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Weekly Report 4.12.2017

Weekly Trading Information – Markets update

A mixed picture for equity markets last week, as the US indices rallied higher, with the exception of Nasdaq, and Europe facing again selling pressure, to finish lower. It was all about politics, as the Tax Bill in the US continues to draw attention, while in Europe the Brexit negotiations together with the German government deadlock are on investors minds a few days before the holidays. However, the Tax Bill was finally passed by the Senate over the weekend, albeit with a narrow margin, which should help European equities at least for the start of the week. The UK. – E.U. negotiations are entering a delicate phase this week, as top officials are meeting, including a lunch between Theresa May and Juncker today. As for macro data, the second reading of the US 2^{nd} quarter GDP was announced at 3.3%, higher than the 3.0% expected, while inflation in Europe seems to be stuck at 1.5%. This is markedly below the 2% limit of the ECB, giving rise to speculation that the ECB will be very patient in raising rates even after the end of its QE program.

Technology stocks were under selling pressure for most of the week (with the notable exception of IBM +2% and Cisco +3%), as there seems to be a rotation towards sectors that have been left behind as well towards those which will benefit most from a lowering of the corporate tax rate (Telecoms, Financials). Shell (+2.5%) announced that it will end the "scrip dividend", ie it will start paying its dividend only in cash as of 1^{st} quarter 2018, a clear confidence measure that the worst for the company's cash flow and the oil market is probably behind it. Carrefour (+7%) confirmed its discussions with FNAC for partnering on e-commerce, while they have also confirmed their discussions with Amazon, making investors speculating on a possible takeover (Sainsbury +3%, also attracted investors interest after Carrefour's news). Disney (+2%) announced an 8% increase in dividends, making the fifth straight year of steady dividend growth.

Government bonds were mixed. The US Treasury 10 yield closed higher at 2.40%, as equities were strong, while the 10year German Bund closed lower at 0.35%, as European markets struggled.

Gold failed to break above 1300$ and faced significant selling pressure towards the end of the week, to finish below all its support levels, at 1275$.

The EUR moved lower after the strong US GDP data and after the market saw significant progress at the US Senate, with respect to the Tax legislation. Given the FED meeting next week and the failure to break above 1.20, it should trade in a range of 1,.17-1.19 in the coming days before the holidays.

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	24231.6	22.6	2.9	19141.2	24327.8
S&P500	2642.2	18.0	1.5	2188.4	2657.7
Nasdaq Composite	6847.6	27.2	-0.6	5239.3	6914.2
Russell 2000	1537.0	13.3	1.2	1311.5	1551.7
Germany DAX30	12861.5	12.0	-1.5	10402.6	13525.6
France CAC40	5316.9	9.3	-1.4	4490.2	5536.4
Eurostoxx50	3527.6	7.2	-1.5	2984.5	3708.8
Swiss SMI	9274.6	12.8	-0.5	7695.6	9370.0
UK FTSE 100	7300.5	2.2	-1.5	6678.7	7599.0
Italy FTSEMIB	22106.1	14.9	-1.4	16723.2	23133.4
Greek ASE	748.7	16.3	3.5	602.4	859.8
Japan Topix	1796.5	17.8	-0.4	1452.2	1844.1
China SSE Composite	3317.6	7.0	0.1	3016.5	3450.5
Hong Kong Hang Seng	29074.2	33.0	-2.7	21488.8	30199.7
MSCI Emerging Markets	1115.9	29.4	-3.3	841.6	1156.7
MSCI World	2069.4	18.2	0.5	1704.7	2079.4

High Conviction Portfolio

	Price	%YTD	% WTD	% from high	52 wk high	52 wk low
Roche	248.10	6.7	0.6	-9%	273.00	218.30
Novartis	83.80	13.1	0.5	-2%	85.40	67.80
Sanofi	74.82	-2.7	-3.4	-20%	92.97	73.39
Societe General	41.96	-10.2	-3.6	-20%	52.26	39.50
BNP Paribas	62.85	3.8	-1.2	-9%	69.17	53.78
Barclays	189.40	-15.2	0.0	-23%	244.40	177.30
Lloyds	64.75	4.4	-2.0	-12%	73.58	56.50
ACS	31.98	6.5	-3.2	-13%	36.75	27.69
Soitec	60.41	105.5	-10.8	-15%	71.49	20.80
Logitech	33.20	30.7	-4.5	-15%	39.00	23.85
Cisco	37.60	24.4	3.0	-1%	38.03	29.12
IBM	154.76	-6.8	1.9	-15%	182.79	139.13
Sainsbury	233.00	-6.5	2.5	-18%	283.60	222.40
Imperial Brands	3072.00	-13.3	-1.9	-22%	3956.50	3015.50
Danone	69.79	15.9	-1.4	-3%	72.00	57.99
Unilever	47.77	22.1	-1.4	-9%	52.31	36.48
Carrefour	17.85	-22.0	6.5	-26%	24.08	16.31
Nestle	83.75	14.6	-1.7	-3%	86.40	67.00
Adient	78.40	33.8	0.7	-9%	86.42	51.74
Disney	105.25	1.0	2.5	-9%	116.09	96.20
Starbucks	57.32	3.2	0.9	-12%	64.87	52.58
Newell Brands	31.51	-29.4	11.1	-43%	55.07	27.46
Dufry	140.70	10.8	-2.2	-18%	172.60	122.90
Royal Dutch Shell	26.86	3.3	2.5	-5%	28.25	22.73
ENI	13.82	-10.7	0.0	-13%	15.92	12.94
Deutsche Telecom	14.98	-8.4	1.1	-17%	18.15	14.47
Telefonica	8.56	-1.0	0.3	-18%	10.42	7.46
Vodafone	224.00	12.1	-0.7	-4%	233.90	186.50
AT&T	36.50	-14.2	4.9	-15%	43.03	32.55

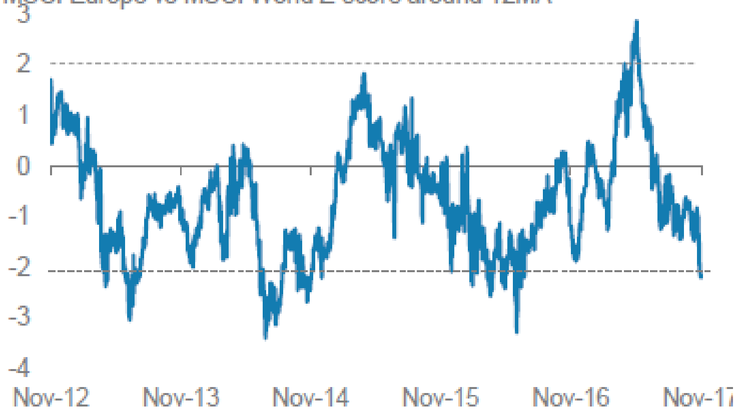
Chart of the Week

European equity markets' performance is disappointing once again after an initial rally at the start of the year. Given its recent fall against the rise in the US, Europe looks significantly oversold according to the below metric, produced by Morgan Stanley. Current levels of oversold situation has been associated in the last 5 years with a period of outperformance in the following 12 months as shown below. Hence, we would add to European exposure at current levels.

Exhibit 27:

Europe now looks tactically oversold post the latest leg of underper-formance

MSCI Europe vs MSCI World Z-score around 12MA



Source: MSCI, Morgan Stanley Research

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