Quarterly House Views

Another Lap

Our economic scenario

Growth across the developed world has registered a synchronized pick-up in activity this year and rising corporate confidence augurs well for further expansion in 2018. Manufacturing output has strengthened, as has international trade, and we see encouraging signs of increased capital expenditure. Unemployment has fallen across the board, bolstering consumer confidence and spending. Despite some signs of cooler growth in China, the broader emerging economies are benefiting from export demand, higher commodity prices and recent dollar weakness.

Despite robust job creation and rising commodity prices, inflation continues to run below central banks' target levels. This is due in part to corporate cost control, driven by memories of the Great Recession, and in part to lower inflation expectations, anchored by the sluggish price data in recent years. Among developed economies, the outlier is the UK where sterling devaluation has imported inflation from abroad. Although generally higher than in the West, inflation in emerging economies has moderated in recent quarters.

The United States Federal Reserve System has developed both a template for normalization for other central banks to follow – taper asset purchases and then halt them, hike rates then hike again and finally unwind securities holdings – and two guiding principles to achieve success, i.e. management of expectations and gradual implementation. For 2018, the economic outlook suggests further normalization but sluggish inflation means central banks will be in no hurry to over-tighten policy settings – all in all, a rather benign environment.

How does this impact asset classes? Find out inside.

The outlook for 2018 looks very familiar to keen observers of economies and markets. As was the case in 2017, we expect synchronized growth, sub-par inflation and stimulative monetary and fiscal policy, creating a supportive environment for risk assets such as equities.

Main Street versus Wall Street

In the years following the Global Financial Crisis and Great Recession, many observers were struck by the gap between sluggish economies and booming asset markets.

On one hand, companies were reluctant to expand their workforce or to make new capital expenditure commitments. This meant that many workers felt they were losing out, with talk of a jobless recovery. Low capital spending led to low productivity growth, implying little room for wage increases. And spiralling costs – e.g., for healthcare in the United States – suggested a decline in living standards.

On the other, interest rates were cut close to or below zero in an attempt to kick-start growth, pulling government bond yields down to historic lows in their wake. This meant less income for depositors, falling net interest margins for banks and rising liabilities for pension funds. Investors felt compelled to stretch for returns in riskier categories of bonds, pushing prices higher and yields lower. In turn, this helped spark a long bull-run in equity markets.

As has become apparent with the increasingly polarized political landscape, the benefits of the rise in asset values accrued in the main to a small number of already wealthy individuals, and the painful recovery from the crisis was mainly felt by the working and middle classes. It is hardly surprising that non-mainstream politicians and parties have gained such traction in recent years.

At Last!

But at the same time as Donald Trump and Emmanuel Macron were seizing their presidencies, signs were emerging that a healthier economic recovery was underway.

First, the long slump in global trade has begun to reverse. Volume growth averaged 2.2% between 2010 and 2016, well below the long-run average of just under 5%, but has accelerated over the past year to 5.1%. Despite worries about "deglobalisation" and protectionism, the synchronized upswing in the global economy is bearing fruit.

Second and as highlighted in our *Better Capital Spending* theme (see *The Bigger Picture*, p12), companies around the world have begun to sanction higher capital expenditure budgets. And we continue to note signs of growth in corporate capex plans – Standard & Poor's forecast an increase of 5.5% this year, after four years of declines. If confirmed, these increases suggest that we can look forward to improvements in productivity, which might open the door to higher wage settlements at long last.

Further, the Organisation for Economic Cooperation and Development's recent Economic Outlook report forecasts an acceleration in global growth from 3.1% last year to 3.6% in 2017, strengthening further to 3.7% next year. This is very close to the 1990-2007 average, encouraging news especially given that not one of the 45 countries covered is expected to contract over the next three years.

Staying the Course

When we turn to financial markets, further similarities emerge. Corporate earnings growth is globally robust – the combination of low borrowing costs, negligible wage growth and strong demand has helped boost profitability this year and should do so again next. Strong growth and rising inflation should eventually lift the long end of the curve. Credit spreads – the difference between sovereign and corporate bond yields – are narrow and should remain so. And as highlighted last quarter, expansion mode in the global economy tends to favour equity markets.

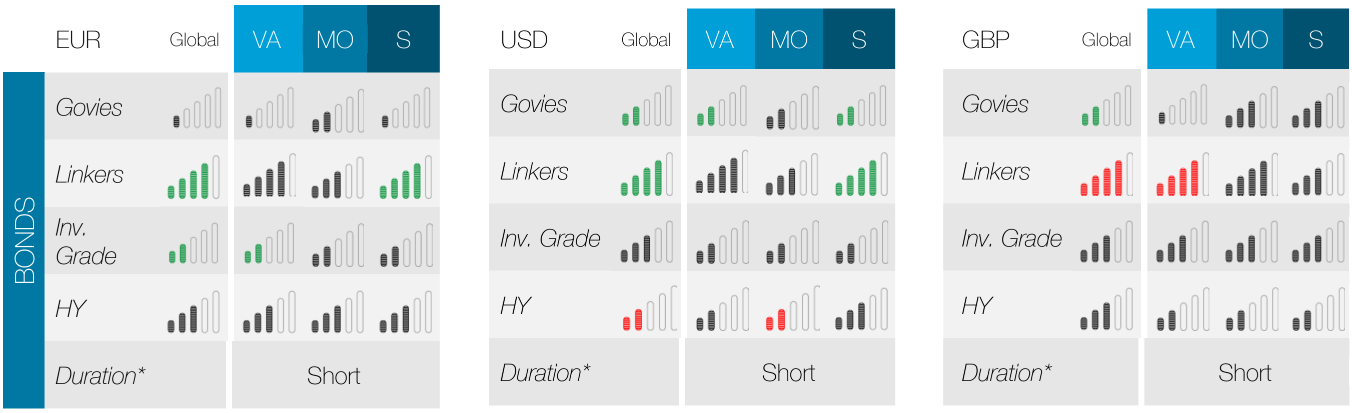
This being said, the economic expansion is well advanced in comparison with previous cycles, the positive backdrop described above is increasingly recognized by a broad consensus of investors and valuations across asset classes are stretched. As we embark on Another Lap of the economic and market track, the environment looks reassuringly familiar but we must be aware that the easy part of the race is behind us – it will be tough to maintain the same rate of progress next year.

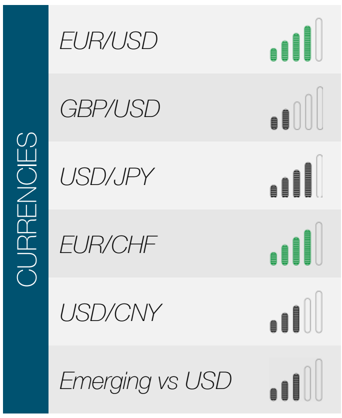
Our views summarized

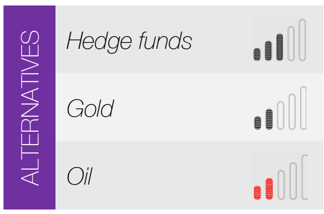
EQUITIES BONDS ALTERN.

Here, we present our VaMoS investment approach, combining economic, valuation, momentum and sentiment signals that help us fine-tune our views on asset classes for the coming period. The signals below reflect the latest conclusions of our Global Investment Committee. Here's how to read them:

Least preferred Neutral Most preferred Upgrades in green, downgrades in red







Source: SG Private Banking, 12 December 2017, * Duration: short = 3-5yr, medium = 5-7yr, long = 7-10yr; HY = High Yield

