

Equity markets finished the month of September on a strong note, with Europe outperforming once again and the US indices posting a new record high. The rebound of the European equities in September brought most of the indices within 1-3% of their recent highs in May. European markets received an extra boost as the EUR stopped appreciating and fell 3% against the USD, while Europe remains the region with the highest expectations for corporate profits growth (see chart of the week). As the final quarter of the year begins today, the markets will face primarily the much awaited Central Banks' actions, with the ECB stealing the spotlight as it is expected to finally announce its slowing down and unwinding of its bond purchasing program (QE). Last week, Fed Chair Yellen mentioned in a speech that interest rates will most probably rise in the coming meetings, making December now almost a done deal. At the same time, Bank of England's Carney spoke along the same lines, effectively confirming the market's new view that they will raise rates by the end of the year. Hence, we are up for a busy quarter with a synchronous normalization process by the world's most important central banks, an event that has not taken place in almost a decade. This could raise volatility before the end of the year. In the US, there is increasing chatter about the Tax reform legislation again, in an effort by the Trump administration to deliver at least on one of the those breakthrough laws promised during the campaign, before the end of the year. The Healthcare reform and Obamacare repeal seems to be well off the table for the foreseeable future as Republicans have failed yet again to reach a compromise.

As equities moved higher last week and in anticipation of the Q3 company results which start in two weeks, shares of Oil stocks continued their rally (Shell +3%, ENI +2%) followed by Financials (Generali 1%, Barclays 1%, Lloyds 1%). The pharmaceutical sector was negative for the week (Roche -1%, Sanofi -0.1%) as the healthcare law in the US failed to pass yet again the stage of negotiations among the different parties within the Republican party. The clear exception in the sector were the shares of Abbvie (+3%) which has been attracting investor interest in the last weeks, after it received positive results on key drugs and won settlements against other pharmaceutical companies on patent issues. Shares of retailer companies outperformed after a long time of negative performance (Carrefour +3%, Sainsbury +2%), as rumors circulated about a possible buy-out offer by Amazon. The fact that Alibaba is buying a 10% stake in one of China's large retailers fuelled further the rumors.

Government Bonds fell further at the start of the week, as the markets are starting to reprice the probabilities of interest rate increases again. As a reminder, just three weeks ago the market-assigned probability of a December interest rate hike by the FED was as low as 10%, and now stands at more than 80%. The markets recovered towards the end of the week, so that both the US 10 year Treasury yield and the 10 year German Bund yield finished almost unchanged at 2.30% and 0.45% respectively.

The markets' "awakening" for the upcoming rise in interest rates has been negative for Gold recently, but for the moment it has managed to find support in the 1280-1290\$ area. On a monthly basis, the close at 1280\$ for the month of September has confirmed the uptrend defined by the recent long term break of the bear market since 2011 and it will take a monthly close below 1250\$ to negate this.

The EUR is stuck within a range of 1.17-1.19, as expected, after its 6 month impressive rally. The market is awaiting the ECB's meeting in a few weeks to gain more information of the central bank's intentions. Only a clear break of the 1.1700 area could make the common currency reach the previous important resistance area of 1.13-1.15. The Spanish/Catalan situation, however horrific it appears, does not seem to weigh too much on the EUR for now.

Global Equity Indices

| | Level | %YTD | % WTD | 52 wk low | 52 wk high |
|-----------------------|---------|------|-------|-----------|------------|
| Dow Jones Industrials | 22405.1 | 13.4 | 0.2 | 17883.6 | 22419.5 |
| S&P500 | 2519.4 | 12.5 | 0.6 | 2083.8 | 2519.4 |
| Nasdaq Composite | 6496.0 | 20.7 | 1.1 | 5034.4 | 6498.0 |
| Russell 2000 | 1490.9 | 9.9 | 2.8 | 1156.1 | 1493.6 |
| Germany DAX30 | 12828.9 | 11.7 | 1.9 | 10174.9 | 12951.5 |
| France CAC40 | 5329.8 | 9.6 | 0.9 | 4342.6 | 5442.1 |
| Eurostoxx50 | 3594.9 | 9.2 | 1.5 | 2922.8 | 3666.8 |
| Swiss SMI | 9157.5 | 11.3 | 0.1 | 7585.6 | 9198.5 |
| UK FTSE 100 | 7372.8 | 3.2 | 0.8 | 6676.6 | 7599.0 |
| Italy FTSEMIB | 22696.3 | 17.9 | 0.6 | 15922.4 | 22696.3 |
| Greek ASE | 755.6 | 17.4 | -2.4 | 560.3 | 859.8 |
| Japan Topix | 1674.8 | 10.1 | -0.2 | 1287.4 | 1679.8 |
| China SSE Composite | 3348.9 | 7.9 | -0.1 | 2993.1 | 3391.6 |
| Hong Kong Hang Seng | 27554.3 | 25.2 | -1.2 | 21488.8 | 28248.1 |
| MSCI Emerging Markets | 1081.7 | 25.4 | -1.9 | 839.0 | 1112.9 |
| MSCI World | 2000.6 | 14.2 | 0.3 | 1657.1 | 2000.6 |

