Outlook 2020
The Beauty of Symmetry

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Global View – The Beauty of Symmetry

- **Global growth is finding its feet, but a powerful upswing is *not* around the corner: risks such a Hard Brexit (still!) and the US elections are impediments to a meaningful capex recovery.**
- **2019 was in many ways similar to 2016; but 2020 will not be a repeat of 2017. We expect equity gains to continue, but in a far more muted fashion.**
- **Central banks engineered a stunning risk rally in 2019; they will be less active in 2020. But nascent efforts to make inflation targets more symmetrical will remain a risk-friendly force.**
- **Equities are still cheap relative to bonds: the gap between earnings and bond yields is somewhat irresistible. At this level of outright valuation, however, the drawdown risk increases; timely hedging will be a focus in 2020.**
- **Avoid 'risk-free' bonds, but in that space prefer Treasuries as a hedging instrument. Credit continues to offer superior risk-adjusted returns. Expect the USD pullback initiated in Q4 2019 to continue (good for EM).**

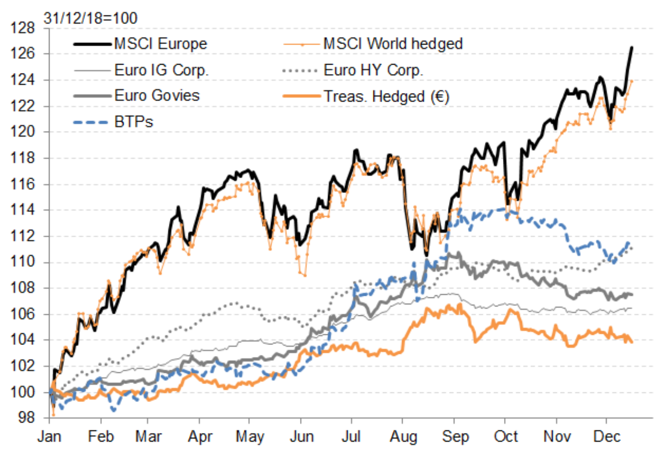
2019 was all about climbing the wall of worry

Markets have climbed the wall of worry; now what? In hindsight extreme investor pessimism at the end of 2018 about the trade war, Brexit, China and global growth proved a great buying opportunity (Graph 1). Brexit and the trade war safely avoided the worst-case scenario while central banks offered renewed support, making 2019 a great year for risky assets. Our in-house views a year ago proved too cautious, yet we quickly scaled up our pro-risk stance, strongly outperforming our internal benchmark in the process. The equity market melt-up of late 2019 is the mirror image of the December 2018 meltdown, making the start of 2020 more challenging.

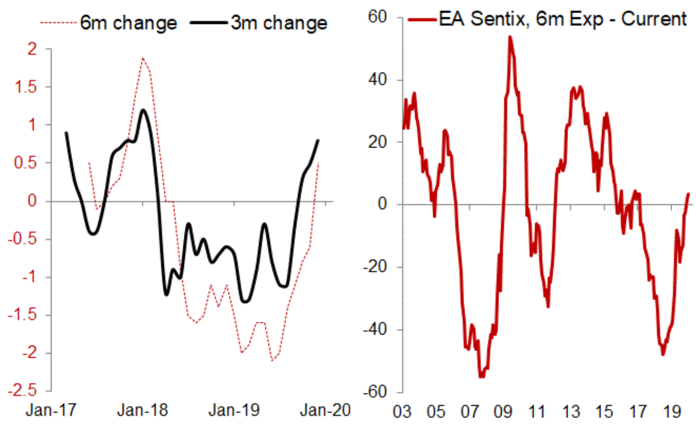
2020 is more challenging, as investors have already priced improved economic fortunes

The economy is finding its feet. We are starting 2020 in a slightly better place from an economic standpoint, as the long-winded slowdown has come to an end. Graph 2 shows that global manufacturing momentum has switched from negative to positive for the first time in two years. Interest rate-sensitive sectors such as US housing are roaring. But the economic stabilization is no guarantee of positive financial fortunes. In fact, recession fears, as reported in investor surveys, peaked in late 2018. Investor sentiment has improved, though it remains (rightly so) far from the peak of late 2016. In other words, the bottoming out of global growth is priced in to a large extent, and in our opinion does no longer make a strong anchor to a bullish forward-looking view on risky assets. We do retain a positive pro-risk stance for now, but for other reasons: equities are cheap vs. bonds, and central banks will still lend support in 2020.

Graph 1: TOTAL RETURNS IN 2019



Graph 2: GLOBAL MANUFACTURING PMI; EA ECONOMIC SENTIMENT

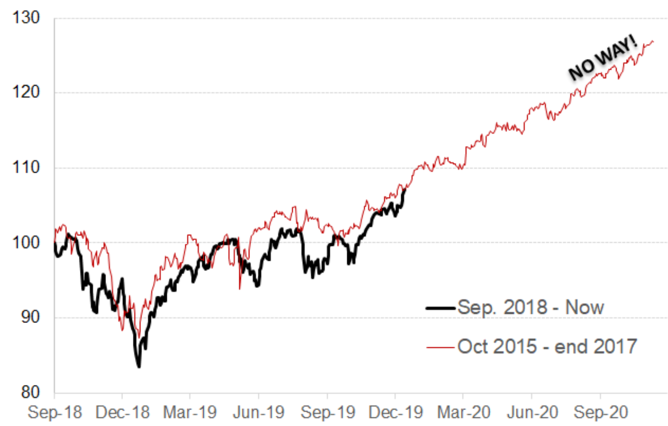


2020 will not be 2017

Positioning and sentiment matter: excessive pessimism facilitated the 2016 and 2019 rally

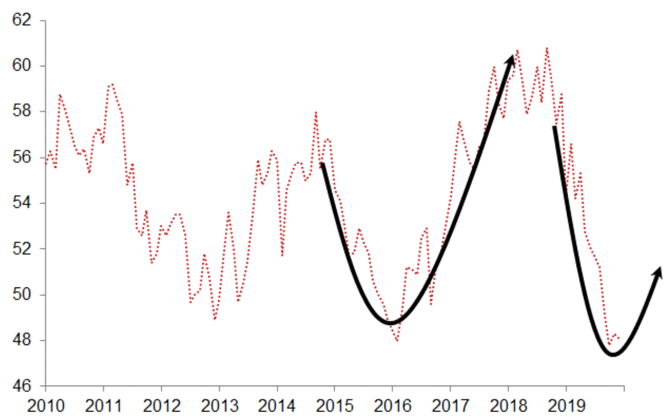
The sky is not the limit! Before we elaborate on our pro-risk stance, let us temper any exuberance: we do not expect a strong economic upswing and forceful equity rally in 2020. Last year we made an analogy between 2019 and 2016, as both years started with excessive investor pessimism. Indeed that analogy worked beyond our expectations, with equity markets espousing a very similar path (Graph 3). The powerful equity rally continued in 2017 – a good reminder that good years are not necessarily followed by a bad one. The unabated rally in 2017 was very much supported by President Trump's tax cut, which not only boosted economic expectations but also earnings forecasts. The animal spirits were unleashed, and a strong economic upswing ensued (Graph 4). We see none of this being repeated in 2020.

Graph 3: Global MSCI… 2019 WAS LIKE 2016; BUT 2020 WON'T BE A REPEAT OF 2017



MXWD, rebased at 100 13 weeks before trough

Graph 4: US MANUFACTURING ISM… SHARP UPSWING OF 2017 WILL NOT BE REPEATED



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2020 will not be a repeat of the buoyant 2017: significant uncertainties are still clouding the economic outlook

Still some clouds over the global economy. The trade war and Hard Brexit fears were factors of huge uncertainty in 2019, which undermined confidence and demand, especially capital expenditures. With those risks now looking less prevalent in the near-term, some pent-up demand will be unleashed. The ageing of capital goods, in particular, supports the case of a capex recovery. However some very significant uncertainties remain:

1) The **US-China** truce is welcome, but a Phase 2 deal is unlikely to come quickly. The strategic war between the two biggest super powers is here to stay, and tensions may well return with a vengeance after the US elections.

2) **Brexit** remains an issue. The UK will leave the EU on 31 January 2020. Negotiations for a Free Trade Agreement will follow. As we go to press, it seems that PM Johnson wants to enshrine the end of the transition period, by end 2020, into law. In other words there would not be any further extension. The risk of a Hard Brexit would return if both sides fail to reach a free trade agreement in just a year. The EU will not grant a free access to its markets if the UK insists they want divergence in labour rights and environment standards to be allowed. In these uncertain conditions, it is hard to believe that CEO confidence would recover strongly and capex pick up significantly.

3) The **US elections** of November 2020 also look fairly open. Wall Street's central scenario is that President Trump will be re-elected, but it is a close call. At this point the Democratic race is too close to call. Biden is the favourite of both the polls and betting websites, but with a margin that is not decisive so early in the race. Liberal candidates such Sanders and Warren, if ever seen in a position to win the

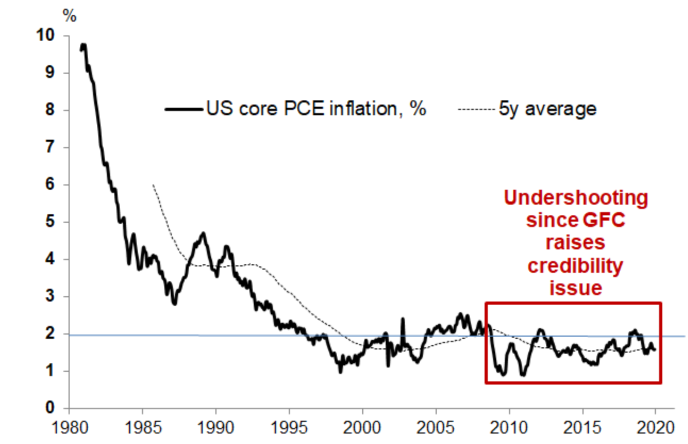
race and challenge Trump, would likely shake financial markets. Inequality – a core root of populism – sits at the top of their agenda. Tackling inequality would imply a transfer of taxes from households to corporations, and from the poor and middle-class towards wealthy households. Earnings forecasts would take a beating, and so would equity markets. Specific sectors, such as Pharma, Oil & Gas (fracking), big Tech and Financials would be hurt in greater proportion. The US elections will really start to focus attention in March, as the primaries pick up (Super Tuesday on 3 March).

➔ In all, we expect a small improvement of global growth on 2020, driven by Emerging Market (EM) economies, ex-China. But do not count on a strong upswing.