SOCIETE GENERALE Private Banking

In other words

EQUITIES*	United States	US equities will again benefit from stronger earnings-per-share growth, high margins and strong return on equity. However, upside will be limited by stretched valuations. We would advise staying neutral.
	Europe	Corporate earnings will remain supported by the global economic recovery but gains will be slower. Political uncertainty (Brexit, Italian elections) and ECB tapering will leave investors nervous.
	Eurozone	Despite a positive economic backdrop, we only expect modest outperformance by eurozone equities.
	UK	UK equities will continue to face many headwinds next year, ranging from weaker profit growth to Brexit concerns.
	Switzerland	Earnings growth will be supported by a weaker franc and the economic recovery in the eurozone, Switzerland's main trading partner.
	Japan	Solid domestic and external demand will boost earnings while valuation remains attractive. Japanese equities will also benefit from corporate governance reforms and sound company fundamentals.
	Emerging	The Chinese slowdown and US rate hikes will not prevent another year of strong EPS growth on emerging markets.
BONDS*	Sovereigns	Strong growth and rising inflation should eventually lift the long end of the curve, putting pressure on govies.
	Duration	We still favour short maturities as yield curves may steepen or shift upwards.
	Inflation-linked	This bucket offers a good hedge against rising inflation.
	Investment Grade	We still prefer High Yield over Investment Grade bonds in euro-denominated portfolios.
	High Yield	We remain constructive on eurozone High Yield bonds. However, we turn more cautious in the US.
	Emerging debt (in € and $)	So far, emerging debt has been supported by the global economic recovery, muted inflation and fund inflows. However, given spreads have tightened markedly, we would turn more selective and overweight segments likely to benefit from positive growth on top of their favourable carry.
CURRENCIES	EUR/USD	We remain bullish on the euro, despite support for the dollar from US rate hike expectations.
	GBP/USD	Lingering uncertainty about trade talks with the EU and weaker growth will weigh on sterling.
	EUR/GBP	We would expect the euro to appreciate versus sterling given the eurozone will record stronger growth than the UK.
	USD/JPY	The yen should again lose ground versus the dollar as monetary easing will remain aggressive in Japan.
	EUR/CHF	The Swiss franc should continue to correct its overvaluation but only gradually.
	Emerging	Stronger fundamentals, positive growth momentum and prudent economic policies should help emerging currencies withstand the deterioration in funding conditions following Fed rate hikes. We remain Neutral overall.
ALTERNAT.	Hedge funds	The outlook is improving for Long/Short Equity, in particular for deep value strategies, in Europe and Japan. Event Driven funds will benefit from activist campaigns by Special Situations managers, while wider takeover bid spreads will be helpful for Merger Arbitrage.
	Gold	We retain gold in our portfolios as a diversification tool given its low correlation with other asset classes. We still target $1225 in six months and $1200 in a year.
	Oil	Oil supply is likely to grow quicker than demand, which should cap oil prices. We still target $55/barrel in 6 months.

Central banks

Turning the tap off, gradually

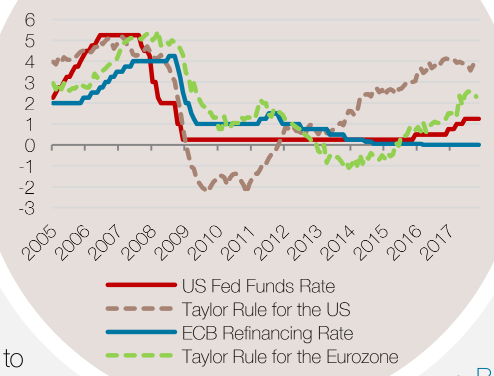
- More rate hikes to come in the US as tax reform looks set to go ahead.
- The European Central Bank (ECB) will reduce asset purchases further in 2018 but muted inflation should keep rates unchanged.
- With slower growth and lower inflation, the Bank of England (BoE) is likely to stay put in 2018.
- Favour short maturities and inflation-linked bonds.

Fed to hike rates again

> *The US tax boost could strengthen rate hike expectations.*

- While the economic recovery could have been expected to drive prices higher, globalisation, digitalization and robotization are likely to keep inflation muted worldwide. This means we should not expect much from central banks, especially given high debt levels in the private and public sectors.
- US Federal Reserve to hike rates again. Stronger growth and higher inflation could lead to further rate hikes. The monetary policy committee projects three moves next year while market expectations are for only one. Much will depend on data – any inflation surprise could cause turbulence as investors prepare for higher rates. The tax boost and cuts in asset holdings could add to upward pressure on long-term rates.
- Prefer short maturities. In the US, higher inflation and rate hikes could drive long-term bond yields up in 2018. With long-term yields still low, even a slight rise in interest rates could translate into negative returns. The upward pressure could spread to other fixed-income markets despite divergences in monetary policy. After ECB purchases kept core yields artificially low this year, we expect them to rise in 2018, narrowing the gap with US Treasuries. Non-core bonds are attractive for their carry and spreads could tighten further, although much depends on macro and politics. In the UK, where weaker growth and high inflation are pulling in opposite directions, bond yields are likely to move higher in sympathy with the US and eurozone. Overall, we still prefer short maturities and inflation-linked bonds.

Monetary conditions remain very loose in the US and eurozone



The ECB and BoE won't walk the talk

> *We expect no rate hike before 2019 – at earliest.*

- ECB in slow motion. Despite stronger growth, the European Central Bank (ECB) expects inflation to stay below target until 2019. The central bank has decided to shrink its monthly asset purchases next year but will continue buying through to September. Given strong growth and the revival in bank lending, the ECB will come under pressure to wind down the programme earlier, but no debate is likely before mid-2018. Nonetheless, any tweaks to current monetary policy should be considered as a step towards normalization. However, there is little hope of rate hikes next year with inflation kept persistently low by the slow improvement in job data and the stronger euro. Moreover, any moves to take the deposit rate back into positive territory could prove counterproductive as they could push the currency even higher. We expect no rate hikes before 2019 – at the earliest.
- Bank of England – staying put. In late November, the BoE raised its key rate by 25 basis points. However, this move had more to do with excess credit than any economic improvement. In 2018, softer growth and weaker inflation should encourage the central bank to stay put, especially as current low Gilt yields reduce its room for manoeuvre. Brexit talks will also remain of great consequence for the country's economic outlook and monetary policy.

Sources: SGPB, Bloomberg, 30/11/2017. Past performance should not be seen as an indication of future performance. Investments may be subject to market fluctuations, and the price and value of investments and the income derived from them can go down as well as up. Your capital may be at risk and you may not get back the amount you invest.

Government bonds

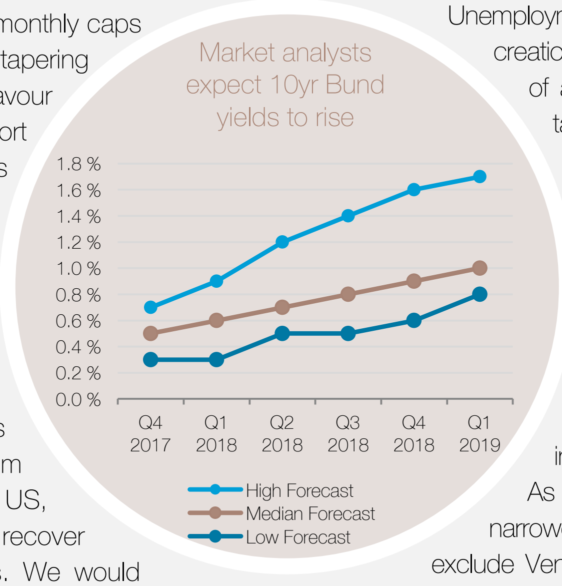
Higher yields – in due course

- We remain defensive on US Treasury bonds with a preference for short maturities.
- Eurozone bond yields may be pushed higher by stronger growth and the planned reduction in asset purchases.
- UK yields may move higher in sympathy with the US but upside will be limited by softer inflation.
- Emerging debt still offers better yields but investors should favour short maturities with US yields on the rise.

Core bond yields to inch up

> *Solid growth prospects and a possible ECB policy shift could drive core yields slightly higher.*

- With rates on the rise and inflation expected to pick up somewhat, term premia – the premium required by investors to compensate for the interest rate and inflation risk which comes with long-dated bonds – are likely to edge up, pushing long-term yields higher.
- US government bonds. Early 2018 should again see short rates increase while longer maturities remain stable. Later in the year however, long-term yields could be driven higher by growth-related inflation and further reductions in Fed bond holdings – although the monthly caps do allow the central bank to put tapering on hold if necessary. We still favour inflation-linked bonds and short maturities. Overall, the rise in yields should be mitigated by continuing easy monetary policy in Europe and Japan, a slight rise in inflation and prudent Fed communication.
- Eurozone government bonds. The ECB will be of less support to the bond market in 2018, cutting its monthly asset purchases from €60bn to €30bn. As in the US, eurozone term premia are likely to recover somewhat from their historic lows. We would avoid core bonds given their unattractive yields in light of possible ECB concerns about stronger growth which could spark a spike in volatility. However, with the eurozone yield curve already steeper than in the US and inflation still muted, the upside potential is limited. Conversely, peripheral bonds should do well thanks to robust growth, stronger fiscal positions and an attractive carry. Inflation-linked bonds remain a good diversification tool and an inflation hedge.



