KENDRA
SECURITIES
HOUSE SA

Weekly Report 29.10.2018

Weekly Trading Information – Markets update

The meltdown in global equities continued unabated last week, with Europe reaching the lowest level in almost three years and the S&P500 touching the, so called, correction levels, i.e. a 10% drop from the peak. The Q3 results from Technology titans , like Amazon, failed to lift the spirits as it is becoming evident that their growth is continuing at a less than expected rate and their operating margins are under pressure, due to overinvestments, fierce competition and a rise in wages. One could describe the current global situation as that of a "reset", meaning that growth expectations are being questioned and valuations are being reconsidered. The situation resembles the early 2016 "growth scare" where markets corrected significantly, in fear of a global recession looming, only to rally substantially in the months to follow. In such an environment, it is normal that selling is almost indiscriminate and even relatively cheap companies are punished harshly on the slightest miss of expectations . Such an environment of fear creates unique opportunities in specific companies which now trade at multi year low valuation metrics.

The 3rd quarter US GDP was announced at 3.5% a touch better than the 3.4% expected, with consumer consumption growing at an even faster rate (+4%). However business spending stalled significantly, a sign that there is a possible slowdown ahead, especially if consumers get scared by the recent equity market drop and postpone purchases. In Europe, the ECB left interest rates and guidance unchanged, as Mr. Draghi expressed the view that there has not been yet any major revision in their growth and inflation estimates, despite the turmoil in markets and rather soft macroeconomic data. He pointed to December as the month for potential revisions, but continued to see interest rates rising after the summer of 2019. With respect to Italy, he struck a very neutral stance, as it should have been expected, mentioning that the ECB's mandate is not to intervene to save any country. The Italian duo of political leaders in the coalition did not hesitate to publicly "scold" Mr. Draghi's stance, just minutes after his press conference. On the positive side and after the downgrading of Italian debt by Moody's, the S&P left its rating unchanged but lowered its outlook to negative from stable, signaling that a downgrade could come soon.

Shares of UK banks were an oasis in the "sea of red" last week (Barclays +3%, Lloyds +1%) as they managed to post better than expected Q3 results and showed solid capital adequacy ratios. They remain in our top holdings. On the negative side , the French auto parts maker, Valeo (-20%) had one of its worst daily drops on Friday, as the company announced its third profit warning this year, due to a collapse in auto sales in China for the months of September and October. However, the worst part was the announcement of a slower growth for 2019-2021 (6% than the original 10%+) and lower margins for the same period. The stock is now trading at Book Value with a dividend yield of 6%. Shares of our recent addition, AT&T (-11%), also got hit after the company announced slightly worse than expected earnings and weakness in its Video streaming business unit, but EBITDA is showing signs of returning to positive growth and the acquisition of Times Warner is already bearing fruit. It is trading at 9 times earnings and with a 6% dividend yield. We remain invested in both stocks with a plan to increase positions at these levels.

Government bonds rallied as the equity turmoil was gathering pace. The 10 year US Treasury yield dropped to 3.08%, below the 3.12% level which was the breakout level on the way up. Technically, a drop below 3% would spark a major rally in Government bonds globally, as the market is at record short speculative positions.

Gold moved higher to touch 1'240 but failed to move higher, as the US GDP numbers were announced better than expected and US stocks staged a rebound on Friday from the day's lows. Technically it looks as if it is poised to move close to 1'300 again rather than below 1'200, with the USD's trajectory being the deciding factor and the record short speculative positioning providing the fuel.

The EUR fell below 1.1500 and touched 1.1350, as European equity markets were spiraling downwards and the ECB basically said that it is ready to "leave Italy on its own fate". It traded back to 1.1400 at the close of the week.

	Level	YTD %	**Weekly %**	52 week high	52 week low
DOW JONES	24688.3	-0.1	**-3.0**	26951.8	23242.8
S&P500	2658.7	-0.6	**-3.9**	2940.9	2532.7
NASDAQ	7167.2	3.8	**-3.8**	8133.3	6625.8
RUSSELL SMALL CAP	1483.8	-3.4	**-3.8**	1742.1	1436.4
EUROPE STOXX50	2876.4	-9.5	**-2.2**	3283.2	2839.3
EUROSTOXX 50	3134.9	-10.5	**-2.4**	3708.8	3090.9
GERMANY DAX	11200.6	-13.3	**-3.1**	13596.9	11051.0
FRANCE CAC40	4967.4	-6.5	**-2.3**	5657.4	4896.8
SWISS SMI	8665.8	-7.6	**-2.3**	9616.4	8372.9
UK FTSE 100	6939.6	-9.7	**-1.6**	7903.5	6851.6
ITALY FTSE 100 MIB	18683.3	-14.5	**-2.1**	24544.3	18411.4
ATHENS GENERAL	633.3	-21.1	**1.4**	895.6	610.5
JAPAN TOPIX	1596.0	-12.2	**-5.7**	1911.3	1581.6
CHINA CSI300	3173.6	-21.3	**1.2**	4403.3	3009.5
HONG KONG	24717.6	-17.4	**-3.3**	33484.1	24589.0
EMERGING MARKETS	939.6	-18.9	**-3.3**	1273.1	939.6
WORLD	1981.9	-5.8	**-3.9**	2249.7	1962.4

