Kendra Securities House

Weekly Trading Information - 16.10.2017

It was a week of consolidation for equity markets after their recent rally, with the US indices posting new record highs but with small weekly gains. Politics were the name of the game during this week, with events in Spain and the divorce discussions between the UK and the EU attracting the spotlight. It remains to be seen whether Catalonia will finally declare independence or not, but judging from the market reaction and Rajoy's ultimatum this referendum will go down in history as a "non event". On the contrary, the ongoing struggle of Prime Minister May to please all her party members and the seemingly hard stance of the EU negotiatiors continue to rattle the GBP, which then feeds into the UK equity markets adding volatility. On Wednesday, the markets paid close attention to the minutes of the FED meeting three weeks ago, where it was shown that a December interest rate hike is far from being a done deal, as there is still great divide among members. The discussion focused primarily around the inflation numbers and how these have stayed so low despite the record low unemployment and the solid growth of the economy. Still, the market has not altered its view significantly after the publication of the minutes, and the December interest rate hike has still a, market implied, high probability of 70%, (down from almost 90%). The September US inflation numbers, which were announced on Friday (2.2% vs 2.3% expected) added some fuel to the speculation that the FED might not raise interest rates in December, but the price action was not meaningful with the exception of Gold which rallied.

The Q3 earnings season has officially started in the US and it will be in full speed in the coming three weeks. Banks were the first to report, which on average showed decent earnings growth, but nothing spectacular and hence for most of them the prices corrected after the announcements. AT&T (-7%) announced a profit warning for Q3, after the hurricanes which hit Texas and Florida damaged signficant part of its infrastructure which will influence the capital expenditure numbers of the current financial year. The good news were that its operating margins improved significantly and the company maintained its guidance for this and next year, but the market reacted negatively nonetheless. With a dividend of 5% and free cash flow to support it, we remain invested. Unilever (+2%) gained ground last week as the company announced a buy-back offer for its preferred shares, worth almost 0.5bn EUR, a move that appears to be a significant step towards a leaner capital structure and of course it becomes more attractive for bids (hostile or not). Hence there is increased speculation again that the company will become a target of a buyout offer.

Government Bonds gained some of the lost ground, as the FED minutes and the lower than expected inflation numbers out of the US recalibrated lower the probability of a December interest rate increase. The 10 year US Treasury yield was down at 2.29% from 2.36% and the 10 year German Bund yield was down to 0.40% from 0.45%.

Gold managed to find support at the significant 1260$ level and rallied to close above 1300$ again, especially after the market is rethinking its views about the path of interest rates in the US.

The EUR rallied back over 1.1800 after the Spanish situation looked to be under control and after the FED minutes painted a less hawkish picture than feared, but failed to break above its short term resistance at 1.1870-1.1900. It looks as it is stuck for now in a range of 1.1700-1.1900 until the market gains some clarity about the ECB's intentions next week.

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	22871.7	15.7	0.4	17883.6	22905.3
S&P500	2553.2	14.1	0.2	2083.8	2557.7
Nasdaq Composite	6605.8	22.7	0.2	5034.4	6616.6
Russell 2000	1502.7	10.7	-0.5	1156.1	1514.9
Germany DAX30	12991.9	13.2	0.3	10174.9	13036.7
France CAC40	5351.7	10.1	-0.2	4344.9	5442.1
Eurostoxx50	3604.6	9.5	0.0	2938.0	3666.8
Swiss SMI	9311.7	13.2	0.6	7585.6	9313.0
UK FTSE 100	7535.4	5.7	0.4	6676.6	7599.0
Italy FTSEMIB	22413.5	16.6	0.1	16039.6	22860.1
Greek ASE	761.4	18.3	2.1	572.4	859.8
Japan Topix	1708.6	12.5	1.3	1287.4	1713.7
China SSE Composite	3390.5	9.2	1.2	3016.5	3410.2
Hong Kong Hang Seng	28476.4	29.4	0.1	21488.8	28626.4
MSCI Emerging Markets	1125.9	30.6	2.1	839.0	1125.9
MSCI World	2028.0	15.8	0.7	1657.1	2031.1

