

Global funds raise euro zone assets to over two-year highs

U.S. stocks cut to 39.3 pct, lowest since Nov. 2016

By Claire Milhench

LONDON (Reuters) - Global investors have raised their holdings of euro zone equities and bonds to the highest levels in more than two years, a Reuters poll showed, reflecting a conviction that the European Central Bank will not rush to raise interest rates.

Investors have sought signals as to when the ECB will start reducing its asset-purchase scheme, but the bank left its ultra-easy monetary policy unchanged at its July meeting and did not even discuss winding down stimulus.

That probably gave fresh impetus to investor bullishness on Europe. Reuters' monthly asset allocation survey of 49 fund managers and chief investment officers in Europe, the United States, Britain and Japan, showed assets from the single currency bloc continued to be favored.

The poll, conducted between July 17-26, showed funds boosting euro zone equity allocations to an average 20.1 percent, the highest level since April 2015 and up 3.4 percentage points since the start of the year.

They also raised euro zone bond holdings by two percentage points to 29.2 percent, the highest since March 2015.

European equities are up 5 percent year-to-date though they are set to end July flat, possibly spooked by the euro's surge to near two-year highs.

Over two-thirds of poll respondents who answered a question on monetary policy said they did not expect all four major central banks - the ECB, Bank of Japan (BOJ), the U.S. Federal Reserve and the Bank of England - to be in policy-tightening mode by end-2018.

The ECB and the BOJ were most often named as the central banks likely to lag the other two.

Alain Zeitouni, senior portfolio manager at Russell Investments, was amongst those who cited the ECB.



The headquarters of the European Central Bank (ECB) is seen along the famous skyline in Frankfurt, Germany. (Reuters)

"We expect a slow and gradual tapering in the course of 2018 in order not to scare global capital markets," he said. "Inflation remains sub-2 percent in the euro area and with potential uncertainties around Italian elections in 2018, it is very unlikely the ECB will act before the end of the year."

Trevor Greetham, head of multi-asset at Royal London Asset Management (RLAM), said their highest conviction view was that the BOJ would not raise rates.

"The recent downgrade in their inflation outlook confirms our view that the underlying inflationary pressures remain low. We expect yen weakness to boost Japanese equities," he said.

Investors increased Japanese equity

exposure to 17.7 percent in July, the highest since November 2016, whilst raising Japanese bonds by over 1 percentage point to 13.5 percent.

The BOJ kept policy unchanged in July and pushed back the timing for achieving its inflation target.

Some managers also doubt the Bank of England will be able to tighten any time soon, with Justin Onuekwusi, a fund manager at Legal & General Investment Management, citing fragile consumer demand and uncertainty over Britain's upcoming exit from the EU.

"The MPC will have to balance a slowing economy and rising inflation - a mild form of stagflation," he said.

In contrast, the U.S. Federal Reserve is expected to tighten further and to

start reducing its bond holdings soon, a step it alluded to at its July meeting.

Investors cut their U.S. equity holdings to 39.3 percent in July, the lowest level since Donald Trump's election as U.S. President in November.

Although U.S. stock markets have rallied to record highs, some investors expressed concern about stretched asset prices. With Trump's promised tax cuts and higher spending already priced in, the market is viewed as vulnerable to disappointment.

Some 85 percent of poll participants who answered a question on Trump predicted he would see out his four-year term, notwithstanding an ongoing investigation into possible collusion between his presidential campaign and Russia.

Several asset managers saw impeachment as difficult unless the Democrats made substantial gains at 2018 midterm elections.

Robeco strategist Peter van der Welle, however, put Trump's odds of survival at 50/50.

"If (special counsel Robert) Mueller manages to keep the investigation on track and presents compelling evidence, it is not unthinkable he has cleared enough smoke for Congress to trigger impeachment," he said.

Overall, investors trimmed equity holdings to 46.1 percent of global portfolios, the lowest since March, while raising bond allocations to 40.8 percent, the highest since December.

In another sign of caution they raised cash levels by almost one percentage point to 5.3 percent.

Just over half of those who answered a question on rock-bottom implied volatility expected it to spike higher, citing potential earnings disappointments as a possible trigger.

"At current valuations, markets are priced for a return of Goldilocks - in the second phase of the cycle this is an assumption you should be concerned about," said Francois Savary, chief investment officer at Prime Partners.

