MORABANC
asset management

MARKETS AND STRATEGIES

> JULY-AUGUST 2017

COVER IMAGE BY: RDC

How to invest in BlaBlaCar?

At the time of writing, Netflix is up 11% after-market, after releasing its results last night. And this despite trading on a PE12m of 115x. Further proof that the second wave of the internet revolution (the first was in the 90s, which ended with the dot.com bubble) is not losing momentum and cannot be ignored when it comes to taking investment decisions. But what exactly is this second wave, given that so many things are being talked about at the same time: the cloud, social networks, the internet of things, music/video streaming? Well, I think just this: the huge broadening of internet use (remember how in the 90s it was used just for emails and discussion groups?)

> The equity market is feeling the lack of exposure to the collaborative economy, and any IPO may well be priced at exorbitant multiples.

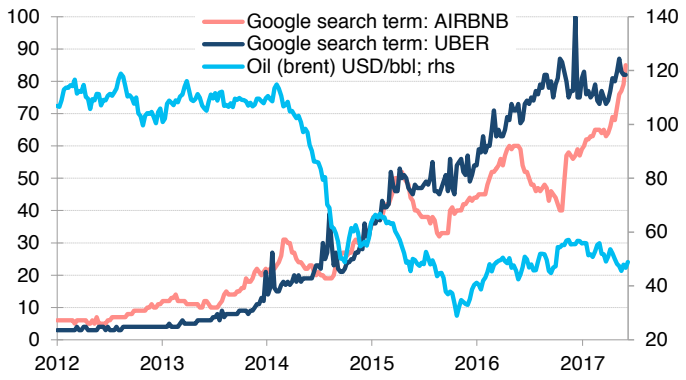
What I personally believe to be more revolutionary still is the fact that internet has changed the meaning of the term "collaborative economy." This no longer refers to the cooperatives of Eastern Europe, which, oblivious to demand, either made too much or too little (meaning that the shops in Poland were either short of vinegar or piled high with toilet paper!). Collaborative, or sharing economy now means the optimization of resources, sharing/selling things that we don't use, all via a new generation of applications (most with strange names). Today, we can easily share our car (BlaBlaCar, Uber, Lyft) or flat (AirBnB, Couchsurfing). Or we can sell unwanted clothes, lend money, find an air-conditioning technician, learn languages.....without dispensable intermediaries.

One of the things we focus on in equity management is searching for themes with secular growth potential (irrespective of the cycle); the autonomous car and cybersecurity are examples of two recent investments of ours. In this sense, the sharing economy is a perfect fit; and, what is more, it would represent a hedge against the deflationary impact that it itself produces. The problem is that none of the above-mentioned companies is listed. Looking for ways of gaining exposure, I have realized that there is no way of playing this theme in a pure way and that some of the listed companies recommended as "exposure to the collaborative economy" (on investment websites) look likely to be losers (buying shares in Expedia or Priceline –hotel booking pages- to replicate AirBnB..... hmmm?!!)

This suggests that the equity market is suffering a lack of exposure to this (currently extremely hot) theme, and that any IPO would most probably be priced at exorbitant multiples (market debut is a different issue), which means it could in fact be extremely interesting to search for private equity invested in the collaborative economy (if we were Qatar, we could talk to Uber directly; but if not, it is a case of looking for an investment vehicle).

Then again, there is always the option of shorting oil, which last month, despite the OPEC, the upbeat macro data, and North Korea, broke down through all support levels, forcing us to execute our stop-loss. Chart 1 shows how over the last five years the growing interest in Uber and AirBnB has coincided with the bear market in crude. Bearing in mind how the sharing economy can maximize utilization and minimize costs (transport, energy, manufacturing), maybe it makes sense.

Chart 1. How to play the collaborative economy? Shorting oil!



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Risk analysis

Over the last few weeks, core debt has undergone a brisk correction due to the surprisingly hawkish tone of various central bankers (Draghi-ECB, Carney-BoE, Poloz-Bank of Canada). In addition, there is the imminent withdrawal of stimulus in the US (the Fed has signaled the shrinking of its balance sheet). We are raising the risk of over-restrictive monetary policy.

Following the resolution of Banco Popular in Spain, the winding up of two banks in Italy (Vicenza and Veneto), and the rescue of Monte di Paschi, the systemic risk linked to European banks has diminished. We are lowering the risk of a European crisis.

