GENERALI INVESTMENTS

Market Perspectives

November 2017

Content

Global View

Thomas Hempell

- **The global goldilocks environment (robust synchronized global growth, muted inflation) will continue to provide a favorable macro backdrop for financial markets.**
- **With the major central banks proceeding on their path towards monetary policy normalization, global core yields will remain on an upward trend, while risky assets seem set to hold up well.**
- **However, with the risks of a hawkish repricing of Fed rate expectations rising and valuations in some segments stretched, we favor a reduced overweight in risky assets for the coming weeks.**

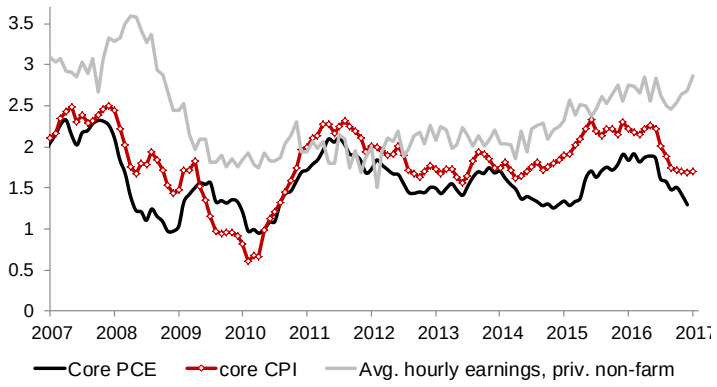
The global macroeconomic backdrop remains benign. Increasingly carried by domestic demand in the advanced economies, the global synchronized expansion appears robust enough to extend further over the coming months.

Meanwhile, inflation will remain low. Deflation fears prevailing last year are overcome, but underlying inflationary pressures in the advanced economies still struggle to accelerate. In the euro area, headline inflation rates are about to fall somewhat over the coming months on base effects from the rise in oil prices in late 2016. Underlying price pressures, however, will continue to recover, albeit at a very modest pace.

This will allow the ECB to proceed very gradually with its monetary policy normalization. As announced on Oct. 26, the ECB will cut its monthly asset purchases from € 60 bn/month to € 30 bn for the period between January and September 2018, maintaining the option of a further prolongation. The ECB has affirmed its commitment to keep rates low for longer, both via its nine-month extension of QE and the pledge to keep rates at current levels "well past the horizon of the net asset purchases". A first hike is thus unlikely before 2019.

US inflation and earnings

in %yoy



This will be important in particular in two regards. First, despite a gradual increase in global bond yields, euro area front-end rates will remain well anchored, favoring a steepening of the yield curve. Second, after soaring over summer, the strength of the euro will be capped over the coming months.

Increased risks for markets to reprice Fed outlook

Also in the US, inflation continues to undershoot the Fed's target, with core PCE inflation (at 1.3% yoy in August) well below the Fed's 2% target. These low readings owe much to transitory effects, though. Alternative underlying inflation measures point to stronger price pressures in the pipeline, while there are mounting signs that the tight labor market is translating into more visible wage growth (with hourly earnings growing at 2.9% yoy in Sept., see chart). In our base case, we anticipate a stronger pickup in core inflation rates in 2018. However, given that markets are still too sanguine on the Fed (anticipating only two hikes by end-2018 while we expect three to four), upside surprises on US inflation may easily trigger more hawkish Fed expectations to the detriment of overall risk sentiment.

Bonds	**26/10/17***	**3M**	**6M**	**12M**
10-Year Treasuries	2.44	2.55	2.65	2.80
10-Year Bunds	0.46	0.55	0.65	0.80
Corporate Bonds				
IBOXX Corp. Non Fin	121	115	120	130
IBOXX Corp. Sen. Fin	109	110	120	120
Forex				
EUR/USD	1.18	1.16	1.16	1.22
USD/JPY	114	115	117	119
Equities				
S&P500	2562	2525	2510	2535
MSCI EMU	128.3	128.5	128.5	130.5

* avg. of last three trading days

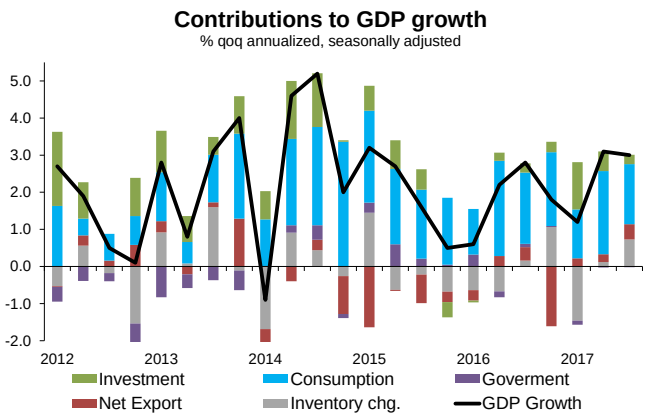
Lower over-exposure to risky assets

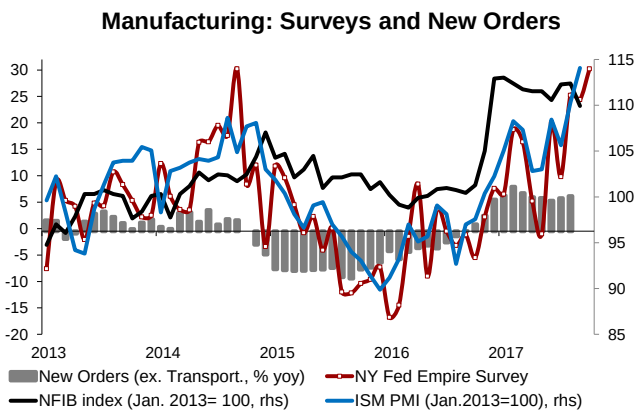
Regarding the asset allocation, the benign global macro setting still favors an overweight in riskier assets in particular in Europe at the expense of a lower portfolio exposure to safe-haven bonds. With core government bonds yielding low returns and suffering from yield increases, euro area IG corporate bonds should outperform thanks to a stable carry. Equities are likely to hold up well on a total return basis in the euro area and Japan.

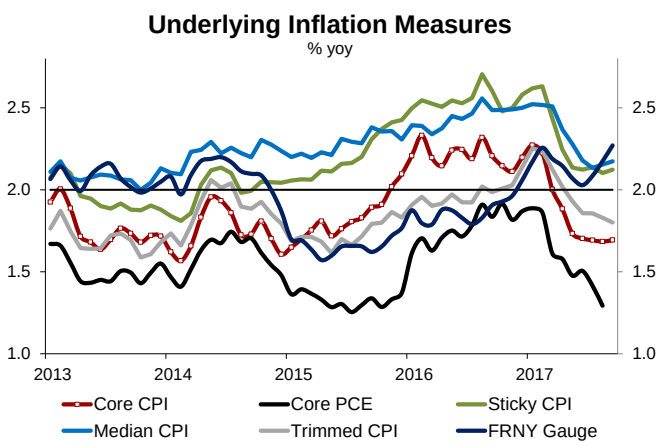
With equity valuations already stretched in the US and High Yield spreads very compressed, the risks of corrections have increased. One trigger could be the risk of a hawkish re-pricing of the Fed outlook by markets. We thus favor to reduce existing above-benchmark exposure to risky asset classes and to cut underweights in core government bonds, acknowledging for the more challenging environment for risk sentiment.

USA

Paolo Zanghieri







- **Despite the fallout of hurricanes, growth has remained very strong in Q3, consistent with a 2.2% full-year forecast. A mild acceleration in 2018 depends on the outcome of the tax reform.**
- **The unemployment rate is at a 16-year low, but temporary headwinds to inflation are proving stronger than expected, preventing a quick return to 2%.**
- **Yet a hike in December remains somewhat more likely than not. A decision on whether Ms. Yellen is replaced and by whom may trigger a market reaction, especially in case of a hawkish choice.**

Despite the disruption created by the hurricanes in late August, Q3 GDP was up by better than expected 3% qoq annualized, only slightly below the 3.1% posted in Q2. In August, non-defense, non-aircraft durable good orders were up by 4% yoy, unchanged from June and July. PMIs and other business surveys remain upbeat. Therefore investment will support consumption in keeping growth relatively strong in Q4, too, bringing GDP up by 2.2% for 2017 as a whole, with some upside risk related to stronger than expected capex. While acknowledging the uncertain domestic political situation, we think that a limited set of corporate and personal income tax cuts will be implemented in our base scenario, allowing growth to remain above 2% in 2018.

Some tentative evidence of a pick-up in wage

September employment data, indicating a 33k reduction in payrolls, were clearly affected by the hurricanes. Yet the unemployment rate came down to 4.2%, the lowest level since January 2001 and private sector hourly earnings growth rose to 2.9% yoy (from around 2.55% in the previous three months). Business surveys still show firms expecting to increase payroll and wage, and this will gradually feed into inflation. September CPI data, though, confirm that the reflation process will be slow. The increase in the headline rate to 1.9% was solely due to the energy component, with the core rate stable at 1.7%. The large price fall in some components of the core index seen in the past months will still weigh on annual inflation in the final part of the year. We expect the acceleration in underlying inflation to show up in earnest in Q2 2018, leading the core rate to 2.3% by the end of next year.

Easy financial conditions help growth, for now

A key factor in supporting investment, durable goods demand and housing activity are the extremely loose financial conditions as strong demand for Treasuries and IG corporate bonds and the good performance of the equity market have more than offset the upward push to short term rates brought about by the series of Fed fund increases. While supportive in the short term, these conditions may trigger a further increase in corporate leverage which is already at a historically high level.

USA

The interaction between high indebtedness and the possible compression in margins due to the pick up in unit labor costs (as wage increase is expected to outpace productivity growth) may lead to balance sheet problems in the corporate sector, creating a non-negligible medium- term risk to the downside to growth.