Emerging debt – turning more selective

> *Carry and not spread compression will be the performance driver.*

- UK government bonds. At the time of writing, it is still unclear whether agreement will be found on the Brexit divorce bill, opening the way to trade talks. As we approach the March 2019 deadline, Brexit talks will increasingly be a source of volatility for UK markets. While UK growth has been resilient thanks to global economic recovery, domestic consumption and investment are set to slow further. Given inflation is likely to decline in 2018, the Bank of England will have little reason for further hikes. Unemployment is at record lows but job creation is now slowing, reducing the risk of a wage spiral. In addition to Brexit talks, the other big influence on UK yields will be global interest rates (Gilts will move in sympathy with the US and core eurozone). Overall, we only expect a mild rise because of slower growth.
- Emerging debt. A weaker dollar, economic improvement and higher yields have attracted investors to emerging debt in 2017. As a result, EMBI spreads have narrowed and levels are even lower if we exclude Venezuela which is virtually in default. Spread compression is clearly over, and performance will rely on carry alone. Rising US interest rates may weigh on countries in great need of capital inflows to finance their current account deficit, making investors less constructive. Conversely, the global economic recovery will act as a support. Thus, we do not expect anything comparable to 2013 and we think investors should favour countries with improving macro backdrops, wide spreads and limited refinancing needs.

Sources: SGPB, Bloomberg, 08/12/2017. Past performance should not be seen as an indication of future performance. Investments may be subject to market fluctuations, and the price and value of investments and the income derived from them can go down as well as up. Your capital may be at risk and you may not get back the amount you invest.

Credit

Too tight to last

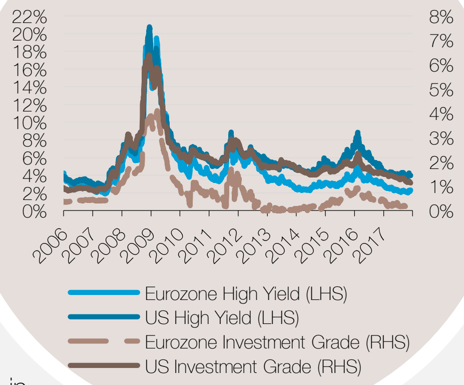
- We expect modest outperformance from credit versus sovereign bonds in 2018, thanks to the carry or additional yield available.
- In the US, we still prefer Investment Grade (IG) to High Yield bonds (HY) and banks to non-financial corporate bonds.
- In the eurozone, we favour subordinated financial debt and corporate hybrids, and prefer HY to IG.
- In the UK, we expect credit to outperform sovereign bonds given their additional carry.

United States

We still prefer IG bonds to HY and banks to non-financial corporate debt.

- This year, stronger growth, abundant liquidity and accommodative monetary policies have helped credit spreads narrow to levels not seen since 2006-2007, offering positive performance overall. While this trend could continue into the first part of next year, the second half could be more of a roller-coaster.
- United States. Spread compression has been less smooth in HY than IG. In absolute terms, both corporate bond yields and spreads now look less tempting.
- First, although still robust, credit fundamentals have begun to worsen. Strong earnings growth has kept leverage ratios under control but they have begun to creep up recently. Investor protection clauses, known as covenants, have been allowed to weaken by complacent investors.
- Second, another series of Fed rate hikes could tighten financial conditions, driving spreads wider. Debt service payments have been facilitated in recent years as low interest rates have helped companies secure cheap funding. In addition, any weakening in US growth in late 2018, given the ageing business cycle, would add to upward pressure on spreads.
- The mooted cut in corporate tax rates would be a major boost for companies. However, its impact on growth could be limited if it triggers faster normalization in US monetary policy or if inflation surges.

Credit spreads have narrowed sharply



Eurozone & UK

Robust growth outlook still favours credit versus sovereign bonds.

- Eurozone. Both IG and HY spreads have tightened in 2017. Easy ECB policy – including massive bond purchases – higher corporate earnings and a faster recovery have all translated into lower default rates. Debt leverage has barely risen in the region, unlike in the US. Default rates should remain modest in 2018 – growth is running high and earnings may grow at double-digit pace. Although the ECB is set to reduce its purchases of corporate bonds next year, we believe demand and supply will remain well balanced. However, sector- or issuer-specific factors could cause turbulence from time to time. Correlations have been high so far, but we could see greater dispersion in 2018. We still prefer subordinated financial debt and corporate hybrids which are likely to benefit from more robust growth and a steeper yield curve.
- UK. After a sharp fall in H1 2017, Investment Grade and High Yield spreads have stabilised. The growing gap in growth rates with the US and the eurozone will provide a mixed backdrop to UK credit markets, keeping spreads relatively high. Trends in the US and eurozone markets will exert an influence on UK corporate bonds – just like the Gilt market – but the additional carry will help UK credit to outperform sovereign bonds.

Sources: SGPB, Bloomberg, Datastream, 07/12/2017. Past performance should not be seen as an indication of future performance. Investments may be subject to market fluctuations, and the price and value of investments and the income derived from them can go down as well as up. Your capital may be at risk and you may not get back the amount you invest.

Insurance-Linked Securities – Marching to a Different Drum

What is the connection between hurricanes in the Gulf of Mexico, earthquakes in the Pacific Rim and forest fires in Southern Europe? And what is the connection between these natural disasters and trends in financial markets? The answer to both questions is, of course, none. And this is precisely why Insurance-Linked Securities (ILS) are such an interesting asset category.

In a nutshell

- ILS offer risk exposures which are entirely unconnected to traditional asset classes.
- ILS are growing in popularity with investors, which helps to improve liquidity.
- While risks are higher than for other types of bonds, so are returns – also, the risks can be mitigated via diversification.
- After the damage caused by the 2017 hurricane season, reinsurance premia have risen, perhaps offering an attractive entry point.

ILS – also known as Catastrophe or Cat Bonds – have been around since the 1990s in the aftermath of Hurricane Andrew which devastated the Bahamas and Florida. The limits of reinsurance capacity had become apparent and insurance companies sought new ways to securitize these exposures in the form of tradable bonds. The advantages were two-fold – the insurance industry greatly augmented its capacity to cover such unpredictable natural phenomena, and investors gained a new type of security.

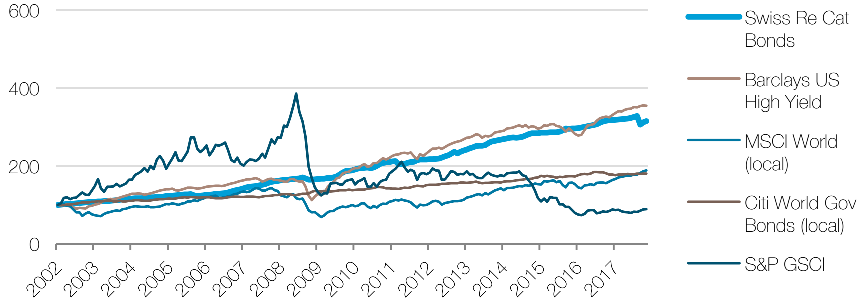
This area has grown steadily since the first issued in 1997 – total outstanding ILS capital reached \$2.8bn in 2000, \$13.9bn in 2010 and stands at \$31.1bn at present according to the consultancy Artemis. Issuance so far this year has amounted to \$11.9bn, the highest on record, illustrating investor appetite for these securities.

How do ILS work? Reinsurance companies transfer some of their portfolio of risk exposures to a special-purpose vehicle (SPV). In exchange for accepting the risks, the SPV receives a premium from the reinsurer which is then invested in short-dated fixed-coupon bonds. The SPV then issues a bond – the ILS – which typically has a less-than-3-year maturity and pays an above-market floating-rate coupon. If the underlying natural disaster does not occur, the SPV pays out the coupons and will redeem the bond at maturity. If it does and predefined trigger conditions are met, the SPV will transfer the principal back to the reinsurer, meaning losses for investors. As suggested by the first question above, the key for investors is diversification of risks across geographies and risk categories.

How can ILS fit into portfolios? Given their higher risk profile and lower ratings, a well-diversified portfolio of ILS should only form a small complement to overall fixed-income holdings. However, the ILS pay higher coupons and have less sensitivity to variations on long-dated yields. This means that their correlations to other asset classes are extremely low. The chart illustrates the relative performance of the Swiss Re Global Cat Bond Index against traditional asset classes – correlations have been low against sovereign bonds (11%), high yield (20%) and equities (13%), and risk-adjusted performance has been stronger despite the frequent occurrences of natural disasters.

ILS offer risk exposures which are entirely unconnected to traditional asset classes

Total return – ILS vs High Yield, equities, government bonds and commodities



Sources: Societe Generale Private Banking, Bloomberg, 07/12/2017

Why now? After a period of high claims on reinsurance policies, the premia charged to clients for insuring this risk tend to rise, as does the principal paid to the SPV – as a result, new issues of ILS offer more attractive terms. 2017 saw a larger-than-average number of catastrophes, in particular Hurricanes Harvey, Irma and Maria. After the drawdowns related to payouts for these incidents, it may be time to revisit ILS again.

