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Weekly Report 18.12.2017

Weekly Trading Information – Markets update

It was a mixed picture for equities last week, as US equities posted small gains while European markets struggled again, with the exception of Switzerland and the U.K. Four Central Bank meetings set the tone for the week, with the FED announcing the widely expected rate hike to 1.25%-1.50%, while however maintaining their forecasts for three rate hikes in 2018 despite their upward revisions to expected growth. Inflation, or rather the lack of it, remained a concern for the FED, as is the case with all other Central Banks. The BoE, the SNB and the ECB maintained rates at current levels, as expected, but voiced concerns about inflation. Paradoxically, the ECB raised its forecasts for the 2018 and 2019 GDP growth to 2.3% and 1.9% respectively, without altering their inflation forecasts at all. At the same time, November Retail Sales in the US and the U.K. were announced almost double than expected, painting a rosy picture about the state of the consumer in both regions. The passage of the US Tax legislation is dominating the news and is expected to lift US equities a little higher, but caution is warranted as the famous "buy the rumor – sell the fact" might again hold true.

Sector rotation in Europe, almost on a weekly basis, has left the main indices almost unchanged for weeks now. Financials in the US continued higher, but this was not the case in Europe where profit taking from previous week's highs made their shares slump (BNP -3%, Societe Generale -2%, but Barclays bucked the trend with a 3% gain). European retailers were also underperformers (Carrefour -3%, Sainsbury -3%) as well as Telecoms (Telefonica -2%, Deutsche Telekom -2%) reversing the previous week's big gains. On the contrary, US Telecoms continued their rally (AT&T +4%). Disney (+7%) announced the much expected takeover of most of Fox assets, in a deal that should also pass the antitrust authorities test in order to be finalized..

Government bonds were almost unchanged, despite intra-week volatility, as the market is trying to digest the anomaly of positive messages about growth from the Central Banks and lack of inflationary pressures on the other, rendering the future path of bond yields uncertain. The 10 year US Treasury yield closed unchanged at 2.37% and the 10 year German Bund closed also unchanged at 0.30%.

Gold found support at 1240$, as the FED meeting as well as the ECB painted a picture of patience with regard to future interest rate increases.

The EUR again found support at 1.1700 and spiked higher towards 1.1850 after the FED meeting , only to move back below 1.1800 after the ECB meeting. All in all, the EUR is still in a well defined range of 1.1700-1.1950 and only a clear break on its side, will make the currency move significantly.

Global Equity Indices					
	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	24652	24.7	1.3	19678	24689
S&P500	2676	19.4	0.8	2234	2680
Nasdaq Composite	6937	28.9	1.4	5372	6946
Russell 2000	1530	12.8	0.6	1335	1560
Germany DAX30	13104	14.1	-0.4	11357	13526
France CAC40	5349	10.0	-0.9	4734	5536
Eurostoxx50	3561	8.2	-0.9	3214	3709
Swiss SMI	9395	14.3	0.8	8193	9416
UK FTSE 100	7491	4.8	1.2	6986	7599
Italy FTSEMIB	22094	14.7	-3.1	18424	23133
Greek ASE	768	19.3	3.7	602	860
Japan Topix	1793	18.1	-0.6	1452	1844
China SSE Composite	3266	5.2	-0.7	3017	3450
Hong Kong Hang Seng	28848	31.1	0.7	21489	30200
MSCI Emerging Markets	1119	29.7	0.7	842	1157
MSCI World	2086	19.1	0.6	1748	2092

