Kendra Securities House

Weekly Trading Information - 6.11.2017

A busy week ended with equities at new highs and Nasdaq outperforming again the other indices. In the US, the FED meeting did not produce any material new information, as expected. They decided to leave interest rates unchanged, while the market still assigns a 90% probablity for a rate hike in December. With respect to the replacement of Mrs Yellen at the top of the FED, President Trump has decided to appoint Mr Powell, without any official announcements yet. Mr Powell is considered a "dove" by the markets and pretty much a continuation of Mrs Yellen legacy, hence the USD was lower after the news. On Friday, the October data for the US labor market were released which showed a big rebound in non-farm payrolls, after the slump in September caused by the hurricanes. Previous monthly figures were also revised up. A puzzling development was the fact that wages increased much less than expected (0.2% against 0.5%) which caused a mini USD sell-off, as the market focuses on the inflation data as well as other macroeconomic data in the coming weeks until the December meeting. The Tax reform legislation which had been high on President Trump's agenda before and after the elections, is poised to dissapoint. There seems to be a great division among Republican senators as any tax cuts should be offset by a reduction of abolishment of certain tax reliefs/subsidies and there are lobbies and hence senators who are strongly opposed to that. In Europe, the 3rd quarter GDP numbers were announced as expected at 2.5% year on year growth while inflation has remained low, at 0.9% vs expectations for 1.1%. The Bank of England raised interest rates by 25bps, as expected. However, they also mentioned that the interest rates will rise only gradually i.e. at a slow pace, and the GBP fell again after its recent rally.

Technology continued to drive the rally in equities, which helped our newest additions in the sector Logitech (+5%) and Soitec (+5%). Starbucks (+2%) announced good results but it also updated the market, as expected, with its new profits growth target for the next years to 12-13%, down from 15-20% of the last years. Still, the company was upbeat about the growth accelarating again beyond 2018 and hence the shares moved higher. Energy had a strong week (Shell+ 4%, ENI +4%) as prices of Oil continued higher. Fluor (+10%) managed to exceed expectations in the 3rd quarter, and because the construction company receives a rather high percentage (over 40%) from Oil related projects, its shares rallied significantly last week. On the contrary, shares of Newel Brands (maker of household goods) suffered a very big drop (-23%), after the company announced lower than expected profits, despite the fact that it had already lowered expectations only a few weeks ago. The big drop does not correspond to the size of the earnings miss, but it is seen rather as a loss of confidence by the investors. Shares are now trading on a P/E of just 10, making them rather attractive in the long run, as the management team was optimistic about the next quarters after the disastrous 3rd quarter where everything went wrong (hurricanes affecting significantly production in Texas, the exposure to now bankrupt Toys 'R' Us, lower back-to-school sales).

Government Bonds were rather stable, especially after the mixed employment data out of the US. The 10 year US Treasury yield finished at 2.37% while the German 10 year Bund at 0.37%.

Gold also did not move much, closing at 1270$, after an attempt to rebound towards 1285$.

The EUR rose after the chatter about the appointment of Mr Powell as Head of the FED, but failed to break again above 1.1700 and finished the week at 1.1610. As noted before, now that the 1.1700 support has been broken it will act as a strong resistance, and it looks very probable that the EUR will eventually move towards the 1.1300-1.1500 range.

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	23539.2	19.1	0.4	17883.6	23557.1
S&P500	2587.8	15.5	0.2	2083.8	2588.4
Nasdaq Composite	6764.4	25.7	0.9	5034.4	6765.1
Russell 2000	1494.9	10.2	-0.9	1156.9	1514.9
Germany DAX30	13478.9	17.4	2.0	10174.9	13505.0
France CAC40	5518.0	13.5	0.4	4344.9	5536.4
Eurostoxx50	3690.0	12.1	1.0	2938.0	3708.8
Swiss SMI	9322.1	13.4	1.5	7585.6	9322.1
UK FTSE 100	7560.4	5.8	0.7	6676.6	7599.0
Italy FTSEMIB	23014.1	19.6	1.5	16039.6	23127.8
Greek ASE	763.6	18.6	3.3	572.4	859.8
Japan Topix	1794.1	18.1	1.3	1287.4	1794.4
China SSE Composite	3371.7	8.6	-1.3	3016.5	3421.1
Hong Kong Hang Seng	28603.6	30.0	0.6	21488.8	28798.8
MSCI Emerging Markets	1126.2	30.6	1.4	839.0	1131.8
MSCI World	2045.5	16.8	0.5	1657.1	2047.1

