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Q 03 / 2019

Quarterly Investment Review and Outlook

Quarterly Report – Q03/2019

At a glance

Review – 3rd quarter of 2019

1. Retail sales and CPI

- Across the globe, retail sales were robust, demonstrating consumers' resilience despite a slowing job market and declining confidence.
- Core inflation accelerated to 2.4% YOY, the highest rate since August 2005. This acceleration will most likely be corrected downwards in the coming months by lower economic growth.

2. US growth

- On the back of raising unit labor costs and somewhat weak economic performance, EPS growth during the 3rd Quarter 2019 was almost equal to zero.
- To support economic growth, the FED is likely to remain accommodative in the coming months. Its Chairman, Mr. Powell, has turned dovish. The market expects at least two additional rate cuts in the coming 12 months. These expectations have maintained financial conditions at a supportive level. Because these rate cuts are hugely anticipated, we doubt they will translate into a significant boost for the economy and the market.
- In an extreme case, the FED can interact via the Forex market, i.e., the weakening of the dollar would be a powerful tool to quickly stimulate the US economy.

3. Europe

- ECB announced a comprehensive package, slightly ahead of expectations with a) the deposit rate cut to -0.5% and b) the QE restart beginning November 1. The QE will be "open-ended" and amounts to EUR 2bn monthly.
- For both US and EU markets, a significant EPS rise is unlikely to take place in the next 6 to 12 months. Therefore, any stock market rise can come only from durable measures such as a) reestablishment of a trade truce, b) an economic outlook that does not result in a recession, and/or c) a significant fiscal and monetary response. In this respect, although Europe has already introduced negative interest rates, it has more to offer to investors overall.

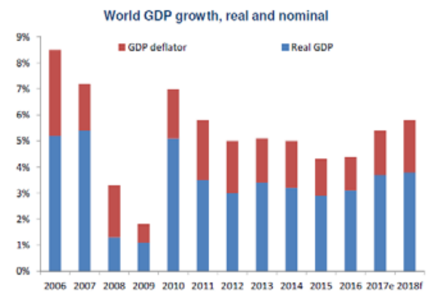
4. Higher energy prices

- The mid-September drone attacks on Saudi Arabian oil refineries may have a material impact, on oil supply. Indeed, half of Saudi oil output is said to have been hit (i.e., 5% of global oil output), and the disruptions are likely to last for some weeks. The long end of the future curve should rise—good news for big oil companies, since it is used to value them.
- Since global economic growth is already fragile, any negative oil supply shock is likely to exacerbate the economic slowdown (or at least fears of one), thus eventually resulting in lower bond yields. In other words, such a shock (provided it continues for a prolonged period) is by nature more deflationary than stagflationary.

5. Recession vs. mid-term deceleration

- Growth has moderated only slightly, but many financial forecasters of us believe that the market is headed for a deeper pullback. Learn about our viewpoint of the subject on page 5.

Historic GDP growth figures



What happens to the stock market when the yield curve flattens by 100bp steepening?

Key concerns

We have identified at least 12 known potential sources of risk that could impact the market in 2019 and beyond. In addition, issues that are not yet considered as potential sources of risk will be added to the list overtime

Breakdown in US industrial activity: PP-ratio[1]: <10%

Possible consequences:
- Renewed US stock market consolidation
- EUR appreciates strongly
- Yield curve steepening

Occurrence of a DM-recession within the next 18 months: PP-ratio: **<**30%

Possible consequences:
- Safe-haven currencies (USD, JPY, CHF) up
- General risk-off by investors
- Worsening of credit conditions, in particular for HY

Revival of the Philips curve (core inflation up): PP-ratio: <15%

Possible consequences:
- Term premiums up
- Yield curve steepening
- Debt (government, corporate, and private) sustainability issues

Re-introduction of a custom tariff/trade war: PP-ratio: >40%

Possible consequences:
- Disruption of industrial activities around the globe
- Higher prices for consumer staples
- Stock market corrections (based on lower EPS expectations)

Increase in HY credit spread and increase of default rates: PP-ratio: <5%

Possible consequences:
- US stocks down
- Wider credit spreads for HG issues
- Volatility up

Downturn in Chinese economic activity: PP-ratio: <5%

Possible consequences:
- Emerging market downturn
- Commodity prices down
- Forced liquidation of US Treasury, accompanied by a weak USD

Unexpected increase in US public deficit, increase in twin deficit: PP-ratio: <15%

Possible consequences:
- Term premiums up
- US downgrade
- Weak USD

[1] PP-ratio: present probability ratio

Investment recommendations by type

1. Equities:

Short-term view: - Neutral/Positive

Medium-term view: - Strongly positive on new technology enabling the 4th economic revolution (robotics, automation, artificial intelligence, and augmented reality). Additionally, we have a strong view on US homebuilders.

2. Bonds:

Short-term view: - Negative/Neutral

Medium-term view:
- Risk/return characteristics are not attractive, despite recent improvements.
- Holding US Treasuries is an effective way to stabilize a portfolio during times of greater uncertainty (macro and political).

3. Credit:

Short-term view: - Neutral because of rich valuation

Medium-term view: - Strong overweight in corporate via short-dated investment grade bonds

4. Metals:

Short-term view: - Neutral because of stronger USD

Medium-term view: - Neutral to negative: With political and monetary risks expected to dissipate over time, precious metals are expected to lose their status of refuge asset class.

4. Commodities:

Short-term view: - Neutral because of stronger USD

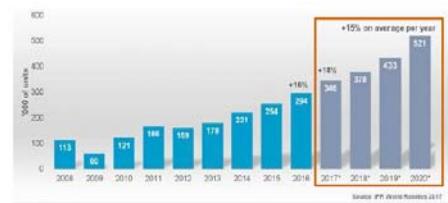
Medium-term view: - Should inflation pick up in an unexpected manner, commodities prices would best reflect the adjusted conditions.

5. Structured solutions:

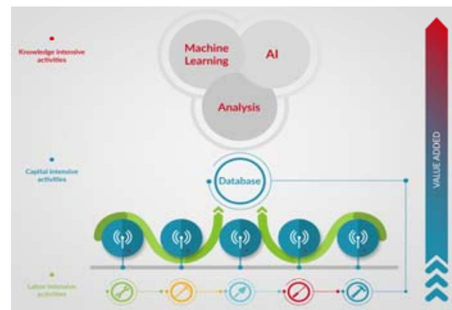
Short-term view: - In times of uncertainty, exploiting equity market volatility by means of conditional capital guaranteed structures appears to be an attractive opportunity, as compared to both fixed-income and equity markets. Recently launched structures include “US homebuilders.”

Medium-term view: - Longer-term investors might consider combined Credit strategies Credit “Main versus Xover.” This strategy is of particular interest in times with deteriorating credit and financial conditions.

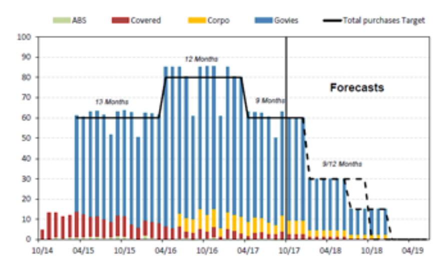
Robotics: Number of robots to increase by up to 20% p.a.



