Q2 2017

GENERALI INVESTMENTS

Investment View

Economic spring time countering political risks

Content

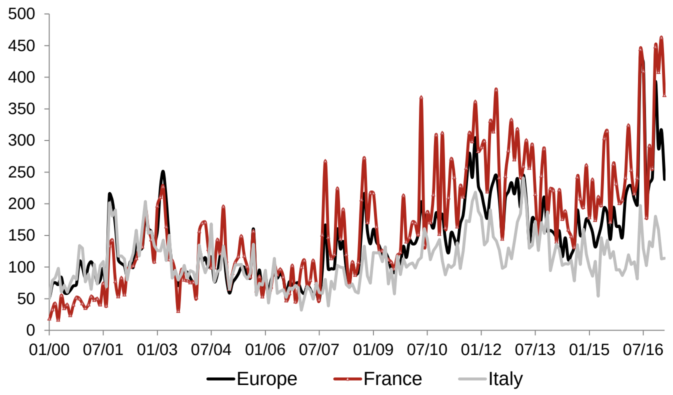
Global View

- **Over the past quarter, equities and European yields continued to rise, while longer-dated US yields fell slightly and the US dollar pared large parts of its gains seen after the US elections.**
- **Looking ahead, global financial markets will continue to be torn by opposed forces from high political risks both in Europe and the US on the one hand and an unabated solid flow of global economic data on the other hand.**
- **The Fed is likely to proceed with its gradual normalization of monetary policy, with two further rate hikes in the offing this year. Led by the US, we anticipate global yields to rise gradually in this environment.**
- **In this challenging investment environment and barring a surprise victory by Marine Le Pen in the second round of the French presidential election, setbacks in European risky assets are likely to prove temporary.**
- **An increased exposure to European corporate bonds and equities can help thus to cushion the structural headwinds to portfolio returns from gradually rising yields.**

Global financial markets have maintained their pro-risk bias over the first months of the year

Encouraged by strong economic data and hopes of a strong fiscal policy package by the new US aministration, global financial markets have kept the pro-risk momentum from late last year, with equities and European yields alike rising over the first quarter of the year. Global stocks gained 6% (MSCI World) while the yields on German 10-year Bunds roughly doubled to close to 0.4% despite slightly lower US yields. Political worries in Europe took their toll on sovereign bond markets, with the risk-premium on Southern European government bonds rising. Fears of a potential victory of righ-wing candidate Marine Le Pen temporarily lifted the spread of 10-year French OATs over Bunds to its highest level since 2012. The US dollar retreated, erasing most of its gains seen after the US presidential elections in November.

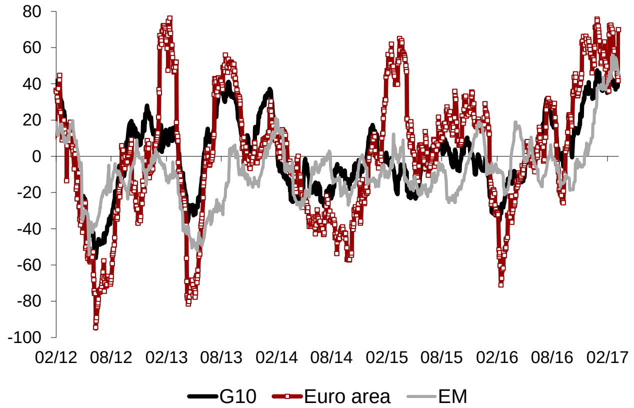
POLICY UNCERTAINTY



Source: http://www.policyuncertainty.com/

Graph 1; index standardized; pre-2011 average = 100

ECONOMIC SURPRISES GLOBALLY



Graph 2; Citi economic surprise index

Political risks vs strong economic data

Financial markets will remain torn between political risks on the one hand and strong economic data on the other hand

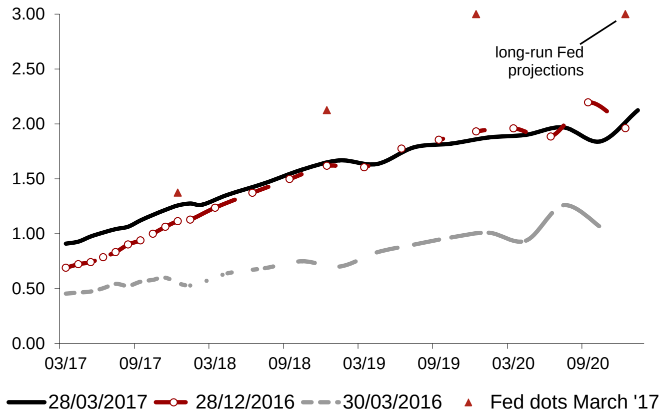
Looking ahead, the outlook for global financial markets remains torn by opposed forces from high political risks – both in Europe and the US – on the one hand and the unabated solid flow of global economic data on the other. Ultimately, we anticipate the decent macro momentum to prevail in this setting. But renewed political risks leave risky assets vulnerable to temporary setback.

For Q2, the French presidential elections (to be held in two rounds on April 23 and May 7) will remain in the spot light. The independent and reform-minded candidate Emmanuel Macron and Marine Le Pen from the far right-wing Front National will likely

French elections, Brexit negotiations and doubts about Trump's fiscal policy plans will keep political uncertainties high

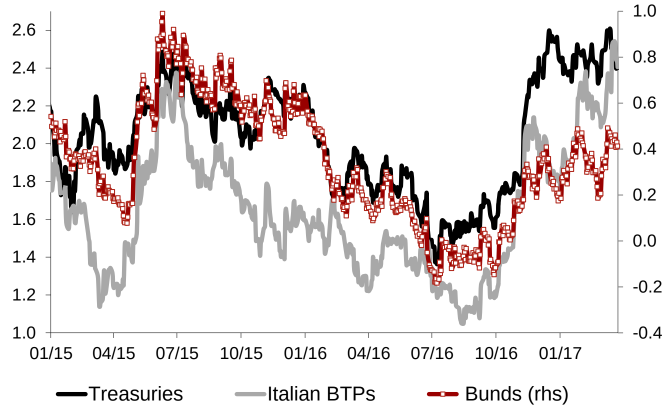
enter the run-off in the second round, with polls consistently showing a clear lead by Macron over the past months. Nevertheless, the risk of a victory by Mrs. Le Pen, who strives for a 'Frexit', may keep markets nervous over the coming weeks. These concerns are not helped by additional concerns about tough Brexit negotiations. The British PM Theresa May triggered Art. 50 on March 29, starting of a two-year period of likely tough negotiations between Britain and the EU on the terms of the exit. But Britain's insistence on regaining control over own laws and immigration will be extremely difficult to square with the EU's stance that the free movement of goods, services and capital cannot be separated from free movement of people. In Italy, meanwhile, the Eurosceptic five-star-movement is extending its lead in polls, ahead of general elections due by spring 2018. Finally, policy uncertainties are also on the rise in the US. After President Trump failed to get his healthcare bill approved in the House of Representatives, doubts have grown over his plans to boost the economy with bold fiscal measures.

US KEY RATE EXPECTATIONS



Graph 3; fed funds rate implied by OIS and Fed projections

YIELDS ON 10-YEAR GOVERNMENT BONDS



Graph 4; daily basis

Reassuring macro backdrop

The improvement in global economic data is broad-based and largely synchronized across EMs and advanced economies

These political concerns sharply contrast a strong global macroeconomic backdrop. Led by improving sentiment in the advanced economies, the global manufacturing PMI rose to 52.9 in February, the highest since May 2011. The increase is widespread and well-entrenched with consistently more than half of covered countries reporting rising manufacturing growth since August last year, despite global policy uncertainties. In the US, the labor market remains strong, with 235k non-farm jobs created in February, while investment demand is picking up. In the euro area, continued job creation and a better economic outlook underpin consumption while exports are supported by the improved global demand, also helped by stable growth in China and ending recessions in Brazil and Russia. The improvement in global indicators is unusually synchronized, with economic data from both EMs and advanced economies beating expectations since December last year (see Graph 2 on previous page).

The Fed is on course of accelerating the normalization of monetary policy

In this environment, the Fed has accelerated the normalization of monetary policy, increasing the federal funds rate to 0.75-1.00% in mid March. We anticipate two further rate hikes this year, in line with Fed projections but above market expectations, with the next step likely due as soon as in June amid solid growth and mounting inflation. The ECB, by contrast, will stick to its highly accommodative stance, but the economic recovery will gradually shift the market focus to the timing of QE tapering.

