WEEKLY UPDATE

Extending the US equity rally further

Since the Q4 2018 sell-off (close to -20% from peak to low), US equity markets have regained more than half the ground lost (+12% between December 24 and January 24). Looking back, investors had priced in a very bearish macro scenario that has not proved to be correct so far. Now, the question is: what would it take for the US equity market to rally further? For this to happen, we foresee at least four necessary prerequisites.

A surprise upside in macro data: the Citi Surprise index measuring the gap between market expectations and macro prints has bounced back since late December. Early 2019, US momentum remains underpinned by the fiscal stimulus, a buoyant job market and solid entrepreneur optimism. However, signs of a slowdown are already showing, with a softening real estate market and the trade war impact for exporters.

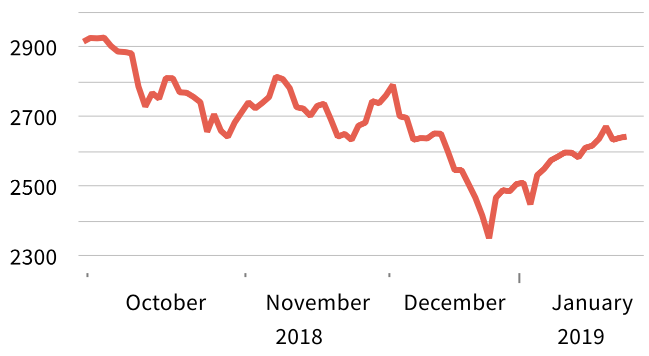
Significantly easing trade tensions: investors are closely monitoring any trade war news flow. So far, in the US the impact has been dampened by the fiscal stimulus package. Any sign of a thaw between both countries would certainly reduce the uncertainty and lift investor sentiment. However, while a deal would bring a welcome relief, the prospects of a resolution remains unlikely as the US and China are strategic competitors and the imposed tariffs are unlikely to be rolled back in full.

Easing in China: growth has been running out of steam, and policymakers have already announced several measures to sustain the economy: a currency depreciation to mitigate the impact of tariffs, a cut to banks' reserve requirement ratio to boost corporate lending, and fiscal easing to push up investment and consumption. Further easing measures are likely to be implemented as momentum remains weak. H2 2019 should reflect better macro data.

A more dovish Federal Reserve (Fed) policy: after the December hike (4th in 2018) accelerated a new leg down for equities, Fed officials strived to reassure investors by stating the Fed was in no rush. But the Fed has lost touch with the markets. Fed dots (the median projection of the future Fed path built on FOMC members' projections) point to two more hikes while the markets do not discount any. The Fed would need to u-turn for the market to be fully reassured about its stance, although any shift to dovish would signal US outlook concern. We expect the Fed to release a "wait and see" message at its January 30 meeting.

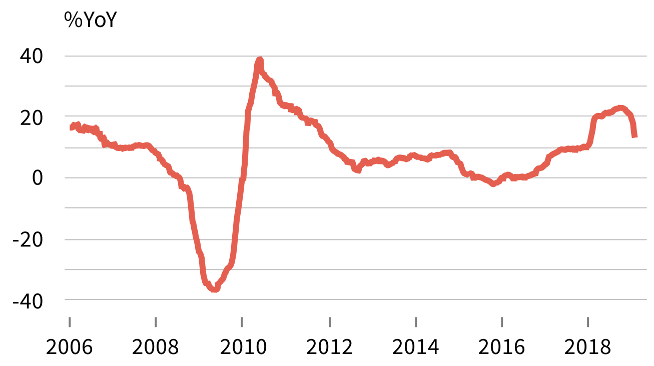
Bottom line: Put all together, these conditions seem hard to achieve over an extended period, implying the current rally could be short and contained. Clouds still hover over issues such as the trade war or Brexit, and corporate earnings revisions are on the downside. Cautiousness is warranted as current market bullish sentiment could turn into a damp squib.

