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Weekly Report 30.7.2018



Weekly Trading Information – Markets update

As President Trump and EU Commission President Juncker agreed a truce on tariffs, at least momentarily, European markets rallied, reaching six week highs. However, it was a week that delivered several shocks to Technology investors as major social media stocks (Facebook, Twitter) dropped almost 20% and Intel -9% on the day of their earnings announcements, similar to the Netflix reaction two weeks ago, as these companies poured cold water on investors' ever increasing future expectations. Hence, the Technology-heavy Nasdaq Index fell 1%, dragging down also the small capitalization index by 2% (Russell 2000). The 2nd quarter GDP in the US was announced at 4.1%, a strong but expected number which did not help the indices recover from profit taking on Friday. According to economists, the US economy showed strong consumer consumption during this 2nd quarter, helped by the tax cuts and of course the rally in US equities (the wealth effect), but there is increasing concern that growth will eventually be affected by the ongoing tariff "war", despite the periods of calmness between Trump and the world. In Europe, the ECB meeting on Thursday did not provide any new information, and economists are widely expecting the Central Bank to leave rates unchanged until at least September 2019, while interest rates should return to zero or positive territory by mid 2020. The QE program will end in December 2019, with the ECB providing no details on its plans for reinvesting the maturing bonds it has already acquired. The FED is meeting this week, but no change is expected.

Corporate earnings are attracting investors' attention again away from politics and volatility in specific stocks has been increasing. Carrefour (+15%) rallied hard after the company announced 13% higher than expected net income, helped by aggressive cost cutting, as per its 2022, strategy plan as well as better than expected performance in Brazil and other emerging markets. The new CEO is executing the strategy plan faster than expected and investors might come to the realization that the stock warrants a much better valuation. The Belgian Pharma company UCB (+6%), with a specialization in autoimmune diseases, outperformed after its results beat expectations both on sales and net profit. The Pharmaceutical sector continues to deliver good performance during the last four weeks (Roche +4%, Sanofi +3%) as results are being announced better than expected and pessimism in the previous months had driven the stocks to attractive valuations. On the negative side, shares of automobile component maker Valeo (-8%) fell after it announced smaller growth than expected (+5% vs +7%) and a loss of market share in Q2 in some markets, with the biggest hit in China. The company hopes to recover in Q3, while its shares are trading on attractive valuation on the 2019 expected numbers. We remain invested.

Government bonds broke out of their recent range, to the upside as the tariff situation seems to be contained for the moment, economies continue to show strength and Central Banks have maintained their rhetoric for normalization of interest rates in the coming 1-2 years. Still, however the US 10 year Treasury did not break the 3% threshold and finished the week at 2.95%, and the German 10 year Bund yield closed at 0.40%, up from 0.30% two weeks ago.

Gold continued to lose investor interest, as equity markets have improved, the USD is holding its gains and interest rates moved higher. It closed the week at 1'220. The support levels for the metal are at 1'200-1'210\$.

The EUR has remained in its well defined range of 1.1500 – 1.1800, with no catalysts ahead for a move out of this zone for now. The JPY moved higher again, as the Central Bank is passing messages that it will be the next Central Bank to start normalizing its monetary policy, with Japanese government yields shooting up to 0.10% from 0.02%, which in absolute terms might seem an insignificant move, but it still is a fivefold jump in a matter of days. The market will watch closely the Bank of Japan meeting tomorrow.

| | Level | YTD % | Weekly% | 52 week high | 52 week low |
|------------------|---------|-------|---------|--------------|-------------|
| DOW JONES | 25451.1 | 3.0 | 1.6 | 26616.7 | 21600.3 |
| S&P 500 | 2818.8 | 5.4 | 0.6 | 2872.9 | 2417.4 |
| NASDAQ | 7737.4 | 12.1 | -1.1 | 7933.3 | 6177.2 |
| RUSSELL 2000 | 1663.3 | 8.3 | -2.0 | 1708.6 | 1349.4 |
| XETRA DAX | 12860.4 | -0.4 | 2.4 | 13596.9 | 11726.6 |
| CAC 40 | 5511.8 | 3.7 | 2.1 | 5657.4 | 4995.1 |
| EUROSTOXX50 | 3527.2 | 0.7 | 1.9 | 3708.8 | 3261.9 |
| SMI SWISS | 9173.2 | -2.2 | 2.0 | 9616.4 | 8372.9 |
| FTSE 100 | 7701.3 | 0.2 | 0.3 | 7903.5 | 6866.9 |
| FTSE MIB ITALY | 21955.1 | 0.5 | 0.7 | 24544.3 | 21122.5 |
| ATHENS | 751.4 | -6.3 | -0.4 | 895.6 | 700.1 |
| TOPIX JAPAN | 1770.9 | -2.3 | 1.8 | 1911.3 | 1578.7 |
| SSE CHINA | 2881.1 | -13.1 | 1.6 | 3587.0 | 2691.0 |
| HANG SENG | 28687.8 | -3.7 | 2.1 | 33484.1 | 26863.7 |
| EMERGING MARKETS | 1092.4 | -5.7 | 2.1 | 1273.1 | 1042.8 |
| WORLD INDEX | 2156.1 | 2.5 | 0.8 | 2249.7 | 1925.2 |

| Certificates | Price | Weekly % | YTD |
|------------------------|-------|----------|------|
| KENDRA HIGH CONVICTION | 102.5 | +2.1 | +1.8 |
| KENDRA HIGH INCOME | 97.8 | +1.2 | +0.8 |

| Currencies | Price |
|------------|--------|
| EURUSD | 1.1650 |
| EURCHF | 1.1600 |
| GBPUSD | 1.3100 |
| EURJPY | 129.50 |
| USDJPY | 111.10 |

| Commodities | Price |
|-----------------|-------|
| Gold USD | 1220 |
| Gold EUR | 1047 |
| Silver USD | 15.40 |
| Oil (Crude USD) | 68.9 |
| Oil (Brent USD) | 74.3 |