Over the coming months, a key event will be the French elections. Markets would come under severe stress in case the anti-European candidate Marin Le Pen surprisingly prevails in the 2nd round. For the more likely case that this is avoided, however, the outlook remains rather solid. Risky assets may be subject to setbacks on repeated bouts of political uncertainties. This holds in particular for US equities, which after the 10% rally since the US elections have reached quite stretched valuations, with the cyclically adjusted price/earnings ratio now 20% above its longer-run average. However, as last year's reactions to political events (Brexit, US elections, Italian referendum) have shown, the global economic environment still matters a lot for the depth of impact political uncertainties have on financial markets.

MACRO FORECASTS

	Growth			Inflation		
	2016e	2017f	2018f	2016f	2017f	2018f
US	1.6	2.4	2.5	1.3	2.3	2.5
Euro area	1.7	1.6	1.4	0.2	1.6	1.5
Germany	1.7	1.6	1.4	0.4	1.8	1.7
France	1.1	1.2	1.3	0.3	1.5	1.3
Italy	0.9	0.6	0.6	- 0.1	1.2	1.0
Non-EMU	2.1	1.7	1.5	0.7	2.6	2.7
UK	2.0	1.5	1.3	0.7	3.0	2.9
Japan	1.0	1.1	0.8	- 0.1	0.7	0.8
Asia ex Japan	6.0	6.0	5.9	2.7	2.7	3.1
China	6.7	6.5	6.2	2.1	2.3	2.3
CEE	1.0	2.3	2.9	5.2	4.9	4.5
Latin America	- 1.4	0.9	1.9	6.2	4.5	3.9
World	3.1	3.4	3.5	2.4	2.7	2.8

Table 1; annual changes, in %

FINANCIAL MARKETS FORECASTS

10-Year Bond Yields	**Current***	**3M**	**6M**	**12M**
US	2.41	2.55	2.65	2.95
Germany	0.42	0.50	0.55	0.70
Italy	2.43	2.45	2.50	2.60
Japan	0.06	0.10	0.10	0.15
Forex	**Current***	**3M**	**6M**	**12M**
USD/EUR	1.08	1.05	1.07	1.09
JPY/USD	111	113	115	120
GBP/EUR	0.86	0.88	0.89	0.90
Equities	**Current***	**3M**	**6M**	**12M**
S&P500	2346	2345	2340	2320
MSCI EMU	120.2	120.5	121.0	121.0

Table 2; *current as of March 24, 3-day average

Solid economic data to prevail over political risks

Amid structurally rising yields led by the US, an increased exposure to European credit and equities can help to underpin portfolio returns

In this regard, we anticipate the support from decent global data to underpin the resilience of global financial markets over the coming months. This is the main reason why we deem setbacks especially on still decently priced European equities to prove temporary. At the same time, we anticipate global yields to resume their gradual upward trend, led by the US. Solid economic data and mounting price pressures will not only bring about further rate increases by the US central bank, but also a somewhat higher term premium. In the euro area, the continued asset purchases by the ECB (even though reduced from € 80 bn to € 60 bn per month from April onwards) will help to keep upside pressures on Bund yields limited. But also here, even only small increases in yields will suffice to turn total performance negative, given the still depressed yield levels prevailing.

In this setting, we continue to favor an elevated exposure to European corporate bonds, which still look decently valued and their risk premia, while low, still offer a moderate performance cushion amid the tide of gradually rising yields. Exposure to Southern European sovereign debt may also help to add to portfolio returns following the spread widening seen over the past three months. However, given the current political uncertainties in Europe, this asset class may be subject to larger volatility over the coming weeks, whereas European private credit still looks more resilient against these headwinds.

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Macroeconomic Outlook

- **While the global economic outlook has brightened, the risks surrounding it have increased. The danger of protectionist measures in the US and potential political woes in the euro area are outstanding.**
- **Recent US data on employment and investment are consistent with strong and broad-based growth and gradually building inflation. However, divisions within the ruling Republican majority are likely to reduce the size and scope of the ambitious corporate tax reform promised by the President.**
- **Euro area activity rests on solid domestic activity, in an environment of improved global growth. We expect the ECB to start discussing tapering over the coming months but to fully implement its current QE program.**
- **In China, the National People's Congress sent a strong stability message.**

Global economic activity has recovered markedly over the last months. The global manufacturing purchasing manager index – a good gauge for the tone of global activity – advanced to 52.9 in February, the highest since May 2011. Unlike last year, the economic outlook across all major regions (US, euro area, China) stayed firm or even improved. Most notably, with Russia and Brazil expected to return to growth on the back of higher oil prices and reduced political uncertainty, the emerging market outlook brightened. Also, in the overall CEE region the stage is set for solid growth. However, at the same time the global economic outlook is surrounded by an unusually high number of political risks implying elevated political uncertainty. While we do not expect these political risks to materialize, they have the potential to dent confidence.

Major risks to global economy from possible introduction of Border Adjustment Tax in the US and political woes in the euro area

The major risk for the global economy is related to the plans of the new US administration. While markets have so far endorsed the idea of additional public spending and tax cuts, the financing of these measures is still unclear. One possibility is that a so called Border Adjustment Tax (BAT) would be introduced to generate huge revenues to compensate for the large cuts in corporate taxations. A BAT would tax all imports thereby making it more attractive for domestic companies to buy products from US firms. If introduced, it would be a hit to global trade, especially for the export-oriented economies and lead to a sizeable overhaul of global value chains. However, given the political difficulties related to such a plan, we do not think that the US will really walk the talk. In the end, it would increase overall prices in the US, punish especially poorer US citizens and also work at the detriment of sectors that cannot easily substitute imports.

The second biggest risk emerges from euro area politics. There will be presidential elections (23.4. and 7.5.) as well as parliamentary elections (11.6. and 18.6.) in France. The risk is that far right candidate Marine Le Pen, who wants to hold a referendum on EU and/or EMU membership, could succeed in pushing France at least out of the euro. However, we deem this a tail risk as polls suggest a victory of a center candidate while it is not so easy to initiate a referendum. Moreover, according to surveys, the majority of French people is still supporting the euro. Looking further down the road, there will also be elections in Italy in 2018, but with risk of snap elections before. In Italy, polls show that eurosceptic parties have a cumulated share of votes of about 50% which does not bode well for the medium term economic outlook either.

US: Strong growth, rising inflation amid higher political risk

Uptrend in underlying inflation to back further Fed rate hikes

Barring the materialization of the just mentioned risks, the stage is set for a continuation of the global recovery. In the US, the strength of the labor market continues to beat expectations, with the unemployment rate set to slide to 4.6% by summer. The marked increase in business sentiment since September 2016 is turning into stronger capital goods orders (up by 6% yoy in January). Stronger inflation, projected to be around 2.4% by year's end - on the back of stabilizing oil prices and gently trending up core inflation - will likely dampen households' purchasing power. Yet strong labor income growth and easy financial conditions would cushion the effects on consumption growth. The recent setback suffered by the Trump administration on the healthcare reform has further reduced the likelihood of a far reaching reform of corporate taxation. Nevertheless, we think that more modest tax cuts and limited measures favoring capex will see the light, allowing for a continuation of the current steady growth momentum. We confirm our view of GDP growth by 2.4% and 2.5% respectively this year and the next, while acknowledging that higher political uncertainty has tilted the balance of risks to the downside.

As widely expected, the Fed has increased its target rate in March by 25 bps to 0.75%-1.0%. Given expectations of core inflation gradually passing the 2% threshold before the end of 2017 and higher risks of labor market overheating, we think that the Fed will in the end deliver on its plan of two further 25 bps hikes this year. We expect three hikes for 2018, too.

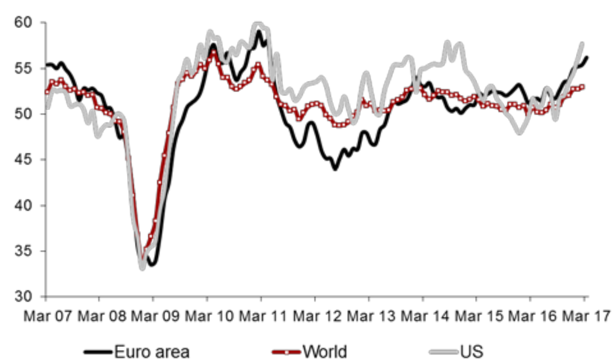
Broad based recovery in the euro area

Strong growth at the start of the year not to persist

Euro area activity indicators surprised on the upside over the last months. Key sentiment indicators like the composite PMI soared to levels not seen since 2011, suggesting that GDP growth strengthened from the 0.4% qoq reported in the last quarter of 2016. In fact, with the global environment having brightened and domestic activity continuing to strengthen, the recovery is broad based. Behind this development stands ongoing employment growth (Q4/2016: +0.3% qoq) which is expected to even accelerate. Likewise, the unemployment rate is trending down, to 9.6% in January. Moreover, the fundamentals for a firming of investment activity are in place. Production expectations are favorable in an environment where capacity utilization is already above normal and financing conditions are still strongly supportive. However, there are also headwinds. First, headline inflation will likely average 1.6% yoy in 2017, considerably higher than the 0.2% yoy recorded in 2016. This will dampen real incomes in an environment of overall muted wage growth. Second, a so called "hard" Brexit has now become the base case and we expect activity in the UK, the euro area's second largest export market, to soften. This and the weakening of the British pound will weigh on export activity. Third, the above mentioned political risks could weigh on confidence. Therefore, we expect activity to moderate over the course of the year and expect growth of 1.6% for 2017 while risks are tilted to the upside.

