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Weekly Report 23.4.2018

Weekly Trading Information – Markets update

Equity markets had a rather stabilizing week, after a period of heightened volatility. Europe seems to be doing a little better than the US at this stage, as the dividend season provides a much welcome bid to the markets and technology, which has a big weight in US indices, is underperforming. As President Trump seems to be going through a sudden period of calmness with China, Russia and N. Korea, markets are focusing again on what happens to the corporate sector and to macroeconomic data. The ECB meeting on Thursday will attract attention, as Eurozone data have disappointed lately and President Draghi expressed his belief that economic activity in the Eurozone seems to have peaked for now. This comes at a time when the market expects the ECB to start lifting interest rates in 2019 and its QE program is heading to its end. The U.K. was in focus last week, as according to sources the E.U. opposes the U.K.'s proposal for the Irish border, while the macroeconomic data continue to paint a rosier image than feared (unemployment at 4.2%, wage increases 2.8%). The most notable movement of the week was the spike of government yields higher, especially in the US, which if it continues might dampen the attempt of equity prices to move higher.

As the week starts with the 10 year US yield at 2.98%, the highest level in almost 5 years, it remains to be seen how interest rate sensitive sectors will react. Interestingly last week, Telecoms, which usually are negatively correlated to rates, did much better than feared (Deutsche Telekom +1%, Vodafone +1.5%, Telefonica +1%), while Food producers lost most of their gains as interest rates started going up and despite their rather upbeat announcements. Danone (+2%) announced 4.9% growth in organic sales, higher than expected and gave guidance for double digit growth in profits for 2018 , while Nestle (-1%) announced a +2.9% organic sales growth. IBM (-7%) was punished for a "noisy" Q1 report, where quite a few one-off items confused investors, while margins were lighter than expected. However it did produce the second consecutive quarter of revenue growth after almost five years and its valuation is not demanding. In the technology sector, our recent addition, Spotify (+6%) and Nokia (+8%) outperformed the market, as investors are increasingly focusing on valuation and fundamentals, steering away from momentum plays.

Bond prices moved significantly lower (yields higher), with no apparent reason other than the market's desire to drive the US yield curve steeper (ie make the difference between the 2 year and 10 year yield larger). A flat yield curve is in danger of inverting, which is thought to be a precursor to a recession. The 10 year US Treasury yield finished at 2.98%, up from 2.85% last week and close to levels last seen in 2013. The 3% level is a psychological level that the markets are carefully watching for possible breakout. The 10 year German Bund yield also jumped higher to 0.60% from 0.50%.

Gold was lower, finishing at 1'335$, as yields rose, the USD rose and equity market sentiment has improved, all three factors being against the metal. As long as 1'300$ holds, Gold could once again test and potentially break out of 1'360$.

The USD has been rallying during the last days, as yields have been rising. The EUR is standing at 1.2270 and with a dovish ECB on Thursday, one would expect it to test again the 1.2150 perhaps, especially if the broad USD rally continues. The USDJPY has broken out of 107.50 and is moving closer to its new resistance at 108.00. It is also worth mentioning that the CHF reached 1.20 against the EUR on Friday, the strongly defended floor which was abandoned by the SNB in 2015, evoking then chaos in the markets for a brief period of time.

	Level	YTD %	WTD	52 week high	52 week low
DOW JONES	24462.9	-1.0	0.4	26616.7	20505.3
S&P 500	2670.1	-0.1	0.5	2872.9	2344.5
NASDAQ	7146.1	3.5	0.6	7637.3	5899.4
RUSSELL 2000	1564.1	1.9	0.9	1615.5	1349.4
XETRA DAX	12540.5	-2.9	0.8	13596.9	11726.6
CAC 40 INDEX	5412.8	1.9	1.8	5567.0	4995.1
ESTX 50	3494.2	-0.3	1.3	3708.8	3261.9
SMI	8807.8	-6.1	0.4	9616.4	8501.2
FTSE 100	7368.2	-4.2	1.4	7792.6	6866.9
FTSE MIB	23829.3	9.0	2.1	24050.2	19676.6
ATHENS	844.7	5.3	4.2	895.6	671.0
TOPIX	1750.8	-3.7	1.3	1911.3	1482.8
SSE CHINA	3053.2	-7.1	-2.8	3587.0	3016.5
HANG SENG	30278.4	1.7	-1.3	33484.1	23958.2
MSCI-EM	1168.2	0.8	-0.2	1273.1	961.8
WORLD INDEX	2099.7	-0.2	0.5	2249.7	1841.0