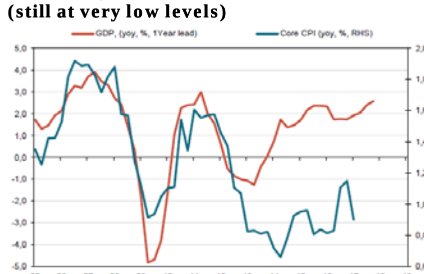
IIOT – Value creation segments



ECB: Step-by-step QE ending



EU: GDP growth and core inflation rate (still at very low levels)



Investment recommendations by theme

1. US Technology:

Short-term view: - Momentum and revisions continue to be strong

Medium-term view: - The technology sector recovered from the March 2018 correction. Leading IT providers recovered promptly and strongly. Sound demand and lasting secular trends (IIOT) will continue to generate revenues and profit growth.

2. US Home builders:

Short-term view: - Sector is highly related to interest rate movements– declining debt charges are positive for homeowners/first-time buyers.

Medium-term view: - Interest rates to stay low for a prolonged period time, which should be supportive for the sub-sector.

3. Pharma & Biotech:

Short-term view: - Drug pricing issues impact short-term share price developments

Medium-term view: - Long-term drivers such as innovation, demographic trends, and the increasing importance of market implementation continue to dominate the sector.

- The Healthcare sector in Europe is more conservative than in the US; from a historical point of view, the European healthcare sector looks cheap. Given these two characteristics, it is suited to conservative investors.

4. Economy 4.0

Short-term view: - FANG stocks are vulnerable due to regulatory threats.

Medium-term view: - The importance of robotics, automation, AI, and AR continue to impact economic development around the globe. Data-intensive processes continue to increase and impact daily routine work. The investment case clearly remains intact.

5. European Cyclical Recovery:

Short-term view: - Market volatility has increased substantially since the beginning of this year, and cyclical European companies overreacted to concerns (trade war and recession).

Medium-term view: - Petrochemicals and construction companies have reached a highly supportive level. With input prices expected to remain stable, companies can benefit from increased operating efficiencies.

In times with high consumer satisfaction, higher input prices (increases) can be charged to end-consumers.

US: The impact of the tax deal: ISM is up!
Estimates suggest that as a result of the full implementation of the tax deal, GDP will grow by 1% annually, while public debt will increase by 5%.

Recession or slowdown?: Know the difference

The economy expanded by 2.9% in 2018, a pace that economists expect to slow to 2.3% in 2019. A number of gloom and doom forecasters even expect the economy to shrink for at least two quarters in 2020. If that happens, it would not necessarily mark the start of an official recession, but rather an economic slowdown. Economist define a recession as two consecutive quarters of shrinking output.

When is a downturn called recession?

In the US, the National Bureau of Economic Research collects and analyses economic statistics. The committee is composed of leading economists, many of whom have been there for several decades. This committee examines data such as industrial production and monthly growth series. There is a time-lag in data arriving in the bureau; more importantly, "consecutive" means that at least a 6-month report would need to be negative to establish the presence of a recession. Practically speaking, the following scenario could occur: five consecutive observations are negative, followed by just one positive observation, and then the next observation flips back to negative. Technically speaking, this scenario is not considered a recession, though in practical terms, the GDP is moving downwards and consumer behavior reflects a state of recession. A good early predictor is the birth rate; this rolling quarterly observation accurately reflects the level of confidence observed in an area. A declining number shows a lover level overall consumer engagement. Currently, this measurement is about stable. Historically, it has taken up to 21 months from the actual start of recession to its formal declaration.

What is a slowdown?

Let's look at the 2015/2016 US slowdown. At the end of 2014, growth started to pull back as fuel prices plummeted, and consequently, oil-patch investment dried up. This resulted in less drilling and servicing, and fewer equipment renewals. As a result, unemployment shot up in the main shale gas and oil development regions, i.e., Wyoming and Texas. High end jobs in the oil and gas sector were cancelled, and national consumer sentiment fell sharply. Even so, the average household income continued to rise on the back of strong employment. Yet at the same time, property prices fell, partly because of a structural oversupply and partly because first-time buyers were delaying investment decisions. Therefore, a slowdown comes with a mixed bag of signals, which can be very pronounced from region to region.

Early warnings?

Typically, an outright recession causes a rise in unemployment across large swathes (not just regionally), on the back of lower capex and opex spending.

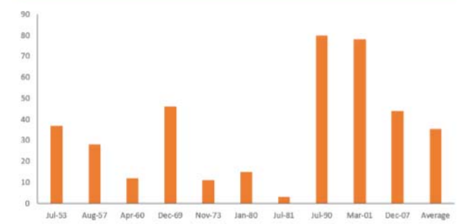
Slowdowns often come alongside gyrations in financial markets. The stock market has been on a roller-coaster since the Trump administration was elected, as a result of the United States' trade dispute with China and, in a larger sense, with the rest of the world. Ongoing and pronounced market ups-and-downs may unnerve retail and institutional investors alike. Ultimately, this may dent the average household income and damage consumer sentiment, decisively undermining industrial output and the willingness to engage with longer-term projects of any kind.

The mid-cycle slowdown

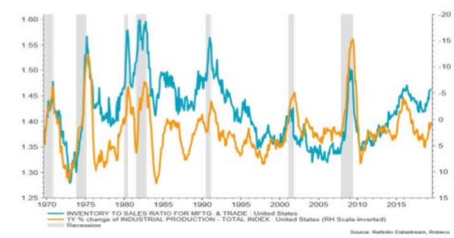
A mid-cycle slowdown is usually caused by a slowdown in the inventory cycle. Today, the US inventory-to-sales ratio is at 1.45, a level comparable to the mid-cycle peaks observed in 1995 (1.44) and 2016 (1.47). This similarity looks promising, but the difficulty is that a slowdown in the inventory cycle has historically coincided with slowdowns that ultimately killed the expansion (as in 2001). The presence of an inventory cycle slowdown is therefore a necessary but insufficient condition for establishing whether we are experiencing a mid-cycle slowdown or late-cycle malaise.

The consensus view is that the current US yield curve inversion heralds a recession in about 18 months, indicating we are late cycle indeed. However, the last two business cycles prior to the one we are now enjoying have demonstrated that lags between inversion and recession seem to have lengthened, occurring 29 months after the 2005 inversion and 33 months after the 1998 inversion.

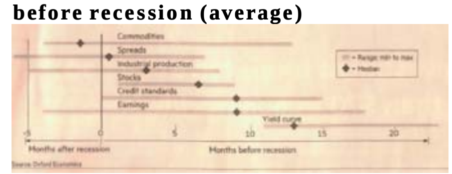
The number of months that ISM peaked before a recession appears



Inventory-to-sales ratio versus YoY change in industrial production



First time warning: Number of months before recession (average)



Market-by-Market view

United States:

The Fed: Increased uncertainty about growth in the US, along with the noticeable slowdown in the rest of the world, are concerns for the US central bank. The current level of inflation expectations does not hinder the Fed's ability to cut rates. A 25 basis point rate cut is almost fully priced in by the market for September. The question is whether or not this move is sufficient to convince the market that the Fed is on the ball. The mid-cycle narrative of the last meeting didn't go down well in the market, as it was interpreted to mean that the Fed was not willing to get ahead of the curve. If the level of bond yields is any indication, then the markets continue to expect more rates cuts to come. In other words, a 25 basis point cut will not do much. In that respect, the move could be seen as a wasted bullet unless the Fed gets some help from either the economy or some positive news on trade.