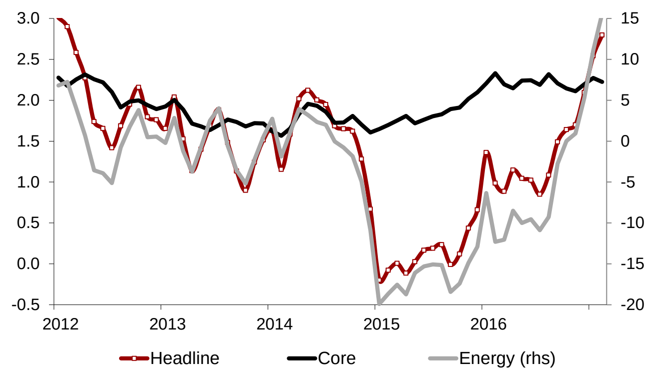
The ECB takes the improved macro outlook with relief. The deflation risk appears off

GLOBAL ACTIVITY: MANUFACTURING PMI



Graph1; index points

US: CPI INFLATION



Graph 2; % change, year on year

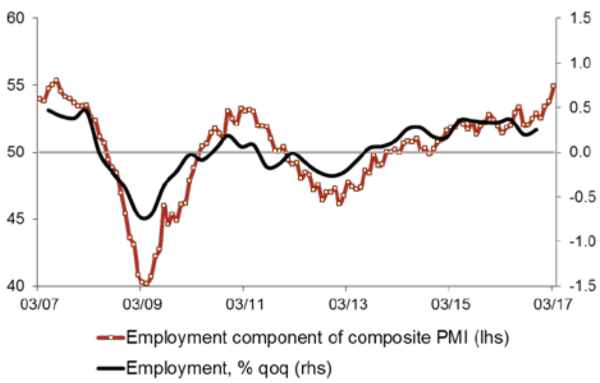
the table now, inflation expectations improved and there is indication that prices will embark on a broadly based uptrend now. But there will still be slack in the economy for the time being and underlying inflation (currently 0.9% yoy) will advance only slowly. Against this backdrop, we expect the ECB to fully implement its QE program in 2017. However, in summer the discussion about tapering will likely start and we expect the ECB to lower the monthly volume of asset purchases from January 2018 on.

China's National People's Congress sent a stability message

China's growth to be stable in H1 2017 and softening only very limitedly thereafter

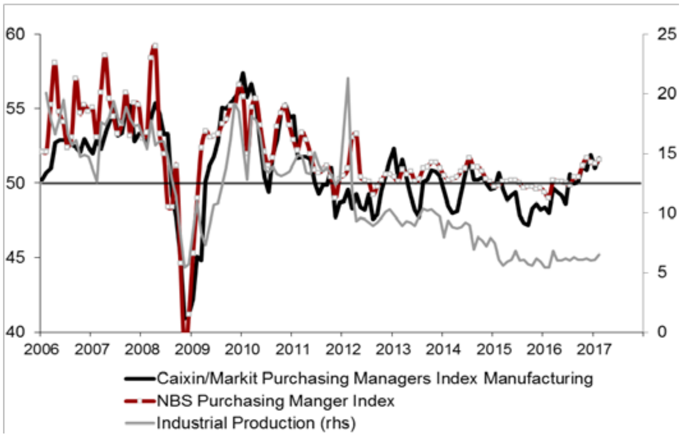
China had a relative robust start into the year, suggesting GDP growth in H1 2017 to remain at similar levels as the 6.7% posted in Q4 2016, and softening only very limitedly later this year. Industrial production as well as investment growth improved compared to the end of 2016. Namely, infrastructure expenditures contributed again markedly, showing the still ongoing fiscal policy support. Real estate outlays also moved up again, accompanied by a re-firming of property sales. Finally, manufacturing PMIs were able to broadly recover again to their December levels, while the PMI new export orders subcomponents suggest a slight improvement in exports, going forward. Thus, China should be able to participate to some extent in the current business cycle upturn in advanced economies, despite very disappointing February export reading. However, the export picture for the broader region is much more mixed. Meanwhile, China's National People's Congress underlined the current decent growth with a strong stability message, ahead of the Communist Party's Congress in late 2017, which is held only every five years. The official growth target was set at 6.5%, but could be even a "bit higher in practice". Monetary policy is intended to be neutral. The BPoC already hiked twice this year its interbank liquidity interest rates by 10 bps each. We see its primary motivation in deleveraging the interbank market and thereby contributing to limit risks, and thus expect further incremental hikes, going forward. However, we do not think that the BPoC wants to rein into the business cycle and thus is unlikely to already increase the benchmark interest rates or the RRR, as inflation appears under control. Fiscal policy will adjust its support according to the ongoing needs over the year, especially if a trade conflict with the US really emerges.

EURO AREA : EMPLOYMENT PROSPECTS



Graph 3;

CHINA: MANUFACTURING PMI AND INDUSTRIAL PRODUCTION GROWTH



Graph 4; index points, in %

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Fixed Income

- **The government bond sell off stalled in Q1. While long-dated US yields trended sideways in the first months of 2017, 10-year Bund yields moved to the upper bound of the trading range.**
- **In the quarter to come, political events will be an important driver for government bond markets. What is more, the more hawkish stance of central banks should ultimately pave the way to moderately higher core yields.**
- **Assuming political earthquakes will be avoided in the second quarter, spreads of European government bonds have leeway to tighten slightly. Consequently, Bunds are seen to underperform most other European bonds.**

No continuation of government bond sell-off in Q1, 10-year transatlantic spread moderately tighter

After rising strongly in the fourth quarter, international government bond yields have trended only slightly up in the first months of the year. While long-dated US yields trended sideways, long-dated Bund yields rose moderately by 20 bps. It is noteworthy that despite higher headline inflation rates on both sides of the Atlantic, inflation expectations did not move further up. In the euro area, long-dated inflation expectations even receded modestly. Consequently, real 10-year US yields did not change substantially in Q1, but real 10-year Bund yields rose considerably from -1.3% to -1.0%. Although this increase is remarkable, on balance, long-dated real Bund yields are still lower than one year ago and well below the long-term average.

The steepness of the yield curves moved in line with expectations. The further key rate hike by the Fed and the outlook for more hikes triggered higher short-term US yields. Hence, the US yield curve flattened in the course of Q1. In contrast, 2-year Bund yields marked a new historical low driven by safe haven flows and the extension of the ECB's QE program to very short-dated bonds. Although they have recovered from the yield lows reached in the mid of March, the 2-year/10-year spread increased around 20 bps in Q1.

Political events in the focus in Q2 2017

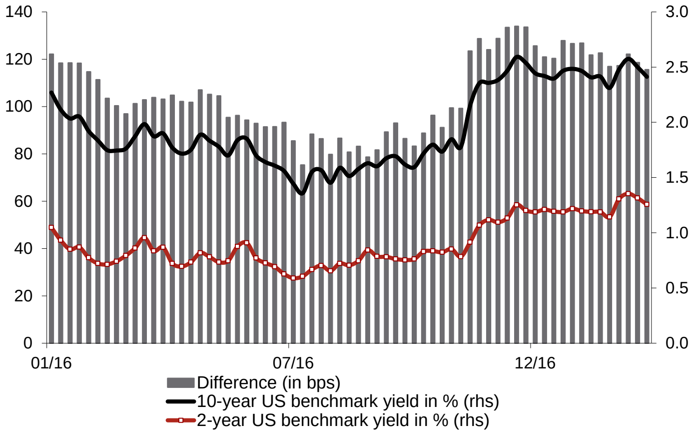
International bond markets hostage of the Presidential elections – at least until May

The political agenda is crowded in the months to come. The most important event is the forthcoming French Presidential election as it has the potential to trigger severe market disruptions. Although it is only a risk scenario, in case Le Pen becomes the next French President and proceeds with the plan to hold a EU/EMU referendum, core yields will fall significantly. In contrast, French OAT yields but also other non-core euro area bond yields will rise strongly. The turmoil will not be limited to government bond markets, but will spill over to other asset classes. While uncertainty will remain high and the roadmap to a potential Frexit is far from clear, the outspoken anti-European stance of Le Pen has the potential to immediately call into question the continuation of the EMU.