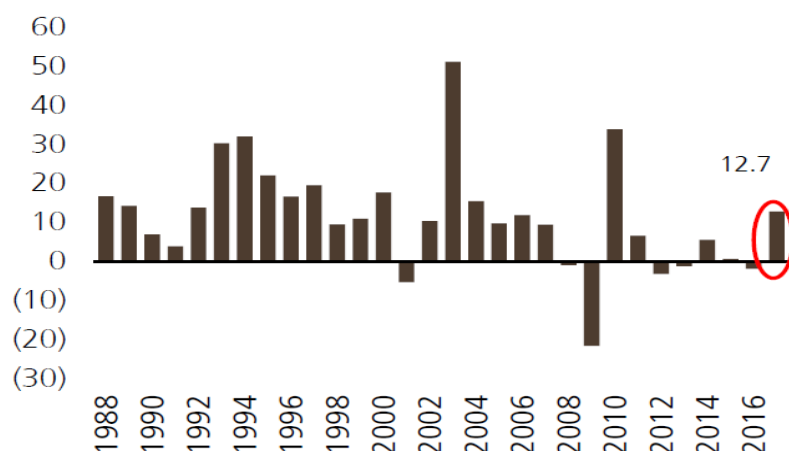
High Conviction Portfolio

| | Price | %YTD | % WTD | % from high | 52 wk high | 52 wk low |
|-------------------|---------|-------|-------|-------------|------------|-----------|
| Roche | 247.20 | 6.3 | -0.3 | -9% | 273.00 | 218.30 |
| Novartis | 82.90 | 11.9 | -0.7 | -2% | 84.35 | 67.40 |
| Sanofi | 84.01 | 9.2 | -0.1 | -10% | 92.97 | 66.72 |
| Abbvie | 88.86 | 41.9 | 1.6 | -2% | 90.95 | 55.10 |
| Generali | 15.76 | 11.6 | 1.3 | -2% | 16.08 | 10.50 |
| Barclays | 193.35 | -13.5 | 0.9 | -21% | 244.40 | 155.95 |
| Lloyds | 67.73 | 9.2 | 1.2 | -8% | 73.58 | 50.45 |
| Fluor | 42.10 | -19.8 | 2.9 | -28% | 58.37 | 37.04 |
| Vinci | 80.40 | 24.3 | 0.3 | -1% | 80.88 | 49.93 |
| ACS | 31.36 | 4.4 | 0.2 | -15% | 36.75 | 25.94 |
| Kudelski | 12.10 | -31.4 | 6.1 | -37% | 19.30 | 11.10 |
| Cisco | 33.63 | 11.3 | 0.8 | -3% | 34.60 | 29.12 |
| IBM | 145.08 | -12.7 | -0.1 | -21% | 182.79 | 139.13 |
| Soitec | 55.49 | 88.7 | -1.8 | -7% | 59.90 | 16.00 |
| Sainsbury | 237.90 | -4.6 | 2.0 | -16% | 283.60 | 224.10 |
| Imperial Brands | 3184.00 | -10.1 | -1.3 | -23% | 4128.50 | 3112.50 |
| Danone | 66.37 | 10.2 | -0.5 | -5% | 69.52 | 57.66 |
| Unilever | 50.04 | 27.9 | 1.9 | -2% | 51.31 | 36.22 |
| Carrefour | 17.10 | -25.3 | 3.3 | -31% | 24.84 | 16.31 |
| Pepsico | 111.43 | 6.5 | -0.4 | -7% | 119.39 | 98.50 |
| Nestle | 81.10 | 11.0 | 0.7 | -6% | 86.00 | 67.00 |
| Daimler | 67.47 | -4.6 | 1.3 | -8% | 73.23 | 59.01 |
| Adient | 83.99 | 43.3 | 1.3 | -3% | 86.42 | 39.67 |
| Disney | 98.57 | -5.4 | 0.0 | -15% | 116.09 | 90.32 |
| Fnac | 81.43 | 26.8 | -1.1 | -2% | 83.04 | 55.00 |
| Starbucks | 53.71 | -3.3 | -2.5 | -17% | 64.87 | 50.84 |
| Newell Brands | 42.67 | -4.4 | 3.1 | -23% | 55.07 | 40.89 |
| Dufry | 153.80 | 21.1 | -1.7 | -11% | 172.60 | 117.00 |
| Royal Dutch Shell | 25.57 | -1.6 | 3.0 | -5% | 26.87 | 21.89 |
| ENI | 14.00 | -9.5 | 1.6 | -12% | 15.92 | 12.26 |
| Vodafone | 208.80 | 4.5 | 0.3 | -11% | 233.90 | 186.50 |
| AT&T | 39.17 | -7.9 | 1.5 | -9% | 43.03 | 35.10 |

Chart of the Week

As we are approaching the start of the Q3 corporate results announcements, it is good to remember that European profits are expected to grow this year by the most in almost a decade (+12.7%). The picture during the first six months of the year was equally positive helping the market to maintain these high expectations. However, the EUR appreciated by almost 10% during the 2nd and 3rd quarter and expectations came down only very modestly to reflect this. It would be interesting to see if real announcements match these high expectations, especially now that the indices are almost back to their previous highs.

Figure 7: European Consensus Earnings Growth – Expectations at this point of the calendar year



Source: UBS European Equity strategy, Thomson Datastream