Chart 2. Main Risks

Strategy: executing the stop-loss on oil

Macro environment. This month, we have seen an improvement in the economic activity indicators (ISM in the US, the PMI in the rest of the world), above all the manufacturing PMI in the Eurozone, which has just hit a 74-week high (at 57.4). It is also worth noting that China's Caixin PMI is back above 50. The macro surprise indicators are bouncing slightly and globally economies look less fragile than a month ago, following the recent pick-up in commodities and the cleaning-up of the European banking system.

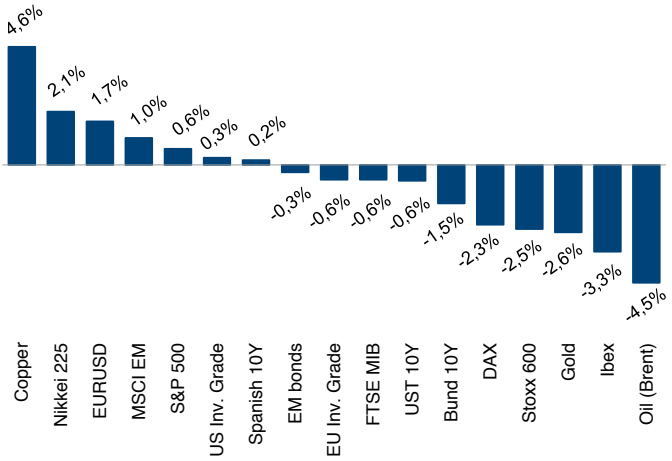
Equity. We remain tactically cautious, taking the view that after a year stock markets need a breather and that the performance of the S&P fails to reflect recent disappointments at the macro level. We believe it is important to remain extremely flexible in the low-interest rate environment, with spreads close to their lows, stock markets at their highs, and with central banks about to change tack. Strategically, we are bullish and take the view that the macro data is confirming the recovery/expansion of the main economies; EPS are rising and valuations are attractive, particularly versus fixed income.

Fixed income. We believe the recent drop in core debt (bund -3%) has further to go. We are sticking to our bearish stance. We see value in ILBs, which are discounting excessively low inflation levels, in our view. We remain invested in credit and peripheral risk premiums.

EURUSD. After months of ultra-dovish rhetoric, Mario Draghi has toughened his tone, triggering a euro rally to 1.15, our target level. We don't expect it to go any further and we are leaving our forecast range for the EUSUSD at 1.10-1.15, meaning that we are **reducing our position from OW to neutral.**

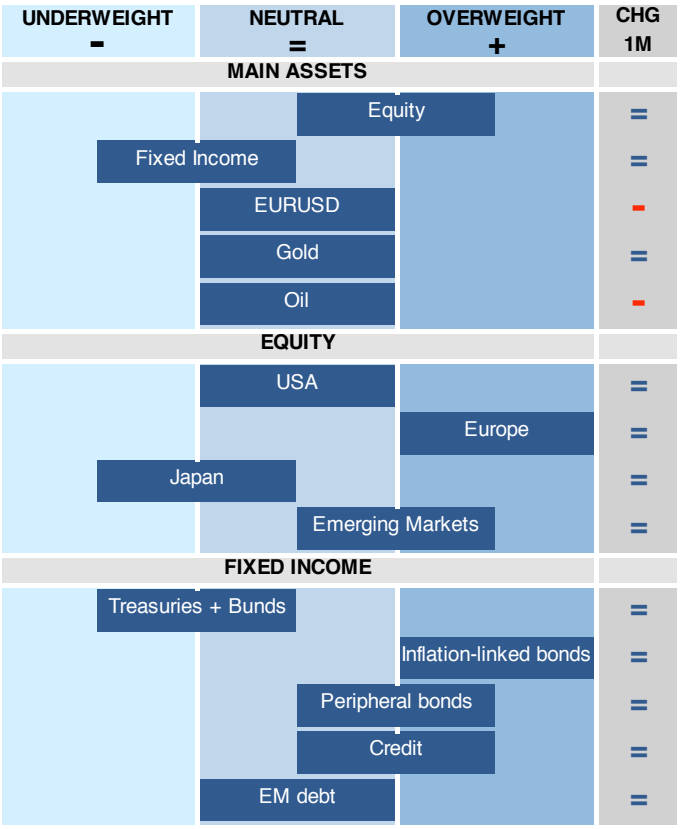
Commodities. Despite the favourable fundamentals and the increase in geopolitical risk, brent broke down through critical support at USD 46.5, where we executed our stop-loss. We continue to believe that it makes sense to be exposed to oil given geopolitical risks. However, we prefer to keep discipline. **We are lowering our position to neutral and remove the target price** (previous: USD 60/bbl). We remain neutral on gold.