The beauty of symmetry

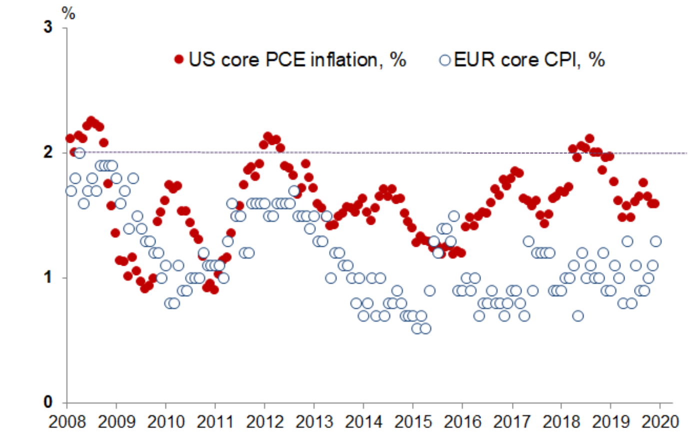
Central banks still in the game. Central banks played a decisive role in 2019. The year started with the Fed dots suggesting four hikes, but the Fed eventually delivered three cuts. The ECB cut its deposit rate by another 10bp (to -50bp) and restarted QE (€20bn/month). They will be less active in 2020. However their influence

Graph 5: US CORE PCE INFLATION UNDERSHOOTING SINCE GFC



GFC: Great Financial Crisis (of 2008)

Graph 6: INFLATION NOW LESS SYMMETRIC AROUD 2% TARGET



Central banks leaning towards making inflation targets more symmetrical: a 'risk-on' message

will still be positive. Both the Fed and the ECB are reviewing policy settings. The ECB's review is wide, including issues such as the climate and technological disruption, and will run throughout 2020. Expect the Fed's one to be more focused and faster. At the core of both reviews is inflation targeting. Inflation has undershot consistently since the Great Financial Crisis (GFC), to a point where the credibility of the target is under threat. Expectations are being de-anchored, hence the pressure on central banks to act. It is likely that inflation target will be made more symmetrical. The Fed is mulling a 'make-up' strategy whereby a long period of inflation undershooting would be followed by an attempt to keep inflation above target for a while. The ECB already changed its inflation target in 2003, from 0-2% to 'close but below 2%'. A further adjustment is very possible indeed.

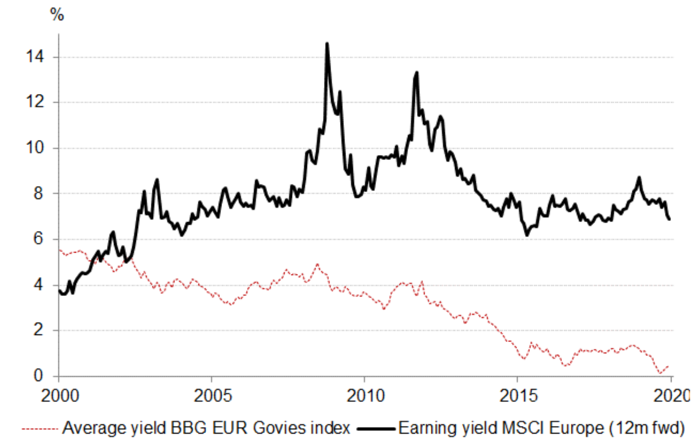
Keep it hot. Such changes would imply that the Fed – let us focus on the fast-mover – would rather keep the economy hot than risk a downturn following a long period of inflation undershooting. The market impact, especially on bonds, is unclear. If that commitment is credible, the inflation expectations and premium should rise, pushing bond yields higher. Investors however may doubt about the effectiveness of the strategy. On the other hand, the policy change would also imply low key rates for longer, which would tend to keep bond yields low. The impact on equities is clearer: the latter remain cheap vs bonds, and the policy change would be an invitation to scale up exposure in risky assets.

Turning the year with an overweight (OW) in equities

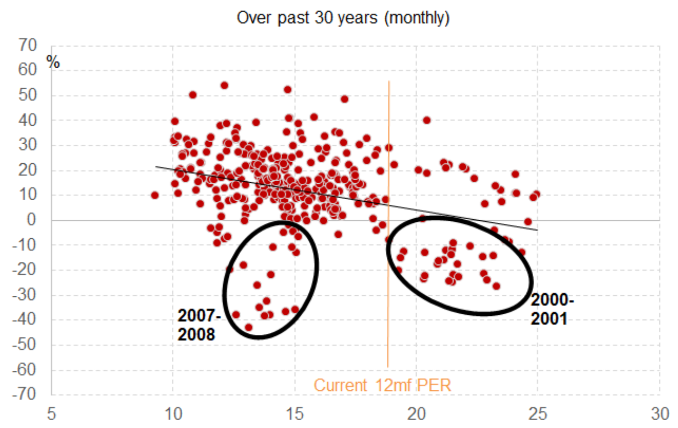
Equities still cheap relative to bonds; but drawdown risk increases

There Is No Alternative (TINA). Graph 7 shows that the equity earnings yield remains by far higher than bond yields. This, in our opinion, continues to make equities somewhat irresistible for global portfolio allocators. Of course, on an outright basis stocks are not cheap. Graph 8 shows that there is a fairly loose relation between equity valuation and total returns in the coming twelve months. Typically the 2008 sell-off occurred while valuation was *not* stretched: the economic news was terrible, and depressed equity prices further. Yet as equity multiples expand (i.e. valuation gets more stretched), the risk of a drawdown increases. Hence it is recommended that, as equity prices rise further, investors use any pullback in implied volatility to scale up hedges.

Graph 7: EQUITY EARNINGS YIELD BEATS EUR BOND YIELDS BY FAR



Graph 8: DRAWDOWNS RISK RISES ALONG WITH VALUATION LEVELS



X = S&P500 12-month forward PER; Y = S&P500 return over following 12 months

Positive but more muted equity returns in 2020

➔ We do expect **positive returns for equities in 2020, but in the mid-single digit area** for European ones, and a bit less for the US. We recommend to selectively diversify towards EM equities, which will benefit from stronger growth (ex-China) and a pullback in the US dollar. EM equities suffered from a narrowing of the EM-DM growth differential and the rise of the US dollar, but both drivers now look set to reverse, if in a very orderly fashion.

Tough year ahead for Fixed Income; Credit still beats Govies

Limited upside for bond yields; inflation linkers and Treasuries are superior hedges

Bond yields moving sideways. The negative yield disease has retrenched from the peak of summer 2019. Then nearly $17trln of bonds globally were trading at a negative yield. This is now down to less than $12trln, but still makes more than 20% of the Global Aggregate index. With the 10-year Bund still around -0.30% and the average bond yield of the EUR government bond index below 0.50%, carry in bonds remain very poor. Arguably the ECB will remain a buyer throughout the year, which will help keep valuation rich. Low yields are also self-sustained to an extent, as they deteriorate the capital position of LDI businesses (Liability Driven Investment); regulations such as Solvency II forces insurers to reduce risk exposure, typically by buying more 'risk-free' bonds and reducing exposure in risky assets. We thus see very limited upside in yields, unless the economic upswing proves far stronger than we expect (Graph 9) or inflation finally surprises to the upside. To hedge that latter risk, we see value in inflation-linked bonds, currently very cheaply valued: the 5y5y EUR inflation swap, currently at 1.25%, is trading just below EA core inflation – a very unusual situation.

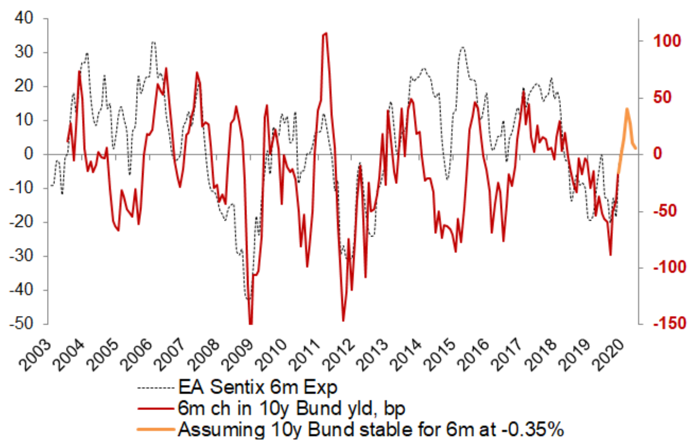
Treasuries a better hedge. At the current level, the Bund has lost a great deal of its international advantage (on a currency-hedged basis most G10 bonds have offered even lower yields). Treasuries still render lower yields (after FX hedging) but the gap has narrowed. Importantly, Treasuries will be a much better hedge than Bund in case of an unexpected turn for the worse in economic and/or financial conditions: 1) Historically Treasuries have been a safe-haven asset of choice, outperforming in crisis times; 2) the Fed has more room to both cut rates and restart Quantitative Easing. Any risk-off hedges such as out-of-the-money receivers should focus on USD rates rather than EUR rates.

Prefer soft and non-core over core. We are not holding our breath but 2020 may see progress in deepening EU integration, especially at the banking level. The political situation in Germany is somewhat shaky and the mutual concessions required to complete the banking union are demanding, but this may be a key area of focus during the German EU presidency in 20H2. Any progress there would support further EA spread convergence.

Credit still attractive on many metrics, but solid bottom-up research is of the essence in late cycle

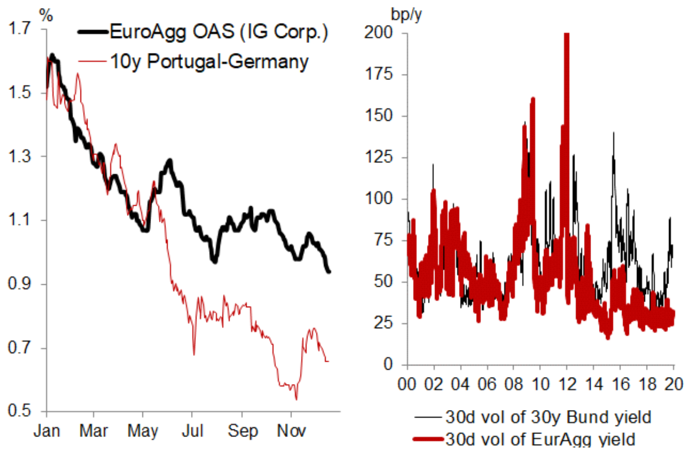
Overweigh Credit. Credit spreads are fairly tight by historical standards, and more so after adjusting for the rating drift (e.g. rising share of BBB in Investment Grade indices). But we still find credit attractive on a number of metrics. 1) At similar rating levels corporate bonds offer a much larger pick-up than Govies (Graph 10a). 2) The EUR credit spread slope remains steep relative to the rates slope. 3) Credit spreads have lagged the equity market rally (based on historical beta). 4) At similar level of yields, corporate bonds are far less volatile than AAA long-dated bonds (Graph 10b). Idiosyncratic credit issues will pick up further in 2020, so a sound bottom-up credit analysis is of the essence, but we do not see those turning into a systemic spread widening.

