Quarterly House Views

Still Half Full

Alan Mudie
Head of investment Strategy
(41) 22 819 0255
alan.mudie@socgen.com

Xavier Denis
Global strategist
(852) 2166 4683
xavier.denis@socgen.com

Antonio Bertone
Global strategist
(33)1 42 13 24 06
antonio.bertone@socgen.com

Sophie Fournier
Global strategist
(33)1 42 14 59 36
sophie.fournier@socgen.com

Annabelle Pigeon
Junior strategist
(41) 22 819 0494
annabelle.pigeon@socgen.com

Paul Beecham
Editor in chief
(33) 1 56 37 39 61
paul.beecham@socgen.com

Our economic scenario

GROWTH

The global economy is still expanding although the pace is no longer accelerating. The eurozone and Japan continue to register above-trend growth, and the US should pick up after a sluggish start to the year. Global trade volumes have risen, investment spending has begun to improve and falling unemployment has bolstered consumer confidence and spending. Emerging economies will contribute more to global growth than in recent years although we do expect China to slow as the impact of 2016's stimulus package fades.

INFLATION

The boost to inflation from last year's surge in oil prices is beginning to dim, leading to concerns that deflationary pressures might reassert themselves. We believe this may prove misguided. Output gaps are beginning to close and unemployment is falling throughout the developed world – this will translate into wage pressures in due course. While it may take time to reach central banks' 2% inflation target, we expect a moderate but steady rise in inflation, even excluding volatile items.

CENTRAL BANKS

In light of synchronized global growth and rising inflationary pressures, we expect that gradual normalization of monetary policy will continue. We believe the US Federal Reserve will hike once more this year and also announce a cut in their programme of reinvestment of maturing bonds. While the European Central Bank and Bank of England will continue to sound more hawkish, we do not expect any tightening measures this year – the ECB is however likely to open the way to a decrease in volumes of asset purchases, to be implemented next year.

How does this impact asset classes? Find out inside.

CA551-522/JULY/2017
KLEINWORT HAMBROS
SOCIETE GENERALE GROUP

BUILDING TEAM SPIRIT TOGETHER

Investors experienced a bout of nerves in the aftermath of the Brexit referendum and US presidential election, fearing that Europe's elections in 2017 could yield similar shocks. In the event, these worries have proved unfounded so far and indeed the overall environment has been much more benign than expected.

Political mayhem was avoided in Europe

Mariano Rajoy's minority centre-right government remained in power in Spain, far-right populists failed to create upsets in either the Austrian presidential election or the Dutch parliamentary poll and – perhaps most significantly – Emmanuel Macron won the French presidency with an explicitly reformist and pro-EU platform.

It must be noted that the economic backdrop in Europe has improved. Unemployment continues its steady fall, business confidence has strengthened in both manufacturing and services and consumer sentiment recently hit a 10-year high. This environment is bolstered by a powerful combination – the euro is undervalued, monetary policy is exceptionally easy and governments have backed away from fiscal austerity. In addition, the recent rescue packages for banks in Spain and Italy suggest that a more pragmatic approach to solving the financial system's woes is gaining traction.

But not in Washington and Westminster

Theresa May's inability to achieve an enhanced majority in June's snap election has added another level of uncertainty surrounding the Brexit negotiations. First quarter GDP growth was revised down and devaluation-induced inflation is eating into household confidence and disposable incomes.

In the US, the boost to small business confidence that followed Donald Trump's election has yet to be justified by progress on the President's flagship reforms to trade policy and taxation. And the economic surprise index calculated by Citi has plumbed depths we have not seen since 2011.

However, we would not sell US and UK assets...

First of all, with hope on Trump reforms at rock-bottom, any progress on healthcare reform, deregulation or the tax code would come as a welcome surprise to investors. Second, the US economy continues to create numerous new jobs and with core inflation rising only gradually, it looks unlikely that the Fed will be forced to tighten policy to the point where growth potential would be choked. Finally, economic surprises tend to come in waves – after a long period of negative surprises, economists tone down their forecasts opening the way for a cycle of positive surprises.

Within the UK government, some calls for a more pragmatic approach to Brexit negotiations – most notably from Chancellor Hammond – have been voiced. It is possible that Mrs May's poor electoral performance could encourage a leadership challenge, and any inkling of a "softer" Brexit might spark a reappraisal of the downside risks for sterling.

...and downside risks remain in the eurozone

In Italy, where there is still talk of a snap election, the populist Five Star movement has been leading the ruling Democratic Party in most polls since late February. In Spain, Prime Minister Rajoy's minority government could yet face a challenge from the upsurge in support for the left-wing PSOE. Also, there remains a risk that Emmanuel Macron's labour market reforms could provoke widespread protest and strikes.

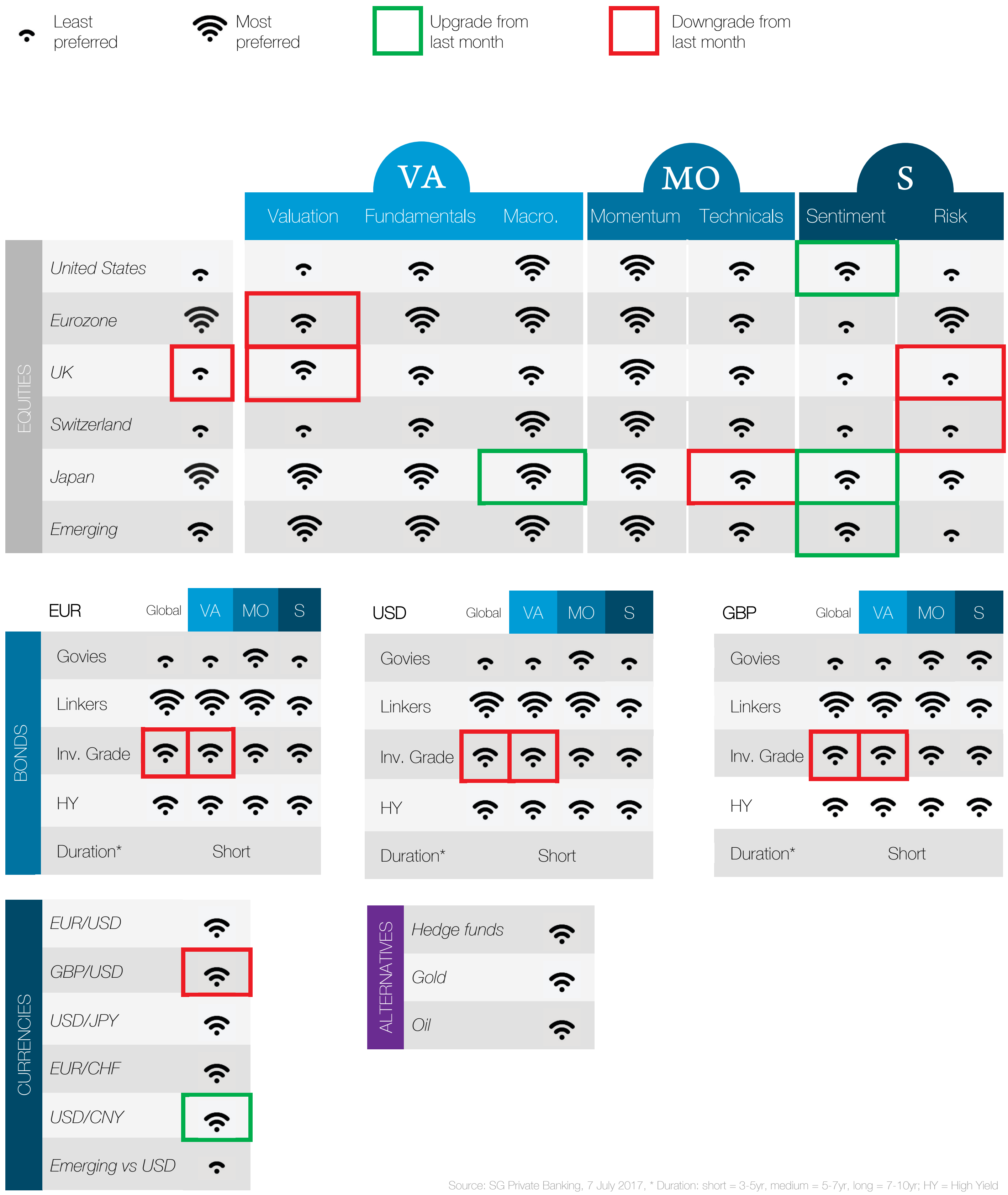
So, don't extrapolate recent trends into the future. The outlook for the eurozone has improved but downside risks remain. And while the challenges faced by Prime Minister May and President Trump are daunting, they are not insurmountable.

We still recommend a moderately risk-on stance

The expansion currently underway in the global economy is supportive, as are the pick-up in earnings and the improvement in fundamentals. Valuations are high on average, and investors should favour markets which have catch-up potential, such as the eurozone and Japan. Price momentum is strong across the board, but some sentiment indicators – such as implied volatility – show signs of complacency. Well-diversified holdings across asset classes and investment themes should enable investors to capture the upside potential without taking on undue risk.