S&P sees a rebound in Q1 following a decline in Q4 2018
S&P 500 index price return



Sources: SGPB, Macrobond, S&P, 24/01/2019

EPS momentum on a downtrend
S&P 500 12-month forward EPS



Sources: SGPB, Macrobond, Datastream, IBES, 24/01/2019

Past performance should not be seen as a guarantee of future returns.
All data taken from Bloomberg and Macrobond (25/01/2019). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.
CA030/JAN/2019

This week and next

EUROZONE

- Manufacturing confidence preliminary figures slipped from 51.4 to 50.5 (a 50-month low) in January, while services slide from 51.2 to 50.8 (a 65-month low), sending the composite reading from 51.1 to 50.7 (a 66-month low).
- Consumer confidence edged up to -7.9 in January from -8.3 in Dec.
- The Bank of Italy announced the country may have entered recession in Q4 2018 and cut its 2019 GDP forecast from 1.0% to only 0.6%. This could worsen the 2.04% GDP budget deficit agreed on with the EU.
- German producer prices eased from 3.3% YoY to 2.7% in December; excluding energy, prices increased by only 1.6%.

Next week's key events		Per.	Prev.	Cons.
31 Jan	GDP YoY	Q4 (P)	1.6%	1.2%
31 Jan	Unemployment rate	Dec	7.9%	7.9%
01 Feb	Core inflation YoY	Jan (P)	1.1%	--

UNITED KINGDOM

- Retail sales growth softened from 3.4% YoY to 3.0% in December.
- According to the Confederation of British Industry (CBI), total order books decreased from 8 to -1 in January, indicating manufacturers' pessimism for the next three months.
- The labour market remains resilient despite Brexit uncertainty. The unemployment rate declined slightly from 4.1% to 4.0% in November, reaching a 43-year low.
- Three-month average weekly earnings rose from 3.3% YoY to 3.4% in November, i.e. a decade high.

Next week's key events		Per.	Prev.	Cons.
30 Jan	BOE consumer credit (£bn)	Dec	0.924	--
31 Jan	GfK consumer confidence	Jan	-14	--
01 Feb	Manufacturing confidence	Jan	54.2	--

UNITED STATES

- Manufacturing confidence surprised on the upside, at 54.9 in January on preliminary figures, up 1.1 point from year-end.
- The year-end rise in mortgage rates rose sent existing home sales down -6.4% MoM to 4.99m in December, down from 5.33m in Dec., i.e. its lowest level in three years.
- The Richmond Fed manufacturing index rebounded to -2 in January after -8 in December (a two and a half year low).
- Americans filing new applications for unemployment benefits undershot expectations, falling by 13k to 199k in the week ending January 19, the lowest since November 1969. However, new claims from federal employees jumped from 15k to 25k after the third week of government shutdown (January 12).

Next week's key events		Per.	Prev.	Cons.
30 Jan	Fed funds target rate	30 Jan	2.375%	2.375%
01 Feb	Non-farm payrolls	Jan	312k	183k
01 Feb	Uni. Michigan consumer sentiment	Jan (F)	94.5	98.3

ASIA & EMERGING COUNTRIES

- In Japan, manufacturing confidence slide from 52.6 to 50.0 in January, suggesting neither expansion nor contraction.
- Exports posted their worst fall (-3.8% YoY) in two years as overseas demand faltered.
- As expected, Chinese Q4 GDP growth slowed to 6.4% YoY, down from 6.5% in Q3, its slowest pace since Q1 2009. Retail sales inched up +8.2% YoY in December after a 15-year low in November.
- South Korean GDP rose 1.0% QoQ in Q4, up from 0.6% in Q3.
- In Taiwan, exports orders shrunk -10.5% YoY in December, i.e. their sharpest fall since April 2016.

Next week's key events		Per.	Prev.	Cons.
30 Jan	Japan: Retail sales YoY	Dec	1.4%	--
01 Feb	China: Caixin manuf. confidence	Jan	49.7	49.5
01 Feb	Brazil: Manufacturing confidence	Jan	52.6	--

Sources: DataStream, Bloomberg, 25 January 2019
Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month, P = preliminary figure, A = advanced figure, F = final figure, seasonally adjusted, ECB = European Central Bank

Our 3-month targets for currencies and commodities

	Thursday close	3mth target
EUR/USD	1.13	1.12
GBP/USD	1.31	1.28
EUR/CHF	1.13	1.12
USD/JPY	110	112
Brent	$61.0	$65
Gold (once)	$1283	$1250

No change to our 3-month targets this week.

Forecast figures are not a reliable indicator of future performance

Market performance

Past performance should not be seen as a guarantee of future returns.