Graph 9: 10Y BUND YIELD UPSIDE LOOKS LIMITED



Limited upside for Bund yield unless cyclical upswing accelerates

Graph 10: EUR IG OFFERS DECENT RISK-ADJUSTED SPREAD



Right chart: For a marginally higher yield, EUR IG corporate bonds are less volatile than 30y Bund

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Macroeconomic Outlook

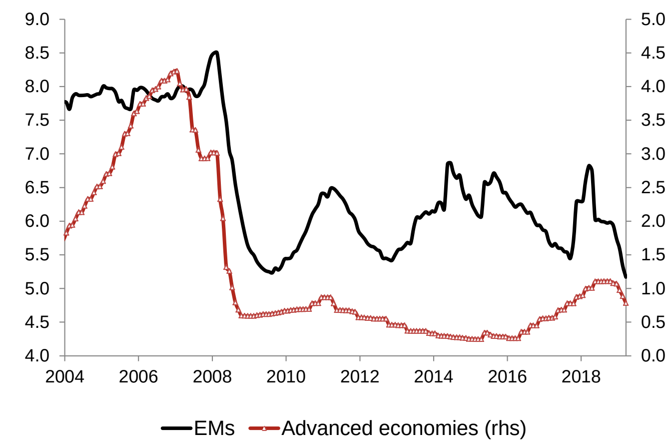
- **Following a prolonged slump since early 2018, global industrial production is set to stabilize in 2020 on easing trade and Brexit uncertainty.**
- **Yet, 2020 growth in key advanced economies will ease on less fiscal stimulus and moderately softer consumption growth. Recoveries of weak spots among EMs will still help to lift global growth slightly.**
- **We look for a mild improvement of quarterly growth rates in the euro area contrasted by a slower expansion in the US. Annual expansion in the US in 2020 (1.6%) will still exceed the euro area (1.0%), albeit with a declining margin.**
- **Price pressures will stay muted, allowing central banks to stick to stay put. A goldilocks 'light' scenario of subpar growth, low inflation and supportive monetary policy will prevail – with the unsolved trade war the key wildcard.**
- **The major central banks will maintain a dovish policy stance. We look for a further rate cut by the Fed on the back of weakening activity while the ECB will stick to its recently resumed asset purchases throughout 2020.**

The US/China trade war, hard Brexit concerns and a slump in car sales have weighed on the global economy

Political uncertainties have rattled the global economy since early 2018. A spiral of tariffs amid the US/China trade war and prolonged worries about a no-deal Brexit have been weighing on trade and industrial production. A perfect storm in the car industry has added to these headwinds: the fallout from 2017/18 car sales tax hikes in China, the Diesel scandal and new EU emission standards have hit an industry which will remain under severe transformation pressure amid the global shift towards electric vehicles.

Graph 1: GLOBAL MANUFACTURING PMI

Graph 2: GLOBAL POLICY RATES



in %, weighted by GDP (PPP)

Tender green shoots are pointing to global growth stabilization in 2020

Yet, 2019 is ending with tender green shoots. Sentiment indicators are pointing to stabilization in manufacturing (Graph 1). The supportive effects from materially eased global financial conditions are unfolding (Graph 2). The unusually strong drag from the contraction in car sales is set to ease (though not to vanish). Growth in emerging markets (EMs) is set to stabilize, a moderation of expansion in China notwithstanding. Consumption in advanced economies will slow somewhat, but will remain a key pillar for growth amid unusually strong labor markets. Overall, we anticipate global growth to inch up from a post-GFC nadir of 2.9% to 3.0% in 2020.

Goldilocks 'light' will prevail in the advanced economies. With growth slightly below potential both in the US and the euro area and inflation pressures muted, central banks will stay put amid very accommodative policies (see below). Revisions of monetary policy frameworks (potentially putting stronger emphasis on the symmetric nature of inflation targets) may add a dovish long-term bias to monetary policies.

A further moderation of Chinese growth notwithstanding, overall EM growth is likely to recover somewhat

EMs will continue to feel the drag from moderating growth rates in China. Further fiscal and monetary policy stimulus measures by China will barely suffice to compensate for the harm from trade uncertainties which are still feeding through. Meanwhile, though, moderate inflation will allow also other EMs central banks to further cut rates. A weaker US dollar (see Currency section) will ease debt servicing costs and underpin international demand for EMs products. Recoveries in various EMs whose economies slowed or were hit in 2019 for idiosyncratic reasons (India, Brazil, Russia, Turkey and Argentina) will help too. Several CEE economies will continue to grow at above potential rates. Overall, we expect growth in EMs to recover from 4.0% to 4.4% in 2020.

Further slowing US growth contrasts a stabilizing euro economy

2019 woes have damaged domestic activity in the US and euro area

The joint headwinds from the global manufacturing slowdown and elevated uncertainties have dampened domestic activity in the US and the euro area. Most importantly, the lingering trade tensions and concerns about a 'crash' Brexit hurt investment activity. In the much more export-dependent euro area economy global manufacturing weakness brought Germany even on the verge of a recession. The uncertainties and subdued investment also were key drivers behind the moderation of employment growth. While in the US employment growth held up throughout the year at an average of 180k per month (as of November data), latest indicators like job openings point to a more visible moderation in 2020 (Graph 3 overleaf). Furthermore, tariffs will still have to display their full impact on consumption. As a result, our guardedly optimistic view on political risks notwithstanding, the lagged effects of the 2019 headwinds will carry over into next year.

With key sentiment indicators having turned to the better as of late, we expect euro area activity to turn more robust again over the course of 2020, helped by ongoing fiscal policy support and a turn in the inventory cycle. But with a likely reading of 1.0% it will still remain below potential. In the US, the fading fiscal stimulus package will drag on production in the first half of the year so that annual growth likely recedes from 2.2% in 2019 to 1.6% in 2020. We continue to see the balance of risks on the downside in both economies, with a renewed escalation of the trade war a key risk (see below).

ECB to maintain its dovish policy stance, Fed to cut rates by 25 bps in H1/2020

In an environment of subpar growth the underlying inflation pressure will remain clearly below the ECB's close to 2% inflation objective. We expect no visible pick up from the likely reading of 1.2% yoy for 2019. As a result, the ECB will maintain its monthly QE purchases of € 20 bn well into 2021 and keep the deposit rate at its current historical low of -0.5%. As confirmed by the new ECB President Lagarde, any policy change would require a sustained rise in underlying inflation, which we do not deem realistic any time soon. Hence, we do not look for a verbal preparation of tapering either. Moreover, with the US economy losing further momentum at the outset of the 2020 and inflation pressures muted, we think that the Fed will bring its key rate down by another 25 bps into the 1.25% to 1.50% range by June. The monetary policy risks in both jurisdictions are tilted to the downside.

Fed and ECB reviews of policy strategies and frameworks likely to result in a more dovish bias

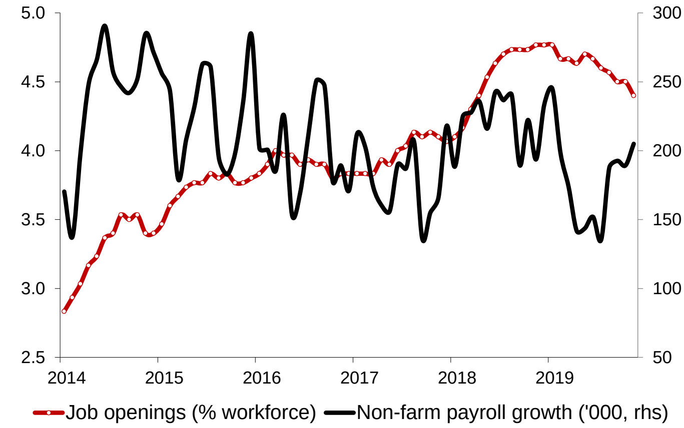
Both the Fed and the ECB will also review their strategies and policy frameworks. Former ECB President Draghi already suggested a symmetrical inflation target. The Fed even discusses the adoption of an average inflation target so that it would tolerate a temporary inflation overshoot to compensate for preceding periods of below-target price increases. There exists a wide range of possible modifications and the discussion within the central banks has just started. We see good chances that ultimately both central banks will embrace a more dovish bias when adjusting their strategies.

Trade war remains the elephant in the room

A comprehensive US/China deal is distant, but avoiding a renewed escalation could help to ease uncertainties

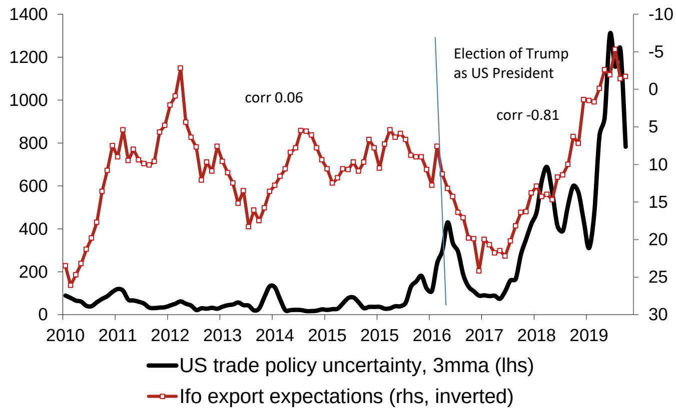
Political uncertainties will remain the elephant in the room. Our projections are based on the assumption that the US/China trade war will keep lingering as a 'frozen' trade conflict after the achieved December truce. A swift solution is not in sight, given the wide area of issues involved (e.g. trade, property rights, market access, exchange rates and geostrategic interest). The China-skeptic consensus in the US Congress has even widened amid the Hong Kong unrest. Yet the increasing evidence of economic damage on both sides and the strong interest of the White House to derail a more fragile US economy just ahead of the Nov. 2020 presidential elections will strengthen de-escalation incentives. Acknowledging the fluid nature of the conflict, we base our outlook on the assumption that the trade truce found will stop the spiral of mutual tariffs and trade restrictions. We acknowledge, though, that the truce is very fragile and that the repercussions from further trade restriction could jeopardize the latest green shoots.