Despite some progress, tax cuts are not a done deal

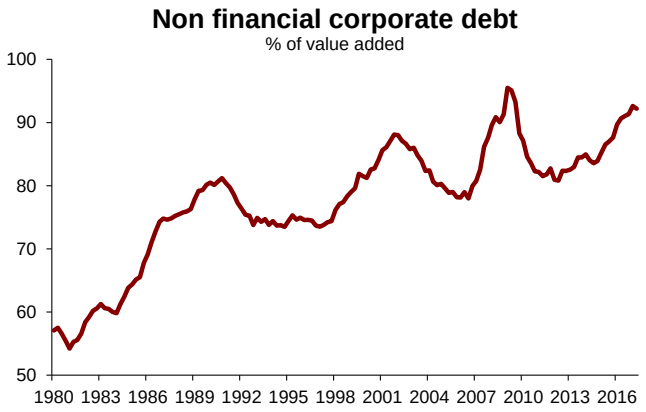
The Senate has approved a resolution calling for tax cuts worth US$1.5tn in ten years, clearing a big hurdle on the path to the implementation of the tax reform. However the lack of a precise blueprint, no consensus on how to offset the impact on the deficit can lead to a heightened confrontation within the Republican majority. In the end we expect a largely unfunded set of tax cuts of around US$ 1tn over then years, whose approval by the beginning of 2018 has a subjective 60% probability. This will give positive, but very limited (around 0.2 pp) boost to 2018 GDP with no long term impact on long term growth.

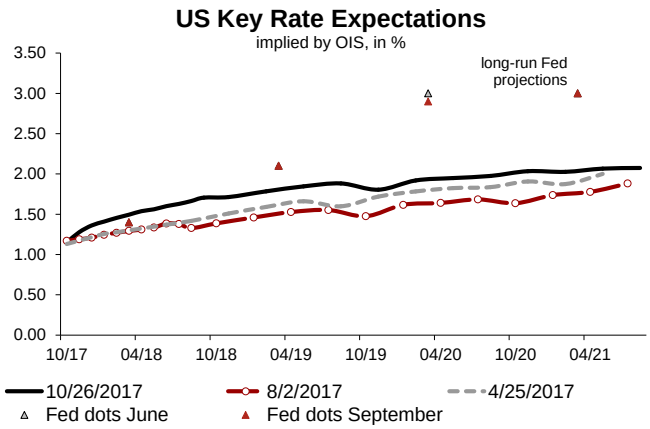
The fourth round of negotiations on the NAFTA reform ended with no clear progress. Member countries have agreed to delay the end of the talks into Q1 2018. However the wide distance between the US position, heavily influenced by Trump's protectionist attitude and that of the other partners, has increased the odds of a collapse of the agreement.

The Fed: will Ms. Yellen be replaced? By whom?

Despite the temporary (but protracted) weakness in core inflation, a tight labor market, a pick up in wage growth and extremely loose financial conditions make a rate hike by the Fed in December more likely than not. The expected evolution of the unemployment rate, which will be heading to 4%, and the acceleration of inflation are consistent with three more hikes in 2018. The process of balance sheet reduction, started in October, is set to proceed in a very predictable fashion and, as stated by the FOMC, would be stopped only in case of a severe economic downturn.

The replacement of Ms. Yellen at the head of the Federal Reserve (her mandate as chairperson expires at the beginning of February) has come to the forefront. The three most likely candidates are Ms. Yellen herself, which is however penalized by Trump's desire to undo President Obama's legacy, Jerome Powell, a current FOMC member, and Stanford professor John Taylor. The choice of Mr. Powell would guarantee the continuation of the current path of smooth monetary policy normalization, and his favorable views on financial deregulation would chime well with the administration's intentions. Mr. Taylor, on the contrary, has been very critical of the Fed's expansionary policies and argued that policy rates are currently too low. His appointment would be most likely be interpreted as a signal of a Fed's quicker than anticipated exit from low rates and a faster shrinking of the balance sheet.



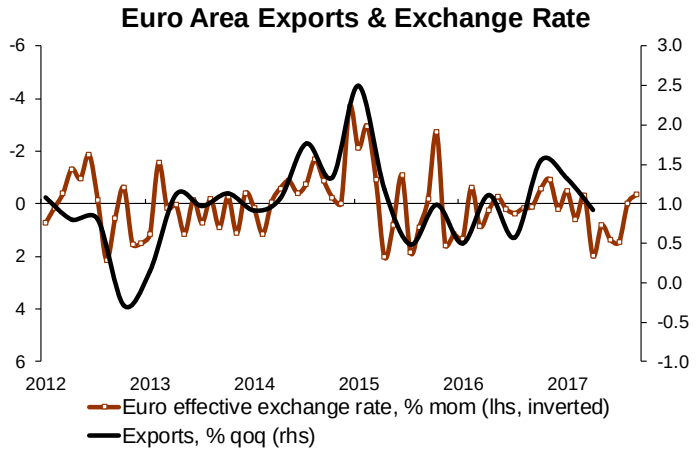


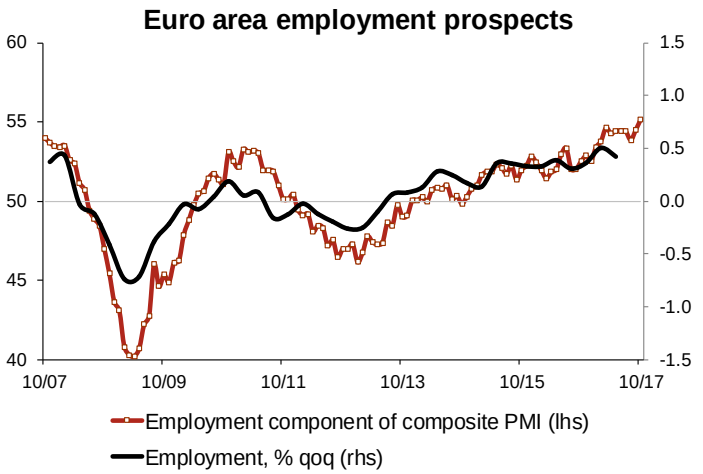
Main Forecasts[1)]	2015	2016	2017f	2018f
GDP	2.9	1.5	2.2	2.3
Consumer spending	3.1	2.8	2.3	2.4
Gov. consumption	0.7	0.9	0.8	0.8
Investment	5.4	1.8	5.1	4.7
- residential inv.	8.9	7.8	5.1	4.7
- structures	-1.5	-2.3	4.3	4.1
- intell. property production	5.7	1.9	4.4	5.4
- equipment/software	3.1	0.4	5.9	4.6
Inventories	0.4	-0.3	-0.1	-0.2
Exports	1.1	2.7	4.1	3.7
Imports	4.9	4.2	5.2	5.3
Net trade	-0.6	-0.3	-0.3	-0.3
Domestic demand	3.2	2.3	2.5	2.5
Consumer prices	0.1	1.3	2.0	2.0
Unemployment rate[2)]	5.3	4.8	4.4	4.1
Budget balance[3)]	-2.5	-2.9	-3.3	-4.4
Fed Funds Rate[4)]	0.38	0.66	1.41	2.16

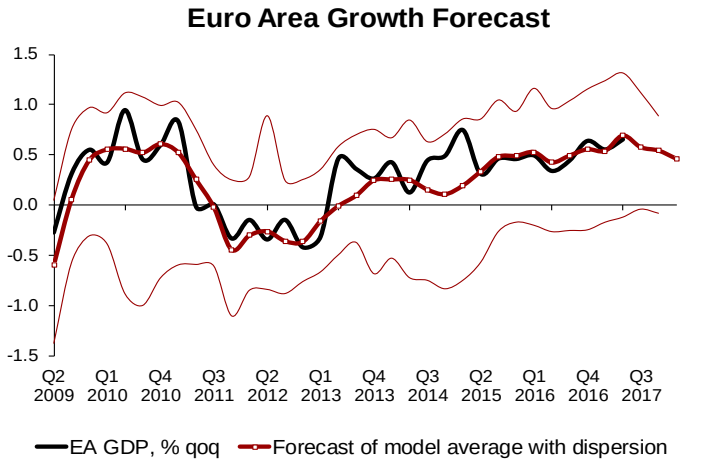
1) Unless noted otherwise, annual % changes, net trade and inventories: growth contribution to GDP 2) yearly average as %, 3) in terms of GDP, federal deficit 4) as %; year-end

Euro Area

Martin Wolburg







- **Ongoing employment expansion and a broadly flat euro bode well for growth to stay above potential also in the quarter to come.**
- **We adjusted our growth forecast further up, to 2.2% in 2017 and 1.9% in 2018, and still see risks on the upside.**
- **The ECB will reduce its monthly QE purchases to € 30 bn from January onwards but committed itself to QE until at least September 2018.**

The prospects for the euro area recovery remain bright albeit the October flash composite PMI showed a weakening, from 56.7 to 55.9.

The appreciation of the trade-weighted euro stopped in September while at the same time global activity (as measured by the global composite PMI ex euro area) stayed solid. The October flash PMI survey shows a rise in export orders to the highest level since May 2011. Looking ahead, exports are hence likely to strengthen. Moreover, consumption which accounts for about 55% of GDP remains well supported by employment growth. In Q2/2017 employment advanced by 0.4% qoq. Since then, the employment component of the composite PMI has improved further and climbed to the highest reading since August 2007. The unemployment rate came in at 9.1% in August and will likely fall further. Against this backdrop, it did not come as a surprise that (flash) consumer confidence rose to the highest since April 2001. Moreover, indicators like capacity utilization and demand for investment-related loans continue to hint at a strengthening investment activity.

Growth above potential but to moderate slightly

That said, we continue to also foresee some moderation from the stellar Q2/2017 growth rate of 0.7% qoq. One factor is higher underlying price pressure that will ultimately dent some purchasing power and profits. In the October PMI survey output as well as input prices advanced further into above average territory and also hourly private earnings (2.0% yoy in Q2, from 1.5% yoy in Q1) trended higher as of late. Another indicator is the credit impulse (the 12-month change in the yoy growth rate of loans to the private sector) which lost some momentum in the second half of the year. Political factors like the Catalan strive for independence will also leave their mark on activity. Political uncertainties related to the Italian elections or the German government formation also have the potential to dampen growth albeit such factors were only of minor importance over the past quarters.

With strongly supportive fundamentals for domestic activity in place, we expect euro area growth to stay above potential also in the coming quarters but to moderate to 0.5% qoq. This is more than we expected

Euro Area

before so that we increased our 2017 growth forecast to 2.2% and our 2018 growth expectation to 1.9%.