Equities

Bumpier road ahead – but momentum still positive

- Solid corporate profit growth should help global equities continue to perform well in 2018. However, returns will be less strong.
- Volatility could rise as the US Federal Reserve hikes rates gradually and asset purchases are reduced on both sides of the Atlantic.
- No changes to our preferred markets for the start of 2018.

US equities to get a tax boost

US equities will be supported by their exposure to technology and the corporate tax reform

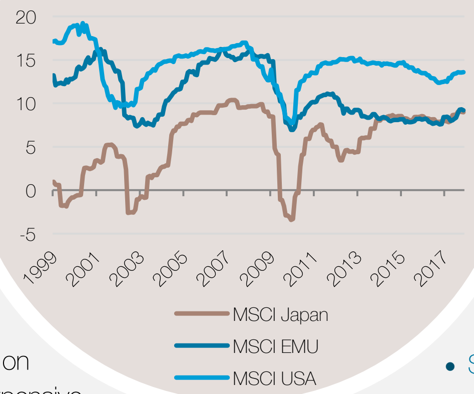
- US – strong profit growth. Despite high valuations, US equities should remain supported by strong earnings-per-share (EPS) growth, more stable oil prices and a weaker dollar in 2018. Earnings forecasts could be revised up again in the short term given the expected tax boost. US companies with high effective rates will be the main beneficiaries of a statutory corporate tax cut from 35% to 20%. The tax reform plan also includes a one-off tax on foreign-held earnings that could prompt US multinationals to repatriate cash for capital spending and redistribution to shareholders. Finally, the US market will benefit from fast earnings growth and high margins in Information Technology given the sector's significant weight in the index.
- However, monetary conditions will turn less supportive in 2018 as the Fed hikes rates further and reduces its balance sheet. Our scenario is one of very moderate rise in long-term interest rates (see page 7). However, any spike in bond yields could weigh on valuations. The US market is the most expensive market we follow, with a 12-month forward price/earnings ratio of 18.6x, the highest in 15 years.
- Sector-wise, we still prefer areas which are likely to benefit from strong global trade, higher capital spending and structural trends (such as IT, although upside will be limited in the short term given the sharp rally and overbought conditions). Financials should also benefit from solid domestic demand and rising yields.

A little less rosy in the eurozone

Despite a positive economic backdrop, eurozone equities only offer modest outperformance potential given weaker profit growth and lower RoE

- Eurozone – fading earnings momentum. Eurozone firms will continue to enjoy favourable funding conditions in 2018 as moderate inflation encourages the ECB to act gradually. Eurozone equities will also be supported by broader economic expansion across the region and stronger global trade. We still expect solid sales growth, little wage pressure and further improvement in profit margins.
- However, EPS growth forecasts have been revised down in recent months in light of a stronger euro. Also, exposure to the booming technology sector is much smaller than in the US. Depressed returns on equity (RoE) and high valuations are also negatives.
- Sector-wise, industrials will be the prime beneficiaries of the global recovery and pick-up in capital spending while Financials will be supported by domestic expansion and private loan growth.
- Switzerland – still driven by the eurozone. The eurozone recovery and a weaker Swiss franc versus the euro will again support export growth and business confidence in 2018. EPS forecasts for Swiss multinationals have been revised up in recent months and expectations are for double-digit growth next year. The Swiss market's exposure to defensive sectors may also help during periodic bouts of volatility next year.

Profitability improves very slowly in the eurozone



Sources: SGPB, Datastream, 30/11/2017, return on equity (%). Past performance should not be seen as an indication of future performance. Investments may be subject to market fluctuations, and the price and value of investments and the income derived from them can go down as well as up. Your capital may be at risk and you may not get back the amount you invest.

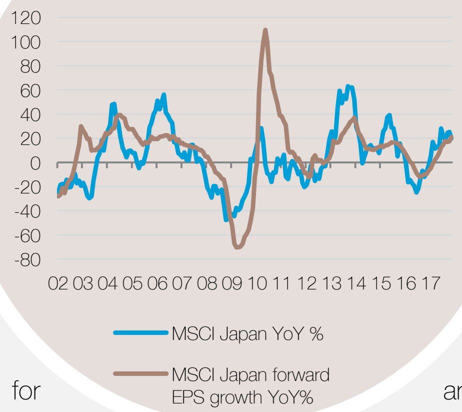
Other equity markets

UK equities to continue to lag

British equities' prospects remain clouded by slower growth and Brexit concerns

- UK – headwinds to persist. Slower economic activity, a more hawkish central bank and Brexit uncertainty will again weigh on earnings in 2018. While UK firms will benefit from the global economic recovery given the significant share of revenues generated overseas, this year's appreciation of the sterling will not help. In addition, we are prudent on commodity prices, as the slowdown in heavy industry and construction in China will weigh on industrial metal prices while oil should ease back towards 55$ per barrel (see page 16). Overall, earnings growth was much slower in 2017 due to the vanishing support from sterling devaluation and the rebound in commodity prices. Next year, EPS are expected to grow 6% in the UK, slower than elsewhere.
- Japan – more to come. Although Japanese growth is already above potential, the central bank should maintain its ultra-accommodative stance next year as inflation remains below the 2% target. Revived hopes for looser fiscal policy after last autumn's election, improved domestic activity and global and regional trade growth have all contributed to upward revisions in earnings. Valuation metrics remain attractive in both absolute and relative terms. In addition, corporate governance reforms and sound company fundamentals (low leverage) will provide additional support to Japanese equities.

Solid earnings growth in Japan



Asian equities – still good prospects

The Chinese slowdown should not prevent another year of strong EPS growth to fuel emerging markets

- Emerging markets – another leg. Despite a 32.5% rise this year in US dollars (Bloomberg, 05/12/2017), emerging equities retain upside potential. However, after recent sharp gains – especially in the Asian technology- and internet-related sectors – the market is somewhat overbought and vulnerable to short-term corrections. Underweight investors could use these better entry points to increase exposure.
- The economic context will however be a little less supportive in 2018 with a slowdown in China, rate hikes in the US and a slight rise in global yields in reaction to higher inflation. However, none of the above should derail the recovery in global trade triggered by the ongoing expansion in developed economies. In addition, oil prices have bounced back these last two years. Some countries such as Brazil and Russia are recovering from recession and the technology sector (which accounts for a significant share of the EM Asia index) will continue to benefit from the growing automation and digitalization of the world economy.
- As a result, EPS are expected to grow more slowly next year. However, the IBES consensus is still for double digits and faster growth than in developed markets (12.9% vs 9.7%). Absolute and relative valuations also remain attractive and a weak US dollar will again support emerging markets.

Fed rate hikes to benefit US Financials

2018 should see US long-term bond yields rise as stronger growth and higher inflation trigger Fed rate hikes. The monetary policy committee projects three moves next year while market expectations are for only one. The tax reform could support rate hike expectations, adding to upward pressure on long-term rates (see page 7). US banks will be the prime beneficiaries of rising yields via rising net interest margins.

In a nutshell

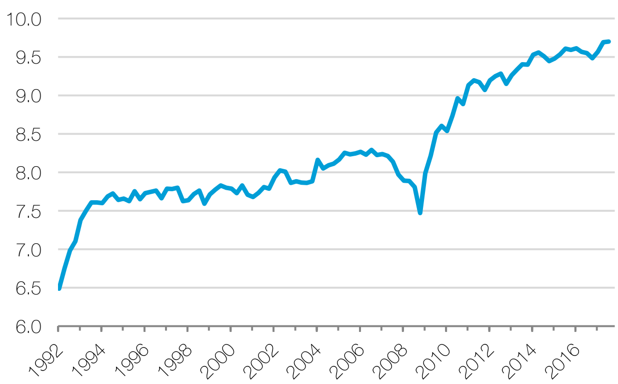
- US Financials will be supported by Fed rate hikes but also softer regulations, strong balance sheets and improved earnings growth.
- Their relative valuation is also appealing.

Other factors will also help Financials perform well in coming months.

- Expectations for lighter regulation. At his confirmation hearing before Congress, the next Fed Chairman Jay Powell called current regulation on US banks “tough enough”. He also confirmed that the current direction of monetary policy would be maintained.
- Strong balance sheets. In the aftermath of the financial crisis, regulators and banks have worked hard to restore solidity and solvency of the US banking system. Return on equity (ROE) remains well below pre-crisis levels as US banks’ capital base has increased. However, it has improved gradually and credit quality is now at multi-decade highs. According to data from the Federal Deposit Insurance Corporation (FDIC), the core capital ratio of 9.6% is above the 6% required by the Fed for systemically-important financial institutions. The funding profile has also been improved, as witnessed by the fall in the loan-to-deposit ratio, making banks less reliant on borrowing for funding.
- Improved credit quality and earnings. Higher key rates will help banks improve their revenues, especially net interest margins. And stronger economic activity will help US banks improve the quality of their loan books. The IBES consensus is now for US Financials’ EPS to grow 16% in 2018 after 8% this year.
- Appealing valuations. US Financials also show attractive valuations. With a forward price-to-earnings ratio of 14.1x, the MSCI USA Financials is 20% cheaper than the MSCI USA and the discount rises to 50% if we look at the trailing price-to-book ratio. The sector ROE is 8.7% versus 13.6% for the broader index, suggesting there is potential for re-rating as rising rates drive improvement in financials’ profitability.