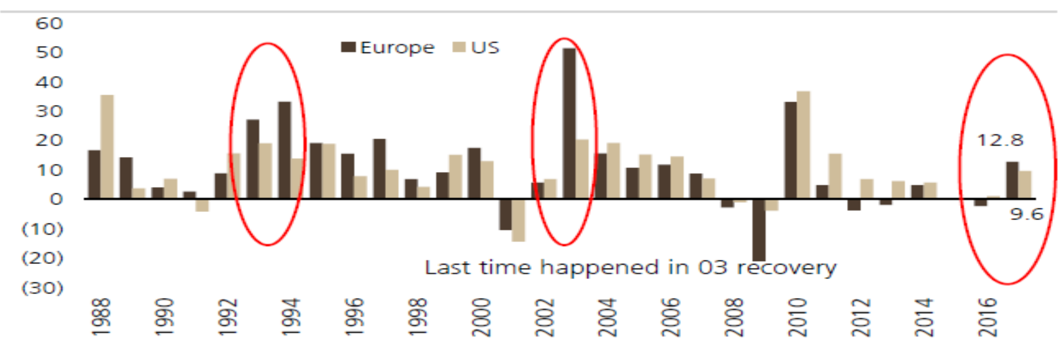
High Conviction Portfolio

	Price	%YTD	% WTD	% from high	52 wk high	52 wk low
Roche	232.70	0.0	1.1	-15%	273.00	218.30
Novartis	83.60	12.8	3.1	-2%	85.40	67.40
Sanofi	79.02	2.8	-4.0	-15%	92.97	70.94
Generali	15.75	11.5	0.6	-2%	16.08	11.00
Barclays	183.25	-18.0	-0.4	-25%	244.40	175.46
Lloyds	67.39	8.6	-2.2	-8%	73.58	53.64
Fluor	46.86	-10.8	9.6	-20%	58.37	37.04
Vinci	85.83	32.7	3.5	0%	85.83	49.93
ACS	34.19	13.9	4.3	-7%	36.75	25.94
Kudelski	12.15	-31.2	-1.6	-37%	19.30	11.10
Soitec	69.87	137.7	5.3	-2%	71.29	16.80
Logitech	36.15	42.3	4.9	-7%	39.00	23.20
Cisco	34.47	14.1	0.1	-1%	34.75	29.12
IBM	151.58	-8.7	-1.4	-17%	182.79	139.13
Sainsbury	235.10	-5.6	-3.2	-17%	283.60	224.10
Imperial Brands	3038.00	-14.3	-4.4	-23%	3956.50	3019.00
Danone	70.53	17.2	0.8	-2%	72.00	57.66
Unilever	49.42	26.3	0.5	-6%	52.31	36.22
Carrefour	17.43	-23.9	0.5	-28%	24.23	16.31
Pepsico	110.22	5.3	-0.3	-8%	119.39	98.50
Nestle	84.75	16.0	2.5	-1%	86.00	67.00
Adient	78.70	34.3	-6.5	-9%	86.42	39.67
Disney	98.64	-5.4	0.3	-15%	116.09	92.36
Fnac	80.35	25.1	-2.0	-4%	83.99	55.00
Starbucks	56.03	0.9	2.1	-14%	64.87	50.84
Newell Brands	30.77	-31.1	-23.1	-44%	55.07	29.70
Dufry	144.60	13.9	-4.2	-16%	172.60	118.70
Royal Dutch Shell	27.52	5.9	4.1	0%	27.63	22.41
ENI	14.38	-7.0	4.4	-10%	15.92	12.26
Telefonic	8.89	2.9	2.3	-15%	10.42	7.46
Vodafone	219.35	9.8	1.7	-6%	233.90	186.50
AT&T	33.30	-21.7	-2.0	-23%	43.03	32.93

Chart of the Week

The last time the expected earnings growth in Europe exceeded the one in the US was back in 2003 and before that, it was in 1993. Europe remains attractive and is expected to offer the best equity market returns among the developed markets.

Figure 8: Current EPS growth (estimate) as get to October of each year since 1988. Europe at 12.8% and US at 9.6%



Source: Thomson Datastream, UBS European Equity Strategy