



# Investment Insight

Friday, 28 April 2017

**Seconds away, round two.** European stock markets reacted very positively to the outcome of the first round of French Presidential Elections. As Emmanuel Macron, leader of the French independent political movement *En Marche*, and far-right *Front National's* candidate *Marine Le Pen* face off in the second round, will the rally continue and what might a Macron victory mean for markets?

This week's **Inside Track** shares the comments from a number of fund managers after round one and their expectations for European markets from here.

**Indigestion.** Weetabix has just been handed back to Western ownership after a five-year attempt to tantalise the taste buds of Chinese breakfast eaters ended in failure. However, that deal is bucking the trend which has seen China catching up on the US when it comes to M&A deals and ownership of established Western brands. Chinese buyers have been seeking to diversify overseas as domestic growth slows and many Western companies and brands including *Pirelli*, *Volvo*, *Inter Milan*, *Waldorf Astoria* and *Universal Pictures* now have Chinese owners.

But another force may now be at play. In this week's **Pic of the Week** we take a closer look.

### Quoted...

"A somebody was once a nobody who wanted to and did." - **John Burroughs**

### The Inside Track

While stock markets reacted enthusiastically to the first-round of the French Presidential election, some fund managers and analysts were a bit more cautious. The following is a flavour of the reactions.

#### Credit Agricole strategist Valentin Marinov

- "Very hard" to find a euro-negative factor; risk is clearly pointing to more euro upside from here
- Now with political risks abating, investors' attention may turn to the certainly attractive assets denominated in euros, like euro area stocks

#### AXA IM economist Laurent Clavel

- What really was priced was the possibility of a very market unfriendly result; For the French economy just yet the economic policy uncertainty is not lifted
- "The membership of France in the euro zone and in the EU, that risk, which was really the focus of markets, is almost gone"

#### Goldman Sachs equity strategist Peter Oppenheimer

- Equity market has already largely priced the outcome; concerns about the vote have not prevented European equities and CAC 40 from performing well on an absolute basis in 2017
- Expect the results to generate some relief for FTSE MIB, French and Italian banks, and a very minor relief for CAC 40
- French domestic stocks and CAC 40 have not underperformed significantly as of late; Goldman doesn't expect them to rally materially now, or after second round

#### BlackRock strategists including Richard Turnill

- Result is positive surprise for risk assets in near term
- Business-friendly and pro-European Macron, who has maintained large winning margin in head-to-head polls with Le Pen, can now build on his momentum
- Result should lead to material reduction in perceived political risk in Europe; some risk premium should linger until legislative elections in June
- If Macron becomes France's next president, may struggle to implement his agenda without stable parliamentary majority
- Expects Italy to be the next focus of European political risk

#### Credit Suisse equity strategist Pierre Bose

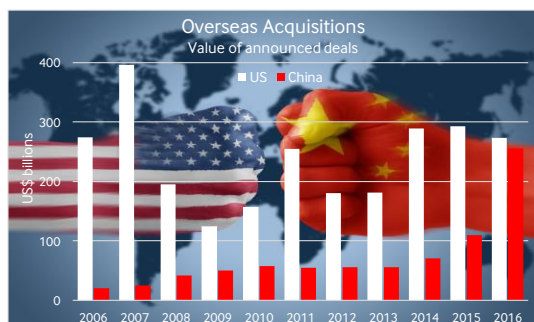
- Markets are likely to react positively to the news, with the risk of an adverse presidency for the French economy and European integration now markedly lower
- Continues to prefer European equities backed by cheap valuation and positive growth momentum; European banking stocks should also benefit in next few days; CS continues to prefer them to their U.S. counterparts

#### Bankhaus Lampe equity strategist Ralf Zimmermann

- Vote could mean that global stock investors are more willing to trade future positive macro surprises in Europe
- Bigger picture is unchanged: fundamental upside for stocks is now limited, valuations have expanded notably, particularly in U.S., but also in Europe, so stock prices have outpaced earnings estimates

### Pic of the Week

Chinese investors have been increasing their ownership of European and US businesses steadily over the past decade. In 2016, the value of overseas acquisitions by Chinese companies almost overtook the value of overseas acquisitions by US companies for the first time. Notwithstanding the recent highly publicised return of Weetabix to Western ownership, this has seemed like an inexorable trend...until Chinese regulators got indigestion and started increasingly thwarting overseas acquisition attempts by Chinese companies. In 2016, the regulators cancelled nearly \$75 billion worth of deals in an attempt to protect China's depleting foreign currency reserves, a trend that has continued into 2017.



### Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	+2.0%	+14.6%	+6.5%	+9.1%
US equities	+1.4%	+15.1%	+6.7%	+11.2%
European equities	+2.5%	+11.2%	+6.8%	+7.9%
EM equities	+1.9%	+16.1%	+13.6%	-0.8%
Irish equities	+2.4%	+10.3%	+5.5%	+16.2%
Commodities	+0.0%	-0.1%	-4.1%	-9.8%
Hedge funds	+0.5%	+6.2%	+2.1%	+1.5%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+0.8%	+0.7%	+7.2%
Germany	+0.3%	+2.0%	+1.7%
USA	+2.3%	+2.4%	+2.0%
China	+3.4%	+0.9%	+6.9%

Currencies	Current	YTD Δ
EUR:USD	1.09	+3.3%
EUR:GBP	0.84	-1.4%
EUR:CNY	7.49	+2.0%
GBP:USD	1.29	+4.6%
Bitcoin	1,336.98	+40.4%

**Week ahead: Key events**

01/05 Japan PMI Data  
01/05 US ISM Data  
02/05 China & Eurozone Manufacturing PMI  
02/05 Eurozone Unemployment  
03/05 Eurozone GDP & US Mortgage Applications  
03/05 US Rate Decision & Employment Data  
04/05 China PMI Data  
04/05 Eurozone Retail Sales  
05/05 US Non-Farm Payrolls

<b>Commodities</b>	<i>Current</i>	<i>YTD Δ</i>
Gold	1,265.18	+9.8%
Copper	5,668.75	+2.6%
Oil	52.05	-10.9%
Wheat	433.00	-0.3%

<b>Central Bank rates</b>	<i>Current</i>
Eurozone	0.00%
USA	1.00%
UK	0.25%

66 Fitzwilliam Square  
Dublin 2  
D02 AT27  
Ireland

T: (+353 1) 685 4100  
E: [research@aria-capital.ie](mailto:research@aria-capital.ie)  
W: [www.aria-capital.ie](http://www.aria-capital.ie)

# UNDIVIDED ATTENTION

**Important Disclosure:** Aria Capital Limited is regulated by the Central Bank of Ireland. Financial data provided by Bloomberg. All values are indicative only. This Investment Insight has been prepared for information purposes only. It does not constitute investment advice or an offer to buy or sell securities. No investment decisions should be made without seeking appropriate professional advice. This document may not be reproduced in whole or in part without Aria Capital's permission. © Aria Capital Limited 2017. All rights reserved.