US banks have strengthened their balance sheets

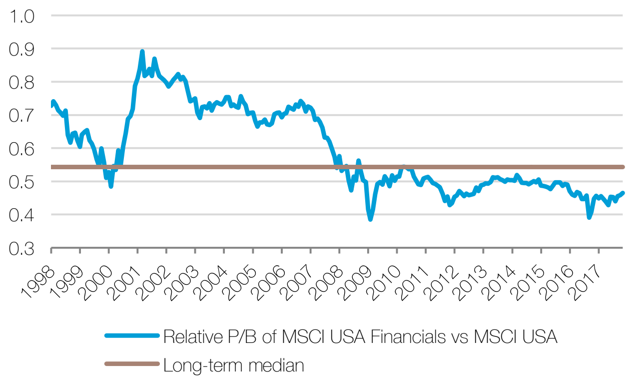
US depository institutions core capital ratio (%)



Sources: Societe Generale Private Banking, FDIC, Datastream, Q3 2017

Relative valuation of US Financial stocks is attractive

Relative price/book of MSCI USA Financials vs MSCI USA



Sources: Societe Generale Private Banking, Datastream, 30/11/2017

Education: The Most Powerful Weapon

The United Nations (UN) has identified improvement in access to education as one of important ways to achieve its long-term SDG objectives. It estimates that education generates a very high return on investment –10-15$ returned for every 1$ invested. According to UNESCO data however, 263 million children are not in schooling and 758 million youths and adults are illiterate. The problem is particularly acute for girls and women. Achieving the UN goal of universal primary and secondary education by 2030 will represent an insurmountable challenge for many countries.

In a nutshell

- The UN ranks education as a key objective among the Sustainable Development Goals (SDG) of its 2030 Agenda – "Ensuring inclusive and equitable quality education and promote lifelong learning opportunities for all".
- Education enables underprivileged members of society to break out of the cycle of poverty – "Education is the most powerful weapon which you can use to change the world", Nelson Mandela.
- It is also key to giving workers the skills to cope with nature of work in the 21st Century.

To meet this challenge, the UN recognizes the importance of encouraging the private sector to invest resources in the development of educational tools and facilities. However, the investment required is massive – in its recent Learning Generation report, the global Education Commission estimated that it will require boosting spending on education from $1.2 trillion per year today to $3 trillion by 2030 (at today's prices) across all low- and middle-income countries. While much will come from state budgets and multi-lateral organisations, private-sector initiatives will be essential.

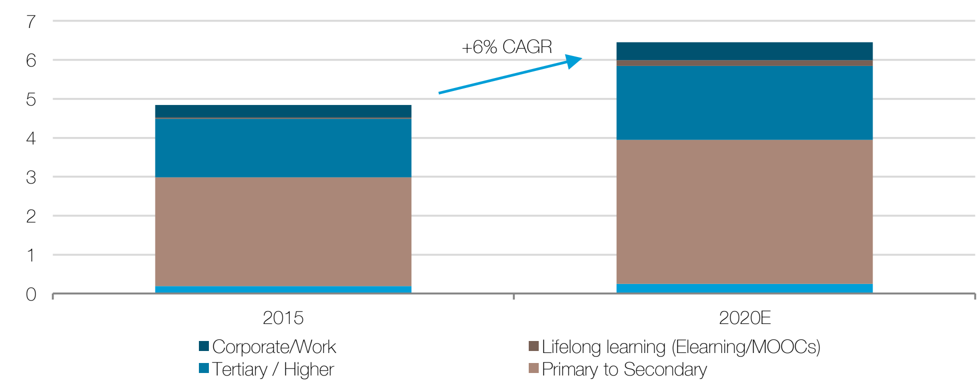
The developed world faces very different but equally acute educational problems. The futurist Thomas Frey has estimated that up to 2 billion jobs could be at risk from automation and robotics by 2030. While such estimates are pure conjecture, it seems clear that very different skills will be needed to succeed in rapidly changing workplaces. And that the pace of change will require constant retraining throughout workers' careers. Already, some 40 percent of employers globally say they find it difficult to recruit people with the skills they need.

As we have highlighted in recent quarters, productivity measures have been falling across the world. Part of the answer is investment in physical capital, but a large part will have to be investment in human capital via education.

What are the opportunities for companies? Much of the growth is coming in educational technology (EdTech) which EdTechxGlobal estimates will expand by 17% per annum by 2020. This ranges from hardware devices – routers and networks, tablets and computers – to content and software, such as in massive open online courses or MOOCs. The combination offers the potential to give access to the world's top educators in some of its most remote locations. Yet according to Citi, only 2% of the USD5 trillion market in education is digitised today.

Global education spending is set to rise

Spending per type of education (trillion dollars)



Source: SG Private Banking, GSV Advisors (BofA Merrill Lynch Global Research), CAGR = Compound annual growth rate

But opportunities also exist for private schools and universities, particularly those focusing on the key kindergarten to twelfth-grade segment (K-12) in large education-hungry countries like China, India and Brazil. For companies building and operating student residences and housing. And indeed for traditional publishers and suppliers of textbooks and educational materials.

Main currencies

Diverging trends

- The global economic recovery should favour the euro against the dollar. ECB tapering will also benefit the single currency.
- Brexit uncertainty and weaker activity will drag sterling down.
- Swiss franc to lose further ground, helping correct its overvaluation.
- Yen to move south as low inflation lead to no change from Bank of Japan.

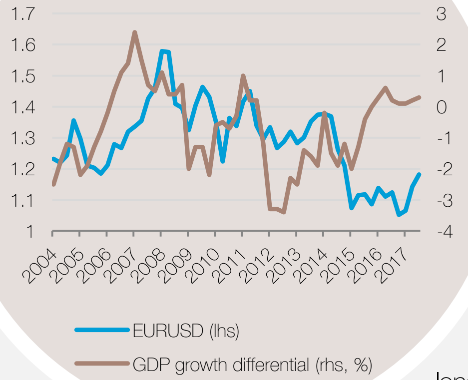
Euro to grind higher

With Brexit talks unlikely to end before late 2018, sterling will stay volatile.

- Euro – upside potential. EUR/USD has gained 11% year-to-date thanks to much-stronger-than-expected economic growth. We expect the uptrend to continue in 2018. First, the gap between Bund and Treasury yields is likely to narrow. If growth were to accelerate further, the ECB might feel compelled to revise its forward guidance and announce around mid-year the end of asset purchases by late 2018 – good news for the euro. Second, the single currency will be supported by portfolio flows and foreign direct investments as profitability improves across the region. Third, any institutional reforms to achieve greater economic and financial integration would drive the euro higher. All in all, EUR/USD should appreciate in 2018: we target 1.25 in six months and 1.30 in a year.

- Sterling – weaker growth. The currency has been underpinned by greater economic resilience and hopes for a soft Brexit. As long as hard Brexit cannot be ruled out, the UK economy will remain a weak outlier within the G10. Private consumption – the main growth driver in recent years – will suffer as inflation continues to exceed wage growth. Job creation is already slowing and debt levels are high. We are sceptical that the Bank of England will manage to tighten monetary policy in 2018 although markets assign a 73% probability to a rate hike next year. All in all, risks are to the downside with a growing yield gap versus the US and lingering political concerns. We expect sterling to trade around 1.28 in six and twelve months.

EUR/USD still offers upside potential



Slow easing

With risks fading in the eurozone, we expect the franc to weaken further.

- Swiss franc – easing gradually. The CHF remains the most overvalued G10 currency. Despite edging higher recently, inflation is still below the 2% target and interest rates remain negative, deterring foreign investors. With political risks fading in the eurozone, we expect the Swiss franc to lose further ground against a buoyant single currency. However, its decline is likely to be gradual and interspersed with short spikes that will be fought by the central bank via market interventions. All in all, we see EUR/CHF rising to 1.18 in 6 months and 1.20 in a year.

- Yen – under pressure. With the Prime Minister winning October's snap elections, we expect the Bank of Japan (BoJ) to continue with very easy monetary policy. Inflation remains muted despite strong growth and unemployment is now below 3%. The BoJ will continue to buy large volumes of assets while maintaining a cap on long-term yields. The slow rise in US long-term yields will widen the gap with Japan. In addition, strong global risk appetite means less appetite for safe havens like the yen. All in all, we expect USD/JPY to hover around 118 in six months and 120 in a year.