Chart 3. Total returns June 2017*



* USD returns on MSCI EM index and EM bonds

Chart 4. Positioning in the main asset classes



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macroeconomy

Turning point for central bank policy?

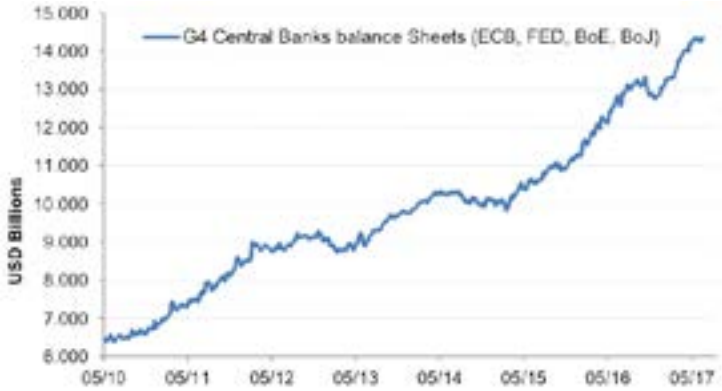
Last month, we witnessed a significant tightening at the long end of the main global debt curves. The market has taken recent central bank rhetoric to be a hint about a potential turning point that could signal the imminent end to low-interest rate era: the Fed is starting to think about shrinking its balance sheet, while the ECB has said that even more negative short-term rates now look unlikely. Despite all this, balance sheets at the main central banks have increased by USD 1.7 trillion over the last year (see chart) and, for the moment, they continue to mark new maximum levels. The main economic surprise indicators around the world have picked up slightly, having been at their year's low in June. Similarly, the main commodity indices (and the oil price) are bouncing after registering lows the previous month. On a year-on-year basis they are still showing significant losses.

Geopolitically, a degree of calm has descended after the frenetic news flow of recent months and ahead of the summer holidays. The Trump administration continues to disappoint the market with its slow, or inexistent, progress (although it has to be said there has been no let up by either the opposition or the media).

R. Giménez

News	Events
BREXIT: Start of negotiation process between the UK and the EU	26/JULY/17. Fed interest rate decision
BIS warns of increase in zombie companies since the end of the financial crisis	28/JULY/17. First 2Q17 GDP estimate in the US
S&P 500 volatility hits lowest level in two decades in June	1/AUGUST/17. First 2Q17 GDP estimate in the Eurozone
G20 meeting ends with no significant agreements	1-3/AUGUST/17. Chinese PMI for July

Chart 5. Is monetary policy effective?



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fixed income

Hawkish tilt from the ECB

Mid-June, European debt markets were hardly expecting a hawkish tone from the ECB, and the lack of good inflation data was encouraging a flattening of curves across the board. But during the last week of June and first week of July, the ECB's tone appears to have become more hawkish, triggering a steepening of European curves. As a result, the German 10-year has risen from 0.25% to 0.58% in two weeks. Further clues about tapering are expected after the summer, at the meeting on September 7. As for credit, following the minimal correction of the high-yield index in June (to 255bp), the start of this month was positive (back to 240bp). The investment grade index remains below 55bp.

In her speech on June 12, Janet Yellen in the US hinted at a slightly more dovish tone than the markets had actually been pricing in, due to the fact that inflation data is weaker than expected and the growth data also slightly slower. This said, the upbeat job figures continue to support the 50% probability of a 25bp interest rate rise that the market is pricing in through to the end of the year.

Emerging debt continues to perform well, driven by good figures from Asian economies and some in LatAm. The EMBI Global Spread remains below 340bp.

