	15356.0	21828.8
Greek ASE	837.4	30.1	1.7	522.4	846.4
Japan Topix	1607.1	5.8	-0.3	1209.9	1627.5
China SSE Composite	3218.0	3.7	0.8	2932.0	3301.2
Hong Kong Hang Seng	25340.9	15.2	-1.6	20468.5	26090.3
MSCI Emerging Markets	1002.5	16.3	-0.8	828.8	1019.1
MSCI World	1913.2	9.2	-0.2	1640.6	1938.7

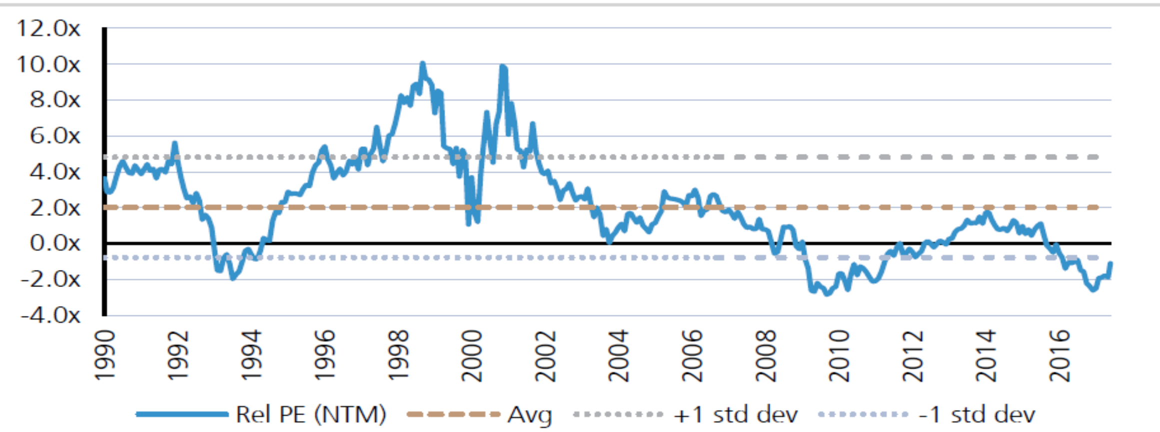
High Conviction Portfolio

	Price	%YTD	% WTD	52 wk high	52 wk low
Roche	240.50	3.4	-1.5	273.00	218.30
Novartis	79.05	6.7	-0.9	84.35	67.40
Abbvie	72.03	15.0	-0.7	73.67	55.10
Generali	15.00	6.2	4.1	16.00	9.89
American Express	84.33	13.8	0.1	85.85	59.51
Geberit	447.30	9.6	0.0	467.30	359.00
Sainsbury	246.40	-1.2	-2.1	283.60	216.60
Fluor	45.34	-13.7	-1.0	58.37	43.65
Disney	103.32	-0.9	-2.8	116.09	90.32
Capgemini	90.67	13.1	0.2	97.33	71.10
Kudelski	16.75	-5.1	2.4	21.60	15.50
BAE Systems	617.50	4.4	-2.5	682.50	467.50
Barclays	208.15	-6.8	2.7	244.40	131.71
Ladbrokes	114.30	-1.5	-0.2	164.80	111.90
Lloyds	66.53	7.2	0.6	73.58	48.82
Imperial Brands	3454.50	-2.5	0.2	4154.00	3324.00
Cisco	30.90	2.3	-1.3	34.60	28.88
IBM	152.94	-7.9	-0.6	182.79	147.79
ADO Propertiess	36.33	13.5	-1.9	40.19	29.45
Daimler	63.48	-10.2	0.2	73.23	51.98
Fnac	72.79	13.3	2.7	73.44	49.90
Starbucks	58.04	4.5	-0.5	64.87	50.84
Dufry	159.20	25.4	1.3	172.60	105.10
Carrefour	21.28	-7.0	-3.9	24.84	20.08
Pepsico	115.51	10.4	0.0	118.24	98.50
International Paper	56.37	6.2	-0.4	58.86	42.20
Adient	67.65	15.4	3.5	76.09	39.67
Royal Dutch Shell	23.16	-10.9	-0.3	26.87	20.81
Suez	16.17	15.4	-0.3	16.99	12.73
ACS	33.78	14.9	-0.1	36.00	23.16
Newmont Mining	32.03	-6.0	-1.1	46.07	30.19
Rio Tinto	3362.00	6.4	3.7	3718.50	2253.50
Nestle	81.85	12.0	-1.9	86.00	67.00
Chevron	103.49	-12.1	-0.8	119.00	97.53
ENI	12.96	-16.2	-1.5	15.92	12.18

Chart of the Week

According to this UBS chart , the US Healthcare sector remains cheap compared to the broad market (S&P500) on a P/E level. Its current attractiveness according to this metric has always provided the low for the sector as can be seen below. The same holds true for the European sector. After reaching similar levels in 1994 and in 2010, the sector performed much better than the market in the following

Figure 2: Health Care Remains Cheap Relative to the S&P 500



Source: Bloomberg, UBS (Note: Data shown represents the average monthly relative NTM PE multiple)