5/ Mapping the markets (part I)

General comment

The reflation trade is due for another correction down as many reflation assets have already started to rebound following their recent losses. Indeed March into April was risk-off. We now expect the current bounce/extension upwards to continue towards early/mid May. Following that, we expect a risk-off period to materialize into mid year favoring Bonds, Gold and the Yen vs Equity, Oil and Basic Metals.

Equity markets

Volatility
(p. 16)

VIX is testing historical lows, we expect it to bounce back up during May and June.

World markets
(p. 11, 17, 23, 24)

New highs for some indexes, rebounds for others (markets are diverging), yet risk/rewards over next months seems exhausted: possible retracement potential from early/mid May into June 4 to 7% .

Regional picks
(p. 17, 23, 24, 25, 45)

Europe is re-rating rapidly on a relative basis and should continue to do so over the next few months/quarters; Japan should suffer from a stronger Yen until the Summer .

Emerging markets

China, Brazil and Russia are consolidating down into June (both in local ccy and Dollar), India remains strong both in INR and in Dollars, EEM ETF benefits from the translation effect of a weaker Dollar

Relative Sectors
(p. 13, 14)

Following a slight bounce into May, reflationary sectors (Energy, Materials, Financials) should continue to correct on a relative basis towards midyear. Defensives should make further progress from early/mid May into June as a new risk-off phase materializes. Technology/Big Growth is gradually shifting to neutral.

Profiles/Themes
(p. 25)

Small Caps/Big Caps very much influenced by currency movements for now (weaker in the US, stronger in Europe and Japan), Value continues to retrace vs Growth, probably towards mid year.

Interest rates

US rates and Yield curve
(p. 41- 43)

Since March, US yields have been retracing. Although a slight bounce is awaited up into early May, they should resume their downtrend towards June / mid year. 1.9% would be a crucial support for the US10Y. Along with yields, the curve is flattening across the board.

Other countries
(p. 26)

Having followed US yields up (i.e. the reflation trade), yields in other developed countries are also retracing rapidly. Their yields curves are also flattening again.

Credit
(p. 12)

Since March, Credit has started to retrace its recent outperformance. It should continue to do so into mid year. High Yield is especially strong as it is still retesting recent highs on an absolute basis. From May, however it should also correct down into mid year.

Rate Differentials
(p. 26)

Following a strong move up last year, the rate differentials between the US and the Eurozone and Japan rate differentials have started to reverse, probably into midyear in first instance. Sovereign spreads in Europe have contracted since the 1st round of the French Election, following the 2nd round (and likely further contraction on the back of it), they could start widening again towards year-end (QE tapering?).

Tips
(p. 12, 16)

Tips have outperformed Treasuries since early 2016. This trend should reverse down into mid year, although Tips remain positive on an absolute basis

6/ Mapping the markets (part II)

Commodities

Oil (p. 11, 15, 30, 32)	Oil is consolidating down from its February highs. It may bounce until May, but should resume their downtrend thereafter towards mid year; targets possibly below $50/b on Brent and below $48/b on WTI.
Base metals (p. 31)	Their reflation rally has topped out (except for Aluminium which will eventually follow), they should now continue to retrace into June.
Gold & PMs (p. 30- 36)	Following some retracement into early May, Gold is moving higher into mid year possibly retesting last year's highs. Going into the risk off period we expect into June, it is currently strong vs bonds, oil, copper or silver.
Agriculture	On average, the sector has achieved little during the reflation trade due to large supply expectations. They should remain under pressure towards the Summer at least. Cotton and Lumber are outliers, they show strong uptrends towards early 2018, yet could also correct into the summer.

Foreign Exchange

Dollar Index (p. 34)	The Dollar index has probably topped out last December and should gradually continue to weaken throughout the year. Target range towards year end towards 96-92
Euro (p. 22, 44)	EUR/USD is reversing despite some residual short term risk on the 2nd round of the French Election. We see it move towards 1.15 – 1.22 towards year end. EUR/CHF should laso be moving higher, while EUR/JPY could bottom out sometime this Summer.
Yen (p. 21, 22)	Yen is currently retracing its H2 2016 losses and could eventually make new highs vs most currencies into midyear / the Summer, especially if the risk-off period we expect from May materializes
Sterling	Sterling is currently correcting up vs the Euro and the Dollar, yet could soon reverse back into its downtrend to make new lows towards year end
Commodities currencies	They are currently retracing some of their reflation gains vs the Dollar along with oil and commodities (BRL, RUR, CAD, NOK, ZAR). AUD is following Gold up and should perform well vs USD going into mid year and year end (less so vs the Euro and the Yen)
Asian currencies	They have reversed up vs the Dollar. Some are particularly strong notably TWD or INR.