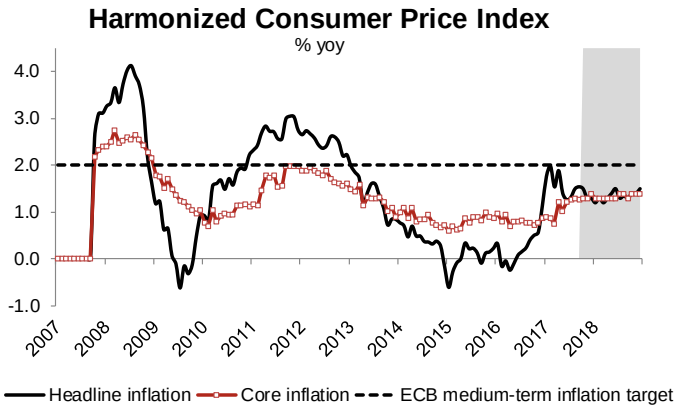
We see the risks surrounding our forecast still skewed to the upside. The Ifo Index marked a new high in October suggesting that the German economy is starting to run hot and with first reforms becoming effective in France capacity constraints could trigger higher investment activity than previously thought. Also, we see the risk of slightly more expansionary fiscal policy stance in 2018, strongly depending on the German coalition talks outcome.

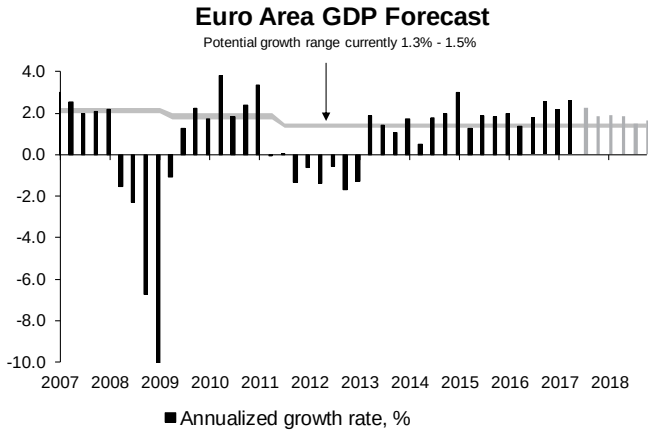
ECB announced tapering at October meeting

At its October 26 meeting, the ECB became more precise about the forthcoming tapering. It announced that from January 2018 onwards monthly APP purchases will be reduced to € 30 bn per month, from € 60 bn at present. Purchases will last until at least September 2018 as the ECB did not communicate a definite end while maintaining the APP easing bias. Moreover, the ECB committed itself to "*reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary*." The forward guidance, stating that interest rates will remain at their present levels for an extended period of time, and well past the horizon of QE was maintained. Regarding the refinancing operations the ECB announced that the fixed rate tender procedures with full allotment for the main refinancing operations and the three-month longer-term refinancing operations will be kept at least until the end of 2019.

Looking further ahead, from the ECB perspective the euro area macro outlook is in line with the projections laid down in September. It sees growth at 2.2%/1.8% and inflation at 1.5%/1.2% in 2017/18. Moreover, deflation risks are off the table and market inflation expectations are recovering. What is even more, with growth above potential the output gap will likely close already in 2018 supporting the uptrend in underlying inflation. That said, in the ECB's view the favorable macro outlook is still dependent on monetary policy support and underlying inflation has not yet shown convincing signs of an uptrend. When this could be the case, Draghi left deliberately open. On the other hand, the ECB also stated that monetary support is not only provided by QE but also by the stock of purchased assets, the reinvestment of maturing bonds and the forward guidance.

Regarding the monetary policy outlook, we stick to our view that the ECB will likely end its net QE purchases in September 2018. However, Draghi's remark at the press conference that QE is not going to stop suddenly leaves room for speculation for net QE purchases beyond that point. Key rate hikes are more distant and we look for a deposit as well as a repo rate hike only in 2019.



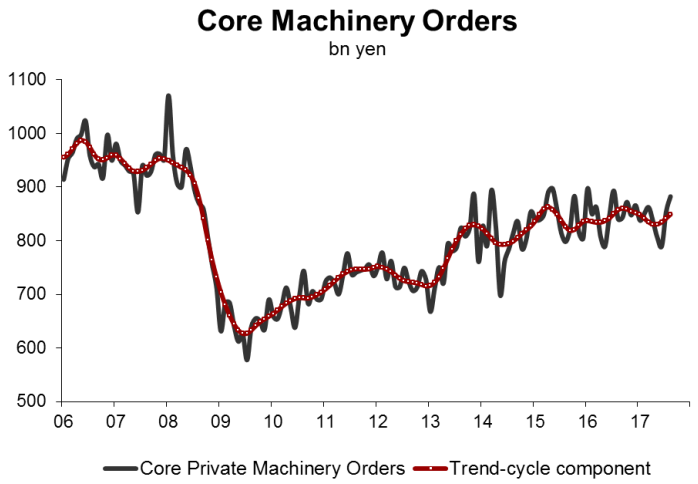


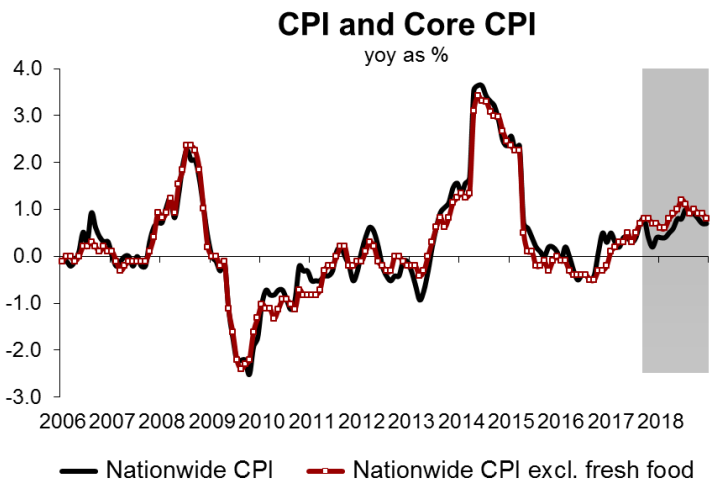
Main Forecasts[1)]	2015	2016	2017f	2018f
GDP	1.9	1.8	2.2	1.9
Consumer spending	1.8	2.0	1.8	1.7
Gov. consumption	1.3	1.7	1.2	1.1
Total fixed investment	3.0	4.5	3.9	4.2
Inventories	-0.1	-0.1	0.0	0.1
Net trade	0.1	-0.4	0.2	-0.2
Domestic demand	1.9	2.3	2.0	2.0
Consumer prices	0.0	0.2	1.5	1.3
Unemployment rate[2)]	10.9	10.0	9.2	9.0
Budget balance[3)]	-2.1	-1.7	-1.5	-1.4
ECB refi rate[4)]	0.25	0.00	0.00	0.00

1) unless noted otherwise, annual % change, net trade and inventories: growth contribution to GDP, 2) yearly average as %, 3) ratio of budget balance to nominal gdp, 4) as %; year-end

Japan

Christoph Siepmann





Main Forecasts[1)]	2015	2016	2017f	2018f
GDP	1.2	1.0	1.5	1.2
Consumer spending	-0.4	0.4	1.3	1.0
Government consumption	1.6	1.5	0.3	0.9
Investment	0.1	1.0	3.7	1.7
Inventories	0.4	-0.1	-0.4	0.2
Net trade	0.4	0.1	0.2	0.0
Domestic demand	0.7	1.0	1.7	1.2
Consumer prices	0.8	-0.1	0.4	0.7
Unemployment rate[2)]	3.4	3.1	2.8	2.7
Budget balance[3)]	-5.2	-4.8	-3.9	-3.3

1) unless noted otherwise, annual % changes, net trade and inventories: growth contribution to GDP 2) yearly average as %, 3) in terms of GDP, general government 4) as %; year-end

- **PM Abe's LDP/Komeito coalition won again a two thirds majority in the lower house.**
- **This implies a continuation of Abenomics and of its very accommodative monetary policy.**
- **After the strong Q2 result, Q3 GDP growth is likely to be dampened by negative base effects. By contrast, CPI inflation will temporarily benefit from weakness in autumn 2016.**

PM Abe's political move to call a snap election in order to shake off past scandals has paid off. Abe's Liberal Democratic Party (LDP) together with its long-standing coalition partner Komeito secured again a more than two-thirds majority in the lower house of parliament. This would also continue to allow changing the constitution. Abe's election victory suggests that he will also stay at the helm of the party beyond the next LDP leadership election late next year. Accordingly, "Abenomics" will remain in place for the foreseeable future, implying that the incumbent BoJ Governor Kuroda could well see a second term (from April 2018 on) or would only be replaced by a candidate with similar views. Thus, the current monetary policy framework of QQE with yield curve control likely remains extremely accommodative. Consequently, we do not expect the current BoJ board meeting on October 30/31 to result in any changes. Medium-term, however, with the ongoing cautious US interest hiking cycle and less expansionary monetary policy also in the euro area, upside pressures on long-term JGB yields will also increase (while mitigated by rising JGB scarcity problems). In order to let the yen not depreciate beyond what would be welcome, we expect the BoJ to not completely decouple from internationally rising yields, but to also very slightly increase its the long-term interest target starting in H2 2018. Help for this move will also come from a likely improvement in CPI inflation, which currently also rose to 0.7% yoy, mainly on favorable base effects.

Q3 GDP growth to slow on payback effect

Japan's statistical office will publish its first GDP growth estimate for Q3 in mid-November. After a strong Q2 growth rate of 2.5% qoq annualized (ann), mainly driven by a private consumption, we expect the Q3 result to suffer from a payback effect, but only limitedly. Japan's real private consumption index (which suffered from marked revisions in the recent past) points to a negative qoq reading of around 1% ann. However, this consumption impact will likely be mitigated by a recovery of real export growth. Thus, net exports will probably have contributed positively again to growth after a being a temporary drag in Q2. In addition, machinery orders saw a significant upturn of late, signaling that a recovery of investments, which typically sets in after a period to positive exports, could eventually taking place. In sum, we expect growth to come in close to Japan's potential growth rate of around 1%.