> We believe the Fed's view is defensible from a fundamental perspective, as both GDP growth and job growth were/are still reasonable. In addition, the consumer side of the economy still looks stable. However, fundamentals do not seem to be the driver this time around; rather, the dominant driver is sentiment. Negative trade headlines continue to eat away at confidence, and this is visible in business sentiment indicators. This cautiousness on the part of companies (mainly in manufacturing) is having a massive impact on willingness to invest. As we do not expect much clarity on the trade negotiations between the US and China anytime soon, visibility will remain low. Both companies and central banks will need to continue to deal with the consequences.

Europe:

The Markit Eurozone Composite PMI increased by one-tenth in the previous month, from 51.8 to 51.9, indicating a Eurozone growth rate of about 1.3%.

> Italy has formed a new government after the collapse of the previous populist 5-Star/Northern League government. The new coalition between PD and 5-Star under Prime Minister Giuseppe Conte – the 67th Italian government in 73 years – reduces the risk of a confrontation with Brussels. The coalition has been welcomed by financial markets, as Italian-Bund spreads have dropped by a full 100 bps since early August. Also supporting Italy (and the broader Eurozone periphery) is new European Commission President Ursula von der Leyen's assertion that fiscal rules should be interpreted more freely. This call for simpler fiscal rules was echoed by Christine Lagarde during her European Parliament hearing regarding her candidacy for the ECB presidency.

> Given the deepening manufacturing slowdown in Germany, a debate about the usefulness of maintaining the *Schwarze Null* (balanced government budget) has re-ignited. Many fear that the policy space for the ECB has become very limited, with the complete German yield curve already negative. The official stance towards fiscal stimulus remains reactive rather than proactive, and meaningful fiscal stimulus will likely only be applied once a German recession has materialized. The ECB will likely cut interest rates by 0.1% in September, but a very large QE effort is less likely, given technical constraints (issuer limits), which would only be mitigated if the outlook worsens further.

> Europe's political chaos: With a quick look at the European political evolution, one might conclude that EU is evolving in chaos and uncertainty. A number of governments are run by minority, caretaker governments or by bureaucrats who are just waiting for the next election results. Instability at the governmental level is the new norm. However, there is also a more optimistic view of the situation. The old-school party systems are being challenged and we have entered into a transition period where multiple parties will take part in influencing the decision-making process.

The fragmentation process has most benefited nationalistic parties. In fact, once the far-right movement has maxed out, the absolute number of far-right voters starts to decline. More importantly, in a fragmented party landscape, the burden of democracy shifts from party leaders to elected representative themselves. One can then expect that coalitions will no longer be based on political opinions, but on topics instead. Therefore, governments will become more fluid and minorities will have a stronger platform to express views. After the initial learning curve has past, this will not result in chaos, but rather in more democracy.

Japan:

So far, the Bank of Japan has refrained from taking part in the central banks' new rate-cutting cycle. The relative stability of the yen, along with equity prices, probably played an important role when this decision was made. The BOJ has kept the door open to change its stance once momentum for achieving the price stability target is lost. The moment of truth for BOJ policy is in September, when the ECB and the Fed are expected to ease further. If this has a massively negative impact on domestic financial conditions, we expect the BOJ to act. If they do ease, we would expect NIRP deepening, along with measures to offset any associated negative side effects. These could include the application of negative interest rates to the loan support facility or a shift in the yield curve control target from long term to medium term.

> The number of economic surprises is starting to taper off. This loss of economic momentum is also starting to become visible on the more consumer-driven side of the economy, which has been quite resilient. Consumer sentiment dropped across the board. Retail sales came in substantially weaker, and it looks like purchases ahead of the VAT hike planned for October are already over. While the unemployment rate remained at historically low levels, the job-to-applicant ratio continues to slide. Although the ratio is still relatively high, this decrease shows that the job market is starting to lose momentum.

> The inflation index, excluding both energy and fresh food – the gauge preferred by the BOJ – came in at 0.6% on a yearly basis, and is still far below the ambitious target of 2.0%.

China:

The Chinese are still entangled in a trade spat with the US, which only deepened after President Trump announced a 10% tariff on an additional USD 300 bn of tariffs on Chinese imports. The Chinese retaliated with tariffs on USD 75 bn of US imports. Reacting to the latest tit-for-tat round in the hostilities, the yuan slid below the long-held threshold of CNY 7 to USD 1 dollar.

Despite the intensifying trade spat in August, the Chinese economy has shown signs of stabilization. The most promising sign is that the manufacturing sector has rebounded, with the Caixin manufacturing PMI moving from 49.9 in July to 50.4 in August, signaling (albeit very modest) expansion again. Second, the services sector has remained resilient, as the Caixin services PMI moved further up to 52.1 compared to 51.6 in July. Companies cited improved demand and a boost for new projects and increased hiring. These developments can also be traced back to the fact that broad money growth (M1) has stabilized. Chinese real activity has closely tracked money growth in recent years. Talks between the US and China will restart in early October, which could improve producer confidence further.

> Previously, we have noted that "more fiscal and monetary stimulus is to be expected in an effort to stabilize the manufacturing sector." On September 4, China's State Council pledged both broad and targeted cuts in the reserve requirement ratios for banks "in a timely manner," in order to boost the economy. The Yuan fixing versus the US dollar will likely remain above 7 as long as a trade deal remains out of reach.

Asset class views:

Fixed Income:

The race to the bottom – engaged ever since the late 1980 – continues as yields dropped across the board. Even the renewed political developments in Italy – normally an event that would cause some market anxiety – only briefly provided support for Italian yields. The drop in Italian 10-year yields was amongst the largest in the developed world.

> If the 10-year yields are any guidance for future economic conditions, things are looking very gloomy for the global economy.

> However, one thing that is very clear is that is that markets are once again expecting central banks to save the day. Both the ECB and Fed are expected to deliver some form of easing at their upcoming meetings. For the Fed, a rate cut of 25 basis points is almost a done deal, according to the market.

> Still, when one looks at the fundamentals, the question may still be if rate cuts are warranted. We fully recognize the limitations of economic data to predict a recession. We also do not deny that the economic numbers are softer and that uncertainty is high (the trade war, Brexit, etc.). But does this really imply that US 10-year yields need to be within 10 basis points of their all-time low (reached on 8 July 2016)?

> In other words, is it right to expect an aggressive rate-cutting cycle, as the bond market currently seems to expect?

For now, we are sticking to our call that we are not heading for a recession, but instead are merely in the midst of a mid-cycle slowdown. However, if uncertainties continue to linger, confidence will further erode. This increases the probability that the current slowdown will turn into something much more malignant. We have therefore decided not to change our allocation, and to remain neutral on AAA bonds.

High Yield

Global high yield bonds fell 1.6% in August, on the back of increased geopolitical uncertainties and doubt about the strength of the global economy.