M. Soca

Chart 6. Risk premiums

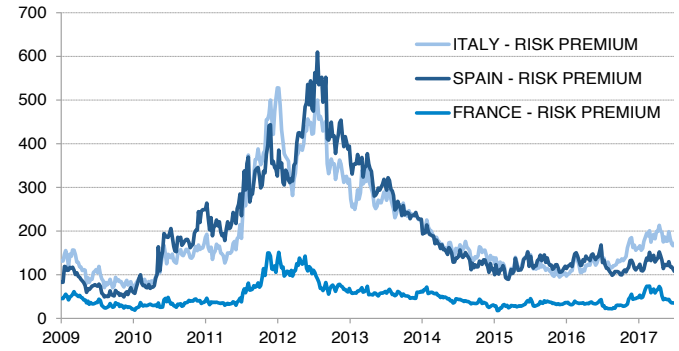
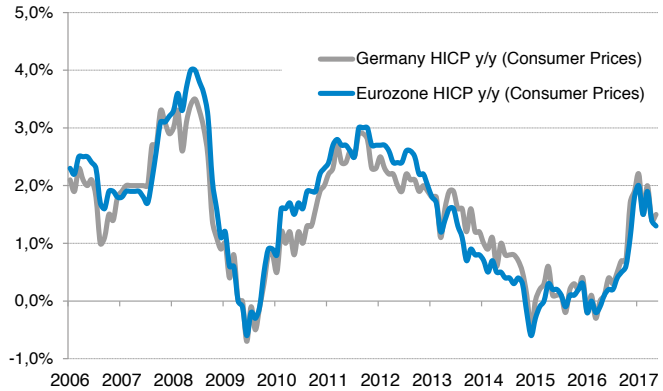


Chart 7. Inflation risks in Europe



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equity

Earnings on the beach

It was a mixed performance last month. A breakdown by regions shows how the MSCI Emerging Markets rose +2%, with Brazil's Bovespa +5.4%, how in Europe the EuroStoxx50 slipped -0.9%, with strong performances from some peripheral markets, such as Italy (FTSE MIB +1.8%) and Greece (+6.9%). At the sector level, the leaders were Financials (+2.7%) and Materials (+1.6%), which, interestingly, are still the least popular among analysts and fund managers.

The 2Q17 reporting season got underway just a few days ago, with the S&P EPS expected to rise 6% (y/y). We haven't seen enough results yet to draw any meaningful conclusions, but we are pretty sure that they will be the driver for the market over the next couple of months, assuming forecasts are met and there is no disappointment on the outlook for the second half. In which case, it should be an extremely positive summer.

At the same time, the macro data remains solid, both in Europe and the US, and China has recently reported 2Q GDP growth of +6.9%, a better-than-expected figure that has helped sentiment.

This summer there is a good chance that we will be able to enjoy a nice *mojito on the beach*, providing there are good earnings on the beach.

X. Torres

Chart 8. S&P 500 versus earnings

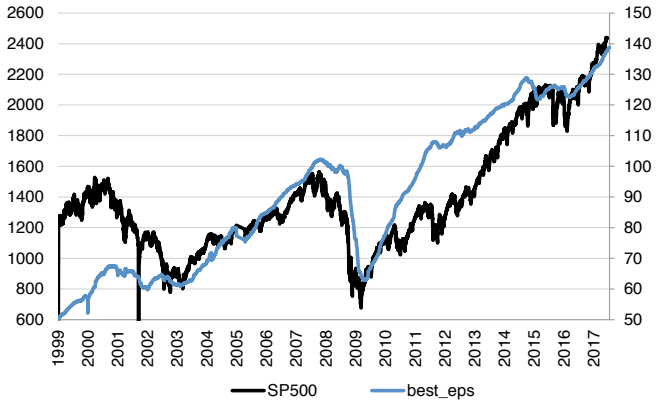
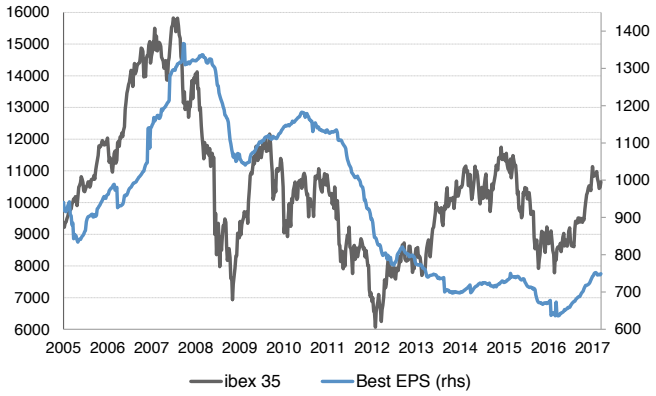