Graph 3: US JOB CREATION



3-month moving average

Graph 4: US TRADE UNCERTAINTY AND EXPORT EXPECTATIONS



Indices

The threat of a hard Brexit is at the backburner for now, but may resurface over 2020

For Europe, the threat of an imminent hard-deal Brexit has vanished with PM Johnson's sweeping victory in the Dec. 12 UK general elections. Renewed trouble seems likely in 2020, though. The deadline for a permanent deal expires on Dec. 31, 2020, with Johnson so far rejecting the idea of an extension. A no-deal cliff is thus looming for end-2020, even though it will be premature to underestimate Europe's talent for striking extraordinary deals last minute. Alongside Brexit, there are also political risks in EMU countries. Continuous tensions within the Italian government may still lead to a breakup and snap elections, jeopardizing the country's economic stabilization. Similarly, the German social democrats' recent turn to the left may end Mrs. Merkel's term early – even though the harm from political uncertainties may be offset by hopes of a stronger fiscal impulse by a new German government.

With our forecasts based on somewhat easing worries about trade war and Brexit, the risks to our outlook remain tilted to the downside. We would be particularly worried in case events in Hong Kong escalate into an outright Chinese intervention and a resulting prolonged breakdown of US/China trade talks. While the baseline outlook for 2020 looks tentatively benign, keep a close eye on the long shadows of politics.

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Fixed Income

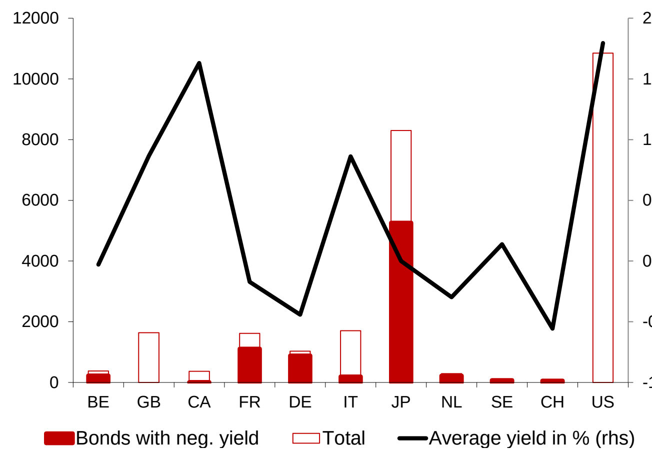
- **Given political concerns and growing worries about an economic downturn, international sovereign yield curves bull flattened over the course of 2019.**
- **A lukewarm recovery of the world economy and slightly higher inflation rates are likely to trigger a moderate upward trend in euro area yields in 2020. The leeway for US yields appears more limited.**
- **The risks to this view are skewed to the downside. In case the world economy fails to rebound and/or the trade conflict intensifies again particularly US yields have scope to fall further.**
- **The environment for non-core euro area bonds remains favorable amid the very low yield environment and the ECB's new QE programme. Notwithstanding periods of volatility, Greek and Italian sovereign bonds are forecast to perform better than their peers.**

Political concerns triggered a broad-based bull flattening of international yield curves in 2019

Political developments and concerns about a looming economic downturn had international government bond markets in a stranglehold in 2019. In particular, the US/China trade conflict, but also worries about a spreading of this conflict to the euro area and fears of a hard Brexit kept demand for safe bonds on a high level. Until summer sovereign yields fell considerably (marking in part new historical lows), they have rebounded only moderately since then.

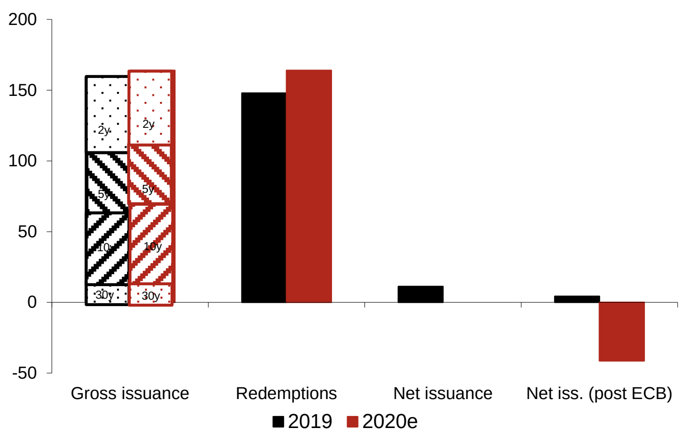
Overall, the euro area yield curve bull flattened significantly. While the short end hardly moved, 10-year Bund yields fell by more than 50 bps. Although this was mainly due to lower real yields, euro area inflation expectations receded as well in 2019. The decrease in the US was even more pronounced and comprised all maturities evenly. In contrast to the euro area, US inflation expectations were rather flat or even increased moderately (at the short end of the curve).

Graph 1: G10 SOVEREIGN DEBT



In bn USD

Graph 2: GERMANY: GOVERNMENT BOND ISSUANCE



In bn €

Transatlantic yield spread to tighten further in 2020

US yields are forecast to continue their downtrend – before a slight rebound is likely in H2

The initial tendency for US yields in 2020 is seen to point downwards. Driven by a reversing fiscal impulse and eventually weakening payrolls momentum the US economy is forecast to slow. This is only partially priced by financial markets (Q4/Q1 av. ann. growth rate: 1.3% vs. Bloomberg consensus of 1.7%). Moreover, according to the Fed's dots projection there is no further key rate cut at all and financial markets price it only by the end of 2020. This appears too cautious as the central bank will likely cut already in H1 2020 given the slowing economy. Finally, US yields are the highest among the G10 countries. This has already initiated a turnaround in international fund flows in 2019. We expect international demand for US bonds to remain high. All in, US yields have leeway to fall in the first half of 2020. Later on, assuming no intensification of the trade conflict, a rebound of the US economy, the end of the Fed cycle, and resolving the election uncertainty in Q4 2020 bond yields are seen to establish a slight upward trend again.

Inching up of inflation in combination with a bottoming economy is forecast to trigger moderately higher euro area yields in 2020

The outlook for euro area core yields is a bit more promising given the reached low levels. The ECB is expected to be on hold over the course of 2020. Core inflation is seen to step up moderately and the euro area economy is already bottoming. Quarterly growth rates are forecast to improve over the course of 2020. One caveat remains the tight supply situation of German Bunds. The downtrend in outstanding Bunds over the recent years has only partially been balanced by a lengthening of the average maturity. The new QE programme will bring the scarcity issue to the fore again. The ECB is expected to purchase around €40bn German papers in 2020. Given the net issuance close to zero, the 33% issuer limit will get closer (currently around 30%). However, technically the limit will according to our calculations only become binding by the middle of 2021.

Overall, assuming fading political uncertainty (no hard Brexit, no trade war intensification), there is leeway for long-dated euro area core yields to inch up. We expect 10-year Bund yields to reach -0.20% by the end of 2020. In contrast, short-dated yields are seen to remain anchored by the dovish ECB stance.

In a more adverse scenario in which economic growth turns out weaker and political tensions increase, the Fed will cut more than once and the ECB is likely to revert to additional extraordinary measures (as a further significant key rate cut is less likely). As a shift towards more fiscal easing in the euro area will aim at dampening the economic downside risks and US yields have more leeway to fall, we forecast the transatlantic yield spread to tighten even more in this scenario.

No repetition of 2019, but solid returns for high-yielding bonds

The environment for Southern European sovereign bond spreads is forecast to remain benign. Although the total return in 2020 will be much lower than in 2019 (Greek and Italian sovereign bonds have yielded double-digit total returns) the low yield environment will push investors into higher yielding bonds. As even long-dated core and semi-core bonds have a negative yield, there is little to earn in 2020. Accordingly, investors are expected to focus on higher-yielding euro area sovereign bonds. Hence, the convergence of euro area spreads is expected to continue. What is more, the ECB will soak up almost the complete net issuance of non-core countries. The remaining issuance should be taken down smoothly.

Convergence of euro area spreads to continue in 2020, but at a lower speed

However, given the already low levels the speed is seen to be more muted than in 2019. In particular, Italian politics remain fragile. There are a number of issues in which the current coalition does not have a common position. Therefore, the spread development will depend strongly on the political news flow and there will be periods of high volatility. Ultimately, however, a breakup of the coalition appears unlikely as according to polls a right-wing alliance of Lega and Fratelli d'Italia is likely to win a majority and would establish the next government. As the primary objective of the current coalition was to prevent exactly this, the base scenario remains a continuance of the coalition.

This implies that Italian (and Greek) sovereigns are forecast to perform better than Iberian ones which are likely to do better than core euro area bonds in 2020. However, the extent of the outperformance will be more limited than in 2019.

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Corporate bonds

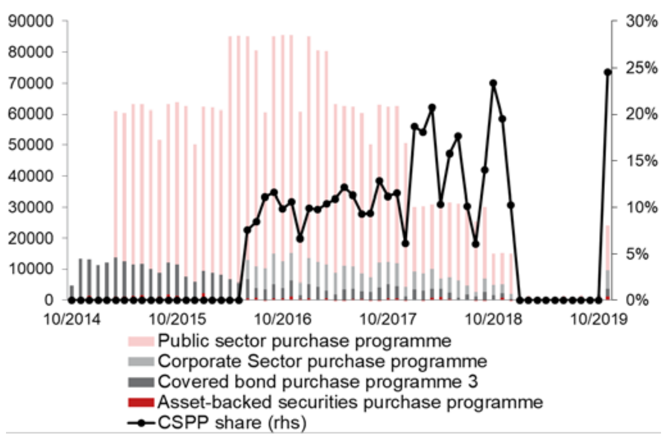
- **The ongoing search for safe instruments with decent carry has been largely supporting credit spreads in 2019 with total returns among the strongest in recent history. 2020 should also be positive albeit returns will be much lower.**
- **Easing global policy concerns coincide with bottoming trade and manufacturing data will support credit in 2020.**
- **The much commented elevated leverage level in developed economies should stabilise if not slightly decrease in 2020 while interest coverage ratio should remain elevated thanks to decelerating but still positive earnings growth.**
- **Technicals will be largely supportive as supply should be significantly down year-on-year and the ECB will continue to purchase corporate bonds at a rather elevated level.**

The Draghi Sintra speech in June pointing to a CSPP 2.0 has shifted sentiment towards credit to strongly positive

At the end of 2018, beginning of 2019 the fears of an imminent end-cycle coupled with potentially high political risks including US/China trade conflict, but also worries about a spreading of this conflict to the euro area and fears of a hard Brexit have been significantly widening credit spreads. If appetite for risky assets including credit returned early 2019, Draghi's Sintra speech at the end of June 2019 marked a strong turning point as it became clear that the ECB was to resume its corporate bonds purchase program.