Our market analysis

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:



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

In other words

EQUITIES*	*United States*	US equities have little to offer – their valuations are already too stretched.
	Eurozone	Eurozone best positioned to benefit from economic recovery. Prefer Consumer Discretionary and Financials as funding conditions remain favourable.
	UK	Brexit talks leave us increasingly cautious on UK equities.
	Switzerland	Stay neutral on Swiss equities as they will benefit less than others from the global recovery.
	Japan	Japanese equities will be supported by stronger earnings growth, rising wage inflation and solid external demand.
	Emerging	We still advise selectivity with a preference for markets undertaking structural or corporate governance reforms and those geared to the upswing in the semiconductor cycle.
BONDS*	*Sovereigns*	We remain defensive on US Treasury bonds with a preference for short maturities. In the eurozone, solid growth prospects and a possible ECB policy shift could drive core yields higher but we see limited upside.
	*Duration***	Given the steepening in the yield curve, we prefer short-dated bonds.
	Inflation-linked	We still favour inflation-linked bonds, although we recognise valuations are now less compelling.
	Investment Grade	In the eurozone, we turn more cautious as spreads no longer offer sufficient protection against a potential pick-up in benchmark yields.
	High Yield	This segment offers attractive yields but the trade has become crowded, increasing the risk of a reversal.
	Emerging debt (hard currency)	We would favour shorter-than-benchmark maturities with a preference for issuers offering spreads wide enough to act as a cushion.
CURRENCIES	*EUR/USD*	There are many supports for EUR/USD, including a less accommodative European Central Bank, markets turning long euros for the first time since 2014, limited dollar upside and Fed caution.
	GBP/USD	The 1-year horizon is uncertain – we see 1.25 in the event of hard Brexit and 1.35 in case of soft Brexit.
	USD/JPY	A combination of negative and positive forces will lead to extended range-trading.
	EUR/CHF	Any bout of risk aversion in the eurozone, especially at the periphery, or weaker economic momentum would benefit the franc. However, less easing from the ECB could lead a modest depreciation in the CHF.
	Emerging	Emerging currencies have delivered appealing risk-adjusted returns and still have upside potential. High yielding currencies – in particular those of oil producers – should continue to do well.
ALTERNAT.	*Hedge funds*	Prefer managers using in-depth fundamental analysis, especially in the US, and Long & Variable Bias funds in Europe. Also prefer Global Macro to CTAs and Special Situations to Merger Arbitrage in H2.
	Gold	Gold will offer limited upside in coming months, as political risks are receding and demand will only recover slowly.
	Oil	Oil prices should return into a $50-55 range this year despite the slow rebalancing of supply and demand.

Source: SG Private Banking, 5 July 2017, EM = Emerging markets, hard currency = dollar & euro, *Relative views expressed in local currencies, ** Duration: short = 3-5yr, medium = 5-7yr, long = 7-10y

Central banks

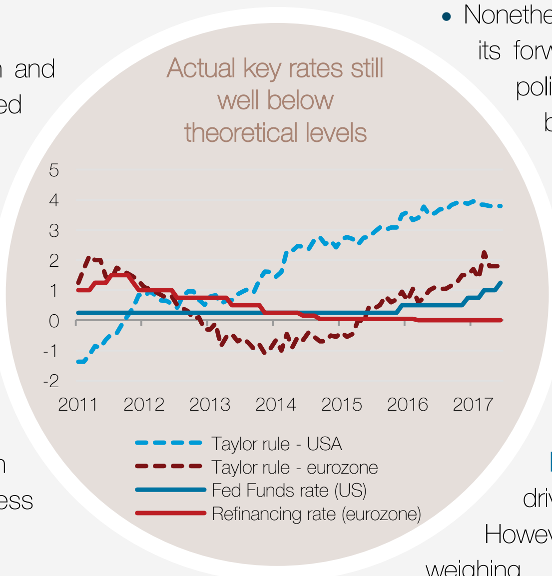
Much will depend on economic data

- The European Central Bank (ECB) could review its forward guidance in coming quarters in response to stronger economic momentum, as a prelude to scaling back its asset purchases.
- One more rate hike in the US. The Federal Reserve is likely to start reducing its balance sheet before year-end.
- No change from the Bank of England (BoE). However, rising inflation may trigger a rate hike later this year.
- Favour short maturities and inflation-linked bonds.

Fed to hike once more this year

> *The Fed's projection of three hikes in 2018 will be challenged if inflation struggles to gain traction and growth starts to weaken.*

- Despite weak inflation, the global recovery remains on track. The stronger growth witnessed recently in key advanced economies should lead in due course to even tighter labour markets and wage-related inflation.
- Ultra-loose monetary policies are likely to be rolled back but much will depend on data – central banks are likely to err on the side of caution.
- Prefer short maturities. Low inflation and slow growth in the US have pushed Treasury yields lower, dragging those on German Bunds and UK gilts in their wake. The yield gap with the US has been narrowing since mid-March and more could come as monetary policies in Europe begin to normalise and closing output gaps help inflation recover. We still prefer short-dated and inflation-linked bonds, although we recognise valuations are now less compelling.
- Fed – one more rate hike. The Fed is firmly committed to hiking rates – it thinks the recent pullback in inflation is temporary and that policy conditions are overly accommodative. However, the Fed's projection of three hikes in 2018 will be challenged if inflation struggles to gain traction and growth starts to weaken.



ECB and BoE changing tack

> The Bank of England has turned more hawkish to curb fast-growing credit growth.

- ECB to shift stance. The European Central Bank (ECB) will likely think the balance of risks has improved following signs of stronger, more synchronised growth in the eurozone. However, the central bank should continue to provide strong stimulus as banks remain reluctant to lend to corporates.
- Nonetheless, we expect the ECB to review its forward guidance and to adjust some policy parameters. We think the central bank will extend its asset purchases beyond December 2017 but at reduced volumes. The key deposit rate may also be raised although it will remain negative throughout 2018. Rising US rates are also likely to lift eurozone benchmark yields.
- Bank of England – turning more hawkish. Weakness in sterling is still driving inflation higher, with a lag. However, shrinking purchasing power is weighing on private consumption, and economic activity more generally. This should deter the Bank of England from hiking rates, although they have adopted a more hawkish tone to curb excessive consumer credit growth.

Government bonds

Heading north

- We remain defensive on US Treasury bonds with a preference for short maturities.
- Solid growth prospects and a possible ECB policy shift could drive core eurozone yields higher.
- Further price pressure and higher yields abroad should push long-term rates further up in the UK.
- In the emerging world, we would favour shorter-than-benchmark maturities with a preference for issuers offering spreads wide enough to act as a cushion.

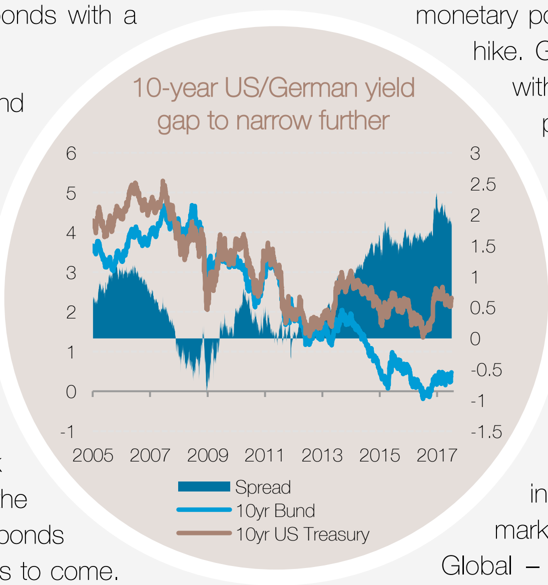
Limited upside for core bond yields

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

Emerging debt back in favour

Dollar- and euro-denominated emerging debt still offers some value carry-wise.

- US government bonds. After a post-election rally in November 2016, Treasury bond yields have been sapped this year by lower inflation and delayed fiscal stimulus. Given the Fed is committed to hiking rates further and plans to shrink its balance sheet, yields are set to head north again. Growth remains steady and continued job creation will eventually translate into wage pressure. We remain defensive on US Treasury bonds with a preference for short maturities.
- Eurozone government bonds. Bund yields turned positive in late 2016 and have risen since to just under 0.5%, well below the current YoY inflation rate of 1.6%. A stronger economic recovery has helped dispel deflation fears. However, the inflation outlook remains dull as highlighted by both the European Central Bank (ECB) and market expectations. Since its peak at 235 basis points last December, the yield gap with 10-year US Treasury bonds has narrowed and we believe more is to come. Solid growth prospects and a possible ECB policy shift could drive core euro yields higher. Since the eurozone periphery is enjoying stronger growth, further spread compression could mitigate the impact of rising core bond yields. However, much will depend on domestic factors.



- UK government bonds. A weaker pound has driven inflation higher through import prices. Meanwhile, the UK economy has begun to weaken as private consumption – a key economic driver – is being impaired by negative real wage growth and faltering consumer sentiment. The Bank of England stands between a rock and a hard place and a faction on the monetary policy committee is calling for a rate hike. Gilt yields have moved in sympathy with US rates so far. Further price pressure and higher yields abroad should push long-term rates up further in the UK.
- Emerging debt. Abundant liquidity, a weaker dollar, low yields in developed markets and economic improvement in several countries have revived interest for emerging debt. With an average yield of 5.5%, investors remain attracted to those markets. Emerging spreads – EMBI Global – have stayed in a 300-320 basis point range since February and we believe a floor has been reached. Dollar and euro denominated emerging debt still offers some value from a carry perspective. However, our expectations for higher US yields would encourage us to favour shorter-than-benchmark maturities with a preference for issuers offering spreads wide enough to act as a cushion.