In the following, however, we base our outlook on the much more likely case that a centrist candidate becomes president. Notwithstanding high volatility and heavy dependence on polls until the Presidential elections, the way is paved to higher core yields – particularly in the US. The most important factor is the Fed. Financial markets price only three further key rate hikes until the end of 2018. This appears to be too cautious and we forecast five further hikes in the same period (two further hikes in 2017, 3 hikes in 2018). This is in line with the Fed's dots and signals the leeway for adjustment. Although this will mainly impact the short end of the curve (and trigger a further curve flattening), it will spill over to the long end of the curve. In addition, the political and economic uncertainty – the future fiscal and trade policy and other policy initiatives of the new US administrations are still not clearly defined – should drive up the term premium, thereby contributing to higher long-term US yields. In combination with a continuation of the robust economic growth and inflation rates above the 2%

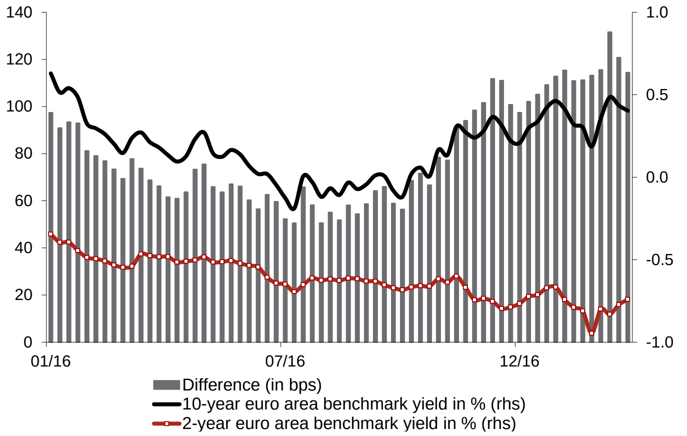
threshold, this is seen to push up yields. On a 3-month horizon, we expect 10-year US yields to climb to 2.55%, on a 12-month horizon they are forecast to rise to 2.95%.

US: SHORT- AND LONG-DATED GOVERNMENT BOND YIELDS



Graph1

EURO AREA: SHORT- AND LONG-DATED GOVERNMENT BOND YIELDS



Graph 2

Assuming a benign French election outcome, euro area core bond yields will continue to rise despite ongoing support by the ECB

This increase will pull along euro area yields as well. Moreover, the election of a centrist candidate in France will trigger the unwinding of some safe haven flows. However, the impact of the ECB on euro area bond markets is less clear. On the one hand, the central bank adopted a more hawkish tone recently and signaled that at some point in time the ultra-accommodative monetary policy will be scaled back. On the other hand, the ECB continues to purchase government bonds according to the normal QE program. After easing the eligibility criteria in December, the ECB will be able to fulfil the target until the end of the year. Though, by the end of the year it will hold more than 30% of all eligible German Bunds. This implies that in the months to come, the scarcity of Bunds will come to the fore again. Still, this is expected to reduce the upside potential for euro area core yields, but – given that the economic recovery is expected to continue – not to change the direction. We forecast 10-year Bund yields to rise to 0.50% and to 0.70% on a 3-month and 12-month horizon, respectively.

Non-core government bonds to catch up after weak start to 2017

Non-core bonds are expected to benefit from a centrist new French president in the short term, but a widespread spread tightening is not on the cards

The uncertain political situation burdened Southern European bonds in Q1. With the exception of Portuguese spreads, the risk premium increased. Taking into account higher Bund yields, it does not come as a surprise that (with the exception of Portuguese bonds) peripheral bonds have yielded negative total returns year-to-date.

Going forward, peripheral spreads will remain hostage to the French presidential election polls. Assuming, a centrist candidate will ultimately prevail, the forecast OAT/Bund spread tightening will also spill over to Southern European bonds. What is more, the ECB will take down the complete net issuance of euro area countries in 2017. Even next year (assuming the ECB will wind down bond purchases completely until the end of 2018), the bulk of the net issuance will be absorbed by the central bank. However, the expected normalization of the monetary policy will weigh on peripheral bonds.

On balance, peripheral bond spreads are seen to drift slightly in the second quarter. Looking further down the road, the risk premium is likely to rise moderately. This means that the carry will be eaten up by the price losses and a positive total return is unlikely to be achieved. However, euro area non-core bonds should still perform better than euro area core bonds.

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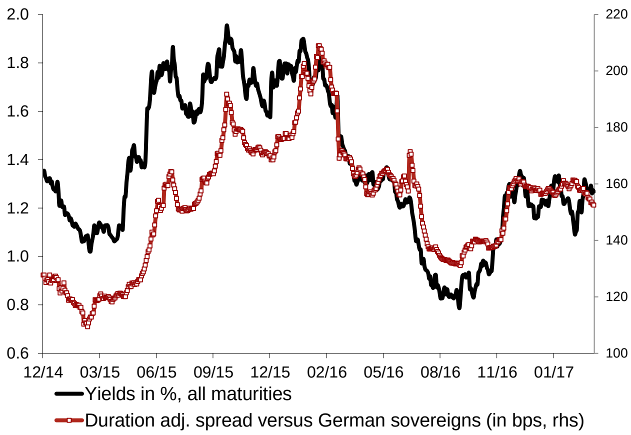
Corporate Bonds

- **Since the start of the year, euro area and US corporate bond spreads have moved sideways in a tight trading range. As a US tax reform is not on the cards in the short run, euro area corporates are to be preferred versus US ones.**
- **Current concerns about an early tapering of the ECB's QE programme appear overdone. For the time being, the central bank will remain an important support factor – particularly for euro area non-financial bonds.**
- **On Financials, we expect French names to reverse the underperformance suffered in Q1 as we consider a victory by Ms. Le Pen as unlikely. Subordinated Financials should continue to outperform in an environment of rising yields.**

Euro area and US corporate bond spreads moving in tandem again since the start of the year

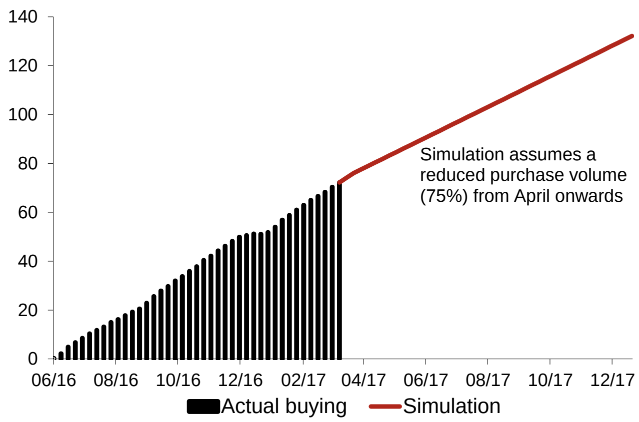
While the last quarter of 2016 was characterized by a strong divergence of euro area and US IG corporate bond spreads, they have synchronized much more again since the start of the year. On balance, euro area spreads tightened by 6 bps to 152 bps and US spreads narrowed from 110 bps to 108 bps. Noteworthy, spreads moved in a very tight range, thereby signaling the stability of the asset class already apparent over the recent years. The performance of corporate bonds was mainly driven by the underlying government bonds. Overall, while euro area corporates lost -0.1% year-to-date, US corporates have benefited from the higher carry and the relatively better performance of US sovereigns, returning 1.4% since the start of the year.

IBOXX EURO AREA CORPORATES



Graph1

ECB: CSPP HOLDINGS



Graph 2; in bn EUR, weekly data

On balance, euro area corporate spreads to tighten in the course of Q2 – assuming Le Pen does not win the elections

Going forward, the transatlantic spread tightening trend established in March is expected to continue. Euro area defaults are on a low and declining trend. Moreover, the rating drift in Europe has risen to a long-term high in Q1. In addition, the election of a centrist candidate remains the base case for the French presidential election. This was reinforced by the result of the Dutch election which signaled a re-strengthening of pro-European parties. In this case, corporate bonds will respond with relief.

Only in case the new US administration pressed ahead with the corporate tax reform in the short run (which is not our base case), the transatlantic spread could widen again. If tax rates are significantly lowered, US corporates would have a strong incentive to deleverage. The resulting decrease in future supply and the more attractive valuation would trigger a moderate US spread tightening from already very low levels.