High Conviction Portfolio

	YTD %	WTD %	DIV YIELD	CURRENCY	SECTOR
Societe Generale	5.9	3.1	4.8	EUR	Financials
Siemens	-6.8	3.3	3.4	EUR	Industrials
Lloyds	-3.5	-3.6	4.6	GBp	Financials
Dufry AG	-7.1	2.5	2.8	CHF	Consumer Discretionary
Carrefour SA	-8.7	3.3	2.8	EUR	Consumer Staples
Nokia	24.9	7.9	3.9	EUR	Information Technology
Roche Holding AG	-12.5	-0.7	3.8	CHF	Health Care
Imperial Brands	-24.1	-2.5	7.1	GBp	Consumer Staples
Danone	-5.1	1.7	2.9	EUR	Consumer Staples
Nestle	-10.3	-1.7	3.1	CHF	Consumer Staples
UCB	-1.4	-0.2	1.8	EUR	Health Care
Barclays	6.1	1.0	1.4	GBp	Financials
IBM	-5.6	-7.5	4.1	USD	Information Technology
BNP Paribas	1.5	2.9	4.8	EUR	Financials
Vonovia	-2.6	-0.7	3.3	EUR	Real Estate
Valeo	-11.4	0.4	2.3	EUR	Consumer Discretionary
BHP	0.8	5.3	4.7	GBp	Materials
Spotify	NULL	6.3	0.0	USD	Information Technology
Sanofi	-9.1	-1.1	4.6	EUR	Health Care
Deutsche Telekom	-5.1	0.7	4.6	EUR	Telecom Services
Telefonica	1.5	1.1	4.8	EUR	Telecom Services
Kering	9.7	-1.2	1.4	EUR	Consumer Discretionary
Vodafone	-10.6	1.5	6.3	GBp	Telecom Services
Biogen	-17.4	-0.9	0.0	USD	Health Care
GlaxoSmithkline	8.1	0.7	5.6	GBp	Health Care
SUEZ	-19.2	-0.7	5.5	EUR	Utilities
Starbucks Corp	1.0	-2.1	2.1	USD	Consumer Discretionary
WPP	-14.5	-3.5	5.2	GBp	Consumer Discretionary
Logitech	11.6	2.6	1.7	CHF	Information Technology
Adient	-20.6	-4.2	1.8	USD	Consumer Discretionary
Altran Technologies	1.1	0.2	1.9	EUR	Information Technology
Straumann	-9.1	2.5	0.8	CHF	Health Care

YTD: year to date return,
WTD: week to date return

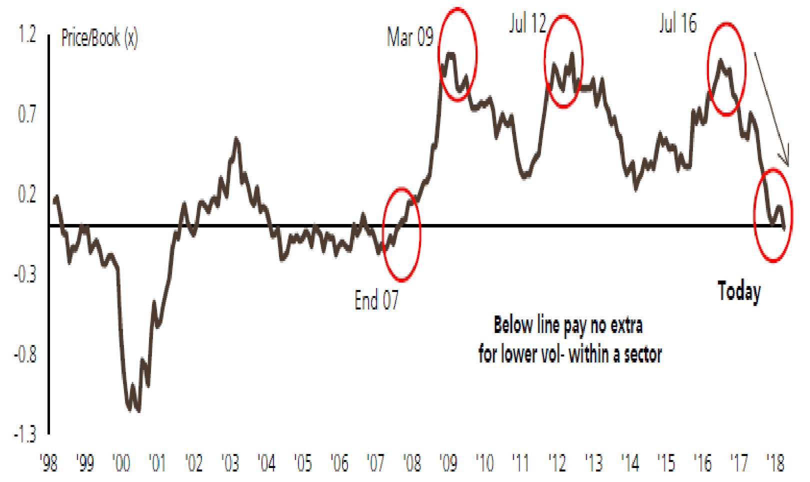
Chart of the Week

A very interesting chart, indicative of where we stand today with respect to market pricing and sentiment towards the defensive stocks. The chart shows the premium that the low volatility stocks enjoy vs the high volatility stocks. Given the rally in the momentum stocks (ie the likes of Amazon, Facebook etc) defensive stocks' relative valuations have fallen to levels last seen in 2007, a few months before the 2008 crisis.

At current levels, we wish to take advantage of this and our clear preference is for high quality / value stocks, which should be able to weather any turmoil much better than the high flying momentum stocks.

The perfect time to switch back to higher beta stocks will be when the premium enjoyed by the defensives reaches again the levels of 2009 and 2012, ie at the equity market bottoms, after the Lehman Brothers collapse and the Eurozone crisis.

Figure 1: Europe: P/B premium of LOW vs HIGH Vol stocks hits a decade low of zero



Source: UBS European Equity Strategy & Quant team

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