High Conviction Portfolio

	Price	%YTD	% WTD	% from high	52 wk high	52 wk low
Roche	244.70	5.2	-1.3	-10%	273.00	218.30
Novartis	83.90	13.2	-0.2	-1%	84.60	67.40
Sanofi	83.60	8.7	-3.1	-10%	92.97	67.22
Abbvie	90.67	44.8	0.2	-2%	92.61	55.10
Generali	15.48	9.6	-0.8	-4%	16.08	11.00
Barclays	191.25	-14.2	0.8	-22%	244.40	166.65
Lloyds	65.90	6.7	-0.6	-10%	73.58	51.45
Fluor	42.61	-18.9	-0.7	-27%	58.37	37.04
Vinci	80.59	24.6	0.9	-1%	81.29	49.93
ACS	31.10	3.6	1.6	-15%	36.75	25.94
Kudelski	13.35	-24.4	5.1	-31%	19.30	11.10
Cisco	33.47	10.8	-0.8	-3%	34.60	29.12
IBM	147.10	-11.4	0.4	-20%	182.79	139.13
Soitec	55.35	88.3	0.4	-8%	59.90	16.00
Sainsbury	241.70	-3.0	-0.1	-15%	283.60	224.10
Imperial Brands	3144.50	-11.2	0.4	-22%	4007.00	3112.50
Danone	68.89	14.4	0.8	-1%	69.52	57.66
Unilever	51.75	31.1	2.3	-1%	52.04	36.22
Carrefour	17.17	-25.0	0.9	-31%	24.84	16.31
Pepsico	112.62	7.7	2.0	-6%	119.39	98.50
Nestle	84.85	16.2	2.4	-1%	86.00	67.00
Adient	83.78	43.0	-1.1	-3%	86.42	39.67
Disney	97.38	-6.6	-2.7	-16%	116.09	90.56
Fnac	80.34	25.1	-2.2	-4%	83.99	55.00
Starbucks	55.72	0.4	1.0	-14%	64.87	50.84
Newell Brands	43.10	-3.5	-1.8	-22%	55.07	40.89
Dufry	157.40	23.9	1.1	-9%	172.60	117.00
Royal Dutch Shell	25.81	-0.6	0.6	-4%	26.87	22.41
ENI	13.97	-9.7	0.9	-12%	15.92	12.26
Vodafone	215.65	8.2	2.1	-8%	233.90	186.50
AT&T	35.70	-16.1	-7.5	-17%	43.03	35.10

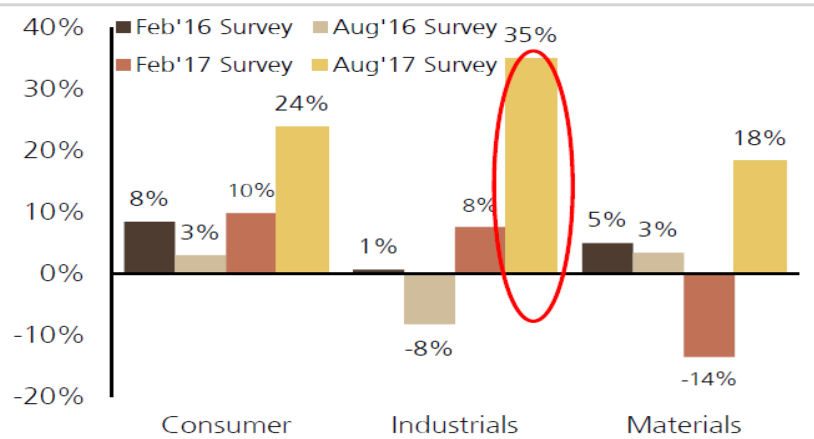
Chart of the Week

In this chart by UBS, one can see in yellow bars the percentage of European companies which expect an increase of their profit margins in the next 12 months. It is noteworthy that there is a big jump in this percentage from the surveys of a few months ago and last year.

Such an improvement of the profit outlook of European companies is welcome, especially given the rising EUR which is feared to have influenced negatively profits in the 3rd quarter.

Of course the recent rally has perhaps discounted most of this optimism and one should wait and see the actual results that will be coming out in the coming weeks.

Figure 13: SECTORS: Net % of firms expecting higher profit margins in next 12m



Source: UBS Evidence Lab