Global Weekly: Follow the Exit signs

Publication Date: Friday 19 February 2010

Weekly Update
Investment Advisory Centre

Macro:

Last Week's Highlights (February 15 - 19): The FOMC is carefully handling a soft exit from its hyperstimulative monetary policy. We read the decision to move up the Discount rate by 50bp as a sign of confidence that the money markets can function with less emergency support. The process of unwinding exceptional facilities has already started in Q4 2009 and will probably run well into the second half of the year, due to the multiple channels involved. The discount rate is only a step in the process. Although monetary conditions remain amply accommodative, the crucial moment will come when the "extended period" language will be shifted from the FOMC policy statement, probably 6 months before the first hike in the Fed Funds rate.

This Week's Focus (February 22 – 26): The US will likely remain on centre-stage, with Bernanke's testimonies before the House and the Senate on Feb 24 and 25. Higher US data releases (housing, durable goods) could fuel expectations of higher interest rates in the US.

No asset allocation change followed the ABN AMRO PC Investment Committee meeting of 18th Feb-: The last change was to move portfolio duration up to 3.5 years in Euro-based portfolios to benefit from an exposure to peripheral European bond markets (Spain, Portugal, Italy, and Ireland) with attractive bond yields above 4%. This requires adding duration in order to capture the attractive yields. Given that EU support will lead to a de facto risk transfer to EU core countries, take profit from Bunds, OATs and Dutch Government Bonds.

Bonds:

Last Week's Highlights (February 15 - 19): US bond yields increased further with the 10-year Treasury back at 3.8% for the first time since January. A combination of supply and inflation concerns helped to push the US yield curve to a record slope. In Europe, tensions eased slightly for the peripheral markets but core government markets remain supported.

This Week's Focus (February 22 - 26): The success of the recent Portuguese and Spanish new bond issues are positive omen for the upcoming Greek (GGB) syndication although this cannot guarantee the success of the new GGB. The US Treasury announced USD 126 bln in new supply for this week. In addition, upside pressure for 10-year US Treasury yields is increasing. A break above the resistance at 3.76% clears the way for a rise towards the next major resistance level at 3.88%-4.02%.

Topic of the week – Normalisation of monetary policy: The Fed announced a 0.25% increase in its discount rate, to 0.75% and reduced the maximum maturity for discount window loans to overnight from 28 days. Whilst the action is not a surprise given Chairman Bernanke's recent testimony and this week's FOMC minutes, the timing of the move clearly was. Although the Fed's decision to raise the discount rate is not the start of monetary policy tightening, it is a first big step in the exit strategy. The Fed is slowly paving the way for the normalisation of monetary policy, a move that does not alter our view that the Fed's first policy rate hike will come in September of this year.

Tactical Allocation by Asset Class

Conservative	Strat	Tact	Diff
Money markets	10%	7%	-3%
Bonds	70%	68%	-2
Equities	10%	15%	+5%
Alternatives	10%	10%	+2
F. Hedge Funds	5%	5%	
Real Estate	3%	3%	
Commodities	2%	2%	

Balanced	Strat	Tact	Diff
Money markets	10%	7%	-3%
Bonds	40%	33%	-7%
Equities	40%	50%	+10%
Alternatives	10%	10%	
F. Hedge Funds	5%	5%	
Real Estate	3%	3%	
Commodities	2%	2%	

Growth	Strat	Tact	Diff
Money markets	10%	7%	-3%
Bonds	20%	13%	-7%
Equities	50%	60%	+10%
Alternatives	20%	20%	
F. Hedge Funds	10%	10%	
Real Estate	6%	6%	
Commodities	4%	4%	

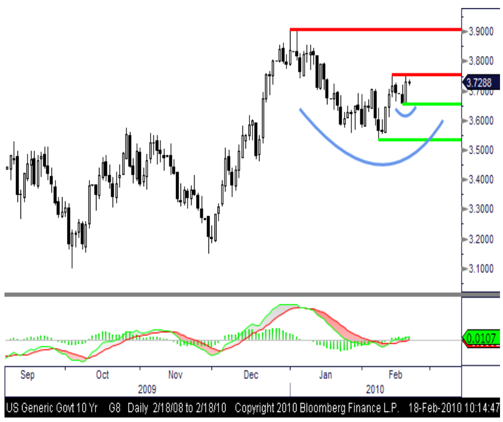
Government Bond Yields

Yield	Spread	10-2yr	2-yr	10-yr
UST		2.84	0.95	3.79
EGB		2.18	1.10	3.28
Gilts		2.98	1.17	4.15
JGB		1.18	0.14	1.32
EMBI+	292			
iTraxx Euro 5-yr	88			

Central Bank Watch

Central Bank	Current	Date	Exp
Fed	0-.25%	16/03	Unch.
ECB	1.00%	04/03	Unch.