China

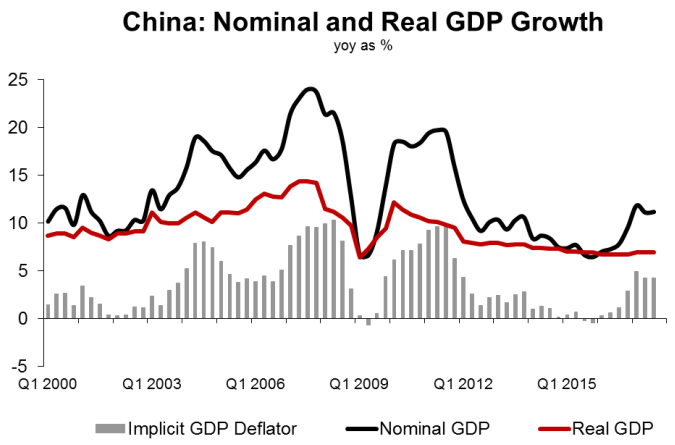
Christoph Siepmann

- **China's Communist Party congress ended with a strengthening of President Xi Jinping's position.**
- **Q3 GDP growth edged down to 6.8% yoy. We expect some slowing to continue.**
- **Monetary policy has announced a RRR cut for the beginning of 2018. However, we consider this move structurally and not cyclically motivated.**

China's 19th Communist Party Congress ended – as expected – with a strengthening of President Xi Jinping's position: Not only were his "Thought on Socialism with Chinese Characteristics for a New Era" enshrined in the party's constitution (putting him on par with Mao), but also the number of close allies among the newly elected Politburo Standing Committee shows his growing powers. This should result in a strong leadership period over the next five years. In his opening speech, Xi touched upon several of China's structural issues. However, while laying out a new long-term development strategy (with a high technology focus), numeric development goals were avoided. The latter could be a sign that China will drift away from its credit driven approach of growth over the medium term. However, the notion of "debt" was also not mentioned, suggesting that China's leadership considers the problem of the high credit-to-GDP ratio less pressing.

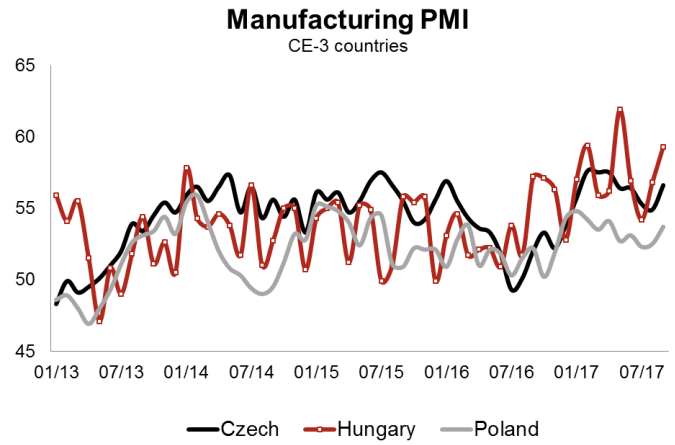
GDP growth to soften slightly more pronounced

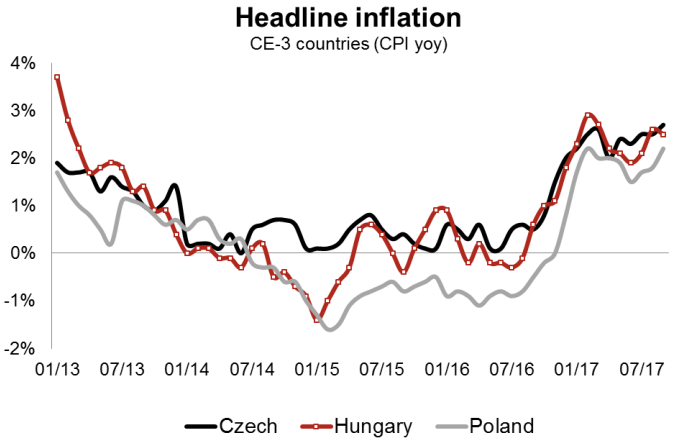
Meanwhile, China's Q3 GDP growth rate edged down to 6.8% yoy from 6.9% yoy in the previous two quarters. Monthly data of September were also more mixed. Manufacturing PMIs diverged again. While the Caixin version lost pace, the NBS PMI even strengthened. Industrial production (IP) rose back to 6.6% yoy. However, the outlook is for a re-softening amid the implementation of China's anti-pollution campaign over the winter half year. The latter will involve production cuts (esp. in heavy industries) and stricter environmental regulations enforcement on the local levels. The measures could cut GDP by 0.2 pp, going forward. On top, investment outlays continued to recede in September to 7.5% yoy ytd, from just around 9% yoy at the beginning of the year. The central government projects, i.e. fiscal policy support, diminished further, although infrastructure investments were still on a comfortable level. This was also true for real estate outlays. However, leading indicators like property sales continued to come in weak and also property price inflation diminished significantly of late. This suggests that the investment component will also slow, going forward, possibly with a time-lag of about two quarters. However, even after the end of the party congress, we do not expect Beijing to let growth slip more drastically but would fight a stronger cooling with a step-up of fiscal measures. Monetary policy has announced a RRR cut for the beginning of 2018, but only for those banks which especially support small companies. We consider this measure to be structurally (not cyclically) motivated and do not see a need for the PBoC to move near term.



Central and Eastern Europe

Radomír Jáč





Main Forecasts	2015	2016	2017f	2018f
Czech Republic				
GDP	5.4	2.5	3.9	3.0
Consumer prices	0.3	0.7	2.4	2.0
Central bank's key rate	0.05	0.05	0.50	1.00
Hungary				
GDP	3.1	2.0	3.7	3.1
Consumer prices	-0.1	0.5	2.4	2.9
Central bank's key rate	1.35	0.90	0.90	0.90
Poland				
GDP	3.8	2.9	4.1	3.3
Consumer prices	-0.9	-0.6	1.8	2.0
Central bank's key rate	1.50	1.50	1.50	1.75

GDP and consumer prices: annual % change; CB interest rate: in %, year-end

- **Economic activity in the CEE strengthens. The full capacity utilization leads to a labor force shortage, resulting in upward pressure on wages.**
- **While headline inflation should moderate in Q4 due to the disinflationary impact of commodity prices, core inflation may rise further.**
- **The Czech CNB is going to raise its key rate in early November, not ruling out another hike in December. The Polish NBP maintains a wait-and-see stance but several MPC members recently came with hawkish remarks. Hungarian MNB is unlikely to change its easing bias anytime soon.**

Both confidence surveys and hard data indicate that the region keeps its solid growth in H2. The economies operate close to full capacity utilization, which is reflected by a gradual recovery of core inflation. The situation in the labor market with the labor force shortages and related upward pressures on wages, is unlikely to calm anytime soon. Core inflation rose mainly in the Czech Republic (2.8% yoy in September) and also in Hungary (2.9% yoy) but here the price pressures should be softened by a reduction in the social and corporate income tax rates and the MNB believes that producers will absorb part of the growing costs in their profits which are at a historical high. Therefore, while the Czech CNB interprets the wage development as a key argument for tighter monetary policy, the Hungarian MNB expects price pressures to moderate and expects headline inflation to reach the 3% target in a sustainable manner only by mid-2019. Poland still reports low core inflation (1.0% yoy) but wage growth moves faster also in this case, which is likely to drive underlying inflation higher in 2018. That said, the NBP sees no reason to rush into monetary policy tightening.

Monetary policy has been diverging across the region

The Czech central bank left its key rate unchanged at 0.25% in September but made clear that a rate hike will come at the next Board meeting on November 2. We expect a 25 bps hike, but some Board members mentioned even a 50 bps rate increase or a possibility of 25 bps hikes in both November and December. The interest rate outlook has a positive impact on the Czech crown, which keeps the status of world's best performing currency this year. In Poland, the NBP keeps a wait-and-see stance, which implies the key interest rate to be stable at 1.50% at least until mid-2018. However, several MPC members indicated that a tightening cycle can be launched in H2 2018, which is a realistic scenario in our view. The Hungarian MNB lowered the O/N deposit rate to -0.15% at its September meeting and keeps an easing bias. FX swaps are now the major tool of the Hungarian central bank, which aims to depress yields of HGB government bonds, mainly with longer maturities. We expect the MNB to maintain the dovish stance at least until spring 2018.

Bonds/Fixed Income Strategy

Florian Späte

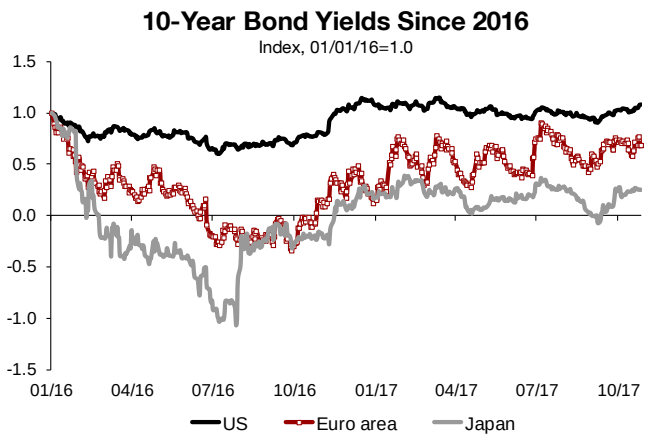
- **While euro area sovereign core yields moved broadly sideways, the US yield curve shifted upwards considerably in October. Particularly, expectations for pushing through a US tax reform and hawkish Fed comments triggered a transatlantic yield spread widening.**
- **Although the conflict about Catalonia is far from being resolved, Southern European government bonds performed well. Looking ahead, Italian BTPs appear at risk given the looming elections.**
- **With central banks scaling back their support for financial markets and given a robust global economic recovery, sovereign yields are seen to increase in the months to come. Accordingly, we recommend a short duration going forward.**

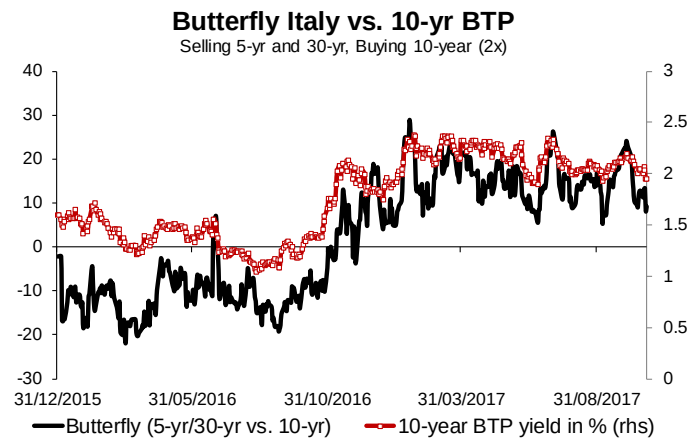
While long-dated euro area government core yields fell moderately in the first half of October, they inched up again in the run up to the ECB meeting at the end of the month. On balance, they hardly moved with the 10-year Bund yield moving sideways at a level of 0.46%. In contrast, US yields rose across the curve by at least 10 bps. Driven by hawkish Fed comments (financial markets currently price in a key rate hike in December with a probability of almost 90%) and the increased likelihood of pushing through a US tax reform, the 10-year Treasury yield rose to 2.44% – the highest level since March 2017. As US inflation expectations hardly moved, the increase in nominal yields translated directly into higher real yields. However, with 10-year real yields still below 0.30%, they remain too low from a fundamental point of view.