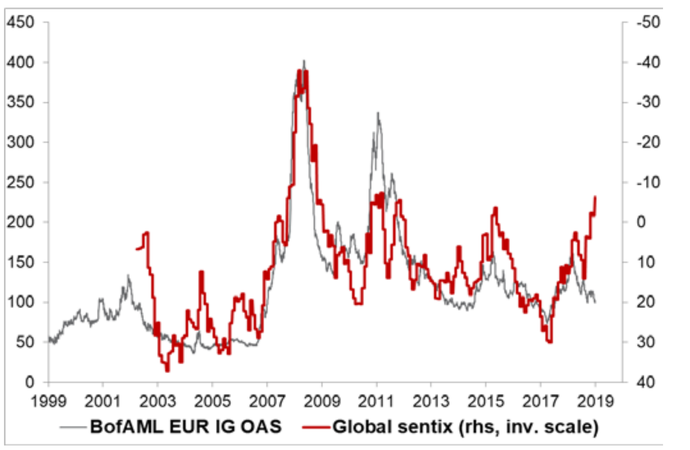
2019 has been one of the strongest years in history. We have seen positive total returns across the board for credit assets led by the riskiest instruments AT1 and corporate hybrids (12 to 15%), followed by HY (9%) and then seniors (4-5%).

Graph 1: ECB APP MONTHLY NET PURCHASES



end of month,book value, EURm

Graph 2: CREDIT SPREADS VS. GLOBAL SENTIX



IG corporate spreads to tighten further in 2020

We think that the bottoming-out of the global economy will act as a stabilising factor if not a driver on credit spreads. We reckon that over the recent period there has been a dis-connection between spreads and global macroeconomic conditions, but we expect the gap to be closed via better macro prospects.

Better macro prospects will also likely positively impact the leverage of corporate default rates. If this leverage ratio is undeniably high, we have seen some improvements over the course of 2019 thanks to slowing M&A and buy-backs. Moreover we continue to expect positive earnings growth in 2020 that will keep interest coverage ratio at a high level.

Default rates will likely be upwardly oriented in 2020 but should remain idiosyncratic.

Nonetheless we expect default rates to go up both in the US and in Europe from around 2% to 3.5% in 2020. This has been already reflected in the "bullish decompression" of the HY market in 2019 as we have seen the market performing strongly via the BBs i.e. the least risky bonds of the universe. Hence we expect some IG HY decompression to take place especially in the US where HY valuation is more stretched.

The net supply for credit in 2020 will be significantly down especially net of the ECB CSPP purchases.

The technicals will be the kingmaker of credit performance in our view for the next next year. First the supply in european credit markets is expected to fall drastically. Growth issuances are likely to be down one digit from 2019, but redemptions will be high making the expected net supply likely decrease by 20-25% from 2019. On top of it, the QE 2.0 is including a growing share of corporate bonds. When CSPP first started in 2016, corporate bonds were amounting less than 10% of total purchases while recent data show that the ECB is currently buying 25% of corporate bonds out of its EUR20bn monthly purchases. As a result the supply net of the ECB could be massively down, further supporting CSPP-eligible instruments (non-financials and insurance) and its immediate derivatives (Corporate hybrids, AT1, BBs).

Credit spread will continue to benefit from low real yields.

That being said, the absolute level of interest rates will also play a role. Indeed over the summer, when the Bunds fell to extreme levels this had a widening effect on credit spreads as there is a psychological floor at 0% for some credits. On the other hand, a too rapid recovery of core yields would be a disadvantage for the credit bonds rated A and above as their spread would be cannibalised. Hence our current forecast on core yields is the blue-sky scenario for credit as we expect 10-year Bund yields to reach -0.20% by the end of 2020.

Favor going down capital structure to balance-sheet risk in 2020

IG spreads have significant room to tighten while HY could see some pressure especially in H2.

For the above mentioned reasons we expect IG EUR credit spreads to have further room for tightening 10 to 15bp over the course of 2020. Within IG we keep our preference for non-financials versus financials as the relation between the two is mainly explained by the evolution of the 10Y Bund that we expect nearly stable and that ECB purchases are strongly biased in favour of non-financials. We have a more cautious view on HY, if spreads are likely to continue tighten in Q1 we see the rise in default rates as a hindrance for the performance of the asset class later in 2020. Even if they may look expensive for the same reasons we prefer BBs to the rest of HY as they are an immediate substitute for CSPP eligible assets and will continue to benefit from it.

We favour Corporate hybrids and AT1 to HY as we expect feault rates to rise mildly.

In terms of rating we recommend to take risk whithin IG, either via too big too fail BBBs or subordinated instruments issued by IG rated companies as we think the ECB is going to provide sustantial liquidity to those issuers to avoid massive disturbances. We are reluctant to take a substantial duration bias as we see likely upside to our rate scenario and expect rather a parallel shift of credit rather than a significant flattening, although credit curves remain steeper than their govies counterparts. We see particular value in AT1 and especially in the shorter part of the curves as we expect main risks attached to this asset class to be downwardly oriented in 2020. Corporate hybrids may look expensive following their stellar performance of 2019, but we think the underpinnings of their attractiveness will remain in place into 2020 potentially taking them to new lows.

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Currencies

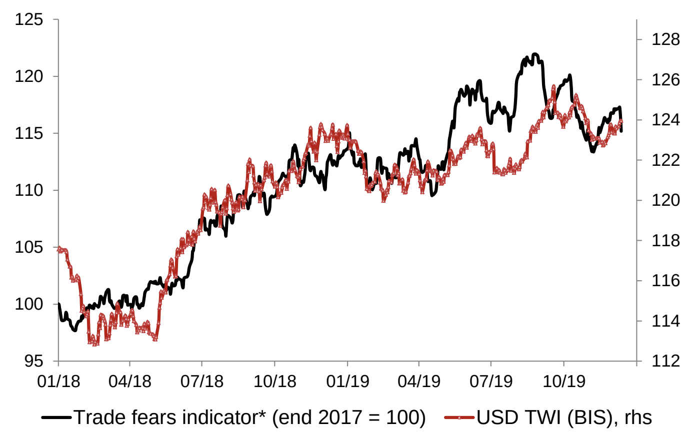
- **Solid US growth and safe haven flows amid an intensifying trade war helped USD strength to prevail in 2019.**
- **We expect a gradual reversal for 2020. The recently found trade truce and bottoming global growth will weigh on the overvalued US dollar. The US twin deficit and reserves diversification out of the Greenback will add further pressure.**
- **The EUR has been held back by weak data. But a mild recovery into 2020, capital inflows from higher net FDI inflows and a decrease in the transatlantic yield gap will help the undervalued EUR/USD to rise.**
- **Valuation considerations and somewhat lower US yields will mildly on USD/JPY. The British pound is underpinned by the outlook of an orderly Brexit on Jan 31. But uncertainties about a permanent deal with the EU deal during the transition period will keep a lid on sterling further out in 2020.**
- **EM currencies are set to benefit from easing trade risks, bottoming manufacturing and an accommodative Fed, led by the Chinese yuan. But a stronger rebound does not appear imminent amid persistent global trade frictions.**

The US dollar looked toppish at the start of the year. Yet the unexpected escalation of the trade war and the ensuing weakness in global trade and manufacturing underpinned the USD, lifting the DXY (against major peers) by 1% until mid-December. While the next twists in the trade conflict are subject to high uncertainties and we acknowledge that a broad trade deal is distant, easing trade concerns do not bode well for the US dollar (see Graph 1) and may prove one key trigger for a reversal.

Calming trade tensions and easing recession fears will weigh on the US dollar

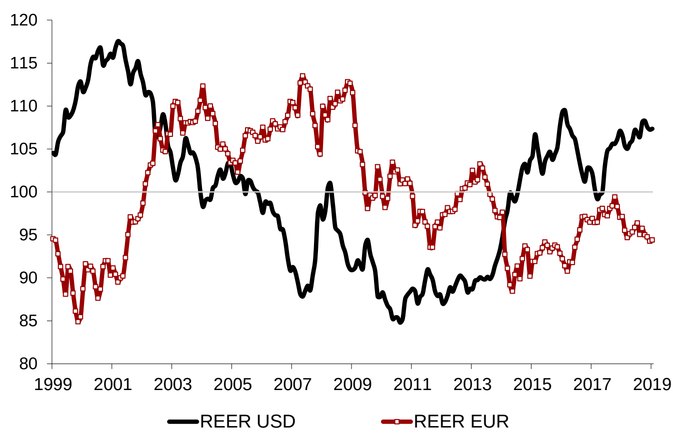
This holds all the more as the Greenback looks dear. The real effective USD is more than 7% dear vs. historical average (Graph 2), while other major currencies (incl. JPY, EUR and GBP) look cheap. Furthermore, the USD is a countercyclical currency, which has been supported by global recession fears in 2019. While we do not expect a strong rebound, nascent global green shoots contrasting a slowing US economy will add to the drag. The persistent US twin deficit (fiscal and C/A) and the increased (mis-)use of the US dollar as a geopolitical tool are fostering the diversification drive of global reserves out of the US dollar, with some EMs (spearheaded by Russia) promoting a further reduction. Reversely, a further ascent of the Greenback would meet mounting political resistance in the White House, raising the risk of outright FX intervention by the US Administration.

Graph 1: TRADE WAR CONCERNS AND TRADE-WEIGHTED USD



*equally weighted Stoxx600 vs auto sector, Fathom US China Exposure Index (inv.), JPY/KRW and USD/AUD, end 2017 = 100

Graph 2: REAL EFFECTIVE EXCHANGE RATES OF USD AND EUR



based on CPI, long-term average = 100; last month approximated by nominal eff. exch. rate

EUR/USD upside on a mild EA recovery and capital inflows

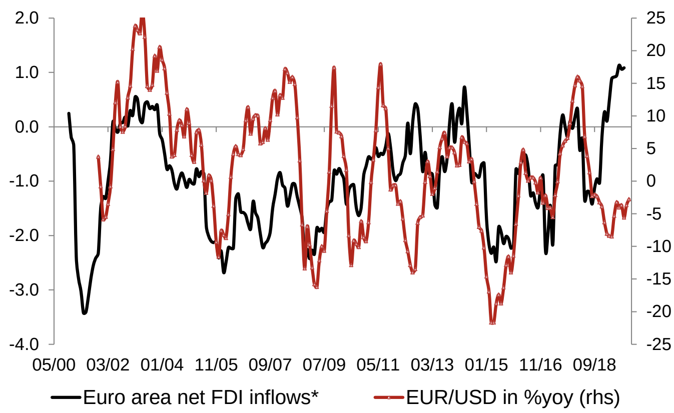
EUR/USD to strengthen gradually, helped by a mild euro area recovery and capital flows

Consequently, we anticipate the Greenback to trend weaker against most major currencies. The EUR/USD is still held back by weak economic data in the euro area (EA) and will barely benefit from easing trade woes. But a mild recovery into 2020 (contrasting slowing US expansion) and stronger support from capital flows into the EA will help upside forces to prevail (Graph 3). An unwinding of EUR/USD speculative short positions may amplify the moves. Technically, a break of the 200-day moving average (currently at 1.115) could add technical support: a simple momentum strategy based on this metric has rendered consistently positive returns over the past 25 years. We see the EUR/USD at 1.12 in Q1 and at 1.17 by year-end.