Emerging currencies

Supported by the global economic recovery

- The global economic recovery will benefit emerging currencies that are cheap to fairly valued.
- Renewed dollar weakness will also be a support.
- The discriminating factor will be growth prospects rather than carry.
- Fed rate hikes will be a negative for countries running current account deficits.

Targeting the basket

> *Chinese authorities have introduced more flexibility but want to remain in control.*

- Yuan – in a narrow range. Although the Chinese authorities have accepted greater exchange rate flexibility as part of their financial reforms, they remain averse to volatility. As a result, capital controls have been tightened to stop outflows and large corporate foreign investments are under close scrutiny, helping foreign exchange reserves to bounce back this year (although dollar weakness over the past year has also been a factor).
- While investors remain focused on CNY/USD, the authorities have been targeting a basket of trading partner currencies against the yuan since late 2015. The CNY has remained broadly stable against the basket in 2017 and we expect more of the same next year. Conversely, it had a bumpier ride versus a weak dollar over the first nine months of the year.
- The Chinese central bank has offered no guidance about which way the exchange rate might go next, expressing satisfaction with the range-trading observed since October. While we are rather constructive on emerging Asia currencies, the renminbi could remain rather stable versus the dollar in 2018. All in all, we expect USD/CNY to trade around 6.70 in both six and twelve months.

Asian currencies supported by strong export growth

Upside risks

> *Attractive valuations, a soft dollar and robust growth will underpin emerging currencies.*

- Emerging currencies – looking for growth. Further expansion in the global economy will help emerging currencies perform well in 2018, especially in Asia where the pick-up in global trade and the upswing in the tech cycle are particularly helpful.
- The outlook is more contrasted for commodity-related currencies as we maintain a neutral stance on oil prices, and hard metals may be hit by the incipient Chinese property downturn.
- Emerging market bonds and equities have attracted capital inflows in 2017. However, these assets may lose some of their appeal in 2018 as US rate hikes will narrow the gap with high-yielding currencies. In emerging countries, interest rates could even be cut in response to softer inflation.
- Growth will be more of a key driver than carry in 2018. In fact, high yields often reflect intrinsic weakness in emerging currencies, be it political or economic turbulence or uncomfortably high current account deficits. The only protection against a downward spiral is cheap valuations, such as with the Turkish lira or South African rand. The risk of NAFTA being revoked could also continue to weigh on the Mexican peso as this would imply lower foreign direct investment and a plunge in exports to the US.
- Overall, given our base case is for renewed dollar weakness once the impact of US tax cuts has been priced in, we would expect emerging currencies to perform well.

Sources: SGPB, Bloomberg, 30/11/2017. Past performance should not be seen as an indication of future performance. Investments may be subject to market fluctuations, and the price and value of investments and the income derived from them can go down as well as up. Your capital may be at risk and you may not get back the amount you invest.

Commodities

Rising production of shale oil in the US

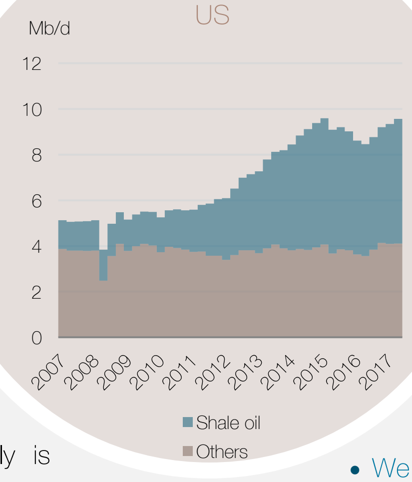
- Oil supply is likely to grow quicker than demand, which should cap oil prices. We still target $55/barrel in 6 months and 12 months.
- We retain gold in our portfolios as a diversification tool given its low correlation with other asset classes. We still target $1225 in six months and $1200 in a year.

Oil

We expect the recent price rally to correct and oil price to fall back.

- Crude oil prices rallied from $45 to over $60 per barrel in H2 2017 for the first time since mid-2015.
- On the demand side, the strong global recovery will be a major support. Moving to supply, OPEC and Russia agreed to extend production cuts deal through 2018 at the November 30 Vienna summit. The signatories want to keep oil prices around $60, a level compatible with most countries' fiscal breakeven levels. However, Russian oil companies are pushing for the quotas to be raised if the market became too tight.
- Supply growth is expected to be mainly driven by the United States in 2018. The run-up in prices encourages US shale oil companies to increase production, as the average marginal cost is now close to $40 per barrel. This should easily offset OPEC's self-imposed restrictions.
- According to the Energy International Agency, US output will exceed 9.9 million barrels/day (b/d) in 2018, compensating for the bulk of OPEC cuts. Non-OPEC total oil supply is expected to rise from 59 to 60 million b/d.
- In 2018, supply is likely to grow quicker than demand, which should cap oil prices.
- Oil prices should return below $60/barrel. We still target $55/barrel in six and twelve months.

Rising production of shale oil in the US



Gold

Gold remains a good diversification tool given its low correlation with other asset classes.

- Gold spent most of the year on the rise, supported by geopolitical tensions, economic uncertainty and repositioning on gold ETFs.
- Gold started moving south in September and the trend is likely to continue in 2018.
- Demand for physical gold has weakened, especially in India where the introduction of anti money laundering regulations and a Goods and Services tax have been negatives.
- However, demand has remained supported by purchases from China and emerging central banks as well as stronger demand in the Technology sector in 2017.
- In 2018, another series of Fed rate hikes should keep gold prices under pressure.
- All in all, we still view gold as a good diversification tool given its low correlation with other asset classes.
- We still target $1225 in six months and $1200 in a year.

Sources: SGPB, Datastream, Bloomberg, Q42017. Past performance should not be seen as an indication of future performance. Investments may be subject to market fluctuations, and the price and value of investments and the income derived from them can go down as well as up. Your capital may be at risk and you may not get back the amount you invest.

Hedge funds

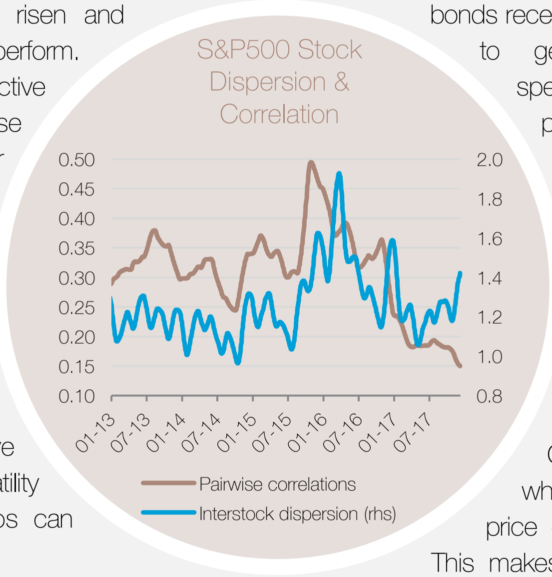
Slowly Turning the Corner

- The outlook is improving for Long/Short Equity, in particular for deep value strategies, in particular in Europe and Japan. Moving modestly Overweight.
- Event Driven funds will benefit from activist campaigns by Special Situations managers, while wider takeover bid spreads will be helpful for Merger Arbitrage. Still Overweight.
- Still no reason to add to positions in Credit Arbitrage or Distressed Debt, given the dearth of opportunity. Stay Underweight. CTAs' agnostic approach and rules-based discipline should help them outperform Global Macro funds. Neutral with a preference for CTAs.

Falling correlations helpful for L/S

"Also, dispersion between securities has risen and value stocks have begun to outperform. The same supportive drivers also help in Special Situations."

- Long/Short Equity. With strong underlying equity performance in recent months, funds with more directional exposure have tended to do better than those which hedge their market bets. Much of the upside has come from a small number of large capitalization stocks, notably in Technology. On further analysis, a number of underlying trends emerge – correlations between markets have decreased, the dispersion between securities has risen and value stocks have begun to outperform. These are positive drivers for active investment strategies such as those employed in this area, especially for those funds focused on deeply undervalued companies with clear catalysts to unlock their potential. In regional terms, managers with European and Japanese strategies should find attractive opportunities. On the other hand, Market Neutral funds could struggle – many have increased leverage in light of low volatility and their widely diversified portfolios can dilute potential returns.
- Event Driven. The supportive drivers for Long/Short value managers also apply in Special Situations strategies. As previously noted, the improving economic environment has encouraged funds to embark on numerous new activist campaigns, where managers advocate corporate reforms to unlock the value they have identified. In Merger Arbitrage, the recent failure of the large Time Warner bid on regulatory grounds has widened spreads, improving return potential for specialist funds.



