

# global weekly optimism lifts risk appetite

Research & Strategy  
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Tactical asset allocation – Conservative			
	Strategic	Tactical	Difference
Money	10	22	+12
Bonds	70	63	-7
Equities	10	7	-3
Alternatives	10	8	-2
Hedge funds	5	5	
Real estate	3	3	
Commodities	2	0	-2

Tactical asset allocation – Balanced			
	Strategic	Tactical	Difference
Money	10	25	+15
Bonds	40	31	-9
Equities	40	36	-4
Alternatives	10	8	-2
Hedge funds	5	5	
Real estate	3	3	
Commodities	2	0	-2

Tactical asset allocation – Growth			
	Strategic	Tactical	Difference
Money	10	28	+18
Bonds	20	11	-9
Equities	50	45	-5
Alternatives	20	16	-4
Hedge funds	10	10	
Real estate	6	6	
Commodities	4	0	-4

Macro Forecasts for 2012 (%)*				
	Real GDP Growth		Inflation	
	ABNAMRO	Market*	ABN AMRO	Market*
US	1.7	1.9	1.9	2.1
Eurozone	-0.8	0.6	1.3	1.8
UK	0.5	1.5	2.8	2.7
Japan	2.5	2.2	-0.3	-0.2
Other countries	2.2	2.3	2.2	1.9
EM Asia	7.3	7.2	5.1	4.7
Latin America	3.7	3.8	6.5	6.5
EEMEA**	2.8	3.5	5.3	6.8
World	3.3	3.6	3.6	3.6

All Forecasts are annual averages of quarterly year-on-year changes.  
\*Blue chip - Other countries are Australia, Canada, Denmark, New Zealand, Norway, Sweden and Switzerland - \*\*EEMEA: Eastern Europe, Middle East and Africa

## Macro

### Optimism lifts risk appetite

A number of events have led to a rise in risk appetite during the week, spurring equities up and hurting government bonds. Although early in the week, markets were still coming to terms with S&P's eurozone government debts' downgrades, sentiment started to change on Tuesday when China's fourth quarter GDP figures underscored that the country's economy is heading for a soft landing. On Wednesday, prospects that the IMF was seeking additional firepower to combat the eurozone's debt crisis lifted sentiment further, while well-received auctions in Spain and France also supported sentiment.

Meanwhile, economic data also generally had a positive tone. In Germany, the ZEW Expectations Index rose to a better-than-expected 21.6 in December, while initial jobless claims in the US fell sharply to 352K in the week ending January 14 from 402K the week before, the lowest reading in almost four years. While the claims data tends to be volatile at this time of year, the sharp fall does suggest that the labour market recovery in the US is continuing to pick up some steam. The US economy's firming tone could also be seen in industrial production data, showing that the sector's output grew by 0.4% in December, while the Empire State Manufacturing index and the Philadelphia Fed index rose modestly as well in January.

### Global Investment Committee

ABN AMRO's Global Investment Committee conducted a complete and thorough review of the current investment strategy in its extended meeting on Thursday 19 January and decided to make some changes to the Asset Allocation:

#### Equities

1. The GIC reduced the "Underweight" in equities at the expense of cash;
2. US downgraded to "Neutral" from "Overweight" and Europe was upgraded from "Underweight" to "Neutral", therefore closing a profitable relative trade;
3. Industrials were raised to "Neutral" from "Underweight" with the proceeds of the downgrade of Telecommunications from "Overweight" to "Neutral".

#### Bonds

The GIC increased the asset allocation to bonds (from cash) by investing into US High Yield corporates with instruments/funds capable of hedging the currency for non-USD-based portfolios. Doing so, we can profit from an attractive yield pick-up as current levels are discounting a severe US recession with significant default risk. For more information, please read the Market Watch of the Global Advisory, due out early next week.

Government Bond Yields			
	10-2yr bp	2-yr (%)	10yr(%)
UST	173	0.23	1.96
German Bund	165	0.20	1.85
Gilts	166	0.38	2.04
JGB	85	0.12	0.97
EMBI+	372	-----	-----
iTraxx Euro 5-yr	153	-----	-----

Central banks watch			
	Current	Date	Expectation
ECB	1.00	9 Feb 2012	-25 bp
Fed	0.0-0.25	25 Jan 2012	No change



Currency forecasts			
	Mar. 2012	Jun. 2012	Dec. 2012
EUR/USD	1.25	1.30	1.35
USD/JPY	74	76	79
GBP/USD	1.52	1.57	1.59



## Bonds

### Last week's highlights (16 January – 20 January)

As markets await further developments around Greece's PSI, most government bond yields are staying in a trading range. The lack of material bad news from Europe, better US data, solid bond auctions in Europe (Spanish and French) triggered an impressive rally in credit spreads. The US earnings season is far from impressive, but perhaps just another stabilising element. It seems that credit investors are still somewhat cautious relative to equities despite the strong spread rally since the start of the year.

### This week's focus (23 January – 27 January)

Europe is and will be the key driver of the "risky asset" story in the coming quarters. The outcome of the European sovereign crisis with further tests of confidence ahead (e.g.: Greek PSI, EU Summit, more funds for euro rescue, QE) will play a significant role in determining bond returns. US High-Yield (HY) markets are starting to show a decoupling from Europe HY. We expect this trend to continue. Fundamentals – and balance sheet cleanup and good redemption profiles in particular - should cap default rates.

