# Kendra Securities House

## Weekly Trading Information - 9.10.2017

Equity markets continued to move higher, with the US indices posting new highs and the European ones getting closer to their recent May highs. It was the turn of the UK equity market to outperform (FTSE +2%) as the GBP weakened significantly last week, amid Prime Minister May facing strong opposition within her own party. It was a speech which she delivered during a Torry conference which ignited rumors that at least 30 parliament members are gathering signatures to call for her resignation. Such an outcome would most certainly result in new elections, a clear negative for the local economy as well as for the progress of the Brexit talks with the EU. These rumors were swiftly denied as false, but damage had been done. The ECB minutes of the September meeting demonstrated an ongoing debate among the members of the governing council on whether to reduce and eventually stop the QE program at a fast or at a slow pace, with the 26th October meeting being an almost certain date for such announcements. The markets currently is pricing a 20bn EUR reduction in the monthly purchases (currently at 60bn) starting January 2018 for 6-9 months and completely ending it by the end of next year. In the US, the employment data for September showed a sharp decline in non-farm payrolls (-33'000) which was attributed solely on the hurricanes hitting Texas and Florida during the month. The unemployment rate fell further to 4.2% from 4.4% , but even more importantly the average wage gains were announced at 2.9%, the fastest annual increase since December 2016. The markets chose to focus on this inflationary outcome and they are now assigning an almost 100% probability for a December interest rate hike. The equity markets cheered the fact that the US Senate managed to pass the 2018 budget, which is considered as a prerequisite in order for the other crucial legislation (Tax Reform primarily) to move forward in early 2018. Still, the Trump administration continues to face internal turmoil and it was the turn of Secretary of State, Mr. Tilerson, to be rumored to be on his exit from the administration as he faces criticism on handling the N. Korea situation.

It was a week where Pharmaceutical companies regained most of their previous period losses (Sanofi +2%, Abbvie +3%) as the market is starting to see again some progress with the Obamacare reform, while Auto stocks (Daimler +2%) were also in the spotlight as the recent sales data continued to show a strong market. Pespico (0%) announced better results than expected but failed to move higher, although other Food producer companies had a rather positive week and outperformed the broad market (Danone +3%, Nestle +2%, Starbucks +2%).

Government Bonds were rather stable, despite the US employment data which confirmed ther December interest rate increase and the ECB minutes which showed that October is definitely the time of its own announcements with regard to its QE program. This shows that the move higher in bond yields of the previous two weeks has most probably already dicsounted most of these developments. (US 10 year Treasury yield 2.36%, German 10 year Bund yield 0.46%).

Gold continues to suffer from liquidation and fell below its support at 1285$ to finish the week at 1275$. The longer term crucial support is in the 1250$ area.

The EUR fell after the ECB minutes and was lower below 1.1700 after Friday's employment data out of the US, but managed to close the week above that level, as late Friday there were rumors that N. Korea is targeting US soil with its missiles. It was rather an excuse for EUR bulls to manage the weekly close above the significant 1.1700 level and safeguard its uptrend. A daily and weekly close below 1.1700 should drive the currency in a new range of 1.1300-1.1600.

## Global Equity Indices

| | Level | %YTD | % WTD | 52 wk low | 52 wk high |
|---|---|---|---|---|---|
| **Dow Jones Industrials** | 22773.7 | 15.2 | 1.6 | 17883.6 | 22777.0 |
| **S&P500** | 2549.3 | 13.9 | 1.2 | 2083.8 | 2552.5 |
| **Nasdaq Composite** | 6590.2 | 22.4 | 1.5 | 5034.4 | 6590.2 |
| **Russell 2000** | 1510.2 | 11.3 | 1.3 | 1156.1 | 1514.9 |
| **Germany DAX30** | 12955.9 | 12.8 | 1.0 | 10174.9 | 12993.5 |
| **France CAC40** | 5359.9 | 10.2 | 0.6 | 4344.9 | 5442.1 |
| **Eurostoxx50** | 3603.3 | 9.5 | 0.2 | 2938.0 | 3666.8 |
| **Swiss SMI** | 9252.1 | 12.6 | 1.0 | 7585.6 | 9289.1 |
| **UK FTSE 100** | 7522.9 | 5.3 | 2.0 | 6676.6 | 7599.0 |
| **Italy FTSEMIB** | 22392.3 | 16.4 | -1.3 | 16039.6 | 22860.1 |
| **Greek ASE** | 745.6 | 15.8 | -1.3 | 571.8 | 859.8 |
| **Japan Topix** | 1687.2 | 11.1 | 0.7 | 1287.4 | 1690.7 |
| **China SSE Composite** | 3348.9 | 9.2 | 1.2 | 2993.1 | 3391.6 |
| **Hong Kong Hang Seng** | 28458.0 | 29.0 | 3.3 | 21488.8 | 28626.4 |
| **MSCI Emerging Markets** | 1103.1 | 27.9 | 2.0 | 839.0 | 1112.9 |
| **MSCI World** | 2014.0 | 15.0 | 0.7 | 1657.1 | 2016.3 |