High Conviction Portfolio

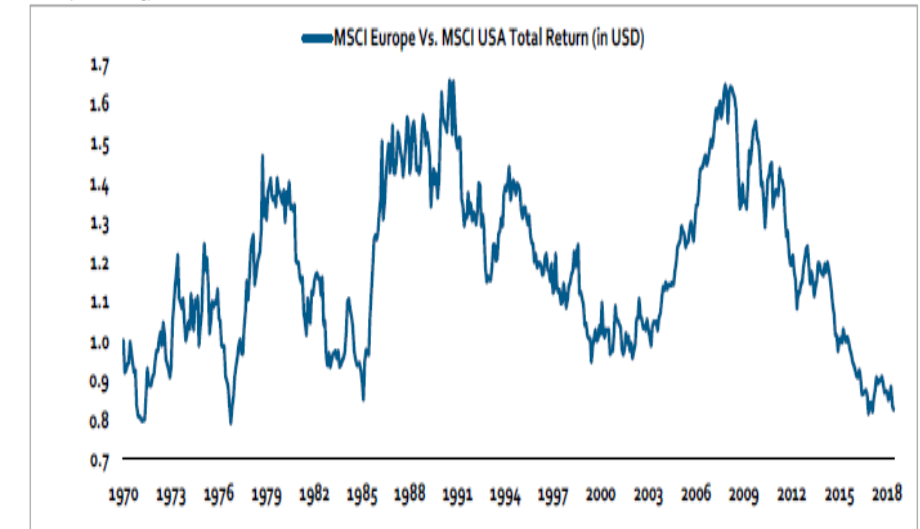
Chart of the Week

| | YTD % | WEEKLY % | DIV YIELD | CURRENCY | SECTOR |
|---------------------|-------|----------|-----------|----------|------------------------|
| Siemens | 4.0 | 3.4 | 3.1 | EUR | Industrials |
| Carrefour SA | -13.7 | 15.3 | 4.0 | EUR | Consumer Staples |
| Roche Holding AG | -1.2 | 4.1 | 3.4 | CHF | Health Care |
| IBM | -5.4 | -0.8 | 4.3 | USD | Information Technology |
| Lloyds | -8.0 | 0.0 | 4.9 | GBP | Financials |
| AB Inbev | -6.3 | -2.5 | 4.1 | EUR | Consumer Staples |
| Sanofi | 3.8 | 3.1 | 4.1 | EUR | Health Care |
| Deutsche Telekom | -4.4 | 2.9 | 4.6 | EUR | Telecom Services |
| Societe Generale | -13.5 | 3.4 | 5.9 | EUR | Financials |
| Vodafone | -23.4 | 1.3 | 7.4 | GBP | Telecom Services |
| BNP Paribas | -12.0 | 6.0 | 5.5 | EUR | Financials |
| Danone | -3.4 | 1.9 | 2.8 | EUR | Consumer Staples |
| Imperial Brands | -10.3 | -2.6 | 6.2 | GBP | Consumer Staples |
| Telefonica | -5.6 | 3.5 | 5.2 | EUR | Telecom Services |
| Barclays | -6.0 | 2.2 | 1.6 | GBP | Financials |
| UCB.SA | 12.0 | 5.0 | 1.6 | EUR | Health Care |
| Vonovia | 2.1 | 3.0 | 3.1 | EUR | Real Estate |
| Travis Perkins | -14.6 | -2.3 | 3.5 | GBP | Industrials |
| Vivendi | -6.1 | 0.5 | 2.1 | EUR | Consumer Discretionary |
| Wacker Chemie | -25.4 | 3.6 | 3.7 | EUR | Materials |
| SUEZ | -17.9 | 3.9 | 5.4 | EUR | Utilities |
| Arkema | 4.9 | 2.9 | 2.2 | EUR | Materials |
| Altran Technologies | -34.2 | -4.6 | 2.9 | EUR | Information Technology |
| Valeo | -30.2 | -8.7 | 2.8 | EUR | Consumer Discretionary |
| Straumann | 14.5 | 4.3 | 0.6 | CHF | Health Care |
| Biogen | 6.9 | -5.1 | 0.0 | USD | Health Care |
| Dufry | -8.1 | 3.2 | 2.9 | CHF | Consumer Discretionary |
| Eurofins Scientific | -7.2 | 0.6 | 0.5 | EUR | Health Care |
| Adient | -38.3 | 4.6 | 2.3 | USD | Consumer Discretionary |

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

The underperformance of Europe vs the US indices has reached levels last seen in the 1980's and then previously in the 1970's. With the danger of sounding like a broken record, we mention again that this cannot be maintained for long, as history has also shown. The recovery of Europe on relative terms vs the US has always been significant after such levels. As European Indices have a small weight in Technology, contrary to the US where for example Technology is over 25% of the S&P500 Index, it will take a period of Technology underperformance for Europe to stage such a sustainable comeback. If the last two weeks is any indication of investors becoming more cautious on Technology's very stretched valuations then we would see Europe's outperformance in the coming quarters.

Monthly as of June 29, 2018



Source: FactSet, Morgan Stanley Wealth Management GIC



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