Graph: 10-year US Treasury Yield



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Equities

Last Week's Highlights (February 15 - 20):
Last week, markets initially edged up some 2-3% on the back of relief on the Mediterranean saga and some positive macro data. Meanwhile, the earnings season was in full swing without however giving clear-cut support to share prices. By the end of the week, the Fed put a damper on markets by increasing the discount rate.

This Week's Focus (February 22 - 26): So far, the majority of earnings releases have come in ahead of - or at least in line with - expectations. While market reaction to sound results was sometimes muted, disappointments were seriously punished, highlighting the fact that – as we move into results - expectations have been significantly pushed up. Clearly, investors are looking for ammunition that could point towards a sustainable earnings recovery. An earnings recovery only on the back of cost-cutting is not sufficient enough to bring markets further. Although we still believe that the fundamentals remain encouraging thanks to: a) global economic recovery; b) satisfactory earnings prospects and c) attractive valuation, investor focus has been shifting. Given the uneasy environment, investors have become more risk-averse and increasingly focused on quality, earnings predictability and growth. This transition phase confirms our thesis to move from deep cyclicals towards quality growth and explains our current preference for the (sub) sectors Healthcare, Food & Beverage and Industrials and especially stocks with direct exposure to Emerging Markets.

FX & Commodities

Last Week's FX Highlights (February 15 - 19):
It was a quite a volatile week which started with some EUR shorts' covering. The EUR bounce was short-lived as the Fed's act was played out and US data surprised on the upside.

This Week's FX Focus (February 22 - 26):
If the switch in focus from EUR weakness to USD strength continues on the back of better US data, USD advances could also continue versus the JPY and commodity currencies. The large net short EUR positions could limit the downside in EUR/USD. Opportunities lie in the EUR crosses such as EUR/AUD, EUR/CAD and EUR/Scandi.

Last Week's Commodity Highlights (February 15 - 19):
After having pushed the Greek tragedy and Eurozone-related fiscal worries to the background, commodity prices were more open for fundamental news. Higher economic data resulted in hopes of higher commodity demand.

This Week's Commodity Focus (February 22 - 26):
Positive economic news will likely be balanced out by a higher USD. Therefore, commodity prices could move sideways. Gold prices are an exception because they are much more sensitive to the USD's overall direction. In addition, the Fed's action undermines gold's inflation buying argument, as the Fed is signalling that it is in control, meaning taming inflation expectations.

Corporate Earnings Calendar

22/02	TNT, Binckbank, Draka , Lowes
23/02	Inber Re, Heineken, Unit 4, Medtronic, Home Depot, Continental, Merck
24/02	Cadbury, DSM, Logica, ASMI, Wolters, Fresenius, CSM, Commerzb., Iberdrola
25/02	Tel Italia, Deut. Telekom, Allianz, RWE, BASF, Saint Gobain, RBS, France Tel., Suez, Wessanen, Aegon, Aalberts, Newmont, Heinz, Dexia, Credit Ag, Repsol, BAT, Generali , .
26/02	Telefonica, Bayer, Llyods, Wavin,

Stock Indices

Index	Level	P/E'11	D/Yield	%YTD
S&P500	1106.8	11.8	2.1	-0.7
DJEuro Stoxx	2766.3	9.2	4.1	-6.7
Nikkei225	10123	20.4	1.6	-4.0
FTSE100	5321.8	9.9	3.5	-1.7
AEX	323.1	10.0	3.2	-3.7

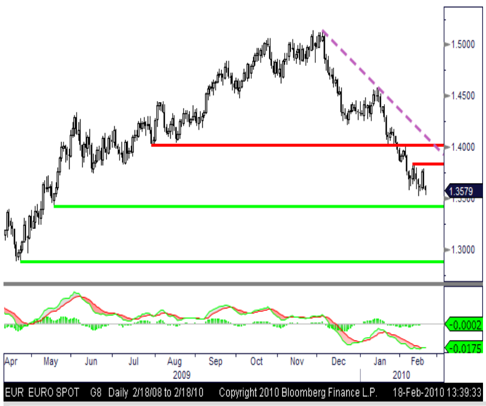
Important Recommendation Changes

Company	From	To
BAM	Not rated	Buy
Toshiba	Sell	Hold
L'Oreal	Sell	Hold
Devon	Buy/RL	Buy
Walmart	Buy	Hold
BAM	BAM	BAM
Toshiba	Toshiba	Toshiba

Currency Forecasts Q1

	Mar 10	Jun 10	Dec 10
EUR / USD	1.4500	1.4500	1.3500
USD / JPY	95.00	100.00	108.00
GBP/ USD	1.5761	1.6111	1.5882

Graph: EUR/USD Daily Graph (BBG)



Commodity Prices (Reuters)

	Latest	Last week
Gold (spot)	1'109	1'090
WTI Brent crude (spot)	78.96	75.22
Copper 24h LME	7'196	6'905
Wheat soft Mar 10 fut.	481	490

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