Chart 9. IBEX35 versus earnings



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equity / technical analysis

Clear skies

We wrote last month about the potential consolidation movements taking shape. Well, it looks as though these have actually followed through, and we could well see rises over the coming months. For the bull trend to remain in tact, we need to see a break through the year's highs. Recent movements have only added fuel to this bullish forecast for European equities. These movements, which have seen the support on the EuroStoxx future work perfectly at 3,400, pave the way for a break through these highs over the coming weeks. In terms of the IBEX, support levels have worked here too, and we should see progressive rises over the coming months. We are seeing continuous new highs in the US, where the potential targets on the S&P 500 and Dow Jones are now at 2,500 and and 22,000 respectively; albeit with potential corrections in the short term. But all in all, the outlook is bullish and we believe you can go on holiday without too much fear of nasty surprises in financial markets.

G. Apodaca

Chart 10. Eurostoxx future (daily chart) with 200-day moving average

Chart 11. Ibex35 future (daily chart) with 200-day moving average

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currencies

Taking profits on the EURUSD

The EURUSD broke out of the top of our forecast range of 1.10/1.15. Even though the driver was political uncertainty in the US, there are various factors that favour a more constructive stance on the single European currency: valuation (further upside based on PPP), flows (EUR inflows remain strong), interest rates (particularly the correlations with the longer end), the capacity for surprise with European monetary policy, etc...

This said, it is important to recognize, even though all the above is true, that the 1.15-1.17 zone has been an important resistance zone (10 unsuccessful attempts have been made on it over the last 3 years).

So, we need to be cautious ahead of potential central bank developments (upcoming speeches by Fed members, ambiguity in the ECB tone, etc...), technical resistance on the interest rate spread, and a significant reduction in EUR shorts, etc...

Our constructive stance on the EUR has not changed; but, has we have said on several occasions, we don't like to chase prices. So, we are taking profits at these levels ahead of a potential pullback to the lower end of our forecasts range (1.10/1.15) and due to the balance of risk (EUR more likely to depreciate than to appreciate). We are moving to a neutral position.

T. García-Purriños

Chart 12. Resistance levels on EURUSD

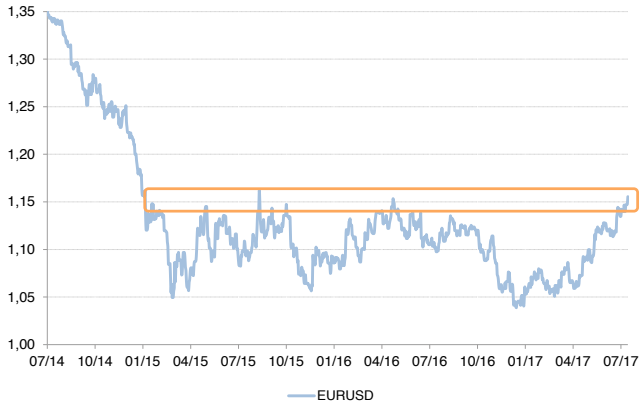
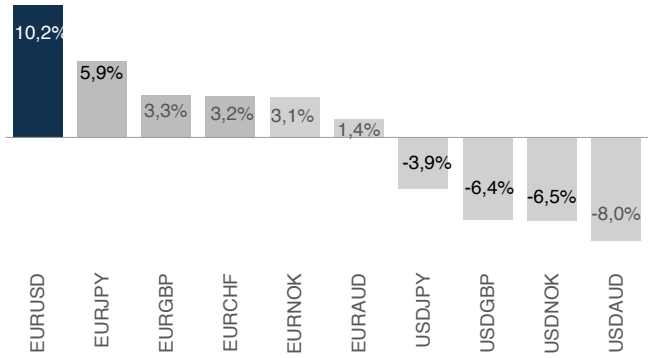


Chart 13. Performances of main currencies in 2017 (YTD)



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FX and commodities

Crossroads on oil

Despite a bit of a bounce, brent remains at the crossroads formed by the upward trend lines (that connect the relative lows of August and December with those of February 2016 and June-July), the 38.2% pullback from the previous bull run, the 100-day moving average, etc..., and this against a backdrop of negative sentiment, albeit not extreme. Proof of this sentiment was the reaction, for example, to the latest IEA report, which warned about lower compliance with the OPEC agreement but also of far stronger demand than expected and a potential supply deficit in 2Q17.