The yen has leeway to strengthen against the USD, but is set to weaken vs. EUR

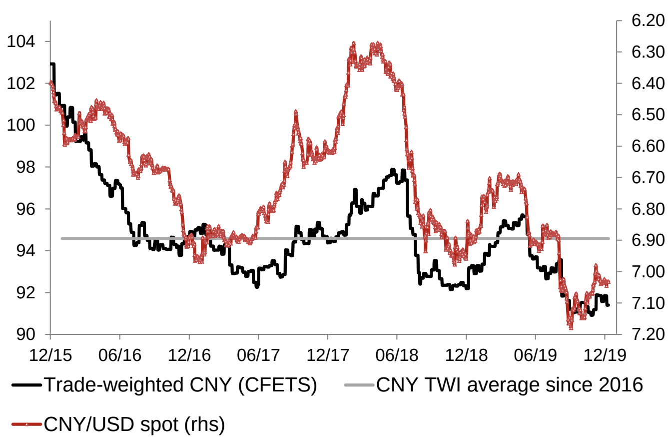
We also see some downside in the USD/JPY. The yen remains strongly undervalued and we anticipate mildly lower US yields and another Fed rate cut (with the BoJ remaining on hold). That said, easing global trade worries and our constructive view on global risk sentiment will limit any move lower in the USD/JPY. We neither deem the yen as particularly attractive for euro area investors, given an anticipated rise in EUR/JPY to 124 by year-end. The British pound has rallied on the Tories clear majority in Dec 12 elections, which makes an orderly Brexit by end-January very likely. But a lot of optimism is priced now, and uncertainties about a permanent deal with the EU deal during the transition period will keep a lid on sterling further out in 2020.

Graph3: NET FOREIGN DIRECT INVESTMENT AND EUR/USD



*as 12m rolling sum, in % of GDP

Graph 4: CHINESE YUAN VS USD AND TRADE WEIGHTED



EM FX to benefit against USD from easing trade tensions

EM currencies may gain some ground against the USD; for European investors, CEE currencies have some appeal

EM currencies are generally slightly cheap and may benefit somewhat against a weaker US dollar. Easing trade tensions will likely take the USD/CNY more permanently below the 7.00 threshold, even though a further slowing of the Chinese economy and a further monetary easing in China will limit the upside to the yuan. We envisage a 2020 year-end target of 6.85 for USD/CNY. Given our view of a stronger EUR, however, the overall appeal of EM FX remains very limited for European investors. Among EMs, CEE currencies look interesting, with a decent carry and some appreciation potential on persistent economic expansion underpinning the case for increased exposure to the Polish zloty (PLN) and the Czech crown (CZK).

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Equities

- **The year 2019 was an exceptional year for equities. The MSCI World has so far posted a total return of 26%.**
- **The MSCI World PE surged by 21%, despite the manufacturing sectors being in recession and high political risks.**
- **The most relevant trigger was represented by the huge shift in monetary policy which lowered the cost of capital, enhancing the market's fair value.**
- **More recently, macro green shoots and declining political risks are adding to the equity case. As the tone of monetary policies is going to stay accommodative for long, we think that the case for equity continues to be on the positive side in 2020, at least in the first part of the next year, even if returns are expected to stay muted compared to 2019 (+5%).**
- **Inside equities, we have a slight OW on EMU vs Europe, EMU vs the US and Value vs Growth. Constructive on EMs.**

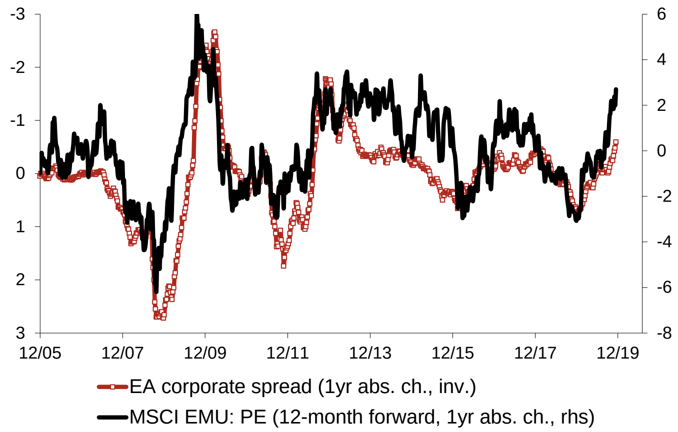
Signs of bottoming in confidence indicators along with reduced risks support investor's sentiment

So far this year, the S&P 500, the MIB 40 and the SMI overperformed. Underperformers were the FTSE 100, the Topix and the MSCI EM. Global 12-month forward earnings estimates increased only slightly (+1.6%), being even negative in the euro area (EA), EM and Japan. As a result, the MSCI World PE inflated by 21%, even with the manufacturing sectors being in recession and high political risks. The most positive trigger was represented by huge shift in monetary policy which brought yields and credit spreads, and hence the cost of equity (COE), appreciably down. For every decline of 50 bps in the COE, the theoretical equity fair value increases by nearly 7 to 10%. Of course, the resilience of service sectors and labor markets contributed to the earnings resiliency, too. More recently, macro green shoots and declining political risks are adding to the equity case. As the tone of monetary policies is going to stay accommodative for long, we deem equities to remain attractive at least in the first part of the next year, although returns will stay muted vs 2019 (+5%).

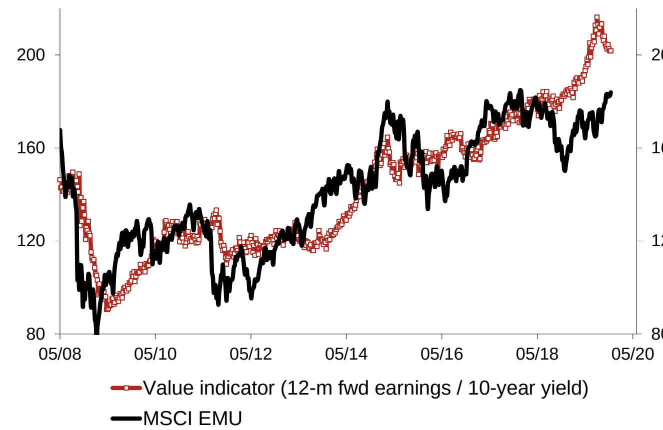
Positive returns in 2020: earnings growth and PE expansion

Recently, confidence indicators continued to give signs of bottoming for manufacturing and export-oriented sectors. Furthermore, Brexit and US-China trade risks declined, thus supporting investors' sentiment. In the very short term, equities have discounted some of the positive news but we think they remain attractive. Low

Graph 1: MSCI EMU PRICE/EARNINGS AND CORP. SPREADS



Graph 2: MSCI EMU INDEX: VALUE INDICATOR



bond and credit yields plus dovish monetary policies will continue supporting stock markets. This, coupled with a slightly better macro momentum, should trigger a rotation into value sectors and equities in general at the expense of bonds' inflows: we maintain a positive stance, remaining sanguine for the next 3 to 12 months.

Mild earnings recovery in 2020

Low earnings growth environment to persist over the next five years

Global corporate earnings have so far been hit by the US-China trade war, Brexit fears and the car sector slump – all weighing on an already maturing economic cycle. US and EA momentum in capacity utilization deteriorated together with firms' margins and ROE. The earnings forecasts for 2019 decreased visibly (by 13.4% since their peak in October 2018), showing no growth vs 2018. More recently, confidence indicators are providing tentative signs of cycle stabilization and we expect a mild earnings recovery in 2020, +4% yoy, with risks on the upside. Our global forecasts are below consensus by 5 pp but should be enough to maintain dividend yields as attractive (3.4% for the MSCI EMU index). In our projections, such low earnings growth environment will persist over the next five years.

Risk premium-based valuation signals upside potential

Current market multiples show some exuberance vs history (+20% and +10% for the US and the EA, respectively) with the exception of UK, Japan and the EMs which remain below norm. With exogenous risks having decreased, dovish global central banks, low 10-year yields and credit spreads plus improving financial conditions should push PEs further up (to a limited extent for the US), even if not surpassing previous cyclical peaks.

The equity risk premium remains quite high vs history, suggesting some, albeit limited, upside for current price indices. This in turn justifies total returns for 2020 in the region of +5% even if we deem the first months of the year to be more promising: reinforcing macro green shoots can still represent a positive surprise and,

Table 1: S&P 500: SCENARIO ANALYSIS

US CAPE-based valuation (adj. for inflation)	10Y	CPI	Real 10Y Rate	EPS	Current (e/p - 10y real)
Scenario 1 (current input with consensus CPI & 12m fwd earnings)	1.77	1.76	0.01	174.5	5.28
Scenario 2 (consensus for end-2020)	1.93	2.10	-0.17	176.4	5.34
Scenario 3 (GI estimates for end-2020)	1.70	2.00	-0.30	166.0	5.03
Scenario 4 (downside macro scenario (2020))	0.80	1.30	-0.50	135.0	4.09
Scenario 5 (upside macro scenario (2020))	2.70	2.40	0.30	176.4	5.04

using 2020 estimates and 40% of risk (SD).	Scen. 1	Scen. 2	Scen. 3	Scen. 4	Scen. 5
Implied PE Trailing IBES	18.7	19.0	17.8	14.5	18.0
Avg S&P500 valuation	3,019	3,057	2,877	2,341	2,895
	-3.7%	-2.4%	-8.2%	-25.3%	-7.6%

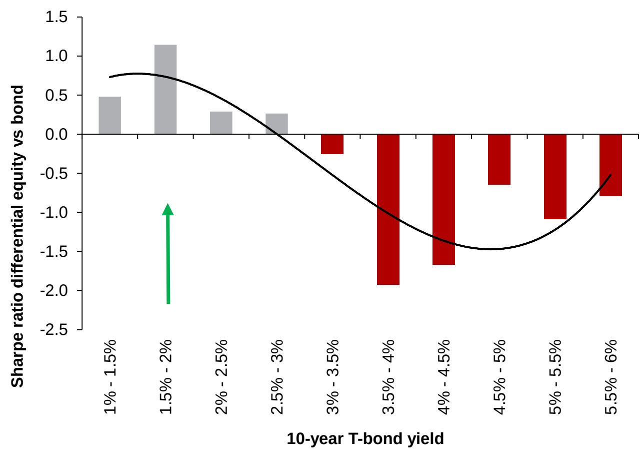
Note: **High risk** scenario: using 2020 estimates and 40% of risk premium's stand. deviation (SD).

using 2021 estimates and 25% of risk (SD).	Scen. 1	Scen. 2	Scen. 3	Scen. 4	Scen. 5
Implied PE Trailing IBES	20.6	22.0	20.0	15.8	19.8
Avg S&P500 valuation	3,319	3,554	3,217	2,541	3,185
	5.9%	13.4%	2.7%	-18.9%	1.6%

Note: **Low risk** scenario: using 2021 estimates and 25% of risk premium's stand. deviation (SD).