Sources: SG Private Banking, Bloomberg, 05/07/2017. 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

Sitting tight

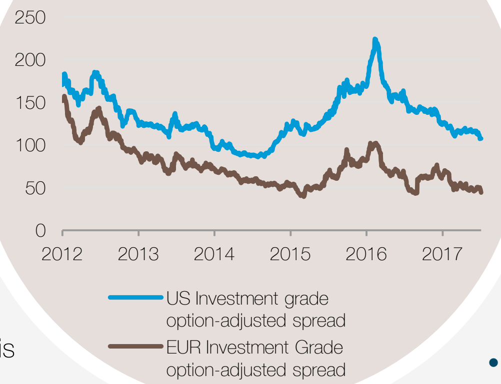
- We still prefer credit to government bonds despite tight spreads. A major correction is unlikely in coming months and the extra carry – i.e. the additional interest which accrues over time – justifies holding on.
- In the US, we still prefer investment grade bonds to high yield and banks to non-financial corporate bonds.
- In the eurozone, we turn more cautious on investment grade bonds while maintaining a preference for subordinated financial debt and corporate hybrids.
- In the UK, we expect credit to outperform sovereign bonds thanks to the additional carry.

United States

> *We still prefer investment grade bonds to high yield and banks to non-financial corporate debt.*

- Thanks to a benign economic backdrop, abundant liquidity and ultra-accommodative monetary policies, credit spreads have tightened further in H1, continuing last year's trend.
- However, this also means that corporate yields are now less attractive. So, while credit fundamentals remain broadly robust – despite some weakness in the US – current valuations limit the scope for further tightening.
- United States. Leverage ratios remain high, although they have eased somewhat thanks to stronger earnings and slower debt issuance. Interest coverage ratios, which measure a company's ability to meet interest expenses from operating profits, have been weakening for a while – adding to signs of declining corporate health. These weak fundamentals bolster our conviction that the US credit cycle is maturing.
- However, the triggers for a correction are still not in place: the US economy will continue to recover – even without additional fiscal measures – and default rates are unlikely to rise sharply. We still prefer investment grade bonds to high yield instruments (for valuation reasons) and banks to non-financial corporate bonds as they show better fundamentals.

IG spreads no longer protect from rising benchmark yields (bp)



Eurozone & UK

> Tighter eurozone corporate spreads have reduced the appeal of credit versus sovereigns

- Eurozone. Faster earnings growth, limited debt issuance, better interest coverage ratios, coupled with a sustained economic recovery and very accommodative monetary policies – all these factors will keep default rates low for the foreseeable future. Moreover, the ECB's Corporate Sector Purchase Programme was not cut to the same extent as for government bonds when monthly purchases were clipped from €80bn to €60bn in April. This is no surprise as the ECB has refocused from covered bonds and ABS to corporate bonds. With demand strong and supply limited, credit markets are well underpinned. However, the ensuing squeeze in Investment Grade and High Yield spreads has reduced the appeal of credit versus sovereign bonds. We would prefer subordinated financial debt and corporate hybrids which are more likely to benefit from stronger growth and a steeper yield curve.
- UK. The much-feared end to corporate bond purchases did not ruffle the market. Investors worried weaker public demand might translate into wider spreads, especially with institutions trying to reduce exposure to corporate bonds. However, investment grade spreads did not budge, signalling that abundant liquidity worldwide has held sway over weaker central bank demand. We expect spreads to trade in line with eurozone and US equivalents, and that carry will help UK credit to outperform sovereigns.

Sources: SGPB, Bloomberg (05/07/2017). OAS = option-adjusted spread. 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.

Equities

Focus on markets with decent valuations and good prospects

- We remain constructive on global equities.
- Eurozone and Japan best positioned to benefit from economic recovery.
- US equities have little to offer – their valuations are already too stretched.
- Brexit talks leave us increasingly cautious on UK equities.
- Stay neutral on Swiss equities as they will benefit less than others from the global recovery.

Limited upside in the US

Stretched valuations leave US equities vulnerable to rising interest rates.

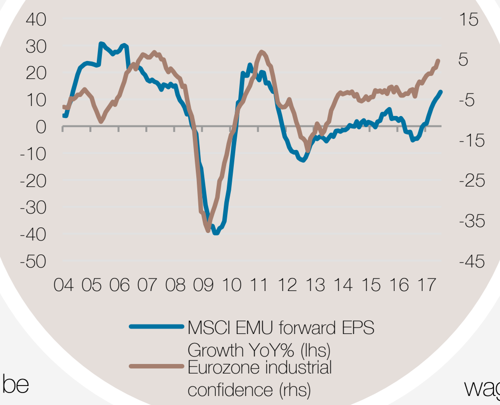
- Global equities – still constructive. In coming months, earnings are expected to continue to increase, albeit at a slower pace, while inflation is likely to edge higher. G4 central banks will drain liquidity and raise key rates only very gradually, led by the Fed. If the rise in long interest rates is equally gentle, the economic context will remain positive for risk assets.
- US equities – limited upside. US equities will remain underpinned by sustained economic and earnings growth and still easy monetary policies. However, valuations are stretched: almost all metrics are at their highest level in more than a decade.
- It is true that while valuation can help assess long-term equity returns, it is a poor predictor of short-term performance and markets can overshoot in late cycle. However, the prospect for wage-related inflation, Fed rate hikes – although normalization is expected to be gradual – and higher 10-year bond yields should weigh on valuations, limiting the market upside. With a forward price-to-earnings ratio of 18x, the MSCI USA is trading 27% above its 10-year median and 8% above its developed peers and its price-to-book stands at 3.1x versus 2.3x for the MSCI World. In addition, all the uncertainty about Trump's pledged reforms and the Federal debt ceiling could dampen investor sentiment.

Eurozone and Japan still preferred

We still prefer Eurozone and Japan given the ongoing economic recovery, better earnings and attractive relative valuations.

- Eurozone – stronger earnings forecasts. Supported by the ongoing economic recovery and lower unemployment, the European Commission's economic sentiment indicator hit a 10-year high in June. This bodes well for the profits of domestic and more internationally-focused firms. Against this background, analysts have continued to upgrade their earnings forecasts.

Eurozone: rising industrial confidence supports stronger earnings growth



- Limited price pressure will prompt the European Central Bank to stay ultra-accommodative for now and we expect no cuts in asset purchases before 2018. As a result, corporate financing conditions will remain favourable while valuations look attractive versus global equities. Sector-wise, we favour Consumer Discretionary and Financials (see theme page 12).
- Japan – beyond Abenomics. Japanese equities will be supported by stronger earnings growth, rising wage inflation and solid external demand. Economic growth is now better balanced thanks to a recovery in both consumer spending and business investment. Deflation risks have receded thanks to higher wages coming from a tighter job market and labour reforms. And that's not all – recent improvements in corporate governance will help enhance return on equity, company fundamentals (low net debt-to-total assets ratio) are sound and valuations compelling.

Sources: SG Private Banking, Datastream. 15/06/2017. 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.

Other equity markets

More cautious on UK equities

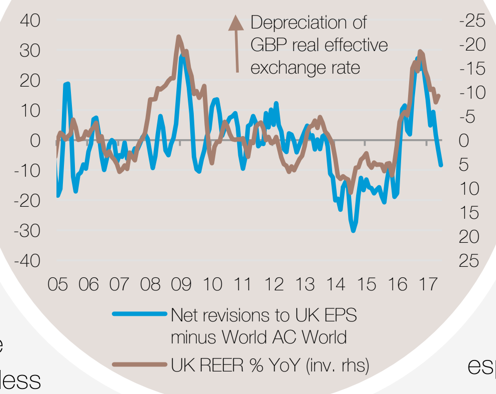
The United Kingdom will experience slower economic activity until the outcome of Brexit talks becomes clearer.

Selectivity is key in emerging markets

The support of last year's surge in commodity prices will start to fade, penalising markets highly exposed to Energy and Materials

- UK – increasingly cautious. With its large share of internationally-exposed and resource-oriented companies, the UK market is highly sensitive to sterling weakness and commodity price rises. As a result, earnings growth has improved these last few quarters.
- However, we now expect these support factors to fade and analysts have indeed started to slash their earnings forecasts. Moreover, the United Kingdom will experience slower economic activity until the outcome of Brexit talks becomes clearer. We have therefore decided to turn even more cautious on the UK market.
- Switzerland – stay neutral. The Swiss market has a bias towards defensive sectors such as Healthcare and Consumer Staples, making it less sensitive than others to the pick-up in global trade. Also valuations remain high.

EPS revisions and sterling real effective exchange rate



- Emerging equities – prefer commodity importers. Like the eurozone and Japan, emerging markets should benefit from the upswing in global trade and improved economic growth. Corporate profits have recovered and margins are expanding while valuations are attractive, especially compared to developed markets.

Risks of protectionist measures seem to have receded in the US and rate hikes will remain gradual. However, we expect slower Chinese growth in H2 as the impact of last year's stimulus vanishes. As a result, we still advise selectivity with a preference for markets undertaking structural reforms (e.g. India) or corporate governance reforms (e.g. South Korea) and those geared to the upswing in the technological cycle, especially South Korea and Taiwan.

Furthermore, the positive impact of last year's surge in commodity prices for resource producers will start to fade, penalising markets highly exposed to Energy and Materials – mainly commodity exporters such as Brazil and Russia.

Sources: SG Private Banking, Datastream. 30/06/2017. EPS = earnings-per-share. 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.

Millennials: Redefining the rules

"Millennials" are the generation born approximately between 1980 and 2000, i.e. people aged today between 16 and 35. Also known as the "Digital Generation", "generation Y" or "Echo Boomers", this first generation of digital natives is reshaping consumer habits – a phenomenon that is emphasized by the exponential growth of the sharing economy.

In a nutshell

- Companies able to anticipate and/or adapt quickly to new consumer trends will be the main beneficiaries of millennials' growing spending power.