If we take a look at the fundamentals, nothing has changed: total inventories continue to fall, the outlook for demand looks upbeat, Chinese imports are at all-time highs, etc.

Despite the above, the agreement among producers is under threat, Ecuador having quit at a moment when the level of compliance was below 80% (both among OPEC countries and the non-OPEC members in the agreement).

And then we should not ignore the price behaviour, as a result of which we are moving to a neutral position. USD 43.5 is the level at which we would admit that our scenario has been wrong and that we would need to revise our target price. It will require at least a move above the previous relative high before we turn more bullish.

T. García-Purriños

Chart 14. Oil inventories

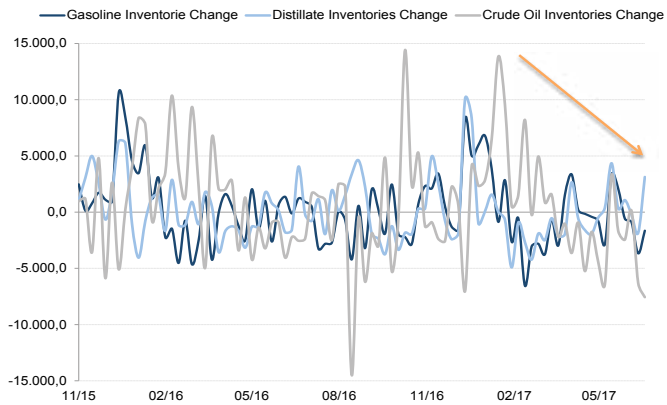
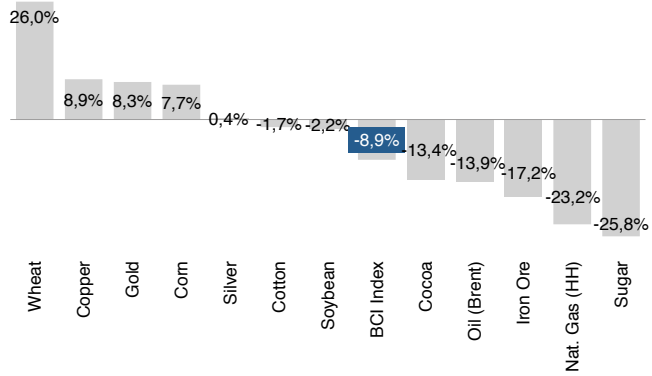


Chart 15. Performance of the main commodities in 2017 (YTD)



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The growth of passive managament

Passive management, defined as investment vehicles that try to replicate indices, is gradually increasing its market share at the cost of active management. The are several drivers behind this, from costs (lower than those on active management) to, in many cases, underperforming actively managed funds.

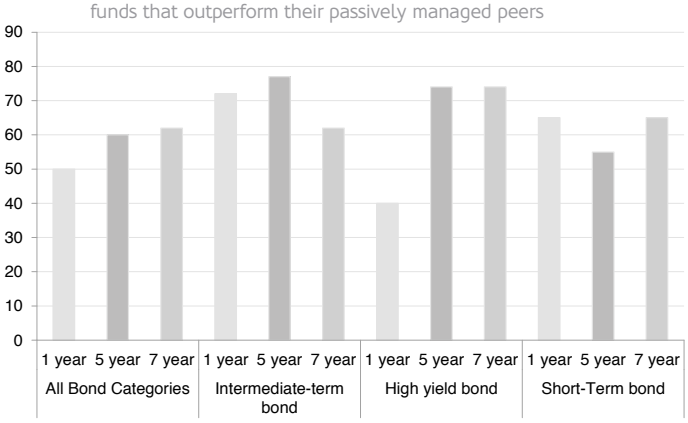
One of the markets in which performance versus the benchmark index really stands out is the US, where the S&P 500 is considered the most efficient index and therefore the one most difficult to beat consistantly over the long term. A Standard&Poors report points out that over the last 15 years 92.2% of the equity funds in the US underperformed the S&P 500. However, luckily for the active managers, the results are not so dismal on all indices, and there are funds that consistanlty beat their benchmarks.

