

After a series of positive weeks, equity markets closed lower with Europe posting the worst performance. There was no specific news that sparked the correction, but rather a natural consequence of markets rallying ahead of themselves and reaching short term overbought territory. The catalyst, however, was a remarkable weakness in the bond markets, and in particular the high yield market. The market knows that corporate and high yield bonds always lead an equity decline, hence the fear spread quickly. In the US, the Tax legislation continues to draw attention, as after one year of the new administration there still seems to be no progress in reconciling the varying views within the republican party. On Friday, the Senate committee presented a compromise version of the House proposal, in which there seems to be a delay of applying a lower corporate tax rate until 2019, instead of 2018. In that way, the Senate hopes to alleviate the fear of many republicans that there will have to be a sudden and major cut in tax credits and subsidies to certain groups of people and companies. All in all, this delay does not help market sentiment. In the U.K. politics continue to also influence day to day fluctuations in the market. During the weekend, a story circulated that 40 ministers have grouped together to oppose the Brexit strategy of Prime Minister's May and this number is sufficient to topple the government if they wished so. The GBP has opened 0.5% lower in response to these news. Oil prices moved lower after last week's frenzy and as the market is still trying to assess the potential impact from what is happening in Saudi Arabia. The focus of this week is the inflation numbers out of the US, Eurozone and the U.K. These are important announcements, as all three central banks have placed a high significance on inflation for the future monetary policy.

In the corporate world, it was a week where Mergers & Acquisitions dominated the attention. The chip maker Broadcom launched an unsolicited offer for Qualcomm, and if this deal goes through it would be the largest ever buyout in the technology sector. AT&T (+3%) is struggling to close the deal to acquire Time Warner, while Disney (+6%) is rumored to be having talks with Fox channel in order to buy it. Disney also repeated its intention to provide direct streaming services to customers, removing its movies and series from Netflix by 2020. It remains a top holding in our high conviction portfolio. The UK based Tobacco company Imperial Brands (+2%) announced an earnings growth of 7%, despite lower sales and a market share gain. It also increased its dividend by 10%. It continues to trade at a 50% discount to the consumer staples universe and offers a 6% dividend yield.

Government Bonds fell significantly last week, with the 10 year US Treasury yield finishing the week at 2.40%, up from 2.30% while the German 10 year Bund yield closed at 0.40%, up from 0.30%.

Gold had a rather stable week, trading within a tight range 1275-1285\$ as the rise in bond yields is capping its gains. For now it seems that it is struggling to overcome the strong resistance at 1285-1295\$ area.

The EUR approached the 1.1500 level last week and in particular 1.1550 but jumped quickly higher to close at 1.1650. The resistance remains in the 1.1700 area and the market awaits the inflation data this week to determine its next move (see chart of the week).

Global Equity Indices

	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones Industrials	23422.2	18.5	-0.5	18737.0	23602.1
S&P500	2582.3	15.3	-0.2	2152.5	2597.0
Nasdaq Composite	6750.9	25.4	-0.2	5179.6	6795.5
Russell 2000	1475.3	8.7	-1.3	1250.8	1514.9
Germany DAX30	13127.5	14.3	-2.6	10402.6	13525.6
France CAC40	5380.7	10.7	-2.5	4473.4	5536.4
Eurostoxx50	3593.8	9.2	-2.6	2984.5	3708.8
Swiss SMI	9134.2	11.1	-2.0	7695.6	9327.7
UK FTSE 100	7433.0	4.1	-1.7	6678.7	7599.0
Italy FTSEMIB	22560.8	17.3	-2.0	16039.6	23133.4
Greek ASE	734.1	14.1	-3.9	578.0	859.8
Japan Topix	1800.4	17.4	-0.9	1373.4	1844.1
China SSE Composite	3432.7	11.1	0.4	3016.5	3438.8
Hong Kong Hang Seng	29120.9	32.9	1.8	21488.8	29237.9
MSCI Emerging Markets	1128.5	30.9	0.2	839.0	1134.7
MSCI World	2040.3	16.5	-0.3	1688.8	2054.3