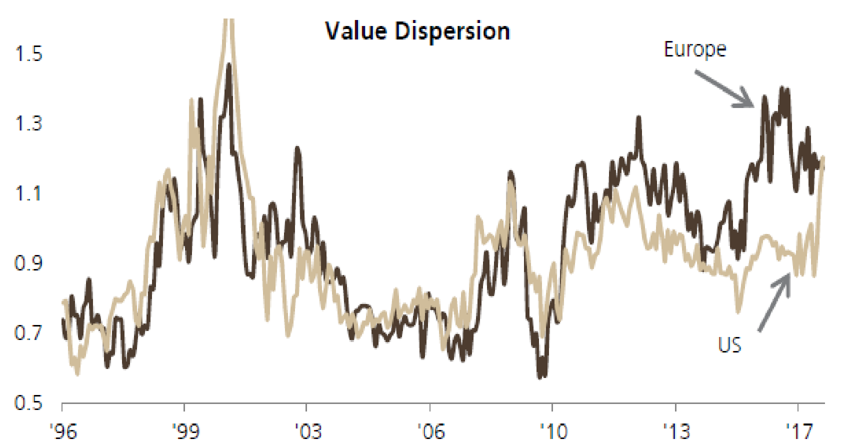
## High Conviction Portfolio

| | Price | %YTD | % WTD | % from high | 52 wk high | 52 wk low |
|---|---|---|---|---|---|---|
| Roche | 247.90 | 6.6 | 0.3 | -9% | 273.00 | 218.30 |
| Novartis | 84.05 | 13.4 | 1.4 | -1% | 84.60 | 67.40 |
| Sanofi | 86.26 | 12.2 | 2.7 | -7% | 92.97 | 67.22 |
| Abbvie | 90.49 | 44.5 | 1.8 | -1% | 91.31 | 55.10 |
| Generali | 15.61 | 10.6 | -1.0 | -3% | 16.08 | 11.00 |
| Barclays | 190.20 | -14.9 | -1.6 | -22% | 244.40 | 164.40 |
| Lloyds | 66.60 | 7.4 | -1.7 | -9% | 73.58 | 50.45 |
| Fluor | 42.92 | -18.3 | 1.9 | -26% | 58.37 | 37.04 |
| Vinci | 79.90 | 23.5 | -0.6 | -2% | 81.29 | 49.93 |
| ACS | 30.61 | 1.9 | -2.4 | -17% | 36.75 | 25.94 |
| Kudelski | 12.70 | -28.0 | 5.0 | -34% | 19.30 | 11.10 |
| Cisco | 33.75 | 11.7 | 0.4 | -2% | 34.60 | 29.12 |
| IBM | 146.48 | -11.8 | 1.0 | -20% | 182.79 | 139.13 |
| Soitec | 55.12 | 87.5 | -0.7 | -8% | 59.90 | 16.00 |
| Sainsbury | 242.00 | -2.9 | 1.7 | -15% | 283.60 | 224.10 |
| Imperial Brands | 3134.50 | -11.5 | -1.6 | -22% | 4007.00 | 3112.50 |
| Danone | 68.32 | 13.5 | 2.9 | -2% | 69.52 | 57.66 |
| Unilever | 50.11 | 28.1 | 0.1 | -2% | 51.31 | 36.22 |
| Carrefour | 17.01 | -25.7 | -0.5 | -32% | 24.84 | 16.31 |
| Pepsico | 110.40 | 5.5 | -0.9 | -8% | 119.39 | 98.50 |
| Nestle | 82.90 | 13.5 | 2.2 | -4% | 86.00 | 67.00 |
| Daimler | 68.70 | -2.9 | 1.8 | -6% | 73.23 | 59.01 |
| Adient | 84.67 | 44.5 | 0.8 | -2% | 86.42 | 39.67 |
| Disney | 100.07 | -4.0 | 1.5 | -14% | 116.09 | 90.32 |
| Fnac | 82.15 | 27.9 | 0.9 | -1% | 83.04 | 55.00 |
| Starbucks | 55.17 | -0.6 | 2.7 | -15% | 64.87 | 50.84 |
| Newell Brands | 43.90 | -1.7 | 2.9 | -20% | 55.07 | 40.89 |
| Dufry | 155.70 | 22.6 | 1.2 | -10% | 172.60 | 117.00 |
| Royal Dutch Shell | 25.68 | -1.2 | 0.4 | -4% | 26.87 | 22.41 |
| ENI | 13.85 | -10.5 | -1.1 | -13% | 15.92 | 12.26 |
| Vodafone | 211.80 | 6.0 | 1.4 | -9% | 233.90 | 186.50 |
| AT&T | 38.59 | -9.3 | -1.5 | -10% | 43.03 | 35.10 |

## Chart of the Week

The charts on the right show the "value dispersion" metric, which shows the difference between the most expensive and the cheapest stocks in each sector. The higher this dispersion is, the biggest is the difference in valuation between these two categories. In other words, currently in the US and in Europe, the expensive stocks are becoming even more expensive and the cheap stocks are becoming cheaper. It is at the highest level since the late 1990s and it is usually a negative sign for the markets, a sign of worry. However, this evolution has created opportunities, and the High Conviction Portfolio is now primarily invested in Value stocks, ie the cheapest, most defensive ones.

**Figure 1: Value stretch between cheap & expensive *within* European & US sectors. US over-takes Europe 1st time in decade and is biggest in world.**




Source: UBS Quant and European Equity Strategy