Curiously, in Europe one of the big drivers of passive management have been the active managers themselves. This phenomenon is the result of active managers carrying out their geographical or sectoral asset allocation and then implementing it via ETF. It is a way for them to gain exposure to assets in which they don't have the necessary expertise to generate value through direct management. They have also shown how passive management can be used for taking tactical short-term positions.

Where the growth is less noticeable is in fixed incime. The main reason for this is that there is a higher percentage of managers beating their benchmarks and with reasonable costs; but the characteristics of fixed income indices also play a part, these being more difficult to replicate due to the frequency of rebalancing (monthly as opposed to normally yearly in the case of equity indices), and due to rotation, which in the case of the Bloomberg Barclays US Aggregate Bond Index is as much as 40% a year. This is the next area in which passive management will need to be refined in order to gain ground on active management.

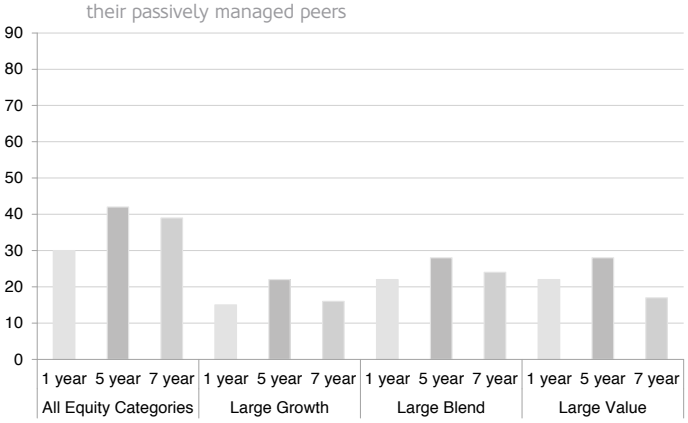
J. Hernando

Chart 16. Percentage of actively managed fixed income funds that outperform their passively managed peers



Source: Morningstar and Pimco

Chart 17. Percentage of actively managed equity funds that outperform their passively managed peers



Source: Morningstar and Pimco

18/07/2017	LAST PRICE	CHANGE 1M	CHANGE YTD
INDEXES			
MSCI World	1.950	0,7%	11,3%
MSCI Emerging Markets	1.053	4,0%	22,1%
S&P 500	2.461	0,6%	10,3%
Nikkei 225	20.000	-0,2%	4,7%
EuroStoxx 50	3.479	-2,2%	6,4%
FTSE 100	7.390	-1,2%	4,0%
DAX	12.430	-3,4%	8,5%
Ibex 35	10.525	-2,4%	13,2%
CAC 40	5.173	-1,8%	7,3%
FTSE MIB	21.358	2,2%	11,7%
PSI 20	5.308	-0,5%	13,3%
Athex	848	3,9%	32,6%
Hang Seng	26.525	2,9%	21,2%
Bovespa	65.338	4,9%	8,0%
Micex	1.948	5,5%	-12,6%
SECTORS			
Consumer Discretionary	219,6	0,3%	11,8%
Consumer Staples	229,1	-1,7%	10,4%
Energy	196,8	-0,7%	-10,1%
Financials	117,2	2,5%	10,4%
Industry	241,2	0,1%	13,5%
Materials	250,8	4,2%	13,0%
Health Care	222,3	0,5%	15,3%
Technology	197,1	2,3%	22,3%
Telecommunication	68,2	-3,0%	-2,0%
Utilities	126,6	-2,6%	10,1%

18/07/2017	LAST PRICE	CHANGE 1M	CHANGE YTD
GOVERNMENT BONDS	YTM	bp	bp
Treasury 2y USD	1,35%	0,0	16,8
Treasury 5y USD	1,81%	3,2	-10,8
Treasury 10y USD	2,26%	8,0	-17,7
Bund 2y EUR	-0,64%	1,6	12,9
Bund 5y EUR	-0,13%	25,7	39,6
Bund 10y EUR	0,55%	26,0	33,6
CDS	Spread	bp	bp
ITRAX EUROPE 5Y	53,3	-2,9	-19,3
ITRAX EUROPE 10Y	96,6	-3,1	-15,8
ITRAX EUROPE SR FIN 5Y	51,0	-9,7	-43,0
ITRAX EUROPE SUB FIN 5	127,8	-23,2	-96,4
CDX USA 5Y	57,6	-3,2	-10,5
SOVEREIGN SPREADS	Spread	bp	bp
Spain / Germany 10y	98,6	-14,2	-16,2
France / Germany 10y	26,2	-8,7	-21,8
Italy / Germany 10y	163,5	-1,9	4,0
Ireland / Germany 10y	6,2	-8,9	-27,3
Portugal / Germany 10y	251,4	-6,5	-103,2
BREAKEVENS	Rate	bp	bp
Germany Breakeven 10Y	1,09%	11,0	-16,0
US Breakeven 10Y	1,77%	8,5	-20,0
UK Breakeven 10Y	2,95%	0,2	-6,4
HY & EM SPREADS	Spread	bp	bp
BarCap US Corp HY	360,0	-5,0	-49,0
JPM EM Sovereign spread	326,7	2,1	-38,6
CS EM Corp Spread vs. BM	252,3	2,7	-28,4