### Topic of the week:

S&P's sovereign ratings downgrades triggered the first series of ratings cuts to corporate issuers, including EDF and RTE, as well as to agencies; examples thereof include EFSF, Cades, OeKB, RFF and SNCF, which were given a negative outlook. S&P's action has not dented market confidence in Europe's sovereign debt but it remains to be seen if Italy will draw the same level of investor interest as recent successful Spanish auctions have. Despite these downgrades, we are keeping our different buy recommendations in the bond Handbooks unchanged.

## Foreign exchange

### Last week's highlights (16 January – 20 January)

What is remarkable is that S&P downgrades only had a muted effect on the market; this hurt overall sentiment last Friday, prompting people to fear disorderly market movement on Monday, although this did not happen, meaning one of two things: 1) either all this news had already been widely anticipated and was simply a confirmation or 2) central banks have been working overtime behind the scenes to prevent the feared disorderly moves. It was probably a combination of both. Ultimately, the EUR/USD was able to recover all of last Friday's losses, while the EFSF, Spain and France were able to successfully tap the market this week.

### This week's focus (23 January – 27 January)

With short-term positions already being excessively short in EUR, even just a small squeeze thereof can show a significant rally in the EUR. Such a EUR correction will likely be merely a correction, rather than a turnaround in trend as monetary policy (loose) has clearly become a negative variable. Next week, focus will be the German Ifo, US GDP, FOMC rate decision and Obama's State of the Union address. Better numbers will likely trigger a risk-seeking wave, hurting the USD.

## Corporate Earnings Calendar

<b>23 January</b>	Halliburton , Texas Instr.,
<b>24 January</b>	Apple, McDonald's, Stmicroelectronics, Du Pont, KPN, Baker Hughes, Siemens, EMC Corp, Yahoo!, Verizon, Kimberly-Clark, J & J.,
<b>25 January</b>	Ericsson, Novartis, SAP, Lonza, Abbott, United Tech., Exelon, ConocoPhillips, Occidental Petr., Southern, General Dynamics, Motorola, Beiersdorf,
<b>26 January</b>	Amgen, 3M, Starbucks, Starbucks, Nokia, Colgate-P, Logitech, H&M, Caterpillar, AT&T, Lockheed, Bristol-Myers S., Zimmer Holdings, Sligro, Nintendo,
<b>27 January</b>	Chevron, Dominion Res, Honeywell, Canon, Ford, Altria Group, Procter&G, NTT Docomo,

## Sector indices

Index	Level	P/E '12	Div.	%YTD
<b>S&amp;P 500</b>	1315	11.2	2.0	4.5
<b>Euro Stoxx</b>	2425	8.3	4.9	4.7
<b>Nikkei 225</b>	8767	13.1	2.2	3.7
<b>FTSE100</b>	5740	9.0	3.8	3.0
<b>AEX</b>	319	8.5	3.6	2.2

## Important rating changes

Company	From	To
Akzo Nobel	Hold	Sell
China Resources	Hold	Buy
Genting	Not rated	Hold
Imtech	Hold	Buy
Kraft Foods	Buy/RL	Buy
Nalco	Hold	Not rated

## Commodity prices - Bloomberg

	Close 12 Dec.	Close 19 Jan.
<b>Gold</b>	1650	1664
<b>Brent</b>	113	111
<b>Copper</b>	8005	8386
<b>Wheat</b>	605	596

## Brent Oil - Bloomberg



## Equities

### Last week's highlights (16 January – 20 January)

A shift into more cyclical sectors led equity markets up last week. Investors took some profit in Consumer Staples, Energy and Utilities in favour of Materials, Financials and Industrials companies. Profit warnings in Philips, Tiffany, Tesco and Actelion were dismissed by speculation that China may take further steps to improve liquidity, on hopes that "Merkozy"'s new budget rules will be completed earlier and that there would be strong bond auctions in Spain and Italy.

### This week's focus (23 January – 27 January)

The earnings season will accelerate this week, with 48 S&P 500 and six Dow constituents reporting. Against a weaker guidance and macro backdrop, consensus slashed Q4 estimates earlier and deeper to USD 23.8, which is 5% lower than in third quarter. Given the positive macro data surprises in the US, we believe the risk is to the upside. However, Actelion missed its 2011 growth targets because some public hospitals and institutions in Southern Europe have not paid their outstanding bills. If this turns out to be a broader and more acute problem, recent optimism in equities could quickly reverse.

### Topic of the week

2011 closed on a weak note due to the escalating sovereign debt crisis in Europe and fears of a sharp global economic slowdown. 2012 is going to be another year of upheaval, given lingering risks and uncertainties. Elevated stock market volatility seems to be here to stay, and quality bond yields as well as interest rates are stuck at record lows. Therefore, the investment case for our 'High-quality dividend' theme remains fully intact, especially as the dividend payment season is just around the corner.

## Commodities

### Last week's highlights (16 January – 20 January)

Sentiment in commodity markets continues to be constructive. Base metals were supported by better-than-expected Chinese data releases at the beginning of the week, expectations of easing monetary policy to support growth in China and action to reduce overcapacity and energy consumption. The energy market consolidated this week as diplomatic efforts are trying to calm tensions. The International Energy Agency said that US oil demand will slide to a 15-year low of 18.76 million barrels a day. Gold and other precious metals received support as liquidity stress eased.

### This week's focus (23 January – 27 January)

The EU embargo on energy imports from Iran will most likely be postponed for six months and will probably be finalized at the Foreign Ministers' meeting on 23 January, meaning that uncertainty will continue to hang over the market. Nevertheless, a move from backwardation at the short end of the curve will probably change towards neutral or even contango, as the risk shifts further in time. We expect commodity prices to have a slight upward bias next week if market sentiment remains constructive.

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