> While the Fed will do its best to turn the current slowing of global growth into a mid-cycle slowdown, the odds have increased that we are nearing the end of the cycle. High yield bonds tend to be among the first asset classes to turn when the end of an economic cycle appears on the horizon.

> While it is not certain whether or not we have reached the end of the current economic expansion, it is clear that the quality of high yield bonds has worsened. Moody's Covenant Quality Indicator (CQI) hit an all-time low in July. Given that yields – not necessarily spreads – are low, especially in Europe, the asset class lacks in relative attractiveness.

> In the US, the default rate continues to increase, rising to 2.4% in August, the highest level since October of last year. We do not expect a default spike from here, but do acknowledge that given current economic sentiment, high yield defaults will become more common. In the Eurozone, the default rate remains close to zero.

> We remain underweight on global high yield bonds, as valuation is unattractive, and vulnerability to potential further weakening of global growth is high.

Emerging Market Debt

Local currency emerging market debt realized a negative return of 1.6% in August, ending a very strong run for the asset class in recent months. Yields fell sharply, but spreads widened as weakness in Argentina, Turkey and South Africa hit the asset class. Trade tensions, slower economic growth and a significant depreciation of the Chinese yuan are all hampering local currency emerging debt performance. Central banks, both in developed and emerging markets, have started easing again, but remain behind the curve for now.

> China has entered its currency into the trade war mix. The yuan has depreciated more than 4% since late July, when the trade war re-escalated. The weaker currencies partly offset lower Chinese exports, but also simultaneously put pressure on other (Asian) emerging currencies. Idiosyncratic forces in Argentina, Turkey and South Africa continue to impact currency performance as well.

> We believe that emerging debt and currencies offer some value. That said, continuous pressure on the Chinese currency is likely to continue unless the trade relationship between the US and China meaningfully improves.

> We remain neutral, mainly because we believe that other asset classes are less attractive and need to adjust more to represent current market and political circumstances. Also, we are underweight on EM equities.

Investment Grade Credit

Global investment grade bonds added another 2% in returns in August, again completely driven by a sharp decline in global Treasury yields. Spreads actually widened as growth momentum and geopolitical risks dampened investor mood. However, the sheer magnitude of lower bonds yields obliterated this effect.

> Credits tend to perform well for a brief period after the first Fed rate cut. However, further down the line, things become more difficult as the cycle matures. Spread widening typically occurs in the early part of the rate-cutting cycle.

> Technicals have improved on the back of central bank policy, but fundamentals remain sluggish. Earnings growth is under pressure and defaults are absent, leaving zero room for improvement; most importantly, leverage is both high and rising.

> Valuations remain unattractive. If anything, they have worsened, especially from a yield perspective. The effective yield remains incredibly low; this is especially true for Eurozone credits, where the yield-to-worst has fallen to 0.24%. Spreads are also low, but not nearly as low as yields, and they offer little to no buffer to adverse market circumstances. Taking into account that duration has increased, especially in the US, the risk/return trade-off remains unappealing.

Equities

August saw broad-based downward pressure on equity markets, with only Russia staying afloat, generating a 0.0% monthly return in local currency. Once again, geopolitics were the culprit. Hong Kong closed the ranks with a 7.1% loss, as massive student protests continued unabated in the streets. Trump's "Twitter diplomacy" added to global tensions, as he announced additional tariffs on Chinese imports, which the Chinese were swift to counter with tariffs on US imports. In Europe, the debate around Brexit in the British parliament proved to be a rollercoaster, the pound sliding as odds of a no-deal Brexit increased throughout August.

> In this setting of record high economic policy uncertainty, it was no surprise to see global producer confidence deteriorating further in the manufacturing sector, as well as export-dependent economies being directly hit by a setback in trade negotiations. The JP Morgan global manufacturing PMI improved a bit, from 49.3 in July to 49.5 in August, but remains in contraction overall. Producers anticipate that China has embarked on a "long march," and that quick wins on the trade front have become less likely.

> Global macroeconomic surprises have remained in negative territory, suggesting that incoming data is still below consensus expectations, and possibly inducing analysts to further adjust expectations downward. On a positive note, resilience in the consumer and services sector mitigates the persistent negative momentum in manufacturing, which has become a smaller slice of global economic activity.

the services sector, as broader producer confidence starts to be affected and a vicious spiral develops. In this sense, fears of a recession have only been aggravated by the deeper inversion of the US yield curve. A negative feedback loop between disappointing macro data and a postponement of investments and consumption can be broken if we see progress on trade negotiations. At the time of writing, China and the US have had fruitful calls, and plan to continue face-to-face talks in early October. Trump's tweets increasingly suggest he is a fully aware of this negative feedback loop, and wants (actually needs) a trade deal before the 2020 election race gets into full swing. From a fundamental point of view, we think we are in a mid-cycle slowdown rather than a late-cycle malaise, and global activity will likely pick up towards year-end. A persistent slowdown in manufacturing could create negative spillover effects in

> If a temporary near-term deal on trade between the US and China is still on the cards, the Fed is likely to see fewer downside risks that would warrant an emergency rate cut cycle. In effect, this would be negative "discount rate" news for equities, but is likely to be fully compensated by earnings growth that could improve on the back of improved prospects for the goods sector.

> Technical input, like SKEW (insurance price against tail risk) is exceptionally low, indicating that equities could advance approaching into the year-end. We remain underweight as the mid-cycle slowdown still has momentum, but we await opportunities to re-enter an overweight in global equities.

Developed Market Equities

Developed equity short momentum stayed in negative territory in August, after the equity market went into a correction in July. Also in August, the US yield curve became the most inverted it has been since 2007, flagging elevated recession risk.

> US equity momentum has been relatively strong in recent quarters, but in August, monthly momentum of equity returns in local currency showed that S&P 500 equities had lost 2.9%, while European Stoxx600 equities showed less negative momentum, losing only 1.5%. Returns in Japan were negative as well, showing a 4.6% monthly loss for the major Nikkei 225 index. The long momentum signal (12M-1M)in local currency has stayed positive for the US at 3.9%. European long momentum entered negative territory once again in the month of August, at -0.1%. Japanese equities experienced a stronger negative long momentum, eyeing a -5.0% return.

> Equity valuations showed very modest movement after the sizeable equity de-rating in the last quarter of 2018. Despite a huge downward move in global interest rates during the last couple of months, this "discount rate effect" had little impact on pushing equity valuations higher. Future earnings recession risk is weighing in, and analysts have revised future global earnings projections significantly downwards. US equity valuation measured through the cyclically adjusted price earnings ratio (CAPE) declined to 28.9. European CAPE at 16.9 stayed at a level well below its long-term 36-year average, and continues to show a sizeable discount to US equities. We remain neutral in our regional equity allocation.

Emerging Markets (EM) versus Developed Markets (DM)

Emerging market equities were hit hard by the re-escalation of the trade war between China and the US and fell more than 5% in August. They underperformed developed market equities, which fell comparatively less, at 1%

> Emerging markets – especially those with open economies – are relatively vulnerable to any hiccups in global trade, and the latest episode in the trade spat is likely to aggravate things.

> Singapore and South Korean exports – seen as harbingers of future growth – remain downbeat, and while numbers could improve as a result of base effects, no real uptick should be expected. More stimulus by central banks would be helpful, but it will be difficult for them (the policy makers) to get ahead of the curve quickly. Also, the US dollar is not weakening, which means there is no catalyst for outperformance.