CSPP continues to support euro area IG non-financials in Q2

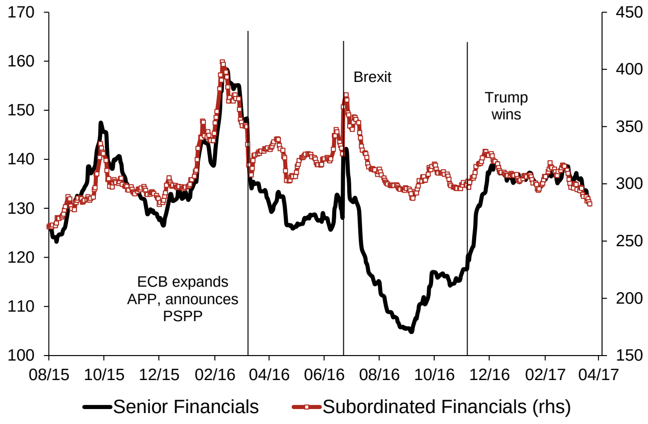
Given the more hawkish rhetoric by the ECB, there are concerns that the central bank will phase out its QE programme early. We do not share this view and expect the

ECB to remain an important support for euro area IG corporate bonds for the time being

ECB to continue the Corporate Sector Purchase Programme (CSPP). In fact, given the scarcity of government bonds, the central bank could even keep the monthly amount constant – despite the forthcoming reduction of the overall volume to € 60bn. Even assuming monthly purchases are reduced proportionally, the ECB will still absorb nearly three quarters of the overall net issuance of non-financials in 2017. This will be an important support as net issuance will remain positive in the months to come and the inflow into this asset class has fallen into negative territory in Q1.

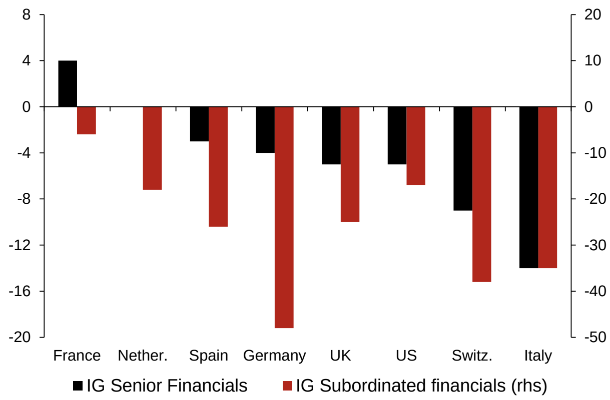
All in, non-financial corporate bond spreads have leeway to tighten moderately on a 3-month horizon. However, the total return will remain meager as the trend towards higher sovereign yields is likely to prevail.

IBOXX EURO AREA IG FINANCIALS



Graph1; Spread vs German Bund (duration adj), in bps

EURO AREA FINANCIALS: BREAKDOWN BY COUNTRY



Graph 2; Year-to-date change in duration-adjusted spread, in bps

French Financials to outperform should Le Pen lose the run-off

In the first quarter of 2017, EUR-denominated IG Senior Financial bonds performed marginally better than non-financial ones, though the total return was negative (-0.17%, iBoxx index) due to the rise in the underlying Bund yields (+15 bps). The duration-adjusted spread tightened slightly (from 135 to 131 bps) as the very positive growth momentum and low market volatility offset the impact of rising sovereign spreads. Subordinated financial bonds outperformed again (+1.38% total return year-to-date), as the reduced risks of deflation and the successful completion of Unicredit's capital issuance eased market concerns over banks' profitability and pushed the duration-adjusted spread over Bund down by 25 bps to 282 bps.

French Financials should reverse the underperformance suffered year-to-date amid the risks from French elections

Market concerns over a possible victory of Ms. Le Pen in the upcoming presidential elections contributed to the underperformance of French names, both in the Senior (spread up by 4 bps) and the Subordinated arena (spread down by only 6 bps). Barring a victory of Ms. Le Pen, we expect this underperformance to be reversed in the course of the second quarter. The total return performance for Senior Financials will continue to be driven by the underlying yield component, as we expect the duration-adjusted spread to remain broadly flat over the next quarter (forecast: 130 bps), before rising slightly (12M forecast: 140 bps) amid the ongoing political risks in the euro area (Italian elections in late Q1 2018). Subordinated Financials look somewhat expensive but can continue to outperform Senior bonds.

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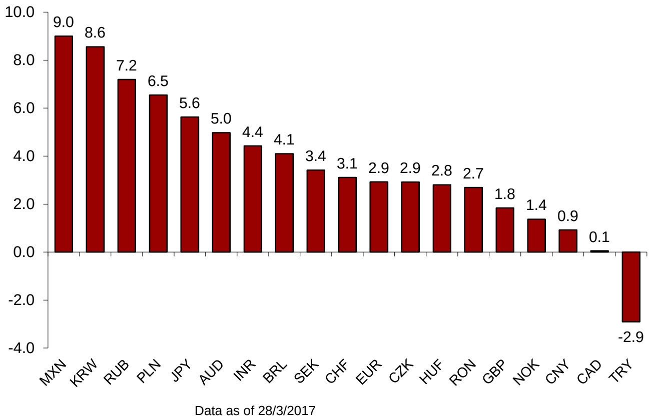
Currencies

- **Following the strong rise in the aftermath of the US presidential elections, the US dollar pared large parts of these gains during the first months of this year.**
- **Looking ahead, we caution against writing off US dollar strength too soon. With the pace of US monetary policy tightening currently underpriced by markets, we anticipate some renewed strength to kick in over the coming months.**
- **Going into the second half of this year, however, an increased focus on QE tapering by the ECB in 2018 and the elevated current account surplus in the euro area will likely help the euro to bottom.**
- **The Chinese yuan is likely to resume its trend weakening against the US dollar, even though markets are right to not price any sharp devaluation of the Chinese currency.**

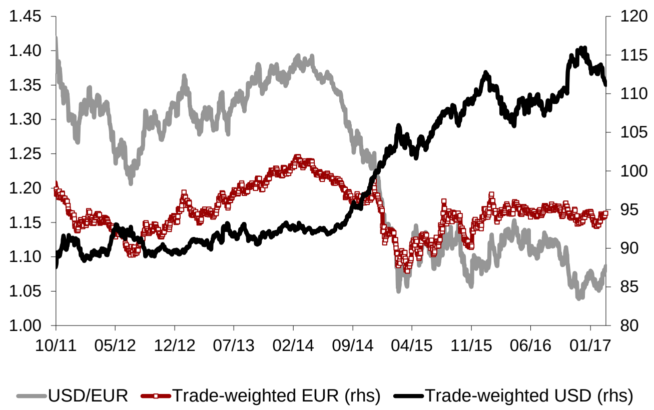
Following the broad rise after the US presidential elections, the US dollar pared large parts of these gains during the first months of this year. The Greenback weakened by 3% against the euro and by more than 5% against the yen year-to-date. Also most EM currencies – with the notable exception of the Turkish lira – regained ground. The Chinese yuan, which had lost more than 6% against the US dollar last year, has strengthened slightly.

FX PERFORMANCE YEAR-TO-DATE



Graph 1; vs. US dollar since Dec. 30, in %

US DOLLAR AND EURO



Graph 2; trade-weighted indices: 01/2005 = 100

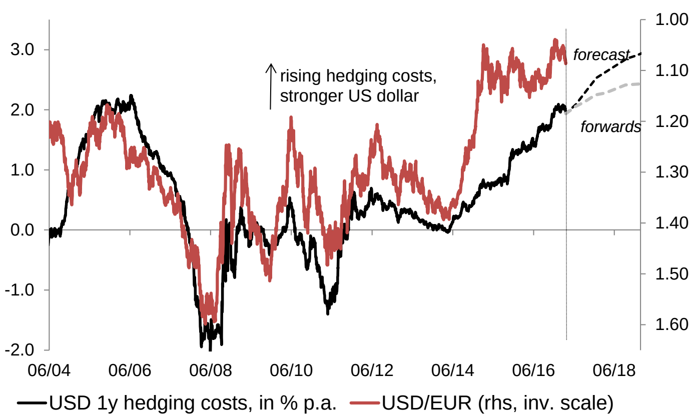
USD underpinned by the Fed

The US dollar is underpinned by the Fed's rate normalization, but is vulnerable to disappointment on Trump's pro-growth fiscal plans

The poor performance of the US dollar over recent months was to a large extent the result of mounting doubts about the ability of US President Trump to bring his announced pro-growth fiscal policy through Congress. The inability to secure a majority in the Republican House of Represenative in March for a reform of Obamacare has dealt a blow to the far-reaching tax reform plans of the new Administration. In Europe, rising yields – both at the short and longer end – and lower ones in the US have additionally helped the EUR/USD higher.