Growing influence. According to the United Nations, there are around 2 billion millennials or over one-quarter of the world population, with 86% of them living in emerging countries. They outnumber Baby Boomers in Brazil, China and India. Even in the US, they are now the largest generation on record at 81.1 million and their share of the total population is set to peak in 2025. At this point, millennials will represent some 75% of the world's workforce[1]. Their annual income could reach $8.3tn by 2025 in the US alone. Today, American millennials already generate some $1.3tn of direct annual consumer spending. It is also estimated that they will receive a wealth transfer of $40tn from Baby Boomers. They will thus become the main drivers of consumption in coming decades.

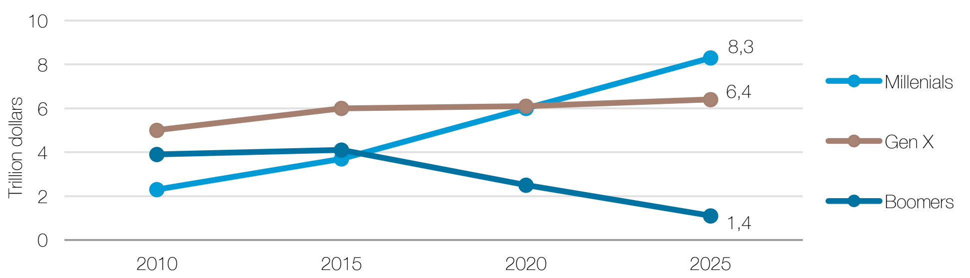
New consumer habits. Behavioural studies on millennials point to changing spending patterns, some of which are outlined here:

- These tech-savvy over-connected individuals favour easier and cheaper ways of consuming via internet, social networks, e-commerce and price-comparison. They are looking for multi-channel delivery.
- Their attachment to effective time and cost management drives them towards low cost companies, the sharing economy, and e-banking.
- They tend to be more environmentally aware and are mindful of the importance of clean energy technology. This may encourage investment in more socially-responsible domains. 73% of millennial investors believe they can achieve good returns on companies based on their social and environment impact (US Trust).

Overall, many areas of business will be disrupted in coming years. Companies able to anticipate and/or adapt quickly to these new consumer trends will be the main beneficiaries of millennials' growing spending power. This will create investment opportunities in sectors such as technology, consumer goods and services (hotels and leisure, gaming, social media...), health and wellness, education and financial services for example.

By 2025, millennials will have become the biggest spenders

Projected US income by generation to 2025e



Source: Societe Generale Private Banking, *Javelin Research & Strategy*

[1] July 2015 study conducted by BoA Merrill Lynch, based on data from the US Census Bureau and Pew Research.

Playing the eurozone economic recovery

> **In a nutshell**
>
> - Consumer discretionary and Financials should benefit most from the economic recovery while offering more appealing valuations

After five difficult years, European businesses saw profits begin to pick up in mid-2016, supported by stronger global trade, the eurozone economic recovery and easy financial conditions.

Recent economic data indicate strong growth. The European Commission's economic sentiment indicator rose to a decade high, showing broad-based improvement across sectors and countries.

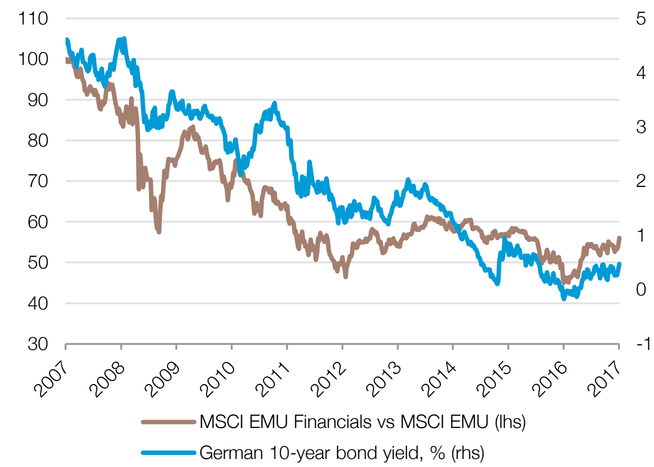
Given our assumption that the rise in inflation and long-term rates will remain gradual, the European Central Bank (ECB) will stay accommodative and we do not expect the central bank to cut asset purchases before 2018. We believe Consumer discretionary and Financials sectors are best positioned to benefit from economic improvement.

Consumer discretionary. Declining unemployment, low interest rates and weak oil prices – we expect Brent to stay in a $50-55 range – will support household spending in coming months. Already in June, consumer confidence rose to its highest level since the Great Financial Crisis (GFC). Households reported growing willingness to make major purchases in the coming twelve months. As a result, Consumer Discretionary firms should see profit growth outstrip that in other sectors in coming months. In addition, return on equity is high and valuations are appealing.

Financials. Since the GFC, European banks have been working hard to steadily clean up their accounts. Compared to 2007, balance sheets are sounder, solvency has improved – the average Tier 1 ratio is up from 8.2% to 13.5% last year – and sector consolidation is underway. The €17bn bailout of two Italian banks in June will ease fears of a bad loan crisis. Moreover, valuations are attractive and the outlook for earnings looks brighter. Economic recovery should continue to boost private credit growth and slightly higher rates will underpin bank profitability.

Financials' relative performance should be lifted by higher bond yields

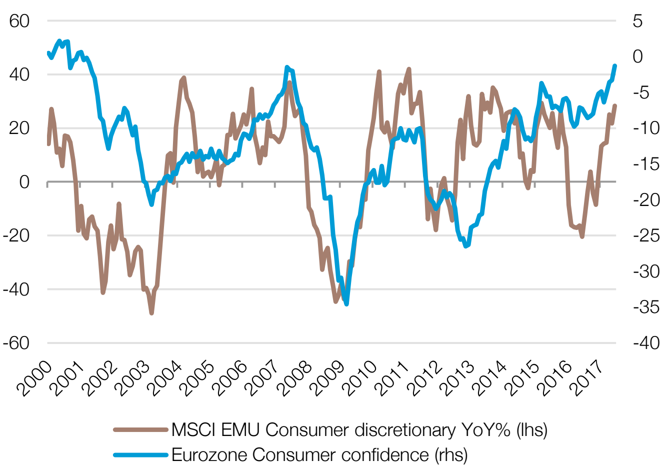
MSCI EMU Financials/MSCI EMU spread and German 10y bond yield



Source: Societe Generale Private Banking, Datastream, 04/07/2017

Consumer Discretionary performance tightly linked to consumer confidence

MSCI EMU Consumer Discretionary vs eurozone consumer confidence



Source: Societe Generale Private Banking, Datastream, 04/07/2017

Main currencies

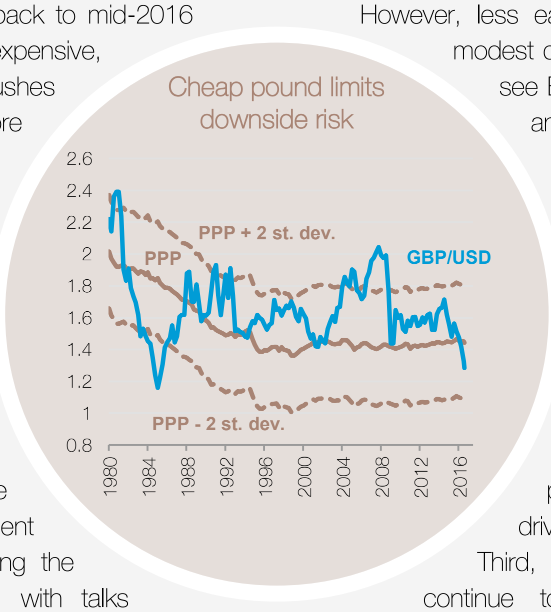
Not much to hope for

- Limited upside for US dollar unless Trump pushes massive fiscal stimulus.
- Many supports for euro. Target 1.10 in 6 months and 1.15 in a year for EUR/USD.
- Sterling faced with uncertain 1-year horizon. We see 1.25 in the event of hard Brexit and 1.35 in case of soft Brexit.
- Swiss franc to appreciate slightly. Target 1.10 in six months and 1.12 in a year for EUR/CHF.
- Yen – under cross fire. Target 112 in six and twelve months for USD/JPY.

Choppiness ahead for sterling

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

- Euro – range-trading ahead. In coming quarters, the widening interest rate gap should whet investors' appetite for the dollar. However, there are many supports for EUR/USD. First, less easing from the European Central Bank – although the ECB sees inflation below 2%, at least until 2019, stronger economic momentum may convince it to reduce asset purchases further and raise the deposit rate. Second, speculators are net buyers of euros for the first time since 2014 and long USD positions are back to mid-2016 levels. Third, the dollar remains expensive, limiting upside unless Trump pushes massive fiscal stimulus – unlikely before 2018. Fourth, an ageing business cycle increases the risks of a downturn in 2018, leading to Fed caution and a softer dollar. All in all, we see EUR/USD around 1.10 in 6 months and 1.15 in a year.
- Sterling – driven by politics. Soft Brexit would benefit GBP as continued access to the Single Market would ease concerns. On the other hand, trade and direct investment would be hit by hard Brexit, keeping the currency weak for long. However, with talks unlikely to end before late 2018, sterling will stay volatile. Inflation pressure should also continue to weigh on GBP through increasingly negative real yields. Still, we see no UK rate hike due to weak growth and limited wage pressure. Finally, speculators are now much less bearish GBP. GBP/USD should stay around 1.25 in 6 months. The 1-year horizon is more uncertain – we see 1.25 in the event of hard Brexit and 1.35 in case of soft Brexit.



