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Weekly Report 27.11.2017



Weekly Trading Information – Markets update

Equity markets rebounded snapping a two week losing streak, with Europe posting this time a better performance than the US. The sentiment in Eurozone equities was boosted by, what it seems, an avoidance of new elections in Germany as the SPD and the Greens, offered potential support to a Merkel minority government. On Thursday, the Eurozone PMI (Purchasing Managers Index) was announced at its highest level in almost 7 years. Although the PMI belongs to the so called «soft» data, as it is primarily sentiment driven as opposed to «hard» data, it has a high correlation with GDP growth and hence it shows a potential uptick in growth in the coming 1-2 quarters. In the U.K. the 2018 Budget which was presented last week showed a great emphasis on revitalizing the real estate market by abolishing the purchase tax for new home owners (up to 300'000GBP), while at the same time the expected GDP growth was downgraded to 1.4% from 1.6%. Analysts commented that the budget looks more like a pre-election budget plan, with emphasis on young people and weaker groups as the government tries to gain traction again with society after the Brexit talks have not produced any real outcome yet. In the USA, the minutes of the FED meeting of three weeks ago did not reveal anything new rather than the fact that the December interest rate increase must be considered a done deal and that inflation and weak wage growth continue to puzzle the FED members. Overall, it was seen as a «dovish» meeting, and hence the USD fell right after.

As we are approaching the holidays, there is a scarcity of earnings announcements and investors are looking primarily in M&A potential activity. Imperial Brands (+3%) became the focus of the market for a potential buyout offer by Japanese Tobacco, which is already a partner of the company, after the latter changed its CEO with a person that is specialized in acquisitions. Roche (+7%) managed to outperform significantly after tests related to its blockbuster oncology drugs provided very positive results. The food manufacturers (Nestle +2%, Danone +3%, Unilever +1%) reacted positively to news that China is going to lower import taxes for specific consumer goods, while they also remain in investors' radars for potential takeover activity.

Government bonds did not move much, with yields remaining in tight ranges. The US Treasury 10 yield closed at 2.35%, while the 10year German Bund closed at 0.37%, close to its lowest level of the last 3 months. The EUR high yield bonds (low rating bonds), whose prices corrected the previous two weeks, look very expensive and yields are at all time lows (see chart of the week).

Gold also traded within a very tight range (1280\$-1290\$) after failing again at the resistance area of 1295-1300\$ and despite the USD's weakness. It would probably take a further sell-off of the USD to trigger the break of 1300\$.

The EUR continued higher, breaking through the 1.1850-1.1880 area and closing above 1.1900 after three months of consolidation. On the downside, the 1.1700-1.1730 area provides significant support again. The improved sentiment in the Eurozone keeps the common currency bid, and it looks like 2018 could be another year for EUR strength, but not with the same magnitude as 2017.

Global Equity Indices					
	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	23558.0	19.2	0.9	19062.2	23617.8
S&P500	2602.4	16.2	0.9	2187.4	2604.2
Nasdaq Composite	6889.2	28.0	1.6	5238.2	6890.0
Russell 2000	1519.2	11.9	1.8	1308.9	1524.2
Germany DAX30	13059.8	13.8	0.5	10402.6	13525.6
France CAC40	5390.5	10.9	1.3	4490.2	5536.4
Eurostoxx50	3581.2	8.8	1.0	2984.5	3708.8
Swiss SMI	9325.6	13.5	1.5	7695.6	9361.4
UK FTSE 100	7409.6	3.7	0.4	6678.7	7599.0
Italy FTSEMIB	22416.3	16.5	1.5	16156.9	23133.4
Greek ASE	723.2	12.4	1.5	600.6	859.8
Japan Topix	1780.6	17.2	1.0	1452.2	1844.1
China SSE Composite	3353.8	8.1	-0.9	3016.5	3450.5
Hong Kong Hang Seng	29866.3	35.8	2.3	21488.8	30199.7
MSCI Emerging Markets	1154.3	33.9	1.6	841.6	1156.7
MSCI World	2059.5	17.6	1.3	1704.7	2060.4



High Conviction Portfolio

	Price	%YTD	% WTD		% from high	52 wk high	52 wk low
Roche	246.50	6.0	7.1		-10%	273.00	218.30
Novartis	83.40	12.6	0.1		-2%	85.40	67.80
Sanofi	77.45	0.7	2.7		-17%	92.97	73.39
Societe General	43.52	-6.9	0.5		-17%	52.26	38.73
Bnp Paribas	63.64	5.1	0.8		-8%	69.17	53.12
Barclays	189.35	-15.3	2.4		-23%	244.40	177.30
Lloyds	66.09	6.5	0.2		-10%	73.58	56.50
Vinci	86.65	33.9	2.1		-1%	87.42	59.76
ACS	33.05	10.1	0.8		-10%	36.75	26.81
Soitec	67.72	130.3	-1.5		-5%	71.49	18.80
Logitech	34.76	36.9	-1.1		-11%	39.00	23.85
Cisco	36.49	20.7	1.6		-1%	36.97	29.12
IBM	151.84	-8.5	1.9		-17%	182.79	139.13
Sainsbury	227.40	-8.8	-0.1		-20%	283.60	222.40
Imperial Brands	3131.50	-11.6	2.7		-21%	3956.50	3015.50
Danone	70.79	17.6	2.7		-2%	72.00	57.99
Unilever	48.47	23.9	1.8		-7%	52.31	36.48
Carrefour	16.76	-26.8	1.2		-30%	24.08	16.31
Nestle	85.20	16.6	0.9		-1%	86.00	67.00
Adient	77.86	32.9	2.2		-10%	86.42	51.74
Disney	102.64	-1.5	-0.8		-12%	116.09	96.20
Starbucks	56.80	2.3	-0.2		-12%	64.87	52.58
Newell Brands	28.37	-36.5	-0.7		-48%	55.07	27.46
Dufry	143.80	13.2	0.2		-17%	172.60	122.90
Royal Dutch Shell	26.20	0.8	-0.1		-7%	28.25	22.73
ENI	13.82	-10.7	0.7		-13%	15.92	12.46
Deutsche Telecom	14.81	-9.5	-1.0		-18%	18.15	14.47
Telefonica	8.54	-1.2	0.1		-18%	10.42	7.46
Vodafone	225.50	12.8	-1.4		-4%	233.90	186.50
AT&T	34.81	-18.2	0.9		-19%	43.03	32.55

Chart of the Week

The ongoing rally in European High Yield Bonds has caused the actual yields to be almost the same as the 10year US Treasury Bonds, which are considered to be the ultimate “risk-free” rate. This is a worrying situation as investors have increased risk and have moved significantly down the rating ladder in order to obtain any yield, as the ECB’s bond buying program has caused the yields of the high quality bonds to be close to 0%. At current yields, direct positions in High Yield bonds especially of very low ratings (B) should better be avoided or remain a small weight of the portfolio.

Euro High Yield Spreads Are on Par With the U.S. 10-Year Treasury Yield



Sources: BofA Merrill Lynch, Board of Governors of the Federal Reserve System, as of 11/8/17.