Interest rates

Interest rates	Last	1wk		3mth	YTD	12mth
EONIA (EUR)	-37 bp	0 bp	→	0 bp	-1 bp	-1 bp
3mth Euribor (EUR)	-31 bp	0 bp	→	1 bp	0 bp	2 bp
3mth Libor (USD)	276 bp	-1 bp	↓	26 bp	-4 bp	101 bp
3mth Libor (GBP)	93 bp	0 bp	→	12 bp	1 bp	40 bp
10-year US Treasury bond	271 bp	-4 bp	↓	-41 bp	2 bp	6 bp
10-year German bond	18 bp	-6 bp	↓	-21 bp	-7 bp	-41 bp
10-year French bond	59 bp	-5 bp	↓	-18 bp	-12 bp	-28 bp
10-year UK bond	127 bp	-7 bp	↓	-19 bp	0 bp	-14 bp

Credit

Credit	1wk		3mth	YTD	12mth
BAML EURO Corp. IG	0.5%	↑	0.0 %	0.6 %	-0.7 %
BAML EURO Corp HY	0.2%	↑	-1.0 %	1.6 %	-2.9 %
BAML GBP Corp IG	0.9%	↑	0.4 %	1.1 %	-0.7 %
BAML US IG	0.8%	↑	2.0 %	1.2 %	-0.1 %
BAML US HY	0.1%	→	0.1 %	3.8 %	0.4 %
BAML Global EM Sov. External Plus	1.2%	↑	3.8 %	3.3 %	-2.8 %

Exchange rates

Exchange rates	Last	1wk		3mth	YTD	12mth
EUR/USD	1.13	-0.8 %	↓	-0.8 %	-1.4 %	-8.9%
EUR/CHF	1.13	-0.6 %	↓	-0.9 %	0.1 %	-3.9%
GBP/USD	1.31	0.6 %	↑	1.4 %	2.4 %	-8.3%
USD/JPY	110	0.4 %	↑	-2.3 %	0.1 %	0.4%
USD/BRL	3.77	0.6 %	↑	1.0 %	-2.8 %	19.9%
USD/CNY	6.79	0.2 %	↑	-2.2 %	-1.3 %	6.6%
USD/RUB	65.7	-0.9 %	↓	0.1 %	-5.7 %	17.0%

Government bonds*

Government bonds*	1wk		3mth	YTD	12mth
United States (3-7yr)	0.2 %	↑	2.6 %	0.0 %	2.4 %
United Kingdom (3-7yr)	0.3 %	↑	0.8 %	0.1 %	1.6 %
Germany (3-7yr)	0.1 %	↑	0.7 %	0.2 %	1.6 %
Japan (3-7yr)	0.0 %	→	0.4 %	0.0 %	0.3 %

Equities*

Equities*	Last	1wk		3mth	YTD	12mth
MSCI AC World	480	0.5 %	↑	1.0 %	5.4 %	-9.9 %
Eurostoxx 50	3,126	1.9 %	↑	0.3 %	4.3 %	-11.1 %
DAX	11,130	1.9 %	↑	-0.6 %	5.4 %	-17.0 %
CAC 40	4,872	1.6 %	↑	-1.3 %	3.0 %	-8.4 %
S&P 500	2,642	0.3 %	↑	0.0 %	5.5 %	-5.0 %
FTSE 100	6,819	-0.2 %	↓	-1.4 %	1.4 %	-7.0 %
SMI	8,937	0.3 %	↑	2.4 %	6.0 %	-3.2 %
Topix	1,553	0.6 %	↑	-5.8 %	3.9 %	-16.5 %
IBOV Brazil	97,677	2.4 %	↑	17.6 %	11.1 %	16.7 %
MICEX Russia *	2,483	1.4 %	↑	6.3 %	5.3 %	7.6 %
MSCI EM	1,019	1.0 %	↑	7.5 %	5.6 %	-16.7 %
SENSEX 30 India	36,195	-0.5 %	↓	6.6 %	0.4 %	1.3 %
Hang Seng (H-K)	27,121	1.4 %	↑	7.6 %	4.9 %	-14.8 %
Shanghaï Composite	2,592	1.3 %	↑	-0.4 %	3.9 %	-27.2 %

Commodities

Commodities	Last	1wk		3mth	YTD	12mth
Brent	$61.0	0.2 %	↑	-20.6 %	14.9 %	-12.8 %
Gold	$1,283	-0.7 %	↓	4.2 %	0.1 %	-5.2 %
Copper	$5,894	-1.2 %	↓	-4.8 %	-0.9 %	-17.1 %

Source: DataStream, on 24 January 2019.
1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7 year returns. Figures are rounded.

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