Stuck in low gear

Less easing from the ECB could lead a modest depreciation in the CHF.

- Swiss franc – limited upside. In January 2015, the Swiss National Bank abandoned its 1.20 floor. However this decision did not mark the end of SNB currency intervention as investors have not been deterred by negative rates from buying Swiss assets – currency reserves are up 40% to CHF 710bn since December 2014. Of course, any bout of risk aversion in the eurozone, especially at the periphery, or weaker economic momentum would benefit the franc. However, less easing from the ECB could lead a modest depreciation in the CHF. All in all, we see EUR/CHF rising to 1.10 in 6 months and 1.12 in a year.
- Yen – under cross fire. The spike in the dollar in late 2016 pushed the yen sharply lower but these moves have now reversed. Looking ahead, there are several negatives for the yen. First, we expect a wider yield gap with the US as faltering inflation will convince the Bank of Japan to stay put. Second, global recovery will drive investors away from safe havens. Third, domestic institutional investors will continue to seek higher yields overseas. However, there are also positives. The recovery in Japan, the closing output gap and rising wages pressure could encourage the central bank to turn less accommodative. Also, the yen's undervaluation will cap its downside. The combined negative and positive forces will lead to extended range-trading. We expect the yen to trade around 112 in six and twelve months, i.e. right in the middle of a 110-115 range against the US dollar.

Sources: SG Private Banking, Datastream (28/06/2017). 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.

Emerging currencies

Attracted to higher yields

- Avoid the Brazilian real given political turmoil will leave it unstable.
- Avoid hard-commodity exporters (e.g. South Africa, Chile) as they could be hard hit by a decline in real estate and infrastructure spending in China.
- Favour high yielders given yields remain depressed in the developed world.
- Favour oil-related currencies as they could recover from their recent slippage.
- Favour undervalued currencies likely to recover versus the dollar in H2.

Yuan flexibility gone again

> *Despite the need for greater flexibility, the yuan is likely to be kept on a tight leash.*

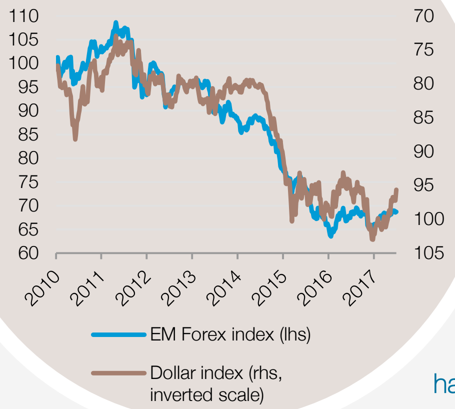
- Yuan – going nowhere. The new fixing policy introduced in late May will help Chinese authorities stabilise their currency versus the dollar. However, it also ends two years of attempts to make the foreign exchange policy more flexible. It seems political considerations have prevailed, as China launched its 100-day action plan to address trade imbalances with the US. Furthermore, past experience has shown that a weaker yuan only reinforces domestic investors' eagerness to diversify into foreign currency assets. Recent dollar weakness has facilitated some repletion of currency reserves following the trough in January 2017 (they had fallen by $1trln since summer 2014).
- The new fixing policy has also helped the currency basket regain 1% but it remains down 2% year-to-date. Given the dollar's very limited upside potential in coming months, USD/CNY should remain stable. Despite the need for greater exchange rate flexibility and expectations of slower economic activity, policymakers are likely to keep the yuan on a tight leash. As a consequence, we expect USD/CNY to trade around 6.80 in 6 and 12 months.

High yielders still in favour

> *With volatility so low, emerging currencies have delivered appealing risk-adjusted returns.*

- Emerging currencies – yield hunt still on. These last few months, emerging currencies have enjoyed a more benign environment – a) the US dollar has weakened so far this year; b) stronger global trade has helped many emerging economies cut their external deficits; c) developed market investors continue to chase higher returns (in real yield) in the emerging world; and d) appetite for emerging market assets has recovered since 2016 and should persist in coming months.
- Market participants still don't believe the US Federal Reserve's rate hike forecasts and although most are favouring short maturities on the US bond market, they are open to medium- to long-term maturities in emerging bond markets. With volatility low across asset classes, emerging currencies have delivered appealing risk-adjusted returns and still have upside potential. Of course, investors should bear in mind political risks or the impact of a Chinese slowdown on commodity prices. However, high yielding currencies – in particular those of oil producers – should continue to do well.

Dollar weakness benefits emerging currencies



Sources: SG Private Banking, Bloomberg. 30/06/2017. 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.

Bottom fishing

Barring a commodity price shock, significant wage pressure or faster monetary policy normalisation, currency volatility will remain low in coming months. However, undervalued currencies could still perform well, supported by the global economic recovery.

In a nutshell

- Monetary policy normalisation and receding fears of a trade war should help currencies recover, especially the Swedish krona, Norwegian krone and Mexican peso.

Nordic currencies to recover

These last few years have seen central banks introduce zero interest rate policies to fight deflation and prop up bank lending. However, now that inflation has turned up – slightly – major central banks including the ECB are looking towards the exit. This should help neighbouring economies normalise their own monetary policies, driving their currencies higher.

In early 2015, the Swedish Riksbank adopted negative interest rates to curb currency appreciation and defuse deflation risks. Now that inflation expectations are back around 2%, there is less of a need for such easy policy in a country where the currency remains sharply undervalued.

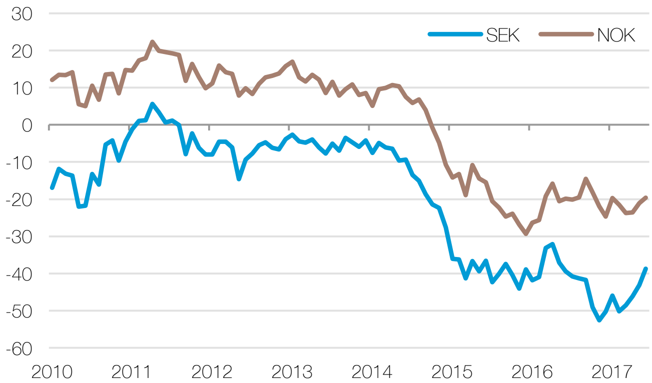
In Norway, the krone has been dragged down by recent oil price weakness, leaving it almost 20% undervalued. However, a lasting economic recovery and a pick-up in oil prices should lift the currency.

Mexican peso to benefit from fading trade war concerns

President Trump's election raised concerns of broad-based trade friction. Mexico was most vulnerable given its strong integration with the US economy (offshoring of US businesses, huge remittances from Mexican workers employed in the US, widening trade surplus with the US since the implementation of NAFTA in 1994). Political uncertainty has weighed considerably on the Mexican peso and we think it is still undervalued despite an impressive rally since early 2017. Although NAFTA concerns won't disappear, the strong economic readings in Q1 bode well for the currency, which should also benefit from modest rate hikes in the wake of the US Federal Reserve and the limited impact of targeted adjustments in the NAFTA.

Nordic currencies – On the road to recovery

Nordic currencies – gap with purchasing power parity (%)



Source: Societe Generale Private Banking, Bloomberg, 30/06/2017

Mexican peso – Bottoming up

Gap with long-term real exchange rate (in %)

Source: Societe Generale Private Banking, Bloomberg, 30/06/2017

Commodities

Range-bound oil and gold prices

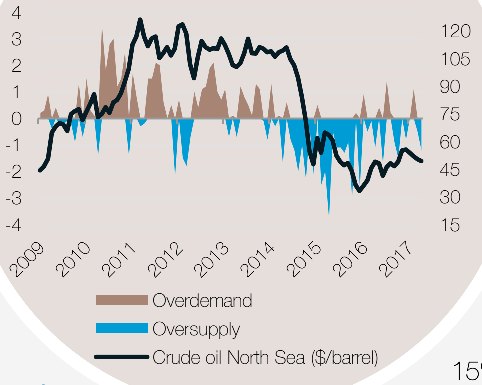
- After a 15% decline this year, oil prices should return into a $50-55 range in H2 despite the slow rebalancing of supply and demand.
- Gold to offer limited upside in coming months, as political risks are receding and demand will only recover slowly. We still target $1,225 in 6 months but raise our objective to $1,250 in one year.

Oil

We still see oil prices returning into a $50-55 range this year.

- Oil prices are down over 15% this year as supply continued to outstrip demand in Q2:
  1. Investors were hoping for further cuts to oil supply rather than a mere extension of the existing scheme to March 2018, and there are already doubts that producers will stick to the agreed targets.
  2. US shale oil supply has been boosted by lower production costs and stronger investment as prices moved away from January 2016's lows. The US has continued to gain export market share.
  3. The return of Libya and Nigeria to the oil market has stymied OPEC's efforts to curb supply.
  4. Despite the start of the driving seasons, demand slipped in Q2 from 97.4m barrels/day to 96.9m as China and India imported less.
- Despite the slow pace of rebalancing, we expect prices to return to a $50-55 range:
  1. The recent price drop is likely to dent investment in the US shale sector, capping future production growth.
  2. The recovery in Libyan and Nigerian production may not be sustained.
  3. Supply could suffer from geopolitical risks in key exporting countries (e.g., Saudi Arabia, Iraq and Venezuela).
  4. The global economic recovery could lead to stronger demand in coming quarters.