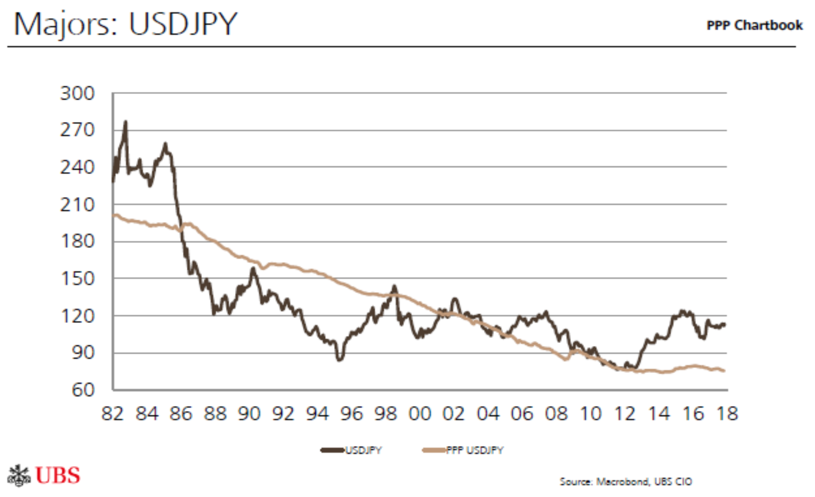
High Conviction Portfolio

	Price	%YTD	% WTD	% from high	52 wk high	52 wk low
Roche	244.1	4.9	**1.5**	-11%	273.0	226.1
Novartis	83.8	13.1	**0.8**	-2%	85.4	69.5
Sanofi	73.6	-4.4	**0.5**	-21%	93.0	72.6
Societe Generale	43.2	-7.6	**-1.6**	-17%	52.3	40.7
BNP Paribas	62.9	3.9	**-3.3**	-9%	69.2	54.0
Barclays	202.3	-9.6	**2.8**	-17%	244.4	177.3
Lloyds	66.4	7.1	**-0.5**	-10%	73.6	61.6
Siemens	116.5	-0.3	**1.1**	-13%	133.5	108.0
ACS	32.3	7.7	**-0.3**	-12%	36.8	28.3
Logitech	33.1	30.5	**1.0**	-15%	39.0	24.7
Straumann	685.5	72.5	**-4.7**	-8%	746.0	382.0
Soitec	56.7	92.9	**-4.4**	-21%	71.5	25.4
Cisco	38.2	26.4	**1.5**	0%	38.4	29.8
IBM	152.5	-8.1	**-1.5**	-17%	182.8	139.1
Sainsbury	236.1	-5.3	**-3.5**	-17%	283.6	222.4
Imperial Brands	3085.0	-12.9	**0.0**	-22%	3956.5	3013.0
Danone	71.2	18.3	**0.4**	-1%	72.0	58.0
Unilever	48.5	24.1	**-0.6**	-7%	52.3	37.2
Carrefour	17.1	-25.3	**-3.4**	-29%	24.1	16.3
Nestle	84.3	15.4	**-1.2**	-2%	86.4	71.5
Adient	78.9	34.7	**0.1**	-9%	86.4	51.7
Disney	111.3	6.8	**6.8**	-4%	116.1	96.2
Starbucks	58.3	5.0	**-0.5**	-10%	64.9	52.6
Newell Brands	30.6	-31.5	**-1.3**	-44%	55.1	27.5
Dufry	134.1	5.6	**-3.5**	-22%	172.6	123.6
Royal Dutch Shell	27.7	6.5	**2.8**	-2%	28.3	22.7
ENI	13.9	-10.1	**0.1**	-12%	15.9	12.9
Telefonica	8.3	-2.3	**-2.1**	-19%	10.2	8.2
Deutsche Telecom	15.1	-7.9	**-2.9**	-17%	18.1	14.6
Vodafone	230.0	15.1	**0.3**	-2%	233.9	186.5
AT&T	38.2	-10.1	**4.1**	-11%	43.0	32.6

YTD: year to date,
WTD: week to date

Chart of the Week

As the year comes to an end, one of the biggest surprises has been the EUR rally against most currencies. Looking at the fair value, as per the PPP (purchasing power parity) models, one could see that it was a matter of time before the EUR returned towards its "fair value", which has been for years at around 1.25. Another currency which has been trading for almost 5 years significantly cheaper than its fair value is the Japanese Yen. In the chart below one can see the USDJPY rate in black vs the fair value in brown. Hence the USD is overvalued about 50% against the JPY, according to this model. Perhaps one of the following years it will be the JPY's turn to return to its fair value, by gaining significantly vs most currencies. Of course, a currency can remain above or below its fair value for many years, but eventually its fair value acts like a "magnet" which attracts the currency back. An added positive feature of the JPY is its safe haven status in times of distress.



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