The outperformance of German Bunds versus US Treasuries in October resulted in a wider transatlantic yield spread. While the gap in the 10-year segment has reached 200 bps again, the spread at the short end of the curve is at the highest level for 18 years (235 bps).

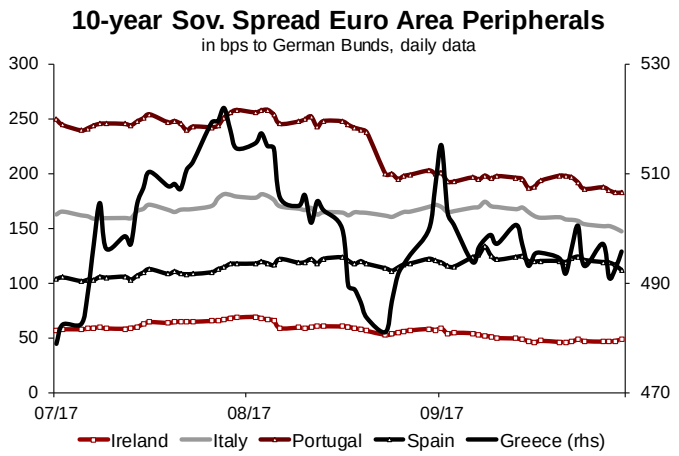
Indicators point to higher sovereign core yields

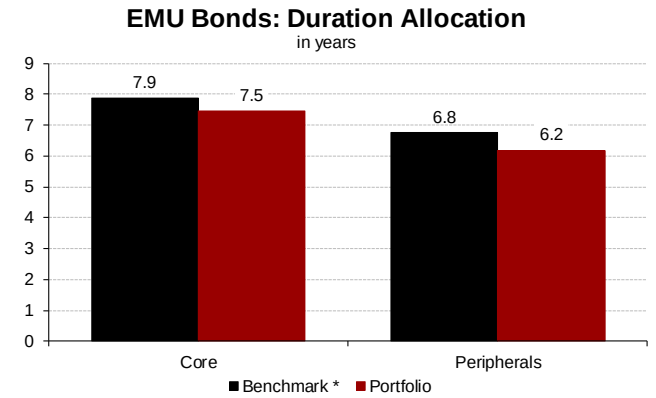
Going forward, the way is paved for higher core yields. To start with, the strong decrease of the ECB's QE programme from €60 bn to €30 bn from January onwards will give euro area government bond markets less tailwind. Although the ECB abstained from giving a clear indication of the end date, we expect the QE programme to be completed in 2018. In addition, financial markets appear too complacent regarding a first ECB key rate hike. While currently it is priced only for Q1 2020, we regard a first step in 2019 as likely. A continuation of the solid economic recovery and ultimately rising inflation rates are seen to trigger higher yields. While the short end of the euro area yield curve is likely to be anchored by the ECB forward guidance, 10-year core yields have scope to increase to 0.80% on a 12-month horizon in our view.



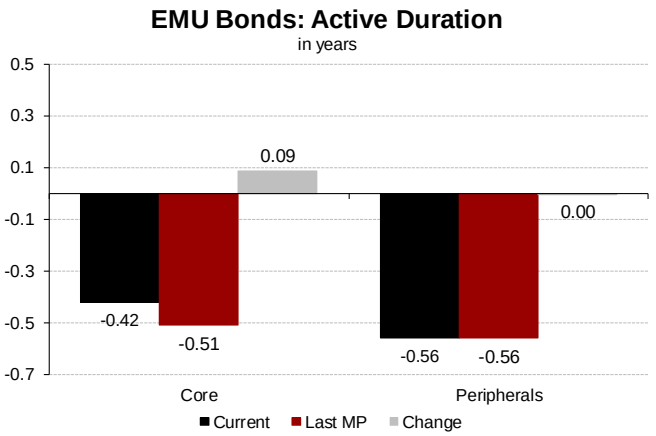


Bonds/Fixed Income Strategy





* JPMorgan EMU Government Bond Index



The fundamental view on the US is similar. Key rate hikes, a solid economic development and a higher term premium are expected to drive yields up medium term.

However, the short term outlook is more uncertain. First, while a December key rate hike is more likely than not, to us it is not a done deal yet. Given the aggressive pricing of a key rate step, there is potential for disappointment. While it will not change our general picture (we expect three hikes in 2018), financial markets would reconsider the future path of key rates triggering a downward shift of the US curve. Second, although the likelihood of a tax reform has increased recently, a failure is still possible. It would shape President Trump's political destiny and his opportunity to implement far-reaching reforms.

Notwithstanding the uncertainty in the short term, US yields are forecast to rise in the medium term. This applies particularly to the short end of the curve as financial markets have priced only three Fed hikes until the end of 2019 – which appears to cautious (GI Research: five key rate hikes, 25 bps each).

Southern European bonds withstand political turmoil

Although the conflict between Catalonia and the central government in Spain has escalated in the course of October and a solution is not in sight yet, Spanish sovereign spreads have widened only moderately versus Bunds. On balance, peripheral bond spreads even tightened despite the negative news flow in October.

Particularly, the performance of Italian BTPs stands out. The 10-year spread versus Bonos fell to the lowest level since December 2016 and the 10-year spread versus Bunds reached the lows of summer again. This performance is striking given the forthcoming regional and national elections. A hung parliament remains our base scenario for the national elections hindering necessary reform steps. We recommend investors who would like to avoid excessive duration risks to enter a 5-yr/10-yr/30-yr butterfly. This fly is directional and should perform well in case Italian yields increase – either due to higher spreads or due to higher Bund yields.

Our portfolios

Given the recent increase in core yields, we recommend a more cautious approach going forward but still trade markets from the short side. Accordingly, we recommend a duration of -0.42 years (from -0.51 years before).

Although a further escalation of the situation in Catalonia is not our base case and we expect Catalonia to ultimately remain a part of Spain, we prefer a cautious stance. This is mainly due to the markets' complacency regarding the forthcoming elections which tend to be accompanied with rising spreads. Hence, we maintain the short duration stance (-0.56 years).

Corporate Bonds (Non-Financials)

Florian Späte

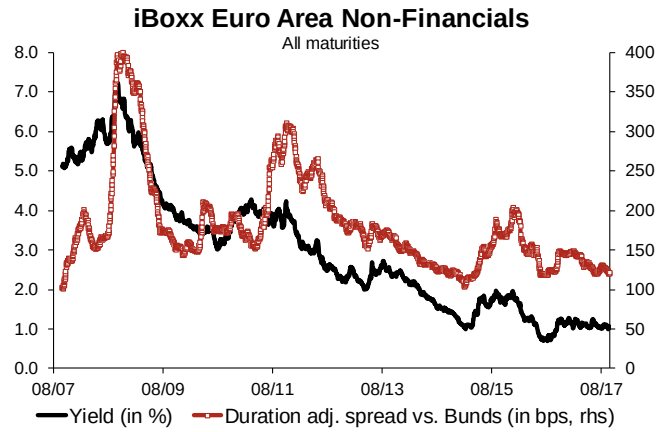
- **Non-financial corporate bonds continued to trade in calm waters in October. Spreads ground lower by 5 bps, reaching the lowest level for more than one year.**
- **The short-term outlook remains benign as the fundamental situation is solid, and after the ECB's announcement about QE tapering, there is little at the horizon to disturb corporate bond markets.**
- **Further down the road, however, non-financial spreads are seen to widen moderately. The combination of decreasing ECB support and higher underlying yields are likely to burden non-financials over the course of 2018.**

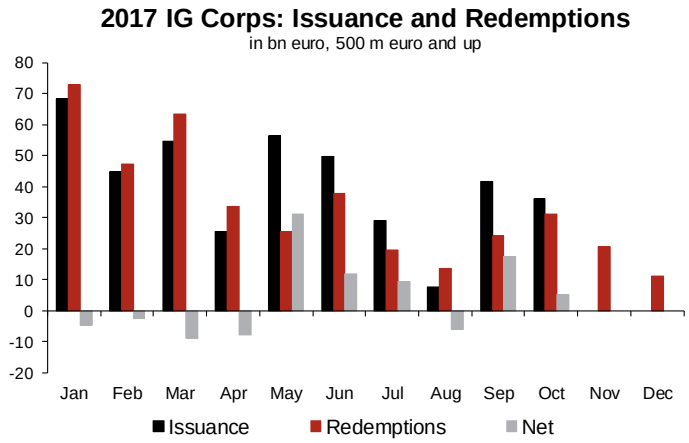
The slow, but steady tightening of non-financial corporate bond spreads continued in October. Characterized by a very tight trading range, non-financial spreads narrowed by another 5 bps to 121 bps. As underlying yields drifted slightly lower, the non-financial-corporate yield level decreased 7 bps to 1.03% – temporarily it even fell below 1%. In addition to the decreasing yield level, the carry was earned in October (total return October: 0.5%). Year-to-date non-financials have earned 1.8% so far.