Oil market – supply/balance rebalancing likely to be slow



Gold

Fading political risks will support gold in coming months but expect limited upside

- Gold has been quite volatile in Q2 with prices moving in a wide $1,220-1,290 range. While political concerns eased after Macron's victory in France, investors still harbour doubts about the implementation of reforms by the White House and the impact of Federal Reserve tightening on the US economy.
- Given its low correlation to other asset classes, gold has been seen as a good diversification tool, spurring inflows into exchange-traded funds last quarter.
- Gold should offer limited upside in coming months:
  1. The cost of holding gold is set to remain low as we only expect a gradual rise in US real yields.
  2. Indian gold demand (nearly 15% of total purchases) should only recover slowly this year.
  3. Political concerns in Europe (Brexit talks, German and Italian general elections) have faded into the background for now.
- Meanwhile, underinvestment by gold mining companies has limited new sources of supply.
- All in all, we still target $1,225 in 6 months but raise our objective to $1,250 in one year.

Sources: SG Private Banking, Datastream (30/06/2017). 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.

Hedge funds

Green shoots beginning to wilt

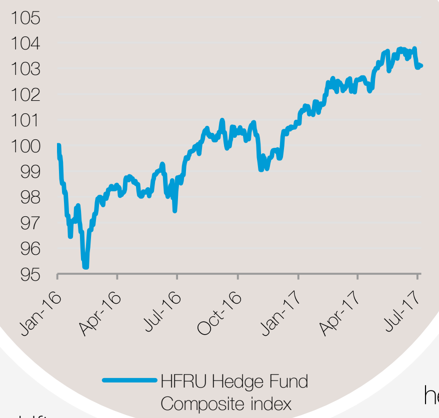
- Hedge fund indices will lose their support in H2 (macro themes, better dispersion in stock returns) after a strong H1.
- Reduce exposure to Market Neutral strategies.
- Prefer managers using in-depth fundamental analysis, especially in the US, and Long & Variable Bias funds in Europe.
- Little opportunity for Credit managers because of low rates and tight spreads.
- Prefer Global Macro to Commodity Trading Advisors (CTAs) and Special Situations to Merger Arbitrage in H2.

Concentration kills performance

"The concentration of positions in the same sectors and stocks means that Long/Short Equity managers might now struggle to perform."

- Long/Short Equity. We have witnessed sizeable inflows into factor-based exchange-traded funds and a growing use of quantitative models based on the same factors by hedge funds. The resulting concentration of positions in the same sectors and stocks means that many managers might now struggle to perform after a period of gains. In addition, the continued flows into passive index funds suggest a tougher environment for managers' short positions, in a context of generally extended valuations.
- We would reduce exposure to Market Neutral strategies, where risk is building on both long and short exposures. Our preference would be for managers using in-depth fundamental analysis, especially in the US, and for Long and Variable Bias funds in Europe.
- Event Driven. Special Situations managers have locked in profits on around one-third of their positions, refocusing on mid/small capitalisations and Europe. This shake-up is due both to fading hopes of fiscal stimulus and a shift towards cheaper, less-crowded trades. In addition, funds' sensitivity to market trends – aka "beta" – is relatively high at 50%, which is helpful as long as the uptrend holds.
- Despite rising business confidence, merger and acquisition volumes have fallen back, meaning that capital in Merger Arbitrage is chasing a reduced opportunity set with tighter spreads between the prices of predators and their prey. However, most deals are completing successfully, which has helped managers to capture decent carry. Stay neutral.

Hedge fund performance has improved since 2016



Losing support

"*The opportunities available for Distressed Debt funds should remain thin on the ground.*"

- Credit / Distressed Debt. As explained on page 8, credit spreads have been squeezed ever tighter by central bank purchases and investors' thirst for yield. This creates a conundrum for Credit Arbitrage managers, with fewer mispricings to exploit. In addition, steady flows into passive bond funds mean that correlations have risen. Opportunities persist in certain niches such as subordinated financials.
- The supportive backdrop and wide availability of credit to weak borrowers mean that default rates are unlikely to spike in coming months – the opportunities available for Distressed Debt funds should remain thin on the ground. One area which might yield some openings is Energy if oil slumps further than we expect (page 16).
- Global Macro / CTAs. Strong equity market trends led to a concentration of exposure there for CTAs. This eliminates one of the key benefits of CTAs, traditionally a good hedge against market downswings. In addition, many markets have become range-bound, making conditions more challenging for trend-followers. In this light, investors should avoid CTAs.
- The recent dollar weakness and the rally in government bond prices have led Global Macro managers to abandon their previous concentration on Long Dollar, Short Sovereigns positions. This rebalancing has diversified the themes and markets within portfolios. Two areas of particular opportunity are divergences in rates and multi-asset positions in emerging markets.

Sources: SG Private Banking, Bloomberg (06/07/2017). 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
13/03/2015	Internet of things: are you connected?	USD	The inexorable advance of the Internet of Things will change our lives - again.	Strategic
01/06/2015	Infrastructure: building the future	EUR	With global infrastructure spending set to double by 2015, stocks exposed to long-term dynamics of population growth and urbanization will enjoy an increase in revenues.	Strategic
24/09/2015	Inflation linkers: Useful TIPS	USD	Market prices for forward inflation levels in the US are well below our expectations	Tactical
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
04/12/2015	Convertible bonds - the best of both worlds	EUR	Upside participation and capital preservation in one package	Strategic
24/03/2016	ILS: True diversification	USD	Diversify risks and returns through an uncorrelated asset class	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	EUR	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
06/07/2017	Undervalued currencies – Bottom fishing	USD	Monetary policy normalisation and receding fears of a trade war should help currencies recover, especially the Swedish krona, Norwegian krone and Mexican peso.	Tactical

Sources: Societe Generale Private Banking, Datastream. Data as at 06/07/2017

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

Denotes a change from our previous quarterly

Closing strategies

Inception date	Conviction	CUR	Closing rationale	Type
13/03/2015	Higher shareholders' return should further sustain Japanese stocks	JPY	▪ The trend is reversing with Japanese companies increasing their share buybacks.	Strategic
01/06/2015	Fed rate hike will warrant change in US investment style	USD	▪ A very gradual normalisation in the Fed's policy and a weaker dollar should support secular growth stocks in late cycle.	Tactical
24/09/2015	Dividend Futures: after the summer storm	EUR	▪ We close the strategy as exposure to market direction has become more attractive.	Strategic
15/06/2016	Chasing yield in EM debt	USD	▪ Emerging spreads now offer limited upside potential.	Tactical
29/09/2016	Eurozone real estate: a yield play in a zero-rate context	EUR	▪ We expect interest rates to increase on the back of a moderate but steady rise in inflation, which will act as a moderate headwind on the sector.	Tactical
01/12/2016	Hold on to emerging market carry trades	USD	▪ Emerging currencies now offer limited upside potential and we expect the dollar to edge up in coming months.	Tactical

Sources: Societe Generale Private Banking, Datastream (data as at 06/07/2017).

Global economic forecasts

Growth and inflation

YoY changes in %	Real gross domestic product growth* 2016f	2017f	2018f	2019f	2020f	Consumer price indices* 2016f	2017f	2018f	2019f	2020f
World (Mkt FX weights)	2.7	2.9	3.0	2.5	2.2	2.0	2.7	2.8	2.8	2.7
World (PPP** weights)	3.2	3.4	3.6	3.2	2.9	2.8	3.4	3.5	3.2	3.1
Developed countries (PPP)	1.7	1.9	1.9	1.4	1.0	0.8	1.7	1.8	2.0	2.0
Emerging countries (PPP)	4.3	4.5	4.8	4.4	4.2	4.3	4.6	4.6	4.0	3.7
Developed countries										
US	1.6	2.1	2.2	1.2	0.6	1.3	2.1	2.1	2.6	2.5
Eurozone	1.7	2.1	1.6	1.2	0.6	0.2	1.5	1.4	1.5	1.5
Germany	1.8	1.8	1.6	1.2	0.7	0.4	1.7	1.5	1.6	1.5
France	1.1	1.7	1.5	1.1	0.6	0.3	1.3	1.3	1.4	1.5
Italy	1.0	1.1	0.8	0.7	0.3	0.0	1.3	1.3	1.3	1.3
Spain	3.2	2.7	1.9	1.6	0.8	-0.3	1.7	1.5	1.5	1.5
UK	1.8	1.6	0.9	0.6	0.9	0.7	2.6	2.9	1.9	1.5
Japan	1.0	1.3	1.2	1.1	0.9	-0.1	0.5	1.1	1.8	2.6
Switzerland	1.3	1.2	1.6	0.9	0.4	-0.4	0.5	0.6	0.9	0.4
Australia	2.5	2.4	3.4	3.1	2.2	1.3	2.2	2.2	2.2	2.1
Emerging countries										
China	6.7	6.6	6.1	5.1	4.5	2.0	1.7	2.3	2.0	1.4
South Korea	2.8	2.8	2.4	2.5	2.3	1.0	2.0	1.8	1.7	1.7
Taiwan	1.5	2.1	2.3	1.3	0.4	1.4	0.9	1.2	1.0	0.7
India***	7.9	7.0	7.2	7.5	7.0	4.9	4.5	4.4	4.5	4.4
Indonesia	5.0	5.1	5.5	5.3	5.6	3.5	4.2	4.3	4.2	4.1
Brazil	-3.6	0.5	1.7	1.7	0.5	8.7	4.1	4.4	4.3	4.3
Mexico	2.0	2.0	1.8	0.7	0.3	2.8	5.5	4.1	3.5	3.5
Chile	1.6	1.8	2.5	2.6	2.1	3.8	2.9	3.2	3.1	3.0
Russia	-0.2	0.8	0.9	1.2	0.8	6.6	3.9	4.0	4.1	4.0
Poland	2.7	3.8	4.0	3.3	3.0	-0.6	2.0	2.3	2.5	2.5
Czech Republic	2.3	2.7	2.7	2.3	1.5	0.7	2.3	2.3	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, 23 June 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	2423	0.6%	3.1%	9.3%	17.9%
DJ Euro Stoxx 50	3442	-2.9%	0.4%	7.4%	24.3%
FTSE100	7313	-2.4%	1.0%	4.7%	16.9%
Topix	1612	3.0%	6.8%	7.4%	32.2%
MSCI AC World ($)	465	0.5%	4.5%	11.8%	19.4%