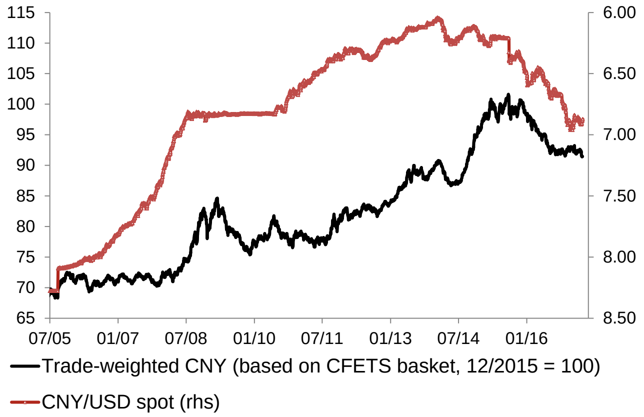
Near term, however, we would not write off US dollar strength too soon. Following the rate hike by the Fed in March, markets quickly unwound expectations of further rate hikes in the US, surprised by barely changed Fed projections ('dots'), which continue to foresee a total of three rate hikes both this year and next. We deem these projections realistic amid rising inflation and solid US growth, while markets are much more reluctant, pricing in only one more hike until year-end. These sanguine expectations are prone for correction over the coming months, supporting the Greenback against most other currencies. Higher US rates and a still very accommodative ECB also imply that the costs of hedging USD exposure into euros will continue to rise, from around 2% currently for 1-year contracts to 2.6% by year-end, erasing most yield benefits from holding exposure to US Treasuries on a FX hedged basis.

COSTS OF HEDGING USD EXPOSURE INTO EUR



Graph 3

CHINESE YUAN



Graph 4

Further out in H2, however, we anticipate the euro to bottom. The tapering of the ECB's asset purchase program in 2018 will come more strongly in investors' focus. And the euro area's current account surplus (3.5% of GDP) contrasts the US C/A deficit of 2.6%. And while worries about political risks in Italy may persist, the likely election of reform-minded candidate Emmanuel Macron as French president will help to soothe current market fears about a Frexit-referendum.

Weaker pound, yen and yuan

British pound remains burdened by Brexit and large current account deficit

The start of Brexit negotiation and repercussions on the British economy will likely keep the weakening trend for the British pound intact. The UK's still high C/A deficit of 5% of GDP leaves sterling still vulnerable to swings in portfolio inflows. We also expect the recent recovery of the Japanese yen to prove rather short-lived. The Bank of Japan will stick to its yield curve control at least until the end of the year. Higher US yields will therefore also widen the yield gap between the US and Japan, sending the JPY/USD weaker again. In Central and Eastern Europe, the Czech National Bank (CNB) is likely to drop its cap of the Czech koruna. This may lead to higher CZK/EUR volatility short-term. In the medium term, however, the tendency of CZK appreciation is likely to prevail.

China will let its currency weaken further against the US dollar

While the Chinese yuan has held up well over the course of this year, we anticipate a gradual weakening process to set in again over the course of this year. The Chinese government is eager to keep the trade-weighted exchange rate stable for longer, extending the sideways move since mid last year (see Graph 4). With the US dollar likely to rise again not only vs. the yen but also various EM currencies on higher US rates, the People's Bank of China is likely to allow the yuan to gradually weaken against the Greenback. We forecast a level of 7.30 CNY/USD over the next 12 months.

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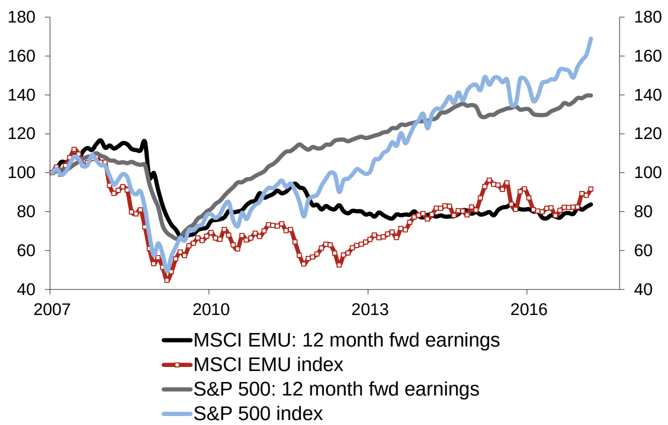
Equities

- **The cyclical and synchronized upturn should prevail over risks and continue to support equities.**
- **We forecast slightly positive total return on a 12-month horizon backed by decent earnings growth which keeps the dividend yields sustainable (3.2% in the euro area).**
- **We maintain our preference for the riskier and most cyclical equity markets – the euro area (EA) and Japan, remaining neutral on EMs. High US valuations will be at risk in the next quarters due to higher wages growth and Fed's policy.**
- **We remain constructive on Emerging Markets (EM) on a medium-term view. We favor India, CEE, and Korea.**
- **Risks: higher than expected yields, Chinese outflows and European political uncertainty to weigh on market multiples.**

The broadening macro support across sectors and countries is to continue favoring nominal cash flow growth

Notwithstanding the positive total return achieved year-to-date (YTD, +6% for the MSCI World), we remain constructive on equities, forecasting slightly positive returns on a 12-month horizon. We maintain our preference for the riskier and cyclical equity markets - the EA and Japan, remaining neutral on EMs. The more defensive S&P 500 and the SMI indexes should underperform. After the global synchronized upswing gained visibility and growth fears receded, we prefer long positions on cyclical assets whose valuations are relatively cheap and supported by dovish monetary policies. The supportive macro backdrop and possible higher yields ahead could favor in time a rotation from bonds and cash into equities. The political uncertainty, a stronger dollar, increasing protectionism, an acceleration of Chinese capital outflows and, most of all, higher than expected US yields could also limit the equity upside and cause temporary set-backs. Some investors have flagged the very low volatility as an additional source of concern, which we do not share. Improved macro outlook, contained exogenous risks, lower sector correlation and central banks' QE contributed to pushing volatility to cyclical lows. History shows volatility can stay low for prolonged periods, favoring risky assets' performance. As macro conditions stay upbeat and the upside for both the US dollar and the Libor spread limited, our model predicts equity volatility to normalize gradually towards 15% in one year (median level over the last 5 years).

PRICE AND EARNINGS PERFORMANCE



Graph 1; (01/01/2007 = 100)

ANALYSIS OF THE MEDIAN STOCK

Median stock	Earnings Growth Q3 2016	Earnings Growth Q4 2016	Sales Growth Q3 2016	Sales Growth Q4 2016
S&P	8.7 %	8.2 %	2.9 %	4.2 %
Stoxx	8.5 %	7.2 %	1.2 %	5.1 %
Euro Stoxx	5.8 %	5.1 %	0.8 %	5.2 %
Topix	3.9 %	12.5 %	(1.6)%	0.1 %

Median stock	Earnings Surpr Q3 2016	Earnings Surpr Q4 2016	Sales Surpr Q3 2016	Sales Surpr Q4 2016
S&P	3.1 %	2.4 %	0.2 %	0.2 %
Stoxx	2.7 %	1.7 %	(0.2)%	0.9 %
Euro Stoxx	2.2 %	0.8 %	(0.2)%	1.2 %
Topix	5.1 %	14.2 %	(1.7)%	(0.6)%

Table 1

Cyclical upturn to prevail over risks: Equities are favored

In the quarter the total return for the US, EMs, and Switzerland outpaced slightly the more cyclical ones such as the EA and Japan. For the latter to clearly outperform, investors need to see higher bond yields backing up confidence in a higher growth momentum and increasing pricing power by corporates. On the contrary, 10-year rates

We expect EA earnings to recover at +8% yoy; the next reporting season should not disappoint due to a favorable base effect, high confidence indicators and good US NIPA profits momentum

have been stable and even declining in the last weeks with the yen strengthening: The US core inflation has so far remained contained and both a lower oil price and the US political impasse have recently produced a risk-off sentiment. That said, we think the broadening macro support across sectors and countries will continue to favor nominal cash flow growth and, in the mid-term, corporate investments. “Free” cash flow yields are in-creasing (4.5% in the EA and 5.2% in the US), as a result of improving earnings amid subdued capex. For 2017, we expect EA earnings to recover at +8% yoy due to higher capacity utilization, margins, and ROE. The Q4 reporting season has already showed good yearly earnings growth and a noticeable increase of the sales growth in the EA. The next reporting season should not disappoint, too, due to a favorable base effect, high confidence indicators, and good US NIPA profits momentum. Attractive dividend yields and rising earnings provide for moderate equity gains on a 12-month view.