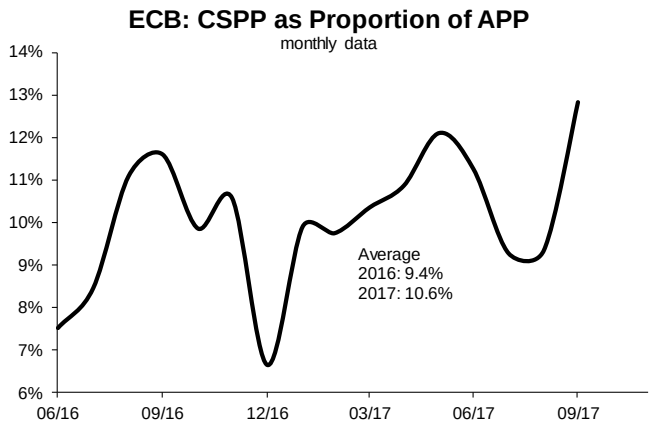
In the short term, there is little at the horizon to throw non-financials off track. The ECB will remain an important support for the time being. In September, the ECB purchased €8 bn, thereby increasing the share of the CSPP (Corporate Sector Purchase Programme) in the QE programme to 12.8% (highest share on record). While purchases in October slowed a bit again, the central bank continued to intervene strongly. Moreover, the trailing 12-month default rate came down to 2.4% in September and is forecast to reach the 2% threshold by the end of the year. What is more, the issuance activity remained below expectations. Although net issuance was again positive, it was significantly lower than in September. As a considerable upward trend is unlikely going into year-end, there is little to derail non-financials in the weeks to come and non-financial spreads have some scope to tighten slightly more.

Tougher times ahead

Looking further down the road, non-financial spreads are likely to widen from current low levels. Although the share of the CSPP in the QE programme is likely to remain on an elevated level, the absolute volume will come down in 2018 (€40 bn versus €85 bn in 2017). This reduction will come at a time when net supply increases as non-financial corporates exploit the good funding conditions. In addition, the rising underlying yields reduces the investors' search for a yield pick-up. Given the ambitious valuation of euro area IG non-financials, investors should prepare for a moderate spread widening. While a sell-off is not on the cards, the total return in 2018 is likely to be negative.

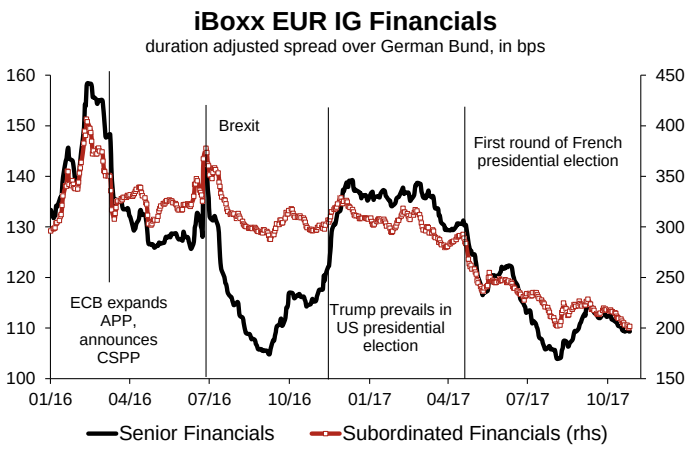


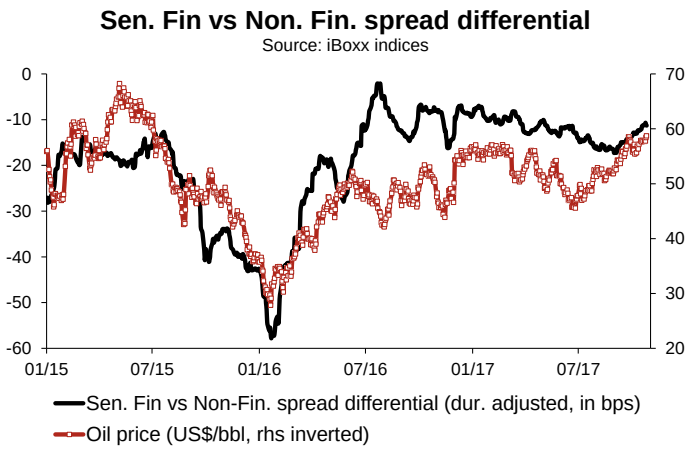


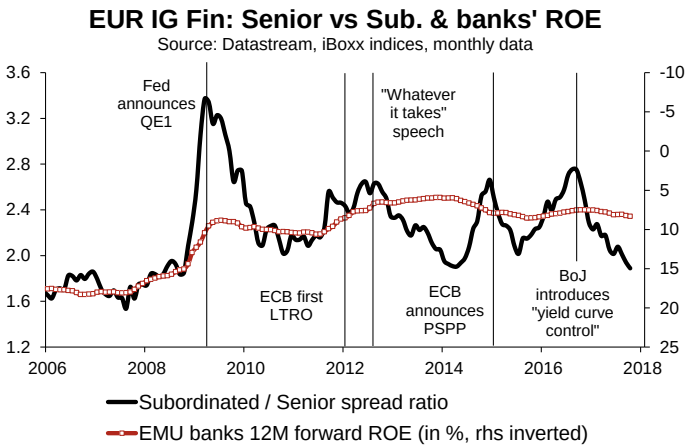


Corporate Bonds (Financials)

Luca Colussa







- **EUR Investment Grade Senior Financial bond spreads tightened mildly in October. The monthly total return was positive (+0.3%) also thanks to the marginal decline in Bund yields.**
- **That said, Senior Financials underperformed Non-Financials for the third month in a row amid the uncertainties over Catalonia and the rise in oil prices, which benefitted energy-related bonds.**
- **Going forward, we expect the relative underperformance to continue in the run-up to Italy's general election. We expect total returns to turn negative.**

EUR Investment Grade (IG) Senior Financial bonds reversed the losses suffered in September (month-to-date total return at +0.33% after a 0.30% decline the month before) thanks to the mild reduction in the duration-adjusted spread (-3 bps to 109 bps) and the marginal decline in the underlying Bund yields. Year-to-date Senior Financials have earned 1.67% so far.

Underperformance vs Non-Financials set to continue

While the absolute performance was positive, it is worth noting that Senior Financials underperformed Non-Financials for the third month in a row. Indeed, Senior Financials have suffered because of the ongoing uncertainty over the Catalan crisis, though the recent developments and the decline in sovereign risk premiums should bode well in the near term. Also, the strong global growth momentum and the recovery in oil prices are more supportive for Non-Financials (see chart).

We expect the latter to continue to outperform in the near term, with financial bonds being more exposed to the projected rise in sovereign spreads in the run-up to the general election in Italy (most likely in March 2018). We foresee a sideways movement for EUR IG Senior Financial spreads over 3M (at 110 bps) and a 10 bps widening over 6M. This would likely result in slightly negative total returns in the period ahead.

Subordinated bonds getting even more expensive

EUR IG Subordinated bonds performed very well in October (total return: +1.04%) as the duration-adjusted spread fell further by 17 bps to 201 bps, the lowest level since November 2007. After the very strong performance year-to-date (+7.19%), we recommend an even more cautious stance and we now favor a slight underweight on Subordinated Financials vs Senior Financials over the next 6 months. While banks are benefitting from the recovery in profitability, the gradual normalization in global monetary policies, coupled with higher sovereign spreads in the euro area, may induce some repricing from the currently stretched valuation levels.

Currencies

Thomas Hempell

- **The recent partial recovery may extend somewhat further over the coming weeks.**
- **We see some slight further downside to EUR/USD, with the single currency held back by the ECB's dovish forward guidance on rates as well as lingering political uncertainties on Catalonia.**
- **The weakness in the yen has not run its course, with the USD/JPY likely to be led even higher on an expected further increase in US yields.**

Helped by recovering optimism regarding the success of a US tax reform, the US dollar has regained some ground following its slide over the summer months. The trade-weighted US dollar rose by 1% in October.

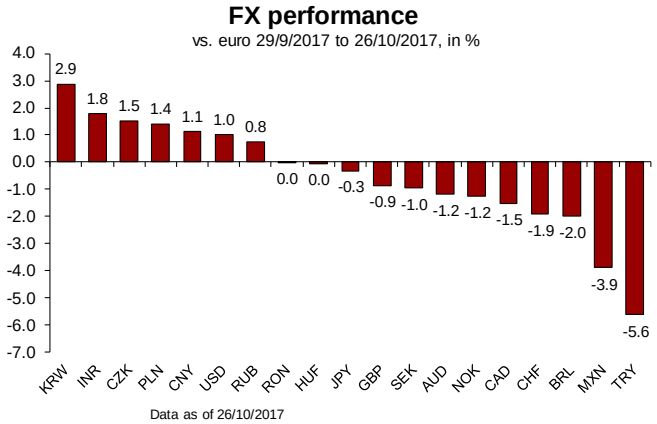
Near term, the USD recovery is likely to extend somewhat further, driven by more hawkish signals by the Fed and an easing of the risk premium on the US dollar reflected in gaps vs. yields differentials. The extent of the recovery, however, hinges very much on political decisions. Progress on Trump's tax reform would add to the supportive forces to the Greenback. Also, the nomination of a hawkish new Fed chair (to replace Janet Yellen in early February 2018) would prove supportive. However, we deem the latter impact to be rather short-lived since we do not expect the nomination to fundamentally change the outlook for the Fed on its path towards a consistent, but very gradual normalization of monetary policy.

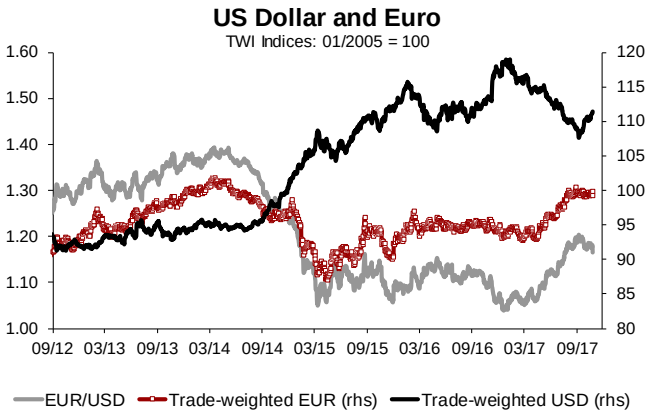
As a result, we see some further downside near term to the EUR/USD, with the single currency also being held back by the ECB's forward guidance. While the ECB decided to taper its asset purchase program in 2018, it has signaled that it will be keen to keep rates at current levels well into 2019. Also political uncertainties around Catalonia and ahead of general elections in Italy next year will likely keep a lid on the euro. A lower EUR/USD will be an opportunity to unwind existing USD positions in our view, given our outlook of a renewed rise in the EUR//USD over the course of the next year.