Certificates	Price	**Weekly %**	YTD
KENDRA HIGH CONVICTION	90.7	**-3.7%**	-9.5%
KENDRA HIGH INCOME	90.1	**-2.0%**	-7.1%

Currencies	Price
EURUSD	1.1401
EURCHF	1.1370
GBPUSD	1.2830
EURJPY	127.60
USDJPY	111.90

Commodities	Price
Gold USD	1'235
Gold EUR	1'080
Silver USD	14.60
Oil (Crude USD)	67.60
Oil (Brent USD)	77.62

High Conviction Portfolio

	YTD %	**Weekly %**	CURRENCY	SECTOR
Carrefour SA	-7.7	**-2.8**	EUR	Consumer Staples
IBM	-18.7	**-3.3**	USD	Information Technology
Siemens	-13.8	**0.0**	EUR	Industrials
Deutsche Telekom	-4.0	**-3.1**	EUR	Communication Services
Lloyds	-16.5	**1.2**	GBp	Financials
Vodafone	-38.7	**-5.5**	GBp	Communication Services
Sanofi	3.6	**-4.3**	EUR	Health Care
Societe Generale	-24.8	**-6.0**	EUR	Financials
BHP Billition	-0.3	**-1.3**	GBp	Materials
BNP Paribas	-24.7	**-3.8**	EUR	Financials
Barclays	-17.3	**2.8**	GBp	Financials
Valeo	-62.1	**-20.4**	EUR	Consumer Discretionary
Newmont Mining	-20.0	**-6.8**	USD	Materials
Imperial Brands	-14.8	**4.2**	GBp	Consumer Staples
Telefonica	-15.7	**-1.8**	EUR	Communication Services
AB Inbev	-29.2	**-9.9**	EUR	Consumer Staples
Vivendi	-5.2	**-2.8**	EUR	Communication Services
Credit Suisse	-28.2	**-5.1**	CHF	Financials
UBS	-26.7	**-5.1**	CHF	Financials
Arkema	-12.1	**-4.2**	EUR	Materials
Altran Technologies	-36.6	**6.2**	EUR	Information Technology
Travis Perkins	-36.4	**2.8**	GBp	Industrials
UCB.SA	7.7	**-2.2**	EUR	Health Care
Wacker Chemie	-52.2	**-14.5**	EUR	Materials
AT&T	-25.2	**-11.5**	USD	Communication Services
Walt Disney	5.3	**-4.8**	USD	Communication Services
Dufry	-25.9	**1.1**	CHF	Consumer Discretionary
Biogen	-5.8	**-6.3**	USD	Health Care
Eurofins Scientific	-16.8	**2.5**	EUR	Health Care
Straumann	-8.1	**-7.5**	CHF	Health Care
Adient	-62.3	**-1.7**	USD	Consumer Discretionary

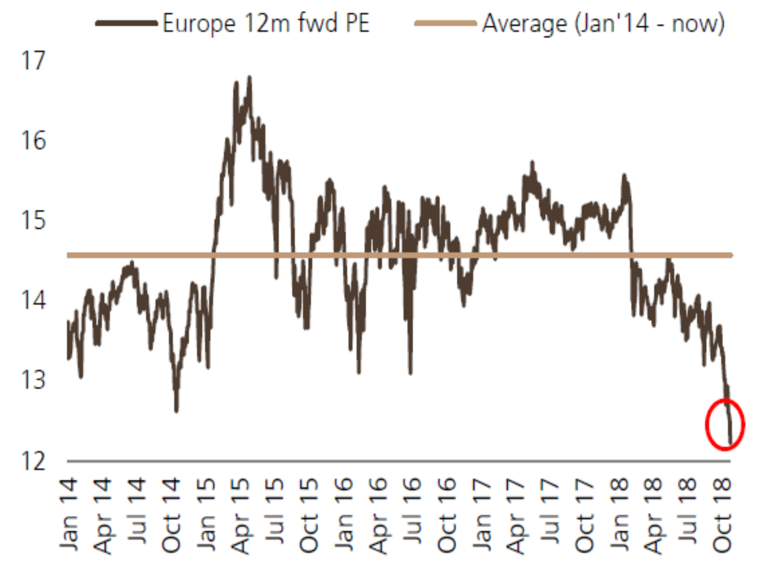
YTD: year to date return,
Weekly %: weekly return

Chart of the Week

The October meltdown has left European equities at a forward Price to Earnings ratio (P/E) of close to 12, which is the lowest in the last 5 years, and it is similar to the P/E of Europe back in the days, as it was coming out of the Eurozone crisis in 2012. Of course this is a forward ratio, incorporating the expectations of analysts for the earnings growth in 2019, which currently stand at around 8%.

Interestingly, expectations have still not come down, at least significantly, meaning that if actual earnings next year are close to the expectations, current levels would have been a tremendous buying opportunity, which happens once every 5 years,

Figure 9: MSCI Europe 12m fwd PE (2014-NOW)



Source: Thomson Datastream. UBS European Equity Strategy

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