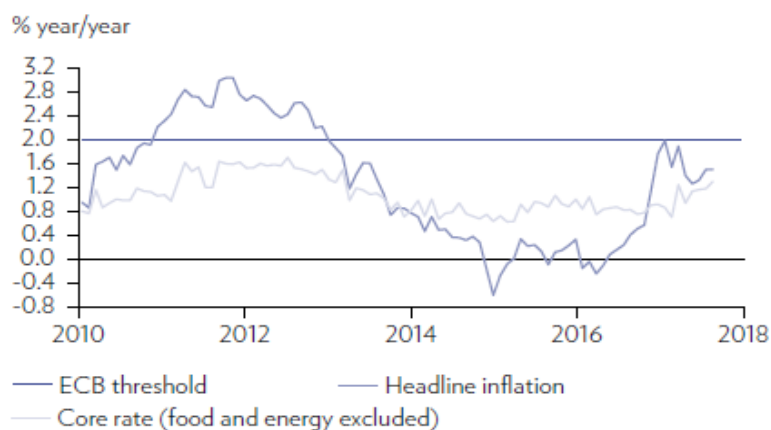
High Conviction Portfolio

	Price	%YTD	% WTD	% from high	52 wk high	52 wk low
Roche	227.70	-2.1	-2.1	-17%	273.00	218.30
Novartis	81.65	10.2	-2.3	-4%	85.40	67.80
Sanofi	77.43	0.7	-2.0	-17%	92.97	73.39
Generali	15.77	11.7	0.1	-2%	16.08	11.09
Barclays	179.15	-19.8	-2.2	-27%	244.40	178.40
Lloyds	66.48	7.2	-1.4	-10%	73.58	56.50
Fluor	47.04	-10.4	0.4	-19%	58.37	37.04
Vinci	84.32	30.3	-1.8	-3%	86.76	49.93
ACS	33.17	10.5	-3.0	-10%	36.75	26.47
Kudelski	11.75	-33.4	-3.3	-39%	19.30	11.10
Cisco	33.99	12.5	-1.4	-2%	34.75	29.12
Nokia	4.20	-8.4	-2.7	-29%	5.96	3.66
IBM	149.16	-10.1	-1.6	-18%	182.79	139.13
Logitech	35.13	38.3	-2.8	-10%	39.00	23.45
Soitec	66.50	126.2	-4.8	-7%	71.29	18.00
Sainsbury	232.20	-6.9	-1.2	-18%	283.60	224.10
Imperial Brands	3181.50	-10.2	4.7	-20%	3956.50	3019.00
Danone	68.96	14.6	-2.2	-4%	72.00	57.77
Unilever	48.81	24.8	-1.2	-7%	52.31	36.22
Carrefour	17.52	-23.5	0.5	-27%	24.08	16.31
Pepsico	112.75	7.8	2.3	-6%	119.39	98.50
Nestle	83.45	14.2	-1.5	-3%	86.00	67.00
Adient	77.42	32.1	-1.6	-10%	86.42	44.34
Disney	104.78	0.5	6.2	-10%	116.09	95.78
Starbucks	57.04	2.7	1.8	-12%	64.87	52.58
Newell Brands	29.30	-34.4	-4.8	-47%	55.07	29.23
Dufry	141.10	11.1	-2.4	-18%	172.60	118.70
Royal Dutch Shell	27.44	5.6	-0.3	-3%	28.25	22.41
ENI	14.41	-6.9	0.2	-9%	15.92	12.26
Deutsche Telecom	15.08	-7.8	-3.6	-17%	18.15	14.28
Telefonica	8.61	10.5	1.4	-17%	10.42	7.46
Vodafone	217.65	8.9	-0.8	-7%	233.90	186.50
AT&T	34.22	-19.5	2.8	-20%	43.03	32.55

Chart of the Week

The Eurozone core inflation (grey line) has moved higher during the last year, as the economy improves and commodity price increases have found their way into the consumer goods and services. However it remains well below the 2% threshold, which is the ECB's sole mandate. Hence, the market still believes that the ECB will be patient in withdrawing the monetary stimulus, as shown with the extension of the QE bond buying program until September 2018.

Chart 2: Modest eurozone inflation offers the ECB time



Source: Eurostat, Julius Baer