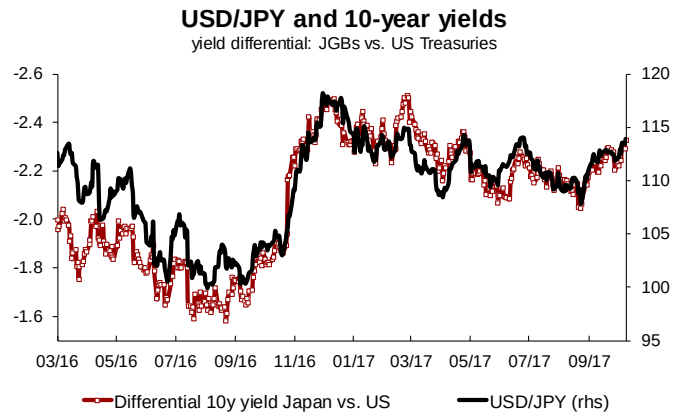
Yen under pressure from rising US yields

Against the Japanese yen, the US dollar has more potential for a sustained rally. The landslide victory of PM Abe in the general elections in October makes a prolongation of BoJ governor Kuroda at the expiration of his term in April more likely. With the BoJ sticking to its yield curve control for longer, the USD/JPY will remain closely tied to US yields. The expected increase in US Treasury yields will widen the rate gap between the US and Japan, guiding the yen even weaker against the US dollar.

The British pound may receive some support from a widely anticipated rate hike by the BoE on Nov. 2. However, given the large political uncertainties about the Brexit negotiations, we would fade any GBP/EUR strength, anticipating further GBP weakness in 2018.

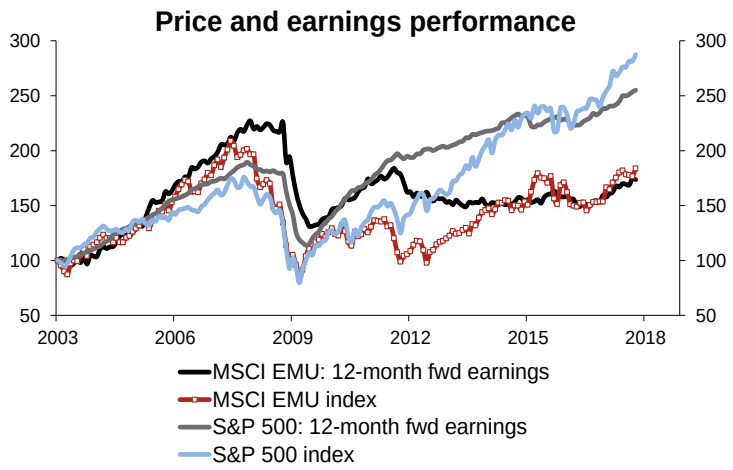






Equities

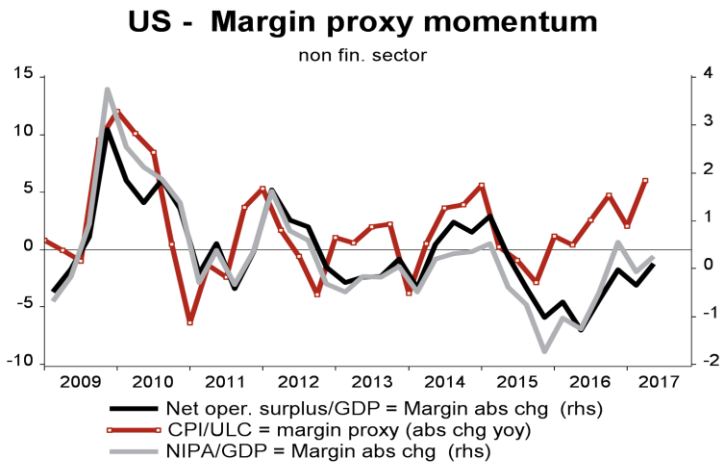
Michele Morganti



Analysis of the median stock: Q3 2017 reporting season

Median stock	Earnings Growth		Sales Growth		availability
	Q2 2017	Q3 2017	Q2 2017	Q3 2017	Q3 2017
S&P	9.87 %	9.28 %	5.66 %	5.53 %	46.4%
Stoxx	9.40 %	4.88 %	6.76 %	4.28 %	48.8%
Euro Stoxx	6.84 %	4.66 %	6.94 %	4.00 %	38.5%
Topix	19.74 %	10.36 %	5.26 %	5.88 %	20.0%

Median stock	Earnings Surpr		Sales Surpr		availability
	Q2 2017	Q3 2017	Q2 2017	Q3 2017	Q3 2017
S&P	3.86 %	3.31 %	0.93 %	0.78 %	46.4%
Stoxx	1.75 %	1.37 %	0.39 %	(0.19)%	48.8%
Euro Stoxx	0.31 %	0.95 %	(0.18)%	(0.52)%	38.5%
Topix	6.28 %	3.39 %	0.80 %	0.87 %	20.0%



- **October was another positive month for equities. The MSCI world index increased by 2%, while the Topix outperformed (5.5%).**
- **As a result of increasing capacity utilization, firms' cash flow growth remained solid as testified by the good results in Q3.**
- **In the next weeks, equities should remain upbeat, That said, while remaining overweight, we caution to limit the equity exposure and starting adopting a more balanced sector allocation. PEs are higher and increasingly dangerous in the US.**
- **In the next few months markets could be surprised by an increasingly hawkish stance by central banks and higher political risk in Europe. Mid-term we remain positive on the euro area, Japan and selected EMs.**

October was another positive month for equities. The MSCI World index increased by 2% and the Topix significantly outperformed by 5.5%.

Global equities in the midst of a Goldilocks scenario

The global economic momentum stayed upbeat during the month backed by solid macro surprises. Labor markets and investment orders sent positive signals from the US, reinforcing the expectations of an extended economic cycle, higher future wages growth and inflation. As a result of increasing capacity utilization, global growth expectations for firms' cash flow remained solid. In the US, the ratio of headline inflation to unit-labor-cost (a proxy for corporate margins) increased. The same message came from the rebound of the NIPA profits in the US, which came out higher by 6.5% in Q2 on a yearly basis (also thanks to still subdued labor costs). NIPA represent the profits of all US firms as contained in the national GDP accounts. US financial conditions have improved in the recent months too, further contributing to investors' optimism and solid economic activity. Not surprisingly, the US reporting season is looking rather solid in Q3. Both earnings and sales growth are above 5% yoy. In the euro area (EA), while business confidence indicators and the macro surprise index stayed high, the Q3 numbers are less upbeat, mainly due to the stronger euro. In Japan results are strong too.

S&P is backed by synchronized stellar macro factors

While the economic momentum is accelerating, inflation expectations remain contained along with expectations of future Fed's hikes in 2018. Higher corporate margins are sustained by limited wages growth, a weaker trade-weighted dollar and higher oil prices. The Trump's tax reform has also more chances to be approved and the sectors which get more advantage from it can continue to perform well, supporting the market in the short term.

Equities

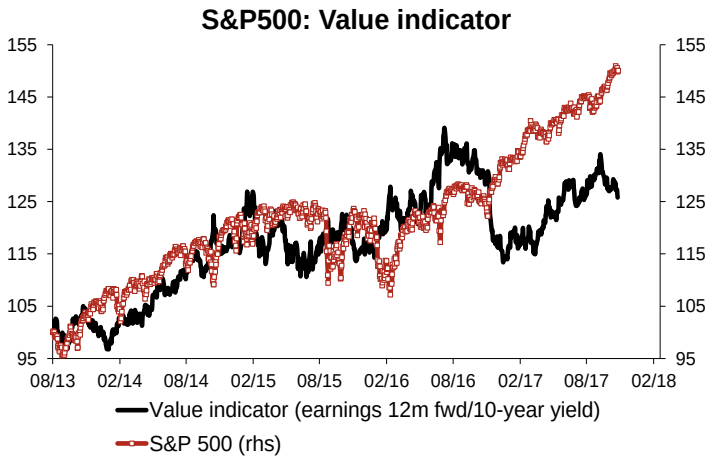
Short term we still favor equities but to a lesser extent

In the next weeks, equities remain sustained by good macro conditions and investors' optimism. In the EA, market multiples still lie below the 2015 "peaks" and, very recently, the ECB has reaffirmed its supportive short term stance. In Japan, PM Abe's victory at the last election will probably back the continuation of a decent performance of the Topix. In sum, while reduced and limited, there is still some space left for equity markets in the very short term.

That said, we caution to limit the equity overweight and start adopting a more balanced sector allocation as Goldilocks conditions have already produced a noticeable equity performance and the potential returns have been reduced. Multiples in some cases are dangerous, especially for the S&P500, large and small caps in Italy and Chinese indices. US CAPE (cyclically adjusted PE) is 30 times and, even adjusted by the current low inflation level, it shows a clear bubble forming. Both our value indicator (12-month earnings divided by the level of the 10-year rate) and our quantitative regression models show the same result. In the EA, our regression models indicate a limited upside and in China monetary aggregates are weakening (M2), while the MSCI China valuations remain relatively expensive. When recently surveyed, investors declared a lower cash position and higher equity weight. This is no enough to generate a contrarian sell signal yet, but nevertheless it represents a first alarm. The same surveys show that investors who expect a "Goldilocks" scenario finally beat the ones expecting a "secular stagnation": such outcome happened only 2 times over the last 9 years. Current investors' complacency conflicts with our expectations of increasing US inflation and slowing China growth. In the next few months markets could be surprised by an increasingly hawkish stance by central banks coupled by a higher political risk in Southern Europe.

Still constructive on the mid-term

On a mid-term view, current valuations are less worrisome thanks to historically low bond yields and continuing earnings growth. Should investors factor in more appropriately the risk of the Fed tightening and peaking economic momentum, then, EA and Japanese PEs could well survive with 30 or 40 bps higher yields. Indeed, even slightly lower PEs could determine decent 12-month total returns for the EA and Japan when we take into account an earnings growth of 5%+ this year and the next. While in the next 3 months there could be higher volatility, mid-term we favor the riskier EA, Japan and selected EMs. Inside Europe, we still favor value-cyclical sectors (including financials) and the discretionary, while staying short staples and defensive and being neutral on commodity sectors. In the next weeks we could rotate into cheaper oil, telecoms and consumer sectors.