> We are underweight on EM equities in our multi-asset portfolio, as trade tensions continue to hit manufacturing and exports, and ultimately, global growth.

What are our preferences?

Key takeaways for 2019/2020

General:

1. Interest rates stable in EM and decreasing in DM
2. US-driven economic cycle to continue (based on interest rate cuts and share buybacks being fully supportive)
3. QE to be restarted in a number of G-7 nations
4. Inflation likely to stay below expected levels
5. Possible trade war initiated by the US administration, destroying confidence in the established system

Americas:

6. Two more interest rate cuts in 2019 and at least two in 2020
7. Tightening financial conditions and drag on the economy could lead the FED to reverse the intended course of action
8. US Equities appear to be expensive; share buybacks generate a kind of self-entertained value appreciation of around 10-12% per annum
9. Manufacturing gained speed after the tip in the first quarter, further progression to be seen in Q3 and Q4
10. Most of the expected monetary tightening, fiscal stimulus, and increasing inflation (peaking in the next quarter) is already factored into current market prices

Asia:

11. Solid economic conditions in EMA, but they do not translate into GDP growth
12. After adjustments following the trade dispute, China to surprise to the positive in 2020

Europe:

13. Italy shatters European recovery; political risks surge after the establishment of an almost anti-Euro government that is aimed at more fiscal spending
14. Consumer sentiment still improving
15. Macro indicators point to an even stronger €/$, but political uncertainties and a potential trade war generate the opposite. The FX pair EUR/USD could dip into the 1.00 - 1.05 range before rising back to 1.20 - 1.25.

IRISOS

Sector Analysis

Basic Materials

- Weaker data from the sector could increase the risk of another industrial slowdown, resulting in a recession.
- Slowdown is based a lower global economy outlook that negatively impacts the metals and mining outlook.
- Higher supply offer impacts the most widely used plastic Polyethylene's prices downwards.
- Government stimulus could bridge the present weakness.
- The US-China trade war (ongoing tariff escalation) is a clear threat for the sector which depends strongly on the well-being of the Chinese economy.

Strategy: Concerns over increased trade protectionism and a potential slowdown in China have caused the materials sector index to lag the market this year. Year-to-date, the sub-sector underperformed the main market by around 4.2%. Because we believe that the main threats have passed, we have a neutral view for the sector. This is supported by a still positive outlook for global growth, high corporate profitability, and the status quo for trade issues (the present situation within a less known environment becomes the new standard, and we believe that industries have mostly accommodated for this).

Investment opportunities:
Given the new trade environment, we would recommend dynamic investors to focus on the cyclical economic recovery of Polymer and related companies through certificate XS2049532448, i.e., 8.04% 18 months RCB on BASF, Bouygues SA, and Peugeot SA. The product has a conditional capital guarantee at 65% (based on strike). The issuer of the product can call the product quarterly if all underlying are =>95% than the issue price. Call occurs at 100% plus coupon.

Consumer Staples

The sector's defensive merits are reflected in relatively stable cash flow generation. Its premium rating is at the high end of its historical range, but slowing global growth, heightened political uncertainty, persistently low bond yields and the sector's above-average earnings momentum should continue to provide support. Self-help such as merger, product offer consolidations opportunities, and back-to-basics starts taking shape across the sector.

Europe: We prefer companies that are well positioned in faster growing emerging markets. Those benefiting from efficiency improvements or M&A synergies feature better earnings growth. Also appealing are companies offering attractive and sustainable dividend yields, owing to their ability to generate cash.

Americas: We prefer consumer staples companies with diverse geographic exposure and leading brands that are poised to grow in developed and emerging markets. We also look for companies with successful productivity or cost savings initiatives, which can free up funds to invest, in order to drive future growth. Taken together, these attributes should contribute to a company's ability to post upside to earnings expectations.

Investment opportunities:
Given the overall competitive outlook for the sector, investors should seek companies with strong balance sheets, low financing costs, and a strong focus on products and services. Because of their high absolute valuation and the limited upside potential, high yield dividend stocks are at risk; companies to consider include AD, ABI, BAT, NESN, EL, MO, and PM.

Technology

Global tech performance continues to be strong, driven by overall solid results. However, performance has been polarized, with both sharp gains and losses, depending on the company's outlook. We remain neutral on global tech because despite its strong earnings growth and cash distribution, valuations are no longer cheap.

Key figures for Europe:

Target values:

Present fair value (DJStoxx600):	362
E12 months value (DJStoxx600):	360
Upside potential:	flat

Key economic ratios:

P/E 2019 (E):	14.90
P/E 2020 (E):	13.50
Div. Yield 2019:	3.4
Div. Yield 2020:	3.6
CPI 2019 (E):	1.2
CPI 2020 (E):	1.2
GDP 2019 (E):	1.1
GDP 2020 (E):	0.7

Most likely next short-term move:

DJStoxx600	flat/down
DJStoxx50	flat/down
SMI	flat/down
DAX	flat/down

Key names to look at:

Strong intellectual property:
- Roche
- Novartis
- Amadeus

High competitiveness:
- Siemens
- Daimler
- Gemalto
- Richemont
- Swatch

Sustainable dividends:
- ABN-Amro
- Imperial Tobacco
- Altria
- Philip Morris

While software has been one of our preferred industries within tech, big data is one area within the sector that continues to deliver strong results. We expect the global data universe to expand by a factor of more than 10 from 2020 to 2030, reaching 456 Zettabytes – equivalent to 840 iPhones (64 GB) per person.

Despite what these figures suggest, we believe that only a tiny fraction of digital data is being fully exploited, i.e., data that, if analyzed properly, could save costs or maximize revenue for companies. Examples of such applications might include a public utility analyzing power consumption patterns to make electricity distribution more effective, or correlations being identified in scientific data from independent studies.

Still, we see promise in big data technology as a solution to data analysis problems. Big data technology refers to the analytics used to extract value from large and untapped pools of information that are generally too complex to process using standard methods or tools. Since most generated data is unstructured, non-traditional technologies like big data (which mainly include standards like Hadoop, NoSQL and MapReduce) are employed to carry out analyses and add value to businesses.

According to IDC and Bloomberg Intelligence, revenue for the global big data market stood at USD 143bn last year and is growing by around 10%. As a result, we continue to see opportunities in the big data market, with both software and services companies benefiting from the trend.

Investment opportunities:
Structural opportunities come from leaders in fast-growing industries such as the internet or the cloud (for instance: SPLK, SAP), while the cyclical upside is driven by companies with exposure to a sequential recovery or restructuring opportunities (MSFT, VISA, MA, ASML, CRM).

Communications Service

This sector includes cutting-edge companies with which nearly everyone has contact on a daily basis, including search engine and social media companies, streaming services and wireless telecommunications companies. While the widespread use of the sector's products and services helps to attract investor interest, companies in the sector also struggle with intense competition for consumer attention. This raises the possibility that some current sector leaders may be reaching market saturation, which could curb future growth.