CTAs for diversification

"Life is tough for Credit Arbitrage managers and the very low number of corporate defaults is a thorny challenge for Distressed Debt managers."

- Credit/Distressed Debt. The long-running campaign of central bank asset purchases, combined with low inflationary pressures and rising corporate profitability, has made life tough for Credit Arbitrage managers. Yields are low, spreads over sovereign rates are tight and markets have been dominated by inflows via passive Exchange-Traded Funds. There has been a sell-off in High Yield bonds recently but it has not yet been sufficient to generate much opportunity for specialists in this segment. As previously noted, the benign backdrop has kept the number of corporate defaults very low, a thorny challenge for Distressed Debt managers. Overall, there are more attractive opportunities in other Hedge Fund strategies.
- Global Macro/CTAs. Trend-following strategies – known as CTAs – are rules-based investors who trade on the basis of patterns in price changes in various asset classes. This makes them agnostic as to whether a market is cheap or expensive, or whether its trend is up or down – in that, they represent a real source of diversification in portfolios. With many markets range-trading, medium-term strategies should do well. Global Macro funds tend to thrive on big shifts in market fundamentals, which are unlikely to be very numerous for as long as central banks act in tandem to keep economic volatility at low levels.

Sources: SGPB, Lyxor AM, Bloomberg, S&P500, 07/12/2017. Past performance should not be seen as an indication of future performance. Investments may be subject to market fluctuations, and the price and value of investments and the income derived from them can go down as well as up. Your capital may be at risk and you may not get back the amount you invest.

Private Equity

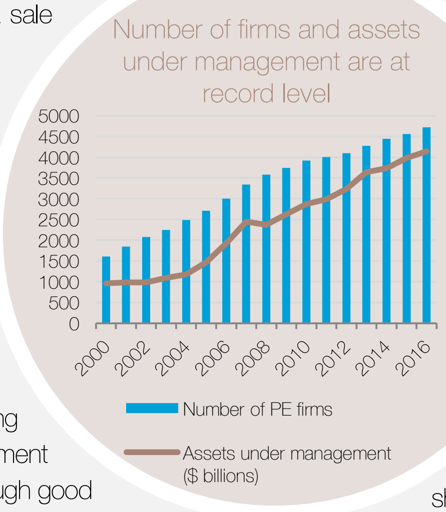
Private Equity, still alive and kicking

- 2017 has been a strong year for private equity fund raising.
- Capital allocation towards private investments has increased since the turn of the century.
- Cash has been returned to investors in record amounts through successful portfolio exits.
- Transactions continue but leverage buyout managers are turning cautious in the mega-capitalisation sector as asset prices rise.

Private equity, gaining in importance?

Illiquid investment funds can offer a safety-net.

- Private capital replacing public? In the US, private markets are equivalent to approximately 6% of public market capitalisation, yet over the 1996-2016 period the number of publicly-listed US companies has fallen from a peak of 8090 to 4331. This decline is a result of de-listings and a marked slowdown in initial public offerings (IPOs), combined with more onerous and stringent listing requirements and on-going regulatory obligations. Moreover, whilst an average of 60% of annual IPOs in the US emanate from private investments, the vast majority of private capital exits are via the M&A route, usually a sale to a strategic buyer.
- Illiquid investments offer a safety net for investors. Many investors exclude themselves from making private equity investments because they overestimate their need for liquidity. It is often assumed that private investment exits will take longer than they do in reality. The illiquid nature of a private equity fund provides fund managers with stable capital, allowing them to employ various investment strategies and nurture businesses through good and bad times, as well as offering a 'safety net' to investors in times of market stress, by removing the impact risk of mass investor redemptions from a fund.
- Diverse investment opportunities. Private capital finds its way into a wide array of stages in a company's life-cycle, including early stage Venture Capital backed businesses to later stage Leverage Buyout (LBO) transactions, Distressed for Control and Co-Investments. These diverse strategies can complement public investment holdings.



Co-investments, building credibility

A right, not an obligation.

- What is a Co-Investment? A Private Equity manager (General Partner/GP) may offer its existing investors opportunities to make further investments alongside the fund. The level of co-investment activity in the private equity industry is a direct result of deal activity in what is known as the Primary market.
- Why Co-Invest? Co-Investments are considered to be beneficial to both the GP and the LP (Limited Partner) as they 1) allow a GP to execute a deal which may be too large for a single fund 2) allow the GP to maintain control on the deal 3) deepen and broaden the GP/LP relationship 4) entice investors to commit to a fundraise and 5) come without an additional fee.
- A right, not an obligation. A GP will usually offer co-investment rights only to the LPs who provide the biggest capital commitments to their funds. GPs often cite that having co-investors delays the deal process, so the LPs must have the ability to arrive at an investment decision in a timely manner and be able to deploy capital at relatively short notice. In return for co-investing, an LP is not charged an additional management fee or profit share, making co-investments a more cost effective form of private investing.
- Quality deal flow is critical for co-investors. To build a successful co-investment portfolio an investor must have a high volume of deals from quality fund managers, and possess the ability to evaluate companies and deploy capital promptly. The good news for the private investor is that there are specialist fund managers offering such a strategy.

Sources: Preqin, BCG, November 2017. Past performance should not be seen as an indication of future performance. Investments may be subject to market fluctuations, and the price and value of investments and the income derived from them can go down as well as up. Your capital may be at risk and you may not get back the amount you invest.

Tactical and strategic themes: open strategies

Inception date	Conviction	CUR	Strategy description	Time horizon*
27/11/2014	Blue gold (Water)	EUR	Many regions of the world face large water supply disruptions. Water remains underpriced.	Strategic
24/09/2015	Inflation linkers: Useful TIPS	USD	Market prices for forward inflation levels in the US are well below our expectations.	Strategic
24/09/2015	Industrial Internet: the 4th revolution	USD	A revolution in Big Data capture and analytics to power a new era in industrial processes.	Strategic
15/06/2016	How demographic changes shape future spending	EUR	Population growth and ageing generate investment opportunities in several sectors.	Strategic
15/06/2016	Climate change – The global shift towards energy efficiency	USD	The world's transition to an energy-efficient and low-carbon economy will create long-term investment opportunities in a wide range of sectors.	Strategic
15/06/2016	Time for emerging challengers to conquer the world	USD	After two decades of multinationals chasing growth and market share in fast-growing emerging economies, the trend is reversing with large emerging companies looking to conquer the world.	Strategic
29/09/2016	Adding hybrids to a yield-starved menu	EUR	Corporate hybrid bonds provide an attractive yield pick-up relative to the various risks involved and are useful tools to boost portfolio returns.	Tactical
29/09/2016	Shifting to more sustainable food production	USD	Demand for more varied and healthy food is increasing while finite resources and climate change are limiting production capacity, creating investment opportunities in companies making the food supply chain healthier and more sustainable.	Strategic
01/12/2016	Senior loans: diversifying credit	USD	Senior loans are a useful tool to diversify credit exposure, reduce interest rate risks, and benefit from attractive yields.	Tactical
31/03/2017	Bank debt – What a difference a decade makes	USD	Favour Banks over non-financial companies in the US.	Tactical
31/03/2017	Floating rate notes – Float on	USD	With their lower interest rate risk, floating-rate notes are a good way to capture a rising trend in rates and a useful diversification instrument for portfolios.	Tactical
31/03/2017	Safety first	USD	Security and safety needs are set to grow in coming years offering a broad range of business opportunities.	Strategic
06/07/2017	Millennials: Redefining the rules	USD	Companies able to anticipate and/or adapt quickly to new consumer trends will be the main beneficiaries of millennials' growing spending power.	Strategic
06/07/2017	Playing the eurozone economic recovery	USD	Consumer discretionary and Financials should benefit most from the economic recovery while offering appealing valuations.	Tactical
06/10/2017	Convertible Bonds – Yin and Yang	USD	Convertibles combine the attributes of different asset classes in one security. As long as their credit quality is not impaired, they can offer unlimited upside with downside protection.	Strategic
06/10/2017	Benefiting from stronger capital spending	USD	The global upturn in business capital spending should further improve earnings in Industrials and IT. Valuations are already elevated but there is room for more gains.	Tactical
06/10/2017	Hunting for recovery trades	USD	Emerging currencies hardest hit in past few years are the most likely to benefit from a more positive context. This includes the Mexican peso, South-African rand, Russian rouble and Brazilian real.	Tactical
08/12/2017	Insurance-Linked Securities – Marching to a Different Drum	USD	ILS represent a source of uncorrelated returns for bond portfolios. The recent drawdowns linked to US hurricanes create a new opportunity in this segment.	Strategic
08/12/2017	Fed rate hikes to benefit US Financials	USD	US Financials will be supported by Fed rate hikes but also softer regulations, strong balance sheets and improved earnings growth. In addition, their relative valuation is also appealing.	Tactical
08/12/2017	Education: The Most Powerful Weapon	USD	Achieving the UN goal of universal primary and secondary education by 2030 and adapting workers' skills to 21th century needs will create interesting investment opportunities.	Strategic

Sources: Societe Generale Private Banking, Datastream. Data as at 08/12/2017

* Strategic: 1-3 years. Tactical: 3-12 months

Denotes a change from our previous quarterly

Closing strategies

Inception date	Conviction	CUR	Closing rationale	Type
24/03/2016	ILS: True diversification	USD	▪ Recent performance has been hit by the US hurricane season which saw calls on capital, creating a new opportunity.	Strategic
06/07/2017	Undervalued currencies – Bottom fishing	USD	▪ Upside potential will be capped by Fed normalisation in the short run.	Tactical

Sources: Societe Generale Private Banking, Datastream (data as at 06/12/2017).