Regional markets and sectors: still overweight Japan and the EA

We prefer Japan and the EA over the defensive Switzerland and the expensive US, maintaining a slight overweight on UK and keeping EM neutral. Inside Europe, we fa-

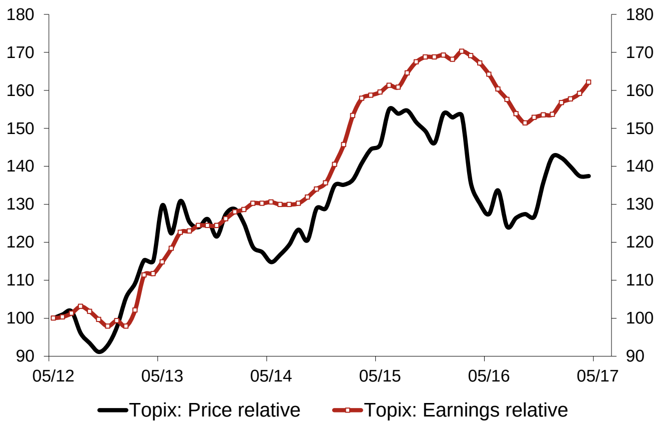
EQUITY MARKETS VALUATION DASHBOARD

Markets	PE		PB		PCF		DY		Avg.	Avg.
	12m f	Discount	12m f	Discount	12m f	Discount	12m f	Discount	Discount	Disc. (-3M)
USA	17.6	15.7	2.8	21.9	11.6	20.1	2.1	-2.7	15.1	13.3
JAPAN	13.9	-11.6	1.2	-4.9	7.6	8.5	2.2	15.0	-5.8	-12.0
UK	14.2	2.7	1.8	-2.6	8.8	12.7	4.3	7.6	1.3	0.7
SWITZERLAND	16.7	9.0	2.3	4.6	12.7	14.3	3.6	10.4	4.4	1.4
EMU	14.9	5.1	1.6	4.7	8.1	29.3	3.2	-17.0	14.0	9.8
FRANCE	14.6	1.8	1.5	0.7	8.6	28.2	3.4	-10.0	10.2	8.5
GERMANY	13.8	-8.4	1.7	14.1	8.5	31.0	3.0	-12.2	12.3	10.4
GREECE	13.2	3.5	1.4	-8.1	7.0	19.4	3.4	-12.0	6.7	12.8
ITALY	13.1	-14.5	1.0	-16.4	5.0	9.5	4.2	-10.4	-2.8	-3.9
PORTUGAL	15.6	25.2	1.7	0.5	6.4	10.1	4.6	2.2	8.4	10.3
SPAIN	14.0	8.2	1.3	-21.9	5.4	7.2	3.9	-25.4	4.7	-2.2
EURO STOXX 50	14.3	8.0	1.5	4.6	7.9	32.2	3.6	-16.4	15.3	12.4
STOXX SMALL	16.3	15.8	1.8	7.8	8.4	5.5	2.8	-11.3	10.1	5.8
EM, $	12.3	-15.6	1.5	-8.0	7.7	-0.2	2.7	-22.3	-0.4	-6.6
BRAZIL	11.3	28.6	1.4	-15.8	6.8	-53.1	3.7	-16.1	-6.1	-5.7
RUSSIA	5.6	-21.6	0.6	-31.7	3.5	-25.0	5.4	58.0	-34.1	-27.4
INDIA	17.5	23.2	2.7	1.0	11.8	2.9	1.6	-0.5	6.9	-2.8
CHINA	12.4	-4.9	1.5	-14.3	7.9	5.9	2.2	-27.9	3.6	-5.8

Note: Discount in % to long-run norm; blue and negative numbers = undervaluation. Red and pos. numbers = overvaluation; PEs are since 1987, the rest is since 2003. In case of DY, a discount means the market had a higher DY, meaning the market is at premium for this multiple. 12m f = expected in 12 months
Source: Thomson Reuters Datastream, IBES estimates.

Table 2

TOPIX: RELATIVE TO MSCI WORLD



Graph 2

vor value-cyclical sectors, including financials and telecoms, while staying short sta-ples and defensives and being neutral on commodity sectors. The EA is characterized by higher political risk but it is supported by stabilizing profits, lower cost of debt and valuations (including our fair value equity models) and a dovish ECB. Current EA mul-tiples are at the top of the range since 2007 but PEs, in particular, are still about aver-age over a longer term horizon. The financial crisis and the deflationary spirals are calming down due to aggressive monetary policies, thus backing higher market multi-ples. Japan enjoys the current global recovery thanks to its highly cyclical com-position, supported by expansionary fiscal policies and a continued dovish BoJ. The latter favors a weaker JPY/USD (at 120 in 12 months), also thanks to a more hawkish Fed. Valuations remain affordable and earnings susceptible to positive revisions. The Japanese price earnings (using 12-month forward earnings forecast) is 13.9X versus 17.6X for the US.

Japan is to benefit from the current global recovery thanks to its highly cyclical composition, a weaker yen, and lower valuations

In the US, due to an improving US macro momentum the NIPA profits experienced a V-shaped recovery and margins improved temporarily. Firms started a restructuring activity in early 2016 which is helping, too. We expect an earnings growth of 5% for this year. A full implementation of the Trump program could add to the profit growth (around +5%) but a stronger dollar and higher wages and yields should represent a cap. US valuation is stretched. The US CAPE is 25X vs. a historical average of 20X.

The 12-month forward PE is near 18X - a premium of 16% to history. While short-term risks look contained due to very low real 10-year rates, high valuations will be at risk in the next quarters due to higher wage costs, possible political impasses and Fed's monetary policy. Given our projections for 10-year rates and headline inflation, a fair value for the index would be 2,170-2,270, coherently to the past implied risk premium when inflation was between 2% and 4%.

EM: remain constructive mid-term but neutral in the short run

A tighter US monetary policy should put pressure on EM stocks in the short term

Emerging markets (EM) have rallied YTD, outperforming the MSCI World by 6.7 pp. This was due to improving macro conditions, decreasing yields and spreads, cheaper valuations, increasing earnings momentum and low positioning. The current earnings momentum is to be further supported by better macro surprises and improving world trade recovery. Higher oil and commodity prices have enhanced the external and fiscal balances of most EM economies. Nonetheless, as higher US yields usually pull investors away from EM assets, a tighter US monetary policy should put pressure on EM stocks in the next months. Based on multiples, the EM stocks have turned fairly valued. Risks come from possible US trade protectionism and a strong US dollar.

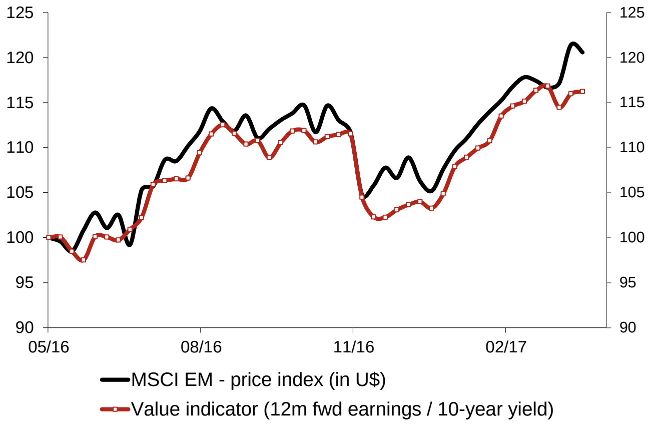
US CAPE-BASED VALUATION (ADJUSTED FOR INFLATION)

	10Y	CPI	Real 10Y Rate	
Scenario 1 (Current market input)	2.60	2.50	0.10	
Scenario 2 (Forecast)	2.95	2.30	0.65	
	Scen. 1a	**Scen. 1b**	**Scen. 2a**	**Scen. 2b**
Current (e/p - 10y real)	**4.8**	**5.1**	**4.3**	**4.5**
Target (e/p - 10y real), during low CPI periods*	**4.7**	**4.7**	**4.7**	**4.7**
EPS estimate (123$ - Generali, 129$ - IBES)	**123**	**129**	**123**	**129**
Avg S&P500 valuation	**2,414**	**2,532**	**2,168**	**2,273**
	2.3%	**7.3%**	**-8.2%**	**-3.7%**
Implied PE Shiller series	**20.7**	**20.7**	**18.6**	**18.6**
Implied PE Trailing IBES	**20.1**	**21.0**	**18.0**	**18.9**
Implied PE 12m fwd IBES	**18.1**	**19.0**	**16.3**	**17.1**

Note: Target ERP is calculated assuming CPI in the range b/w 1% and 4%.

Table 3

MSCI EM INDEX: VALUE INDICATOR



Graph 3; using hard currency yield for bonds

The value momentum for the Chinese market indicates the market to be fairly valued but relative to the EMs the market has outrun its earnings quite appreciably. While, following the surge of China's industrial profits, the earnings upgrades are to be expected, the risks of NPL (non-performing loans) for banks should be mentioned as well. Furthermore, the market's PE is not consistent with its long-term earnings growth and the market is not supported by money supply anymore. Lastly, Chinese valuations are at a premium of 3.6% versus its own history (Korea's discount is 12%). In India, both fundamentals and the monetary policy remain supportive along with higher corporate margins, as compared to the EM average. Coherently to this picture, the results of our models show an upside of around 10%. Along with India, we also favor Korea (increasing margins and attractive valuation) as well as smaller CEE countries (showing resilient/increasing earnings).