18/07/2017	LAST PRICE	CHANGE 1M	CHANGE YTD
IBEX-5			
BBVA	7,5	1,3%	17,0%
Inditex	33,7	-3,8%	5,5%
Repsol	13,7	-2,0%	2,8%
Santander	5,7	-3,0%	15,9%
Telefónica	9,3	-4,0%	5,7%
BLUE CHIPS EUROPE			
Siemens	118,0	-7,8%	-0,2%
Total	42,9	-3,9%	-11,0%
Sanofi	82,6	-5,1%	6,9%
SAP	89,8	-4,3%	10,3%
Anheuser-Busch InBev	99,0	-2,6%	-1,1%
Daimler	64,2	-2,4%	-9,3%
BNP Paribas	64,8	2,8%	7,1%
LVMH	219,0	-4,5%	22,5%
Deutsche Telekom	15,6	-6,9%	-4,3%
BLUE CHIPS US			
Apple	150,1	2,9%	30,0%
Microsoft	73,3	4,1%	18,7%
Johnson & Johnson	134,5	0,5%	17,0%
Amazon	1.024,5	3,3%	37,1%
JPMorgan Chase	91,1	3,6%	5,8%
General Electric	26,9	-6,5%	-14,8%
AT&T	36,0	-7,7%	-15,6%
Pfizer	33,4	1,4%	3,7%

18/07/2017	LAST PRICE	CHANGE 1M	CHANGE YTD
IBEX-5 CDS 5Y		bp	bp
BBVA	58,6	-15,9	-65,6
Iberdrola	46,6	-3,4	-28,2
Repsol	80,3	-7,2	-46,0
Santander	48,4	-15,7	-73,0
Telefónica	67,9	-6,2	-52,0
BLUE CHIPS EUROPE		bp	bp
Siemens	23,3	-0,9	-16,3
Total	36,5	-0,6	-12,3
Sanofi	28,4	-1,4	-12,1
SAP	26,3	n.a.	n.a.
Anheuser-Busch InBev	n.a.	-1,2	-28,6
Daimler	49,0	6,0	18,0
BNP Paribas	31,7	-8,9	-52,6
LVMH	29,3	-0,9	-9,3
Deutsche Telekom	40,8	0,2	-6,1
BLUE CHIPS US		bp	bp
Apple	n.a.	n.a.	n.a.
Microsoft	n.a.	n.a.	n.a.
Johnson & Johnson	13,9	-2,4	-9,3
Chevron	100,4	0,2	n.a.
JPMorgan Chase	48,8	-1,1	-16,2
General Electric	102,3	n.a.	2,3
AT&T	73,5	-3,9	-19,4
Pfizer	23,4	-2,9	-20,1

FX

18/07/2017	LAST PRICE	CHANGE 1M	CHANGE YTD
EURUSD	1,1563	3,2%	9,5%
EURCHF	1,1029	1,1%	2,6%
USDJPY	112,05	0,3%	-4,4%
GBPEUR	1,1283	-0,8%	-3,5%
AUDJPY	88,66	-4,6%	5,4%

Commodities

18/07/2017	LAST PRICE	CHANGE 1M	CHANGE YTD
Gold (USD/oz)	1.242,2	-0,5%	8,1%
Copper (USD/t)	6.007,0	6,1%	8,5%
Crude Brent (USD/bbl)	48,8	5,0%	-15,9%
Corn (USD/bushel)	377,0	1,8%	8,5%
GSCI Commodity Index	373,6	3,4%	-6,2%

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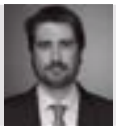

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