Developed bond markets performance *(in local currency)*

		1m total return	3m total return	YTD total return	12m total return
Citigroup US Sovereign 3-7y		-0.3%	0.8%	1.5%	-1.5%
Citigroup Germany Sovereign 3-7y		-1.0%	-0.9%	-1.2%	-1.6%
Citigroup UK Sovereign 3-7y		-0.9%	-0.6%	0.1%	-0.3%
Citigroup Japan Sovereign 3-7y		-0.2%	-0.3%	-0.2%	-1.3%
	Yield to maturity				
BAML Corp Euro IG	1.03%	-0.5%	0.4%	0.7%	1.2%
BAML Corp Euro HY	3.41%	0.4%	2.4%	4.1%	9.7%
BAML Corp US IG	3.25%	0.2%	2.4%	3.9%	2.3%
BAML Corp US HY	6.10%	0.1%	2.1%	4.9%	12.8%
BAML Corp UK IG	2.54%	-1.2%	0.8%	2.8%	7.1%

Emerging equity markets performance *(in USD)*

	Current level	1m total return	3m total return	YTD total return	12m total return
MSCI EM	1011	1.1%	6.4%	18.6%	24.2%
MSCI EM Asia	512	1.8%	8.7%	23.3%	28.3%
MSCI EMEA	253	-2.2%	2.3%	5.2%	13.5%
MSCI Latam	2544	0.7%	-1.6%	10.3%	15.4%

Emerging bond markets performance *(in USD)*

	Yield to maturity	1m total return	3m total return	YTD total return	12m total return
BAML EM Sovereign	5.04%	0.0%	3.1%	7.3%	5.8%
Asia	3.79%	0.4%	2.3%	6.4%	4.5%
EMEA	4.47%	-0.1%	3.2%	6.9%	6.0%
Latam	6.20%	-0.2%	3.3%	8.2%	6.2%
BAML EM Corp	4.39%	0.1%	2.0%	5.0%	6.0%
Asia	3.67%	0.2%	1.4%	3.6%	3.0%
EMEA	4.03%	-0.1%	2.3%	4.7%	4.8%
Latam	5.70%	0.1%	2.6%	7.1%	11.2%

Source: Societe Generale Private Banking, Bloomberg, Datastream (data as of 30/06/2017)

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	8.7%	1.14	1.10	1.15
USD/JPY	-3.9%	112	112	112
EUR/CHF	2.2%	1.09	1.10	1.12
GBP/USD	5.6%	1.30	1.25	1.25
EUR/GBP	2.9%	0.88	0.88	0.92

10-year yields	YTD change	Current	6-month forecast	12-month forecast
(in local currency)	*basis points*			
USA	-15	2.3%	2.7%	2.9%
GER	36	0.5%	0.8%	1.1%
UK	-5	1.2%	1.5%	1.7%

Commodities	Performance YTD	Current	6-month forecast	12-month forecast
Gold in USD	7.4%	1243	1225	1250
Oil (Brent) in USD	-15.7%	47.8	50	55

Equities *(in local currency)*	YTD Total return	Current	6-month forecast	12-month forecast
S&P 500	9.3%	2423	2500	2600
EuroStoxx 50	7.4%	3442	3630	3750
FTSE 100	4.7%	7313	7500	7650
Topix	7.4%	1612	1700	1780

Source: Societe Generale Private Banking, Bloomberg, Datastream (data as of 30/06/2017)

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

Important disclaimers

SG Hambros and Kleinwort Hambros are the brand names of SG Hambros Bank Limited ("SGPB Hambros"), which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. SGPB Hambros is registered in England and Wales under number 964058. The company's registered office and principal place of business is at 8 St James's Square, London SW1Y 4JU.

Societe Generale purchased Kleinwort Benson in June 2016 and will merge Kleinwort Benson with SG Private Banking Hambros. The combined business will be known as Kleinwort Hambros and will have more than £14 billion of assets under management*. While the two companies are now co-located, full legal integration has not yet been completed. Until this time, they will operate as two independent entities within the Societe Generale Group and clients will contract directly for banking and / or investment services with one of the entities, either Kleinwort Benson or SG Private Banking Hambros.

*Source: Societe Generale Group, June 2016

Societe Generale Private Banking is a division of the Societe Generale Group operating through its head office within Societe Generale S.A. and its network (subsidiaries, branches or departments of Societe Generale S.A.) located in the countries mentioned hereafter which use the "Societe Generale Private Banking" brand, and which distribute this document.

Subject of the document

This document has been prepared by experts of the Group Societe Generale, and more particularly of Societe Generale Private Banking division, to provide you with information relating to certain financial and economic data. The names and functions of the people who prepared this document are indicated on the first pages of the document.

This document is non-independent research and is a marketing communication. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and the investment service provider is not subject to any prohibition on dealing ahead of the dissemination of investment research.

In order to read and understand the financial and economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your advisor so that you no longer receive the document. Unless you do this, we shall consider that you have the necessary skills to understand this document.

Please note that this document only aims to provide simple information to help you in your investment or disinvestment decisions, and that it does not constitute a personalised recommendation. You remain responsible for the management of your assets, and you take your investment decisions freely. Moreover, the document may mention asset classes that are not authorised/marketed in certain countries, and/or which might be reserved for certain categories of investors. Therefore, should you wish to make an investment, as the case may be and according to the applicable laws, your advisor within the Societe Generale Private Banking entity of which you are a client will check your eligibility for this investment and whether it corresponds to your investment profile.

Should you not wish to receive this document, please inform your private banker in writing, and he/she will take the appropriate measures.

Conflicts of interest

This document contains the views of Societe Generale Private Banking's experts. Societe Generale Private Banking trading desks may trade, or have traded, as principal on the basis of the expert(s) views and reports. In addition, Societe Generale Private Banking's experts receive compensation based, in part, on the quality and accuracy of their analysis, client feedback, revenues of their entity of the Societe Generale Group and competitive factors.

As a general matter, entities within the Societe Generale Group may make a market or act as a principal trader in securities referred to in this report, and can provide banking services to the companies mentioned in that document, and to their subsidiary. Entities within the Societe Generale Group may from time to time deal in, profit from trading on, hold on a principal basis, or act advisers or brokers or bankers in relation to securities, or derivatives thereof, or asset class(es) mentioned in this document.

Entities within the Societe Generale Group may be represented on the supervisory board or on the executive board of such persons, firms or entities.

Employees of the Societe Generale Group, or persons/entities connected to them, may from time to time have positions in or hold any of the investment products/ asset class(es) mentioned in this document.

Entities within the Societe Generale Group may acquire orliquidate from time to time positions in the securities and/or underlying assets (including derivatives thereof) referred to herein, if any, or in any other asset, and therefore any return to prospective investor(s) may directly or indirectly be affected.

Entities within the Societe Generale Group are under no obligation to disclose or take into account this document when advising or dealing with or on behalf of customers.

In addition, Societe Generale Private Banking may issue other reports that are inconsistent with, and reach different conclusions from the information presented in this report and is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.

Societe Generale Group maintains and operates effective organisational and administrative arrangements taking all reasonable steps to identify, monitor and manage conflicts of interest. To help the Societe Generale Private Banking Entities to do this, they have put in place a management of conflicts of interest policy designed to prevent conflicts of interest giving rise to a material risk of damage to the interests of Societe Generale Private Banking's clients. For further information, Societe Generale Private Banking's clients can refer to the management of conflicts of interests policy, which was provided to them by the Societe Generale Private Banking entity of which they are clients.

General Warning

This document, which is subject to modifications, is provided for information purposes only and has no legal value.

This material has been prepared for information purposes only and is not intended to provide investment advice nor any other investment service. The document does not constitute and under no circumstances should it be considered in whole or in part as an offer, a personal recommendation or advice from any of the Societe Generale Private Banking entities, regarding investment in the asset classes mentioned therein. The information in this document does not constitute legal, tax or accounting advice.

Some products and servicies might not be available in all Société Générale Private Banking entities. Their availability in your jurisdiction may be restricted depending on local laws and tax regulations. You should be aware that the investment to which this material relates may involve numerous risks. The amount of risk may vary but can expose you to a significant risk of losing all of your capital, including a potential unlimited loss. Accordingly these products or services may be reserved only for a certain category of eligible investors such as those who are sophisticated and familiar with these types of investment and who understand the risks involved. Also, they have to comply with the Société Générale Group Tax Code of Conduct. Furthermore, accessing some of these products, services and solutions might be subject to other eligibility conditions. Your private banker is available to discuss these products, services and solutions with you and to check if they can respond to your needs and are suitable for your investor profile.