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Asset Allocation

- **The development on financial markets is currently dominated by surprisingly strong macroeconomic data on the positive side and rising political uncertainties in Europe as well as in the US on the negative side.**
- **Against the backdrop of solid macro data, the Fed is expected to deliver at least another two hikes in 2017, whereas the ECB will cling to its accommodative stance for the time being.**
- **Rising inflation and Fed hikes are assumed to materialize in higher Treasury yields. That said, the potential for euro area yields to follow this trend appears limited due to the ECB and a persistent output gap. Equities in the euro area are expected to generate moderately positive returns.**
- **Thus, from a total return perspective we favor real assets and higher yielding bonds in the euro area amid a generally challenging environment for debt exposure.**

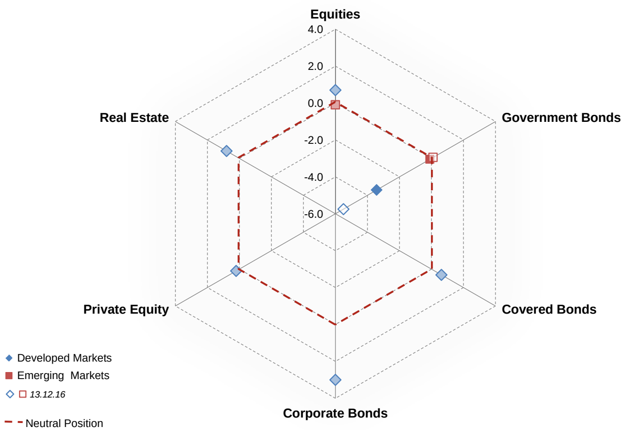
Strong economic data versus high number of potential political trouble spots

Currently, rebounding and positively surprising macro data are not only hinting towards a global recovery. Even first moderate signs of the global economy entering the phase of expansion can be seen according to OECD leading indicators. The improvement in global momentum, led by developed markets, is broad-based. Having said that, there are an unusual high number of potential political trouble spots, most prominently the election in France and the reality check of Trump's policies.

Yields to rise gradually on solid data

According to historical findings, economic expansion phases are typically attended by rising equities and higher yields. The latter effect is additionally intensyfied by rising inflation and Fed rate hikes, paving the way for rising yields in general. Indeed, we concider this yield effect to be primarily constrained to the US. For the euro area, the accommodative ECB and a persistent output gap should keep the leeway for higher yields quite constrained.

MODELPORTFOLIO: TAA – RADAR SCREEN



Graph1; active positions in percentage points

Favor equities and higher yielding bonds of the euro area

From a total return perspective, we thus favor real assets – most notably equities – and higher yielding bonds with a clear focus on the euro area, acknowledging the ongoing difficult conditions for fixed income exposure due to very low but gradually rising yields. We consider the political risks – arising first and foremost from the elections in France and the reality check of Trump's policies – to be dominated by the strong macroeconomic backdrop.

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Forecasts

GROWTH

	2015	2016e	2017f	2018f
US	2.6	1.6	2.4	2.5
Euro area	1.9	1.7	1.6	1.4
Germany	1.5	1.7	1.6	1.4
France	1.2	1.1	1.2	1.3
Italy	0.6	0.9	0.6	0.6
Non-EMU	2.4	2.1	1.7	1.5
UK	2.2	2.0	1.5	1.3
Switzerland	0.8	1.4	1.6	1.4
Japan	1.2	1.0	1.1	0.8
Asia ex Japan	6.2	6.0	6.0	5.9
China	6.9	6.7	6.5	6.2
CEE	0.2	1.0	2.3	2.9
Latin America	- 0.4	- 1.4	0.9	1.9
World	**3.4**	**3.1**	**3.4**	**3.5**

INFLATION

	2015	2016f	2017f	2018f
US	0.1	1.3	2.3	2.5
Euro area	0.0	0.2	1.6	1.5
Germany	0.1	0.4	1.8	1.7
France	0.1	0.3	1.5	1.3
Italy	0.1	- 0.1	1.2	1.0
Non-EMU	0.1	0.7	2.6	2.7
UK	0.0	0.7	3.0	2.9
Switzerland	- 1.1	- 0.4	0.4	0.8
Japan	0.8	- 0.1	0.7	0.8
Asia ex Japan	2.4	2.7	2.7	3.1
China	1.4	2.1	2.3	2.3
CEE	9.3	5.2	4.9	4.5
Latin America	6.2	6.2	4.5	3.9
World	**2.3**	**2.4**	**2.7**	**2.8**

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

FINANCIAL MARKETS

3-month LIBOR	**Current**	**3M**	**6M**	**12M**
USD	1.15	1.40	1.55	1.90
EUR	-0.36	-0.35	-0.35	-0.30
JPY	0.02	0.00	0.00	0.05
GBP	0.34	0.40	0.40	0.40
CHF	-0.73	-0.75	-0.75	-0.75
10Y Government Bonds	**Current**	**3M**	**6M**	**12M**
US	2.41	2.55	2.65	2.95
Euro-Area	0.42	0.50	0.55	0.70
France	1.03	1.05	1.05	1.20
Italy	2.43	2.45	2.50	2.60
Japan	0.06	0.10	0.10	0.15
UK	1.20	1.25	1.30	1.45
Switzerland	-0.03	0.00	0.05	0.20
10Y Spreads	**Current**	**3M**	**6M**	**12M**
Covered Bonds	85	80	85	85
GIIPS	169	165	170	175
Corporate Bond Spreads	**Current**	**3M**	**6M**	**12M**
IBOXX Non-Financial	142	135	140	145
IBOXX Sen-Financial	131	130	135	140

EM Gvt. Bonds Spreads	**Current**	**3M**	**6M**	**12M**
Latin America	434	440	445	450
Asia ex Japan	169	180	190	205
CEE	138	140	140	140
Forex	**Current**	**3M**	**6M**	**12M**
USD/EUR	1.08	1.05	1.07	1.09
JPY/USD	111	113	115	120
JPY/EUR	120	119	123	131
USD/GBP	1.25	1.19	1.20	1.21
GBP/EUR	0.86	0.88	0.89	0.90
CHF/EUR	1.07	1.07	1.08	1.09
Equities	**Current**	**3M**	**6M**	**12M**
S&P500	2346	2345	2340	2320
MSCI EMU	120.2	120.5	121.0	121.0
TOPIX	1535	1545	1555	1560
FTSE	7334	7360	7355	7355
SMI	8603	8535	8565	8575

As of 24.03.17 (3-Day-Average)

FORECAST-INTERVAL* – 3-MONTHS HORIZON

Government Bonds (10Y)	US	2.19	2.55	2.91
	Germany	0.44	0.50	0.56
	UK	1.07	1.25	1.43
	Switzerland	-0.02	0.00	0.02
Spreads	10Y-GIIPS Spread	137	165	193
	EUR Covered Bond Spread	66	80	94
	EM Latin America Spread	383	440	497
	EM Asia Spread	156	180	204
	EM Europe Spread	116	140	164
	Euro Corporate Spread (Non-Fin)	119	135	151
	Euro Corporate Spread (Sen-Fin)	115	130	145
Forex	USD/EUR	1.02	1.05	1.08
	JPY/USD	108	113	118
	GBP/EUR	0.85	0.88	0.91
	CHF/EUR	1.04	1.07	1.10
Equities	S&P500	2,244	2,345	2,446
	MSCI EMU	113.2	120.5	127.8
	TOPIX	1,430	1,545	1,660
	FTSE 100	6,999	7,360	7,721
	SMI	8,134	8,535	8,936

FORECAST-INTERVAL* – 12-MONTHS HORIZON

Government Bonds (10Y)	US	2.28	2.95	3.62
	Germany	0.57	0.70	0.83
	UK	1.10	1.45	1.80
	Switzerland	0.17	0.20	0.23
Spreads	10Y-GIIPS Spread	122	175	228
	EUR Covered Bond Spread	61	85	109
	EM Latin America Spread	327	450	573
	EM Asia Spread	149	205	261
	EM Europe Spread	93	140	187
	Euro Corporate Spread (Non-Fin)	115	145	175
	Euro Corporate Spread (Sen-Fin)	111	140	169
Forex	USD/EUR	1.02	1.09	1.16
	JPY/USD	110	120	130
	GBP/EUR	0.84	0.90	0.96
	CHF/EUR	1.04	1.09	1.14
Equities	S&P500	2,126	2,320	2,514
	MSCI EMU	106.3	121.0	135.7
	TOPIX	1,310	1,560	1,810
	FTSE 100	6,675	7,355	8,035
	SMI	7,754	8,575	9,396

* 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 1 month forecast. The length of the bars within each asset group is proportional to the relative deviations from their mean forecasts.

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