On the positive side, demand for wireless technology is rising as communication and media devices increasingly go wireless, providing the potential for revenues to rise. Meanwhile, the rollout of fifth-generation (5G) cellular wireless technology could increase demand even more, as it is expected to increase speeds and allow far more devices to be simultaneously connected. Meanwhile, advertising revenue has also been strong, as advertisers have been attracted by online sources' ability to target ads to specific consumers.

On the other hand, pursuing new technologies and providing attractive content costs money, and we believe those costs are likely to grow. Some companies in the sector have begun to attract more attention from lawmakers who have expressed concerns about their size and how well (or poorly) they are protecting consumers' privacy.

In Europe, antitrust issues have resulted in a pushback against big U.S. companies in the form of fines, taxes and further regulation. The rise in local regulation adds complexity and cost to providing users with fast and universal access to data that is increasingly segregated behind layers of rules.

Investment opportunities:
We currently believe many Communication Services companies face risks that outweigh their potential rewards, which is why we have a "hold" rating on most of the sector's companies (GOOG, DI, NFLX, FB, AMZN).

Energy

The sector should be supported by an attractive dividend yield and solid balance sheets. Free cash flows at major energy firms are sufficient to cover capex and dividend payments, provided that oil prices do not drop significantly below current levels. But below-average earnings momentum and the risk of slowing demand for oil amid a global slowdown are a drag on the sector's performance.

Europe: European energy stocks are continuing to grow their profitability and cash flows thanks to good investment discipline and solid oil prices. With lower capital (expenditure) intensiveness and well-supported dividends, more and more companies have share buy-back programs in place. While oil continues to be volatile, free cash flows should exceed capex and dividends as long as Brent stays above USD 50/bbl.

Americas: We prefer US onshore-focused, oil-leveraged companies in the exploration and production subsector. We also favor integrated oils for their stable income streams, which are made possible by their large diversified business portfolios. US producers have proved resilient in a lower oil price environment. For the best operators with the best quality assets, profitable production and cash flow growth is possible, even with oil prices in the low USD50s/bbl.

Oil prices have recovered from the lows reached in late 2018. However, with sentiment turning negative once again, oil prices have retreated in the past several weeks. For the long-term, current oil price levels are unsustainably low, in our view. Over time, we believe oil prices will need to be sustained at USD 60-70/bbl in order to stimulate sufficient new supply to satisfy global oil demand growth. We estimate that the sector's valuation broadly reflects a long-term oil price in the range of USD 47-52/bbl (West Texas Intermediate). This suggests attractive valuations for intermediate and longer-term energy investment opportunities with a focus on deep-sea exploration.

Investment opportunities:
Overall economic conditions are good. The US economy is still growing, and developing nations will likely need more energy as they improve their infrastructures and modernize their economies. New supplies are slow to develop, and when combined with strong economic activity, this is price supportive. Although alternative energy sources are accelerating their market share (as compared to fossil energy), we do not see this as a threat, but rather as an opportunity for the energy sector to become cleaner and more efficient. Attractive investment opportunities for the US include OXI, APA, and CLR; and for Europe, RDSA, TOTF, and FTI.

Financial Services

The financial services sector faces a number medium- to long-term issues:

1. Geo-political and macroeconomic risks: Financial services regulators around the globe need to respond to macroeconomic policy and trade issues under their financial stability and consumer protection remits. Brexit is one example. The persistent low interest rate environment is another – in addition to balance sheet impacts, it has increased the focus on the impact of costs on investment product returns.
2. Systemic risk: The systemic risk agenda now encompasses resolution, asset volatility, non-bank finance and climate change, and is therefore focusing increasingly on the insurance and asset management sectors. Stress testing is a focus for all sectors (see page 6 for the latest results for banks and insurers). The changing tides of wider geo-political debates may influence the priorities and outputs of the Financial Stability Board (FSB) (see page 4 for more analysis).
3. Operational resilience: Regulators and supervisors are concerned about all aspects of firms' ability to prevent, respond to, and recover and learn from operational disruptions. This extends beyond cyber security and data protection to a spotlight on interconnectedness, outsourcing and concentration in the financial system.
4. Technological change: Regulators continue to encourage fintech, but are concerned that technological developments may heighten cyber and other risks linked to operational resilience. They also continue to assess whether existing rules, originally designed in a paper and person-to-person world, are suited to the digital age.

Key figures for USA:

Target values:

Present fair value S&P 500:	2977
E12 months value S&P 500:	2950
Upside potential:	flat

Key economic ratios:

P/E 2019 (E):	18.20
P/E 2020 (E):	16.5
Div. Yield 2019:	1.93
Div. Yield 2020:	1.80
CPI 2019 (E):	1.7
CPI 2020 (E):	1.9
GDP 2019 (E):	2.3
GDP 2020 (E):	1.3

Most likely next short term move:

S&P 500	down
Nasdaq	down

Key names to look at:

Strong intellectual property
- VISA
- Mastercard

Technology:
- Microsoft
- Micron Technology
- Nvidia
- Apple
- IBM

Financials:
- VISA

5. Governance, accountability and conduct: Governance structures are a perennial focus of regulators. In an attempt to constrain excessive risk-taking and improve standards of conduct and culture, a small but increasing number of regulators are focusing on individual accountability within regulated firms. Diversity is also beginning to emerge as an area of increased supervisory focus.
6. Social objectives: Regulators are to take into account a range of social objectives. In particular, all types of financial services firms and investing institutions are under increasing regulatory pressure to justify their approach in relation to environmental, social and government (ESG) issues, in order to help governments meet climate change agreements. There may be tensions where these governmental aims conflict with long-standing bulwarks of financial stability and consumer protection.
7. Institutional change: In response to debates regarding increased powers for the European Supervisory Authorities (ESAs) and whether the European Banking Authority (EBA) should have a greater role in anti-money laundering compliance, firms may need to establish new or expanded relationships with different supervisors. Embedding such supervisory changes could be challenging for both firms and their supervisors.

Investment opportunities:

Banks remain vulnerable to adverse stresses, despite having improved their pre-stress test capital ratios in recent years. Many may face pressure from supervisors and market analysts to further bolster their capital positions.

It is therefore important to narrow down the potential investment universe to companies in which business activity is not clearly impacted by end-consumer behavior or exposed in a neutral manner to the above concerns.

E-Payments is one subsector of interest. It will take a significant amount of time for new technologies to disrupt the existing business model, because current companies are deeply entrenched in their local merchants and clients.

Although broad changes do affect end consumers, buyers will nevertheless continue to spend and pay by credit card, debit card, and the like. More importantly, because these companies operate worldwide, they are less impacted by regional developments. Our key picks: V, MA, PYPL, and ING.

Consumer Discretionaries

Fundamentally, the state of the consumer remains healthy – unemployment is near historical lows (excluding structural unemployment), wages have risen modestly, consumer confidence remains relatively high, and interest rates have fallen this year, which makes borrowing cheaper.

However, the business cycle – which traditionally rotates through early/mid/late stages and then recession, before starting the cycle over again – appears to be in the late stages. Historically, this has been a relatively weak point in the business cycle for the Consumer Discretionary sector, which tends to outperform in the early stages.

Also, the new U.S. tariffs scheduled to take effect on Chinese goods later this year will have a greater effect on consumer goods than previous tariffs did, which may increase consumer prices. This, in turn, may hurt sales and pressure profit margins within the Consumer Discretionary sector.