Valuations are coherent to the risk over the last century

Graph 3: US: RISK ADJ. WORST LOSS EQUITY VS BOND



S&P 500 vs US 10-year Treasury bonds. 3-month returns, 1° percentile, data 2000-2019

starting from the next March, US Democratic primaries could show the extreme left gaining advantage which will not be market-friendly news. Such low yield scenario is supportive for the relative performance of equities vs bonds even after adjusting for volatility (Sharpe ratio). Historically, when the nominal yield has been in the current bracket, the quarterly return of the S&P500 over 10-year Treasury bonds has been higher both on median and in the lowest percentile (worst loss).

Furthermore, when we analyzed the theoretical value of the S&P 500 index using long-term series (100 and more years), we found that effectively low 10-year real yields have historically corresponded to high PE multiples for the US index. Such valuations are coherent with the average risk premium over the last century (earnings yield (E/P) minus 10-year real yield) to which we cautiously add 25% of the standard deviation (SD) which we brought to 40% when the political uncertainty spiked in the last months. In particular, employing 2021 estimates and a lower risk of 25% of the historical SD of the risk premium (as political risks recently decreased), the target S&P for the end of 2020 would reach 3,217 or more in consensus scenarios (see end-of-2020 targets at the bottom of the table 1).

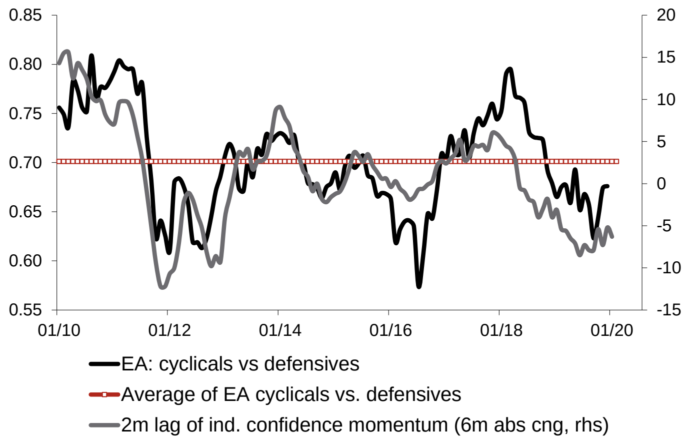
Historically high equity risk premium suggest some upside

Inside equities, we have a slight OW on EMU vs Europe and EMU vs the US. We stay constructive but neutral on EMs and Japan. The Italian MIB 40 remains attractive due to low valuations and constructive BTP spread perspectives. After yields have stabilized, we slightly OW Value vs Growth: our quant model is still extremely positive and the Value price trend is not exuberant vs the yield level yet. On the contrary, we would maintain a neutral stance on cyclicals vs. defensives: they look more exuberant vs the industrial confidence indicator and the quant model is only neutral. OW: Utilities, discretionary and energy. UW: Real Estate, Materials and IT. Limited OW on Momentum, Low Leverage. Neutral on Quality. Banks have enjoyed higher 10-year rates. After the rally, they look fairly valued short term (hence slightly OW) but remain relatively undervalued on a mid-term view. Ongoing signs of a bottoming economic cycle and possible M&A activity in 2020 should support the sector next year, together with possible softer regulation.

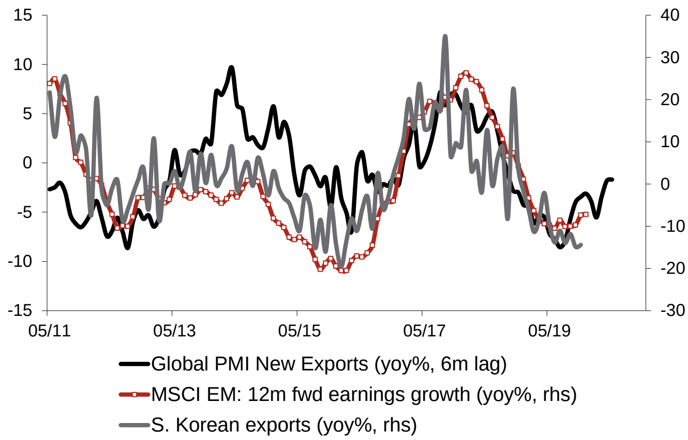
EMs: to benefit from stabilizing cycle in the mid-term

YTD, EM equities increased by 16% due to falling yields and EMBI spreads (111 and 143 bps, respectively). The appreciated US dollar and uncertainty on the trade

Graph 3: EA: CYCLICALS VS DEFENSIVES



Graph 4: GLOBAL EXPORT ORDERS, S. KOREAN EXPORT GROWTH AND EM EARNINGS EXPECTATIONS



front caused their underperformance vs MSCI World by 10.5 pp. After the recent rally, the EM market multiples show a much lower discount to history (from -16% to -2%). Their earnings growth (12-month forward) seems to be stabilizing, being supported by increasing global export orders. Judging by our “value indicator” (12m forward earnings divided by 10-year yields), there is not much upside in the short term. Besides, the EM equities are still pressured by weak macro surprises for the time being. In the longer term, EM stocks are to benefit from the expected weaker dollar, low valuations, higher beta exposure on stabilizing cycle and low positioning. We remain mid-term positive. We favor Brazil and CEE markets (ex. Turkey). On India we are tactically neutral but constructive in the medium-term.

Weak EM macro surprises are to keep pressure on EM stocks in the short term

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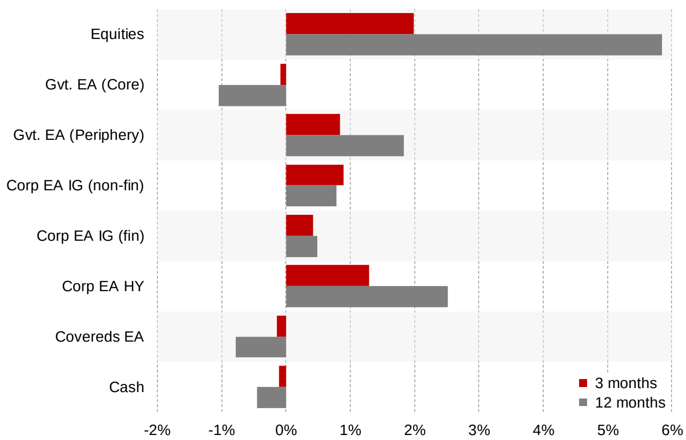
Asset Allocation

- **After a prolonged period of political uncertainties weighing heavily on the global economy, recent indicators on industrial production rather give cause for optimism against the backdrop of easing trade tensions and Brexit uncertainties.**
- **Although a lot of positive news is already priced in by markets, the Goldilocks 'light' environment will continue to have a beneficial effect on risk sentiment.**
- **Low inflation, moderate growth and sustained monetary policy support will keep a lid on core yields, simultaneously providing a favorable environment for risk assets.**
- **Given these conditions, equities and credit are expected to be the main providers of a positive return potential in the next three to twelve months. Thus, we recommend starting into 2020 with a distinct overweight in equities and corporate bonds at the expense of government bonds, covered bonds, and cash.**

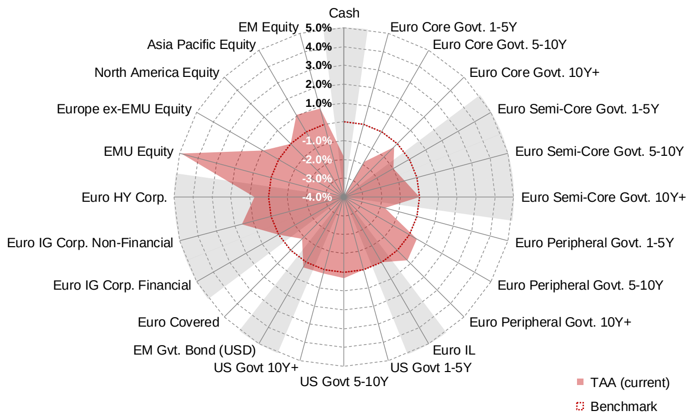
The Goldilocks 'light' environment is going to stay with the advanced economies for the time being. Together with very accommodative policies by central banks this should be conducive to risk sentiment as core yields will remain around current low levels. All in, we expect total return figures for core government bonds to stick in negative territory. The same holds for fixed income market segments closely related to core govies like covered bonds. Cash will render negative returns for sure. Euro area IG credit will receive continued support from the ECB's PSPP, making them attractive from a carry as well as a price perspective, thus leading to a positive total return expectation. The HY segment looks even more promising due to the higher carry. Similar is true for BTPs, especially the long-dated ones, which will be supported by the attractive yield level despite the political imponderables. Euro Area Equities will remain underpinned by moderate earnings growth and a potential for further modest P/E expansion.

Graph 1: AGGREGATED TOTAL RETURN FORECASTS



Hedged into EUR

Graph 2: BALANCED MtM MODEL PORTFOLIO (ACTIVE POSITIONS)



In pp; Semi-Core = Spain; Periphery = Italy

Distinct investment focus in riskier assets

Not surprisingly our tactical recommendation to start into 2020 is a distinct overweight in equities as well as corporate bonds primarily at the expense of government bonds, covered bonds, and cash. I.e., the investment focus of the model portfolio is clearly in the riskier segments.