Discovery to acquire Scripps Networks Interactive

By Jessica Toonkel

Discovery Communications Inc is acquiring Scripps Networks Interactive for \$14.6 billion in a deal that is expected to boost the combined company's negotiating leverage with pay TV operators at a time when more people watch video online, the companies said on Monday.

The acquisition, which was completed last night, brings together Scripps' largely female audience of lifestyle channels such as HGTV, Travel Channel and Food Network with Discovery's Animal Planet and Discovery Channel, which primarily has male viewers.

With the acquisition, Discovery can cut costs and use Scripps' shows to further its international reach. The combined company's larger programming slate might also provide leverage in negotiations for inclusion in skinny bundles, or economy-priced cable packages that offer fewer channels than a standard contract.

The combined company will have 20 percent total cable viewership, according to a recent Barclays note. That will strengthen its negotiating stance when renewing contracts with distributors. By adding Scripps programming, Discovery could also launch its own "skinny bundle" of networks at a low cost.

U.S. television networks and cable providers are under pressure as more viewers watch their favorite shows and movies on phones and tablets. There is also increased competition for viewers from streaming services such as Netflix Inc and Amazon.com Inc.

Scripps has been considered a takeover target since the Scripps family trust that controlled the company was dissolved five years ago.

This marks at least the third time that Discovery, whose shareholders include cable magnate John Malone, has tried to buy Scripps. Discovery outbid Viacom Inc for Scripps, which Reuters first reported Wednesday.

Investors are largely positive on the deal for the synergies the combined company will see and the leverage it will have with pay TV partners. Since news of Discovery's talks started, Discovery is up almost 3 percent, while Scripps is up almost 30 percent.

But many analysts question how the combined company will compete long-term as viewers keep cutting cords to cable providers and advertising and ratings decline.

"If there were no secular concern, this deal would be a slam dunk," wrote Barton Crockett an analyst at FBR Capital Markets, on July 27. While ratings for both companies have been solid, "investors don't trust that this can continue, and we're not sure what turns that fear around."

Discovery is paying 70 percent cash and 30 percent stock for Scripps.

THE LOUNGE

Michal Galanti



1. IDF Friends

Friends of the Israel Defense Forces national board member and major supporter Haim Saban and his wife, Cheryl, donated NIS 30 million toward the construction of the IDF Druse Soldiers Heritage Center in the Upper Galilee. At the groundbreaking ceremony last week, Sheikh Muwaffak Tarif, the spiritual leader of Israel's Druse community, gave Saban the Druse community's worthy citizens award.

2. Sushi kudos

Sushi chef Meidan Siboni, who frequently features at upper-class occasions, was invited to cook for Japanese Ambassador to Israel Koji Tomita at an event promoting Japanese cuisine in Israel. Siboni described the meeting as one of the most memorable in his career, after he received compliments on the taste and attractiveness of the handmade portions he made.

3. Angels by the dozen

The launch event for the start-up fund 12 Angels, the first risk-capital firm specifically designed for the haredi (ultra-Orthodox) community, was held on the roof of the Microsoft buildings in Herzliya. Haredi investors Moshe Friedman and Avraham Winegot established the venture, which has a target of \$5 million, to help support seed start-ups in the haredi



sector. Those who met on the roof included: Yoram Yaacovi, head of Microsoft Israel's research and development department, Yossi Matias, Google's vice president of engineering, Adi Soffer Teeni, general manager of Facebook Israel, Yifat Oron, CEO of LeumiTech, Chemi Peres, Yizhar Shai, Dov Moran, Guy Horowitz, Haim Shani, Yair Seroussi, Tzvika Limon, Aharon Aharon, and many others from the country's hi-tech scene.

4. Getting Oriented

President and chairman of the board of directors of the Isrotel hotel chain Julian Lewis was in Israel for the opening of Jerusalem's Orient Hotel. Isrotel CEO Lior Raviv and Orient general manager Amit Bahat welcomed the visitors who came to give their best wishes. Guests included Tourism Minister Yariv Levin; Rabbi of the Western Wall Shumel Rabinowitz; and president



of the Israel Hotel Association Amir Hayek.

5. Legacy

Last week, the Golani reconnaissance company inaugurated its clubhouse and legacy corner, featuring exhibits memorializing the battles it took part in. The ceremony, held in the Shraga camp, next to Kibbutz Lohamei Hage-taot, was attended by Justice Minister