Meanwhile, the spending mix is shifting, with online sales growing much faster than traditional department store sales, while consumers have also shifted their spending habits relative to prior to the Great Recession. In addition, price competition has created a tough environment for many retailers, paring weaker performers from an overcrowded space.

Overall, consumer mood is optimistic, but we're on guard for a potential softening of that mood if business leaders' cutbacks on capital spending broaden into cutbacks on labor. Recent purchasing managers' index (PMI) data has shown some labor market deterioration within the services sector, following what had been weakness concentrated in manufacturing. This is an important factor to watch for the potential development of a trend. For now, we maintain our market-perform rating.

Investment opportunities:
Understanding changing consumer spending paradigm is key! There are strong indications – among these, the recent retail sales report – that consumers and especially millennials have different spending habits now than they did prior to the Great Recession. Given this, we favor UUA, EL, NFLX, N, ADS, and ZAL, among others.

Industrials

The industrial manufacturing industry continued its strong performance this year, following a similarly positive 2017.

Heading into the final year of the decade and the tenth straight year of economic expansion in the US economy, the industry finds itself in a unique position. On one hand, manufacturing is firing on all cylinders: output is humming, capacity utilization is up, and many manufacturers are delivering solid performance results and shareholder returns. On the other hand, trade tensions lurk in the background and supply chains are straining to keep up with demand, while skilled talent is in short supply and threatening to derail the current industry momentum. Amid these headwinds is an underlying move toward digital and advanced technologies, which are transforming both business operations and partner ecosystems, as well as business models. Digital holds tremendous potential and is likely to be decisive in determining the fate of industrial manufacturing companies in the months and years to come.

As we prepare for 2020, here are some observations and predictions for the industry.

1) The manufacturing industry appears to adapt quickly to the new trade conditions and is likely to deliver higher growth results (when compared with a difficult 2019).
2) The sector is turning to M&A to resolve political uncertainties and the ever higher influx of digital technologies. Industrial manufacturing deals activity experienced a healthy 2018, recording more than $65 billion in year-to-date M&A deal values, an increase of more than 30% compared to the same period in 2017.
3) 2018 was marred by tariff activity and negotiations between two heavyweights in the global industrial manufacturing industry – China and the United States. In consequence, companies built up resilience into the supply network to prepare for lasting trade and tariff uncertainties.
4) In light of the positive performance on many fronts in the industry, talent is becoming a top issue among executives. The sector is at the edge of fast-changing job opportunities.
5) Digital: Industrial manufacturers have multiple levers to engage when it comes to digital. Looking across the organization, digital technologies can be applied to product development and innovation through 3D prototyping and digital twins. Artificial intelligence and cognitive technologies can foster growth in the customer life cycle and create exceptional experiences. In addition, automation can deliver measurable outcomes, from robotic arms on the production line intended to increase output, reduce labor costs, etc. This in turn will reduce working capital requirements and ultimately improve cash flow.

Investment opportunities:
The absolute sector valuation looks rich, with the average market trading above the long-term average, based on strong EPS growth. This reflects investors' view that the sector is capable of positively engaging with ongoing transformations. Preferable companies are those with a combination of exposure to improving end-markets and favorable company-specific catalysts, such as cost-efficiency programs, restructuring, acquisitions, and new products with high value add. Therefore, primary attention should be given to themes such as e-commerce, energy efficiency, automation, and robotics. Names to look at in the US: BA, CAT, DE, FED, and UT; in Europe: Airbus, Rheinmetall, Sulzer, Rotork, and Fraport

Key figures for Asia:

Target values:

Present fair value MXAPJ:	620
E12 months value MXAPJ:	650
Upside potential:	+4.8%

Key economic ratios:

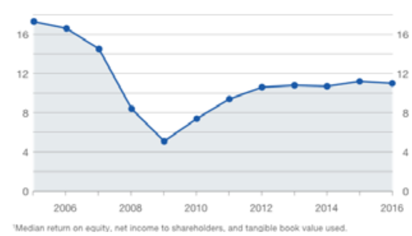
P/E 2019 (E):	14.1
P/E 2020 (E):	12.50
Div. Yield 2019:	2.7
Div. Yield 2020:	2.9
CPI 2019 (E):	2.5
CPI 2020 (E):	2.4
GDP 2019 (E):	5.4
GDP 2020 (E):	5.3

Most likely next short term move:
MXAPJ down

Key names to look at:

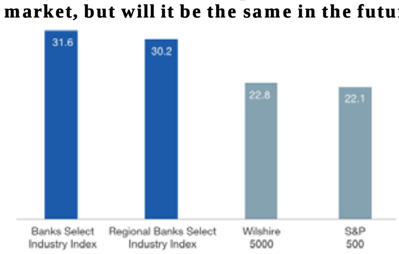
- Tencent
- Alibaba

Average ROI of Banks recovered but remains stable!



Average Market to book ratio

The financial sectors outperformed the larger market, but will it be the same in the future?



Healthcare

The Healthcare sector has many positives, including an aging global population and rising emerging market middle class that will demand more extensive drug treatments and medical care. Meanwhile, balance sheets in the Healthcare sector remain flush with cash, increasing the possibility of higher dividend payments, share-enhancing stock buybacks, and M&A. The durability of Healthcare sector earnings during economic downturns tends to lead to outperformance during periods of economic weakness.

On the other hand, Healthcare reform will likely be a focus during the run-up to the 2020 elections, prompting increased volatility. Proposals to cut costs, which could weigh on provider profitability, may come from both sides of the political aisle. In addition, the fiscal situation in Washington has created uncertainty, as certain funding mechanisms in the Healthcare sector could be changed as Congress deals with rising federal deficits.

In general, we believe the risk of major legislative changes is relatively low. Potential changes under discussion are well known, and probably already reflected in stock prices. We can see this in the current discount to the overall market of the Healthcare sector's price-to-earnings ratio; the sector has generally traded at a premium to the market over the past 20 years.

During 2020, the Healthcare industry will continue to transition to a value-based model. We anticipate that by end of 2019, up to 15% of global Healthcare spending will be tied in some form with value-/outcome-based care concepts. The impetus for this shift will be more exigent for countries that currently spend nearly 10% or more of their GDP on Healthcare (e.g., the United States, Netherlands, Sweden, France, Germany, Canada, and Japan, among others). In the coming years, VBC initiatives will continue to transition from economic model/cost-effectiveness measures to more health outcomes and treatment focus . This will be accomplished by means of data-driven risk sharing frameworks and a sustainable reimbursement model that benefits both providers and payers.

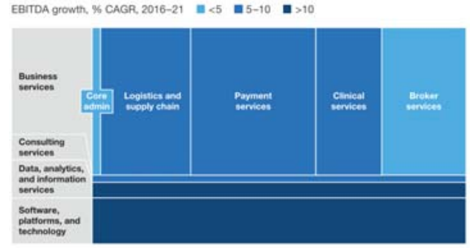
For the year 2019, the market volume for AI in Healthcare is expected to amount to $1.7 billion. We further anticipate that implementation of AI platforms across select Healthcare workflows would result in 10-15% productivity gain over the next 2-3 years. However, the pricing for AI solutions remains critical, as end-users are often not convinced of the need to dedicate an additional budget for such IT capabilities. A cost effective approach with clear evidence for potential ROI for both parties may help sustain market growth. Throughout 2019 and 2010, AI and machine learning will further evolve human and machine interaction. More specifically, AI will begin to come to fruition, particularly in its imaging diagnostic, drug discovery, and risk analytics applications.