Global economic forecasts

Growth and inflation

YoY changes in %	Real gross domestic product growth* 2016	2017f	2018f	2019f	2020f	Consumer price inflation* 2016	2017f	2018f	2019f	2020f
World (Mkt FX weights)	3.6	3.9	3.7	3.1	2.9	1.5	1.9	2.0	2.1	2.0
World (PPP** weights)	3.3	3.7	3.7	3.3	3.1	2.8	3.3	3.3	3.1	3.0
Developed countries (PPP)	1.7	2.2	2.1	1.4	1.0	0.8	1.7	1.5	1.7	1.9
Emerging countries (PPP)	4.5	4.7	4.8	4.6	4.6	4.3	4.4	4.5	4.1	3.7
Developed countries										
US	1.5	2.2	2.2	1.1	0.6	1.3	2.1	1.6	1.8	2.3
Eurozone	1.8	2.3	2.1	1.4	0.6	0.2	1.5	1.4	1.4	1.4
Germany	1.9	2.5	2.1	1.3	0.7	0.4	1.7	1.5	1.5	1.4
France	1.1	1.8	2.0	1.4	0.6	0.3	1.2	1.5	1.3	1.5
Italy	1.1	1.6	1.5	0.8	0.3	0.0	1.4	1.2	1.4	1.2
Spain	3.3	3.0	2.4	1.8	0.8	-0.3	2.0	1.4	1.3	1.3
UK	1.8	1.5	0.8	0.6	0.9	0.7	2.7	2.7	1.9	1.5
Japan	1.0	1.5	1.3	1.2	0.8	-0.1	0.4	0.9	1.6	2.6
Switzerland	1.4	0.7	1.6	0.9	0.4	-0.4	0.5	0.6	0.9	0.4
Australia	2.5	2.4	3.3	3.0	2.1	1.3	1.9	1.9	2.2	1.9
Emerging countries										
China	6.7	6.8	6.2	5.4	5.2	2.0	1.6	2.3	2.0	1.4
South Korea	2.8	3.2	2.8	2.5	2.3	1.0	2.1	1.8	1.7	1.7
Taiwan	1.5	2.6	2.5	1.3	0.3	1.4	0.5	1.3	1.0	0.7
India***	7.9	6.4	7.4	7.3	7.7	5.0	3.3	4.2	4.3	4.1
Indonesia	5.0	5.1	5.3	5.3	5.6	3.5	3.9	3.7	4.0	4.1
Brazil	-3.6	0.7	1.9	2.1	1.2	8.7	3.5	3.9	4.1	4.1
Mexico	2.0	2.1	2.0	1.1	0.5	2.8	5.9	3.9	3.4	3.4
Chile	1.6	1.5	2.6	2.6	2.0	3.8	2.1	2.5	3.2	3.0
Russia	-0.2	1.6	1.6	1.4	1.5	6.6	3.6	3.2	4.0	3.9
Poland	2.7	4.3	3.8	3.3	3.0	-0.6	1.9	2.5	2.8	2.5
Czech Republic	2.5	4.5	3.6	2.5	1.9	0.7	2.4	2.2	1.7	0.7

* (f: forecast) ** PPP: Purchasing Power Parity *** In India, the numbers are averaged over the Fiscal Year, ending in March.

Sources: SG Cross Asset Research / Economics, IMF, 24 November 2017

Forecast figures are not a reliable indicator of future performance

Market performance

Developed equity markets performance *(in local currency)*

	Current level	1m total return	3m total return	YTD total return	12m total return
S&P500	2637	2.1%	7.5%	20.1%	20.1%
DJ Euro Stoxx 50	3573	-2.3%	4.0%	12.1%	17.5%
FTSE100	7321	-2.1%	-0.4%	6.5%	10.3%
Topix	1786	-1.5%	12.7%	20.0%	22.4%
MSCI AC World ($)	501	0.6%	5.1%	21.7%	21.9%

Developed bond markets performance *(in local currency)*

		1m total return	3m total return	YTD total return	12m total return
Citigroup US Sovereign 3-7y		-0.5%	-1.5%	1.3%	1.1%
Citigroup Germany Sovereign 3-7y		0.0%	-0.1%	-0.3%	0.4%
Citigroup UK Sovereign 3-7y		-0.2%	-1.3%	0.0%	0.5%
Citigroup Japan Sovereign 3-7y		-0.1%	-0.2%	0.0%	0.0%
	Yield to maturity				
BAML Corp Euro IG	0.73%	0.0%	0.9%	3.1%	4.1%
BAML Corp Euro HY	3.05%	-0.8%	1.1%	6.7%	8.1%
BAML Corp US IG	3.30%	-0.1%	0.1%	6.0%	6.3%
BAML Corp US HY	6.19%	-0.2%	0.8%	7.2%	8.2%
BAML Corp UK IG	2.55%	-0.3%	-1.3%	4.1%	6.0%

Emerging equity markets performance *(in USD)*

	Current level	1m total return	3m total return	YTD total return	12m total return
MSCI EM	1101	-2.9%	1.2%	30.5%	30.2%
MSCI EM Asia	562	-3.5%	3.6%	36.8%	34.8%
MSCI EMEA	270	-0.4%	-2.0%	14.1%	18.6%
MSCI Latam	2693	-2.4%	-8.5%	17.7%	18.8%

Emerging bond markets performance *(in USD)*

	Yield to maturity	1m total return	3m total return	YTD total return	12m total return
BAML EM Sovereign	4.66%	1.2%	-0.3%	11.2%	11.4%
Asia	3.64%	0.4%	0.0%	9.9%	9.9%
EMEA	4.43%	1.5%	-0.4%	10.7%	11.0%
Latam	5.34%	1.2%	-0.4%	12.3%	12.4%
BAML EM Corp	4.21%	0.3%	0.1%	7.9%	8.2%
Asia	3.66%	-0.1%	0.0%	5.7%	5.6%
EMEA	4.05%	0.4%	-0.3%	6.9%	7.2%
Latam	5.14%	0.6%	0.6%	11.8%	12.6%

Source: Societe Generale Private Banking, Bloomberg, Datastream (data as of 07/12/2017)

BAML : Bank of America Merrill Lynch
Corp : Corporate
IG : Investment Grade
HY : High Yield

EM : Emerging Market
EMEA : Europe, Middle East, Africa
LatAm : Latin America

Forecast figures are not a reliable indicator of future performance

Market performance and forecasts

Currencies	Performance YTD	Current	6-month forecast	12-month forecast
EUR/USD	12.0%	1.18	1.25	1.30
USD/JPY	-3.3%	113	118	120
EUR/CHF	9.3%	1.17	1.18	1.20
GBP/USD	9.2%	1.35	1.28	1.28
EUR/GBP	2.5%	0.87	0.98	1.02

10-year yields	YTD change	Current	6-month forecast	12-month forecast
(in local currency)	*basis points*			
USA	-7	2.4%	2.5%	2.7%
GER	19	0.3%	0.6%	0.9%
UK	4	1.3%	1.3%	1.5%

Commodities	Performance YTD	Current	6-month forecast	12-month forecast
Gold in USD	8.4%	1254	1225	1200
Oil (Brent) in USD	9.4%	62.0	55	55

Equities *(in local currency)*	YTD Total return	Current	6-month forecast	12-month forecast
S&P 500	20.1%	2637	2800	2850
EuroStoxx 50	12.1%	3573	3750	3800
FTSE 100	6.5%	7321	7450	7500
Topix	20.0%	1786	1900	1950

Source: Societe Generale Private Banking, Bloomberg, Datastream (data as of 07/12/2017)

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