Accordingly, before making an investment decision, a potential investor, as the case may be and according to the applicable laws, will be questioned by his or her advisor within the Societe Generale Private Banking entity, of which the investor is a client, regarding his eligibility for the envisaged investment, and the compatibility of this investment with his investment profile and objectives. Before any investment, the potential investor should also consult his own independent financial, legal and tax advisers in order to obtain all the financial, legal and tax information which will allow him to appraise the characteristics and the risks of the envisaged investment and the pertinence of the strategies discussed in this document, as well as the tax treatment of the investment, in the light of his own circumstances.

Prior to any investment, a potential investor must be aware of, understand and sign the related contractual and informative information, including documentation relating to risks. The potential investor has to remember that he should not base any investment decision and/or instructions solely on the basis of this document. Any investment may have tax consequences and it is important to bear in mind that the Societe Generale Private Banking entities, do not provide tax advice. A potential investor should seek independent tax advice (where appropriate).

Investment in some of the asset classes described in this document may not be authorised in certain countries, or may be restricted to certain categories of investors. It is the responsibility of any person in possession of this document to be aware of and to observe all applicable laws and regulations of relevant jurisdictions. This document is not intended to be distributed to people or in jurisdictions where such distribution is restricted or illegal. It is not to be published or distributed in the United States of America and cannot be made available directly or indirectly in the United States of America or to any U.S. person.

The price and value of investments and the income derived from them can go down as well as up. Changes in inflation, interest rates and exchange rates may have adverse effects on the value, price and income of investments issued in a different currency from that of the client. The simulations and examples included in this document are provided for informational and illustration purposes alone. The present information may change with market fluctuations, and the information and views reflected in this document may change. The Societe Generale Private Banking entities disclaim any responsibility for the updating or revising of this document. The document's only aim is to offer information to investors, who will take their investment decisions without relying solely on this document. The Societe Generale Private Banking entities disclaim all responsibility for direct or indirect losses related to any use of this document or its content. The Societe Generale Private Banking entities do not offer no implicit or explicit guarantees as to the accuracy or exhaustivity of the information or as to the profitability or performance of the asset classes, countries and markets concerned.

The historical data, information and opinions provided herein have been obtained from, or are based upon, external sources that the Societe Generale Private Banking entities believe to be reliable, but which have not been independently verified. The Societe Generale Private Banking entities shall not be liable for the accuracy, relevance or exhaustiveness of this information. Information about past performance is not a guide to future performance and may not be repeated. Investment value is not guaranteed and the value of investments may fluctuate. Estimates of future performance are based on assumptions that may not be realised.

This document is confidential. It is intended exclusively for the person to whom it is given, and may not be communicated or notified to any third party (with the exception of external advisors, on the condition they themselves respect this confidentiality undertaking). It may not be copied in whole or in part without the prior written consent of the relevant Societe Generale Private Banking entity.

Specific warnings per jurisdiction

France: Unless otherwise expressly indicated, this document has been issued and distributed by Societe Generale, a French bank authorised and supervised by the *Autorité de Contrôle Prudentiel et de Résolution,* located at *61, rue Taitbout, 75436 Paris Cedex 09* under the prudential supervision of the *European Central Bank* ("ECB"), *and under the control of the Autorité des Marchés Financiers ("AMF"). Societe Generale is also registered at ORIAS as an insurance intermediary under the number 07 022 493 orias.fr. Societe generale is* a French Société Anonyme with its registered address at 29 boulevard Haussman, 75009 Paris, with a capital of EUR 1,009,641,917.50 on 31 December 2016 and unique identification number 552 120 222 R.C.S. Paris. Further details are available on request or can be found at www. http://www.privatebanking.societegenerale.fr/.

Belgium: This document has been distributed in Belgium by Société Générale Private Banking SA/NV, a Belgian credit institution according to Belgian law and controlled and supervised by the *National Bank of Belgium* ("NBB") and the *Financial Services and Markets Authority* ("FSMA"), and under the prudential supervision of the European Central Bank- ECB. Société Générale Private Banking SA/NV is registered as an insurance broker at the FSMA under the number 61033A. Société Générale Private Banking SA/NV has its registered address at 9000 Ghent, Kortrijksesteenweg 302, registered at the RPM Ghent, under the number VAT BE 0415.835.337. Further details are available on request or can be found at www.privatebanking.societegenerale.be.

Luxembourg: This document has been distributed in Luxembourg by Societe Generale Bank and Trust ("SGBT"), a credit institution which is authorised and regulated by the *Commission de Surveillance du Secteur Financier* ("CSSF") under the prudential supervision of the *European Central Bank* ("ECB"), *and whose head office is located at 11 avenue Emile Reuter – L 2420 Luxembourg*. Further details are available on request or can be found at www.sgbt.lu. No investment decision whatsoever may result from solely reading this document. SGBT accepts no responsibility for the accuracy or otherwise of information contained in this document. SGBT accepts no liability or otherwise in respect of actions taken by recipients on the basis of this document only and SGBT does not hold itself out as providing any advice, particularly in relation to investment services. The opinions, views and forecasts expressed in this document (including any attachments thereto) reflect the personal views of the author(s) and do not reflect the views of any other person or SGBT unless otherwise mentioned. SGBT has neither verified nor independently analysed the information contained in this document. The CSSF has neither verified nor analysed the information contained in this document.

Monaco: The present document has been distributed in Monaco by Société Générale Private Banking (Monaco) S.A.M ., located 13, 15 Bd des Moulins, 98000 Monaco, Principality of Monaco, governed by the *Autorité de Contrôle Prudentiel et de Résolution* and the *Commission de Contrôle des Activités Financières*. The Financial products marketed in Monaco can be reserved for qualified investors in accordance with Law No. 1339 of 07/09/2007 and Sovereign Ordinance No 1.285 of 10/09/2007. Further details are available upon request or on www.privatebanking.societegenerale.mc.

Switzerland: This document has been communicated in Switzerland by Société Générale Private Banking (Suisse) SA (« SGPBS »), whose head office is located at rue du Rhône 8, CP 5022, CH-1211 Geneva 11. SGPBS is a bank authorized by the *Swiss Financial Market Supervisory Authority* ("FINMA"). Further details are available on request or can be found at www.privatebanking.societegenerale.ch.

This document (i) does not provide any opinion or recommendation about a company or a security, or (ii) has been prepared outside of Switzerland for the « Private banking ». Therefore, the Directives of the Swiss Bankers Association (SBA) on the Independence of Financial Research do not apply to this document.

This document has not been prepared by SGPBS. SGPBS has neither verified nor independently analyzed the information contained in this document. SGPBS accepts no responsibility for the accuracy or otherwise of information contained in this document. The opinions, views and forecasts expressed in this document reflect the personal views of the relevant author(s) and shall not engage SGPBS' liability.

This document is not a prospectus within the meaning of articles 652a and 1156 of the Swiss Code of Obligations.

United Kingdom: This document has been distributed in the United Kingdom by SG Hambros Bank Limited, whose head office is located at 8 St. James's Square, London SW1Y 4JU ("SGPB Hambros"). SGPB Hambros is authorised by the *Prudential Regulation Authority* and regulated by the *Financial Conduct Authority* and the *Prudential Regulation Authority*. The availability of the products or services described in this document in the United Kingdom may be restricted by law. Further details are available on request.

Jersey: This document has been distributed in Jersey by SG Hambros Bank (Channel Islands) Limited ("SGH CI Limited"), whose registered office address is PO Box 78, SG Hambros House, 18 Esplanade, St Helier, Jersey JE4 8PR. This document has not been authorised or reviewed by the *Jersey Financial Services Commission* ("JFSC"). SGH CI Limited is authorised by the JFSC for the conduct of investment business.

Guernsey: This document has been distributed in or from within the Bailiwick of Guernsey by SG Hambros Bank (Channel Islands) Limited – Guernsey Branch, whose principal address in Guernsey is PO Box 6, Hambros House, St Julian's Avenue, St Peter Port, Guernsey, GY1 3AE. SG Hambros Bank (Channel Islands) Limited – Guernsey Branch is licensed under the *Banking Supervision (Bailiwick of Guernsey) Law, 1994*, and the *Protection of Investors (Bailiwick of Guernsey) Law, 1987*.

Gibraltar: This document has been distributed in Gibraltar by SG Hambros Bank (Gibraltar) Limited, whose head office is located at Hambros House, 32 Line Wall Road, Gibraltar ("SG Hambros Gibraltar"). SG Hambros Gibraltar is authorised and regulated by the *Gibraltar Financial Services Commission* for the conduct of banking, investment and insurance mediation business. The availability of the products or services described in the document in Gibraltar may be restricted by law. Further details are available on request.

Societe Generale Private Banking Hambros is part of the wealth management arm of the Societe Generale Group, Societe Generale Private Banking. Societe Generale is a French bank authorised in France by the *Autorité de Contrôle Prudentiel et de Résolution, located at 61, rue Taitbout, 75436 Paris Cedex 09,* and under the prudential supervision of the *European Central Bank* ("ECB"). It is also authorised by the *Prudential Regulation Authority* and regulated by the *Financial Conduct Authority* and the *Prudential Regulation Authority*.
www.privatebanking.societegenerale.com/hambros.

http://www.privatebanking.societegenerale.com

Societe Generale
SA Capital EUR 1 009 641 917.50 at 31 December 2016
Registered under Paris RCS N°552 120 222

Societe Generale Private Banking
Tour Société Générale
17, Cours Valmy
75886 – Paris Cedex 18
France
http://www.privatebanking.societegenerale.com

Ref 714608N 000783 June 2017 PEFC 10-31-1340 / Certifié PEFC / pefc-france.org

KLEINWORT HAMBROS

SOCIETE GENERALE GROUP

BUILDING TEAM SPIRIT TOGETHER