Historically, the majority of the medical innovation pipeline has flowed from West to East. Now, with emerging markets contributing 20-30% of the pharmaceutical industry's value (i.e., double-digit growth of 10-15%), a string of global drug and device OEMs are attempting to upend that trend with new products tailored to Asian bodies, lifestyles, and purchasing parity (affordability). As a result, we anticipate that by 2019, up to 10% of Healthcare R&D will be invested to localize innovation for emerging markets in Asia. For instance, Asia-Pacific is the strongest market in terms of growth, with more than 30% of the global late-stage trials for cell therapy alone. Moreover, we believe Asia-Pacific will witness the genomics revolution in the next few years; in particular, China will take a leading role in Asia's genomics space. In consequence of this changing paradigm of product development and geographic rollouts, we expect a rise in "unicorn start-ups" (valued over $1 billion) and foreign direct investment riding on increasing demand for Healthcare services, an aging population, and rising income levels.

Investment opportunities:
The Healthcare market is fragmented, as players strive to increase their market share through strategies such as improvements to existing solutions and software platforms, development of new platforms, and strategic alliances with other market players.

As orthodox it might appear, in the primary phase, it is not Healthcare companies that will benefit from the transition to AI and more MedTech, but rather, key players such as AT&T; Cisco Systems; Motorola Solutions; Samsung Group; Verizon Communication, Inc.; and Apple, Inc. The list of niche providers include: Philips Healthcare; Aerohive Networks, Inc.; and Allscripts Healthcare Solutions, Inc.

Where does EBITDA expansion take place in the Healthcare sector?



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Foreign exchange

Currencies

The strongest three currencies in G-10 in August were the Japanese yen, the Swiss franc and the US dollar. All three share a characteristic, namely that they are perceived to be safe havens in times of volatility. The big losers were those currencies which tend to be seen as cyclical. Looking back at the performance of G-10 currencies, it was reasonably in line with expectations, given market conditions in August.

> One surprise was the performance of sterling, which strengthened against seven of the G-10 currencies. Sterling continues to be driven by the ebbs and flow of the Brexit process. With Boris Johnson as the new UK Prime Minister, and given his views and his character, one can only imagine that volatility in sterling is likely to remain substantial.

> Generally speaking, one thing is obvious – when uncertainty increases, everybody looks to the central bank for help. But can central banks really do anything about the uncertainties that trouble markets? Or have we reached a point where central banks are tapped out? This is a dangerous thing to say, as over the years, central banks have proven to be rather ingenious when it comes to monetary policy. One just has to look at the transformation of the ECB since the great financial crisis. However, given all the policy stimulus that has been implemented over the past decade, one must conclude that attempts at reflating the economies haven't been as successful as hoped. It may be time for fiscal stimulus to take over, and if it does, it is highly likely to impact the behavior of currencies.

Target values in 3 months:

EUR/USD:	1.075 - 1.1250
GBP/USD:	1.15 - 1.3000
USD/CHF:	0.9750 - 1.00

Target values in 12 months:

EUR/USD:	1.15 - 1.20
GBP/USD:	1.30 - 1.35
USD/CHF:	0.95 - 1.05

Purchase power parities:

EUR/USD:	1.25
GBP/USD:	1.45
USD/CHF:	1.00
EUR/CHF:	1.24

Most likely next move:

EUR/USD	down
GBP/USD	down
USD/CHF	down

Target values in 3 months:

Oil:	$75 - $80
Gold:	$1,500

Target values in 12 months:

Oil:	$55 - $65
Gold:	$1,400

Upside potentials:

S&P GSCI	down
Oil	down
Gold	down

Next most likely move:

S&P GSCI	flat
Oil	flat
Gold	flat

Commodity related stocks:

-

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Asset Allocation Preferences – September, 2019

Sector	Region	Fundamental	Risk/Reward	Investment case
Basic Materials	Americas Europe EM			The US administration-initiated trade war is not just a bluff, and its ramifications may extend well beyond general expectations. If it continues, the materials sector is expected to suffer most. However, we believe that the bulk of related concerns are behind us, and that the sector is adjusting to the new conditions swiftly.
Consumer Staples	Americas Europe EM			Improved ROI and ROE are the results of self-help strategies; these are leading to either a new cycle of M&A or to cash-return (share buy backs) strategies for investors.
Consumer Disc.	Americas Europe EM			Based on a bottom-up scenario, Consumer Discretionaries are the main beneficiaries of the QE restart in Europe and the interest rate cut in the US. This will increase the purchasing power of consumers, while the low- to middle-classes have had the most significant wage-pickup in the last decade.
Energy	Americas Europe EM			Up- and down-stream operators remain disciplined in terms of developing new projects, and there is also an absolute drive for higher efficiency. The sector is therefore expected to deliver significant cash-flow growth. With upstream increase capacity limited to a little less than 1% p.a., and long-term demand exceeding that, energy prices are set to increase, which is supportive for companies active in this sector.
Healthcare	Americas Europe EM			Healthcare companies typically offer consistent earnings growth, high returns on capital, and growing dividends for income-seeking investors. We prefer companies with improving growth prospects, as well as self-help stories in med-tech. We have a large-cap bias, given the late stage of the cycle. On the biotechnology side, some late phase 3 projects were cancelled; we are expecting some more mean reversion to come.
Financial Services	Americas Europe EM			Improving economic growth across the globe, driven largely by still-healthy US consumers, is set to provide a good backdrop for financial services stocks overall. The main beneficiaries can be found within the segment of diversified financials as they benefit from the secular shift (online payments framework, which enables capital optimization potential).
Industrials	Americas Europe EM			Fundamentals are optimal for sector-based capex. The last reporting cycle has confirmed the sector's engagement in this sense. This does not come as a surprise, since the global recovery is well advanced and has, historically speaking, one of the highest synchronization levels. Still, we see subsectors where more potential exists, such as natural gas transformation and the general transportation sector.
IT	Americas Europe EM			This sector's companies recently experienced significant volatility; although the sector's key areas (e.g., IIOT, connectivity, etc.) remain fully intact, we nevertheless expect volatility to remain high. The sector is currently trading with a Fwd PE of close to 18. This is in line with average premiums over the past two decades. Software and service companies are our preferred play, as they take advantage of recurring revenues.
Com. Services	Americas Europe EM			Pursuing new technologies and providing attractive content costs money; we believe those costs are likely to grow. Some companies in the sector have begun to attract more attention from lawmakers, who have expressed concerns about their size and how well they're protecting consumer privacy.
Utilities	Americas Europe EM			Near-term attractiveness of the sector is not a given, due to the favorable interest outlook. Longer-term investors can focus on companies that are challenging the present set-up of merely "providing a utility" to end-consumers. However, these developments are mostly still in an embryonic state.

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Sources:
Analysis and comments: Bloomberg, Reuters, Natixis, UBS, BNP-Parisbas
Data and graphical items: Bloomberg, Reuters

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Knowledge is power.