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Forecasts

GROWTH

	2018	2019f	2020f	2021f
US	2.9	2.2	1.6	1.8
Euro area	1.9	1.2	1.0	1.1
Germany	1.5	0.6	0.8	1.3
France	1.6	1.3	1.2	1.3
Italy	0.7	0.1	0.4	0.6
Non-EMU	1.5	1.3	1.2	1.5
UK	1.4	1.3	1.2	1.4
Switzerland	2.5	0.8	1.1	1.6
Japan	0.8	1.1	0.6	0.9
Asia ex Japan	6.2	5.4	5.4	5.4
China	6.6	6.1	5.9	5.7
Central/Eastern Europe	3.0	1.9	2.7	2.9
Latin America	0.1	- 0.1	1.7	2.0
World	**3.6**	**2.9**	**3.0**	**3.1**

INFLATION

	2018	2019f	2020f	2021f
US	2.4	1.9	2.0	2.1
Euro area	1.7	1.2	1.2	1.4
Germany	1.8	1.4	1.5	1.5
France	1.9	1.2	1.3	1.3
Italy	1.1	0.8	1.1	1.1
Non-EMU	2.3	1.7	1.9	1.8
UK	2.5	1.8	2.0	1.8
Switzerland	0.9	0.4	0.4	0.9
Japan	1.0	0.5	0.7	0.7
Asia ex Japan	2.6	2.8	2.8	2.5
China	2.1	2.8	2.6	2.1
Central/Eastern Europe	6.0	6.6	5.0	5.0
Latin America	4.0	4.0	3.7	3.6
World	**2.7**	**2.6**	**2.5**	**2.5**

Regional and world aggregates revised to 2015 IMF PPP weights; Latin America Inflation excluding Argentina and Venezuela

FINANCIAL MARKETS

3-month LIBOR	**Current**	**3M**	**6M**	**12M**
USD	1.89	1.90	1.70	1.70
EUR	-0.44	-0.45	-0.45	-0.45
JPY	-0.07	-0.10	-0.10	-0.10
GBP	0.79	0.80	0.80	0.80
CHF	-0.72	-0.75	-0.75	-0.75
10Y Government Bonds	**Current**	**3M**	**6M**	**12M**
US	1.84	1.75	1.65	1.70
Euro-Area	-0.29	-0.30	-0.25	-0.20
France	0.01	0.00	0.05	0.05
Italy	1.21	1.20	1.20	1.20
Japan	-0.01	-0.05	-0.10	-0.05
UK	0.80	0.80	0.85	0.95
Switzerland	-0.57	-0.60	-0.55	-0.50
Spreads	**Current**	**3M**	**6M**	**12M**
GIIPS	113	110	110	105
BofAML Covered Bonds	42	41	40	38
BofAML EM Gvt. Bonds (in USD)	315	315	315	310

Corporate Bond Spreads	**Current**	**3M**	**6M**	**12M**
BofAML Non-Financial	99	95	90	85
BofAML Financial	98	100	95	90
Forex	**Current**	**3M**	**6M**	**12M**
EUR/USD	1.11	1.12	1.14	1.17
USD/JPY	109	108	107	106
EUR/JPY	121	121	122	124
GBP/USD	1.32	1.35	1.37	1.39
EUR/GBP	0.84	0.83	0.83	0.84
EUR/CHF	1.10	1.10	1.11	1.11
Equities	**Current**	**3M**	**6M**	**12M**
S&P500	3160	3190	3200	3220
MSCI EMU	130.5	133.0	131.5	133.5
TOPIX	1723	1750	1745	1760
FTSE	7281	7330	7335	7415
SMI	10429	10550	10390	10610

As of 13.12.2019 (3-day-average)

FORECAST-INTERVAL* – 3-MONTHS HORIZON

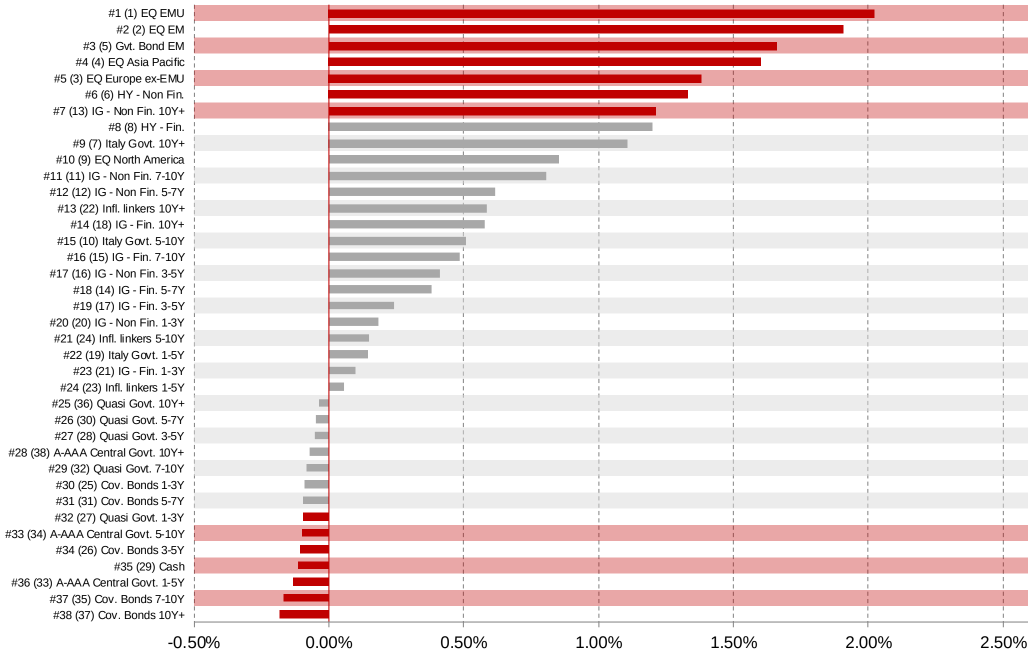
Government Bonds (10Y)	US	1.55	1.75	1.95
	Germany	-0.37	-0.30	-0.23
	UK	0.64	0.80	0.96
	Switzerland	-0.74	-0.60	-0.45
Spreads	10Y-GIIPS Spread	87	110	133
	BofAML Covered Bonds	34	41	48
	BofAML IG Non Financial	82	95	108
	BofAML IG Financial	87	100	113
	BofAML EM (in USD)	283	315	347
Forex	EUR/USD	1.09	1.12	1.15
	USD/JPY	104	108	112
	EUR/GBP	0.80	0.83	0.86
	EUR/CHF	1.08	1.10	1.12
Equities	S&P500	3,040	3,190	3,340
	MSCI EMU	126.1	133.0	139.9
	TOPIX	1,647	1,750	1,853
	FTSE 100	6,979	7,330	7,681
	SMI	10,086	10,550	11,014

FORECAST-INTERVAL* – 12-MONTHS HORIZON

Government Bonds (10Y)	US	1.26	1.70	2.14
	Germany	-0.32	-0.20	-0.08
	UK	0.63	0.95	1.27
	Switzerland	-0.77	-0.50	-0.23
Spreads	10Y-GIIPS Spread	63	105	147
	BofAML Covered Bonds	23	38	53
	BofAML IG Non Financial	62	85	108
	BofAML IG Financial	67	90	113
	BofAML EM (in USD)	247	310	373
Forex	EUR/USD	1.10	1.17	1.24
	USD/JPY	98	106	114
	EUR/GBP	0.78	0.84	0.90
	EUR/CHF	1.05	1.11	1.17
Equities	S&P500	2,941	3,220	3,499
	MSCI EMU	118.5	133.5	148.5
	TOPIX	1,537	1,760	1,983
	FTSE 100	6,721	7,415	8,109
	SMI	9,678	10,610	11,542

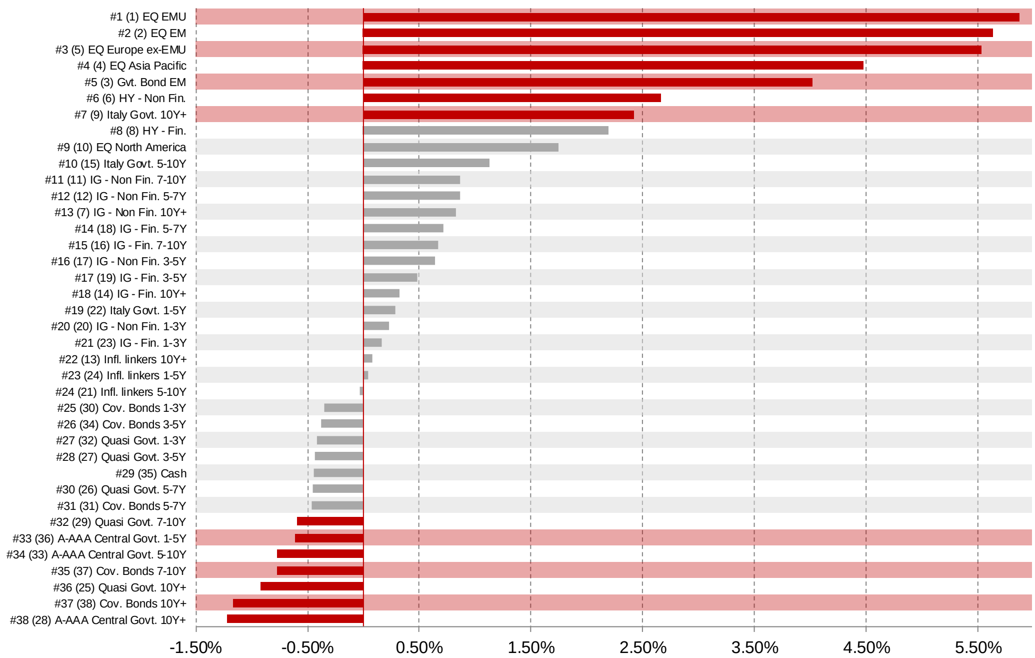
*The forecast range for the assets is predetermined by their historical volatility. The volatility calculation is based on a 5 year history of percentage changes, equally weighted in the case of the 12-month forecast and exponentially weighted in the case of the three month forecast. The length of the bars within each asset group is proportional to the relative deviations from their mean forecasts.

TOTAL RETURN FORECASTS* – 3-MONTHS HORIZON



*hedged into EUR; 12-months rank in brackets; Cut-off: 28.11.2019

TOTAL RETURN FORECASTS* – 12-MONTHS HORIZON



*hedged into EUR; 3-months rank in brackets; Cut-off: 28.11.2019

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