

Kendra Securities House
Weekly Trading Information - 19.6.2017

Global equities continued their slide, with the notable exceptions of Dow Jones which eked out a small gain for a new record high, and the Swiss SMI which was boosted by the moves of a single stock (Nestle) with a heavy weight on the index. With the EUR failing to weaken significantly from its recent highs, Europe is starting to underperform the US as the markets are probably becoming worried about the effect this will have on the Q2 results which will start to be announced in a few weeks from now. The FED raised, as expected, interest rates to 1.00-1.25% and repeated its intention of raising one more time this year, which however the market believes it will not happen before December, if it happens at all. The falling inflation numbers as well as the slowing macroeconomic data seem not to worry the FED for now, which they still find to be temporary. On the contrary, inflation has been going up in the U.K. partially because of the fall in GBP, which has made members of the board of the Bank of England starting to feel uneasy with the current very low interest rates. As a reminder, the BoE slashed rates close to zero, right after the Brexit decision last year and has vowed to keep rates low. However, on Thursday the decision to leave the rates unchanged was made, for the first time, with a 5-3 majority, meaning that 3 members voted for an interest rate increase and making the case for a much weaker GBP even more difficult to follow.

It was a week focused primarily on Mergers & Acquisitions, with Amazon rattling the markets on Friday as it announced its offer to buy the US specialty grocery chain Whole Foods causing a global selloff in shares of other grocers (Carrefour -4%, Sainsbury -5%). The magnitude and the scale of the selloff in a single day and across the globe, with the excuse that Amazon will disrupt the industry with price competition, has left some good quality companies with very good valuations and presenting potential buying opportunities. Carrefour, for example, just changed its CEO, bringing in the 44 year old previous CEO of Fnac who helped turned around the French retailer in a move that shows that it is looking for fresh ideas and strategies. On the positive side, Nestle (+3%) announced its intention to sell its US confectionary business in a strategic move to further focus their portfolio on healthier products. Energy stocks continued to be resilient (Shell +1%), as Oil slipped further (crude below 45\$), a sign that a rotation into the sector is underway and should benefit if oil prices recover from their recent lows.

Government Bonds were almost unchanged despite the FED raising rates and repeating their intention to raise one more time this year. It is impressive that the 10 year US Treasury yield moved only 2 bps on the announcements and actually fell back to 2.17% to close the week unchanged. The German 10 year Bund was also unchanged at 0.27%.

Gold had another negative week, closing at 1253\$ and fast approaching its support levels around 1240\$.

The USD found some support after the FED's decision but its rally against the EUR stalled at around 1.1140. Buying European equities with unhedged currency exposure, has been the favorable theme for global investors in recent months, driving the EURUSD higher. The short term positioning on the EURUSD by speculators is at such high levels, that a short term correction to much lower levels cannot be ruled out. The same holds for Eurozone equities which is another crowded trade, where their outperformance vs their US counterparts has reached potentially unsustainable levels (chart of the week)

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	21384.3	8.2	0.5	17063.1	21392.0
S&P500	2433.2	8.6	0.0	1991.7	2446.2
Nasdaq Composite	6151.8	14.3	-0.9	4574.3	6341.7
Russell 2000	1406.7	3.7	-1.1	1085.9	1433.8
Germany DAX30	12752.7	11.1	-0.5	9214.1	12921.2
France CAC40	5263.3	8.2	-0.7	3956.0	5442.1
Eurostoxx50	3543.9	7.7	-1.2	2678.3	3666.8
Swiss SMI	8963.3	9.0	1.3	7475.5	9137.0
UK FTSE 100	7463.5	4.5	-0.8	5788.7	7599.0
Italy FTSEMIB	20940.7	8.9	-0.9	15017.4	21828.8
Greek ASE	806.1	25.2	3.1	517.1	814.6
Japan Topix	1596.0	5.6	0.5	1192.8	1613.2
China SSE Composite	3123.2	1.3	0.7	2807.6	3301.2
Hong Kong Hang Seng	25626.5	17.5	-1.6	19662.7	26090.3
MSCI Emerging Markets	1003.1	16.3	-1.5	794.6	1019.1
MSCI World	1923.2	9.8	0.0	1566.7	1936.4

High Conviction Portfolio

	Price	%YTD	% WTD	52 wk high	52 wk low
Roche	254.20	9.3	2.6	273.00	218.30
Novartis	78.10	5.4	-0.9	82.80	67.40
Abbvie	71.05	13.5	2.0	71.12	55.10
Generali	14.59	3.3	3.7	16.00	9.76
American Express	81.45	9.9	1.4	82.00	57.16
Geberit	459.50	12.6	2.0	462.30	350.50
Sainsbury	252.30	1.2	-4.8	283.60	211.50
Fluor	45.04	-14.2	-2.8	58.37	44.02
Disney	105.51	1.2	-0.1	116.09	90.32
Capgemini	92.00	14.8	-1.0	97.33	71.10
Kudelski	16.65	-5.7	-1.2	21.60	15.50
BAE Systems	673.00	13.8	-0.6	678.50	464.80
Barclays	203.25	-9.0	-1.6	244.40	121.10
Ladbrokes	116.40	0.3	0.5	164.80	105.60
Lloyds	68.54	10.5	-2.1	73.58	46.74
Imperial Brands	3550.00	0.2	-0.4	4154.00	3324.00
Cisco	31.63	4.7	0.8	34.60	27.13
IBM	155.38	-6.4	0.8	182.79	142.50
ADO PropertieSS	38.39	19.9	0.2	40.19	29.45
Daimler	65.20	-7.8	-0.4	73.23	50.83
Fnac	66.59	3.7	-1.1	70.80	46.04
Starbucks	60.14	8.3	-3.3	64.87	50.84
Dufry	161.40	27.1	-0.6	172.60	105.10
Carrefour	22.55	-1.5	-2.6	24.84	20.08
Pepsico	116.86	11.7	0.8	118.12	98.50
International Paper	56.51	6.5	3.0	58.86	39.24
Adient	61.87	5.6	-8.2	76.09	39.67
Royal Dutch Shell	24.16	-7.0	0.8	26.87	20.81
Suez	16.55	18.1	0.9	16.92	12.73
ACS	36.26	20.8	0.8	36.54	21.70
Newmont Mining	32.84	-3.6	-4.3	46.07	30.19
Rio Tinto	3044.00	-3.6	-6.8	3718.50	1932.00
Nestle	83.45	14.2	3.1	83.65	67.00
ENI	13.85	-10.5	-0.4	15.92	12.18

Chart of the Week

A very interesting chart by Morgan Stanley, which shows that the outperformance of the European Equities is almost at 3 standard deviations vs their average and at similar levels right before the 2008 crisis. If history is any guide, such outperformance in the last 10 years has not been sustained and the US equities performed better in the following period (i.e. falling less or moving up at a higher rate). The catalyst for this change could be Q2 earnings coming up in July, where one could start seeing the effects of the strong EUR.