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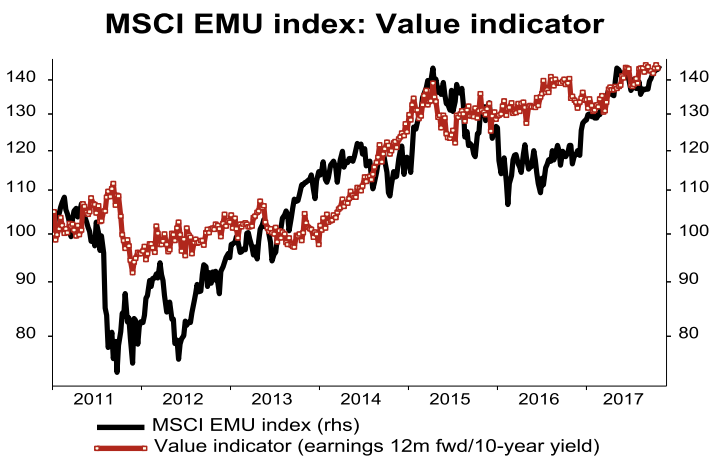
Markets	Price / Earnings *		Price / Book *		Price/ Cash Flow *		Dividend Yield *		Avg.
	current	hist. avg.	current	hist. avg.	current	hist. avg.	current	hist. avg.	Discount, %
WORLD	16.8	16.0	2.2	1.9	10.8	8.6	2.5	2.7	13.8
USA	18.1	15.3	3.0	2.3	12.3	9.8	2.0	2.2	19.9
JAPAN	14.8	15.7	1.3	1.3	8.3	7.0	2.0	1.9	2.5
UK	14.4	13.8	1.8	1.8	9.1	7.9	4.2	4.0	3.9
SWITZERLAND	16.8	15.4	2.4	2.2	12.3	11.2	3.5	3.3	5.0
EMU	14.7	14.2	1.6	1.5	8.3	6.4	3.3	3.9	14.9
FRANCE	15.3	14.3	1.6	1.5	9.3	6.8	3.2	3.8	16.1
GERMANY	13.9	15.1	1.7	1.5	8.7	6.6	2.9	3.4	13.1
GREECE	12.9	12.8	1.5	1.6	6.7	5.9	3.7	3.9	3.7
ITALY	13.5	15.3	1.2	1.2	5.7	4.6	4.1	4.7	6.4
PORTUGAL	16.9	12.5	1.8	1.7	6.7	5.8	4.4	4.5	13.9
SPAIN	13.2	13.0	1.3	1.6	5.4	5.1	3.9	5.1	3.0
EURO STOXX 50	14.4	13.2	1.6	1.5	8.2	6.1	3.5	4.3	17.6
STOXX SMALL	16.3	14.2	1.9	1.7	10.7	8.1	2.9	3.2	17.3
EM, $	12.6	14.6	1.6	1.6	7.8	7.7	2.6	3.1	0.2
BRAZIL	12.7	8.9	1.6	1.7	7.9	14.2	3.5	4.3	3.8
RUSSIA	6.0	7.1	0.6	0.9	3.5	4.6	6.1	3.5	-36.4
INDIA	18.7	14.3	2.8	2.7	12.7	11.5	1.5	1.6	13.0
CHINA	13.5	13.0	1.8	1.7	8.4	7.5	2.0	3.1	12.4

Note: The first four markets (ex World) are based on the main local indices, the rest on the corresponding MSCI indices.
Multiples are based on 12m forward estimates; PEs are since 1987, the rest is since 2003.
Discount in % to historical average: blue and negative numbers = undervaluation. Red and positive numbers = overvaluation.
Source: Thomson Reuters Datastream, IBES estimates.

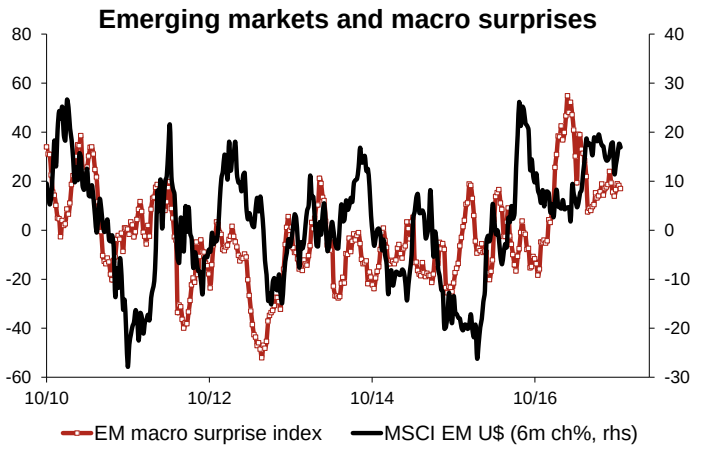


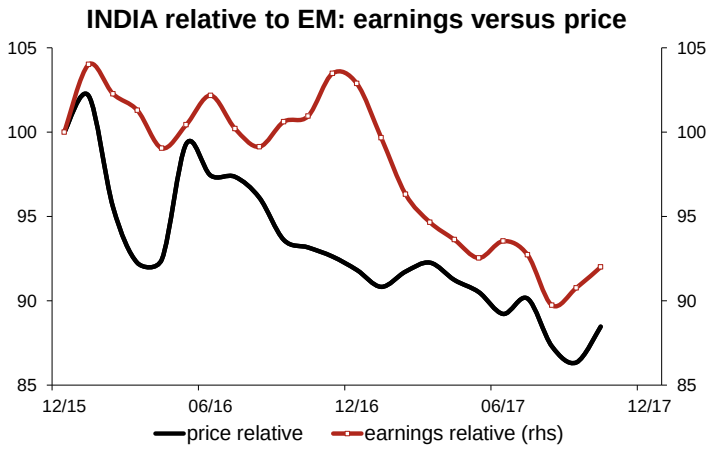
Emerging Markets Equities

Vladimir Oleinikov

Markets	price, %-chg -1M	price, %-chg YTD	earnings, %-chg -1M	earnings, %-chg YTD	10y yld chg, YTD	FX (TW), %-chg MTD	FX (TW), %-chg YTD
WORLD ($)	2.1	15.7	0.2	11.9			
US	2.5	14.4	1.1	8.0	1	1.2	-5.7
EMU	3.0	12.6	0.5	9.4	19	-0.2	5.1
GREECE	0.0	-3.0	-1.3	5.6	**-164**	-0.2	5.1
CZECH REP.	1.4	14.7	**-1.6**	**-2.3**	**118**	1.3	**8.1**
HUNGARY	**8.4**	24.0	**4.2**	30.1	-41	-0.1	1.4
POLAND	0.7	25.9	2.4	25.2	-19	1.2	**6.4**
EM ($)	2.6	28.5	0.1	20.6	-48		
BRAZIL	2.0	23.5	0.6	10.2	**-162**	-2.3	-3.7
CHINA	3.6	**45.0**	0.5	22.1	73	0.7	-0.5
INDIA	5.1	25.1	2.4	7.8	28	1.2	-0.4
INDONESIA	1.2	13.7	0.9	10.1	-108	-0.5	-5.4
KOREA	3.9	29.2	1.4	**40.4**	45	**2.3**	2.5
MALAYSIA	**-1.5**	5.6	0.4	5.3	-23	0.0	1.1
MEXICO	**-2.1**	7.3	0.7	7.2	-16	-4.5	5.1
RUSSIA	**-1.7**	**-9.2**	**-2.0**	**0.0**	-81	0.8	-1.0
TAIWAN	5.3	17.1	0.8	7.3	-16	0.6	2.4
THAILAND	0.9	12.6	0.3	9.3	-36	0.8	3.4
TURKEY	2.2	35.5	1.5	31.3	50	**-6.1**	**-14.0**
VIETNAM	6.2	24.9	2.5	20.7	-78	0.2	-4.6
SHANGHAI	1.9	9.8	1.7	8.4	73	0.7	-0.5

All the markets are represented by MSCI indices, except for US (S&P500) and Shanghai.





- **We are getting more cautious in the short-term. Increased valuations along with less support from macro surprises as well as possible higher yields should put pressure on EMs.**
- **Beyond the short-term, the EMs are to benefit from supporting macro development, improved global trade momentum, relatively lower valuations, stabilizing oil prices. Risks come from geopolitical tensions, a sudden substantial re-appreciation of the USD and spiking US yields.**
- **We are constructive mid-term on EMs and still favor India along with Korea and CEE countries, while maintaining a prudent stance on China.**

In the last month, EM equities have increased (+2.4%). The top performer was Hungary (+8.4%), followed by Taiwan and India (both 5%). The worst performing ones were Mexico (-2.1%) and Russia (-1.7%). Hungary is benefitting from solid economic growth, which exceeded expectations, and a dovish central bank. The advance of the Indian stock market is led by stabilizing earnings momentum and a rally in telecom companies.

Overall, EM 2018 earnings have remained flat during the last month. The markets for which they have been upgraded significantly are: Hungary (+3.8%), Greece (+2.3%) and Poland (+1.4%). The earnings of the Russian companies have been downgraded by 3.5%.

Cautious stance in the short term seems warranted

Based on multiples, the EM stocks have become more expensive and are now fairly valued. The Chinese relative valuation is even more stretched. The stabilizing commodity prices are offering support, but the gap in performance between oil and EM prices remains unfavorable.

The EMs in the next year should benefit from economic activity following trend in both DM and EM. This, in combination with recovery and lower rates in Brazil and Russia, should contribute to another good year for earnings growth.

In the shorter term, we maintain a neutral positon on EMs due to increased overvaluations (both in terms of fundamentals and in terms multiples vs history) and the possible pressure coming from higher US yields. Another reason to be cautious in the short term comes from macro surprises oscillating at a relatively lower level.

As the Indian economy adjusts to past GST implementation, we witness a bounce back for the major indicators released in September. Furthermore, the earnings revisions have started to increase (timidly). The market is to be supported by a comprehensive recapitalization recently announced by the government. We remain constructive in the mid-term.

Asset Allocation

Thorsten Runde

- **Over the past weeks, a moderate risk-on mood prevailed on global financial markets with equities posting some gains.**
- **Core yields in Europe declined mildly on political uncertainties, whereas US Treasury yields inched up.**
- **Southern European spreads rose only temporarily amid concerns about the Catalan separatist vote and ended the period slightly tighter.**
- **Risk premia on euro area IG corporate bonds eased slightly, with non-financials moderately out-performing financials.**
- **Given the ongoing favorable macro backdrop for financial markets and major central banks continuing their policy normalization, the general setting re-mains favorable for risky assets.**
- **Thus, we stick to our pro-risk tactical positioning, but at a reduced degree, primarily due to already stretched equity valuations and potential upside surprises on US inflation.**

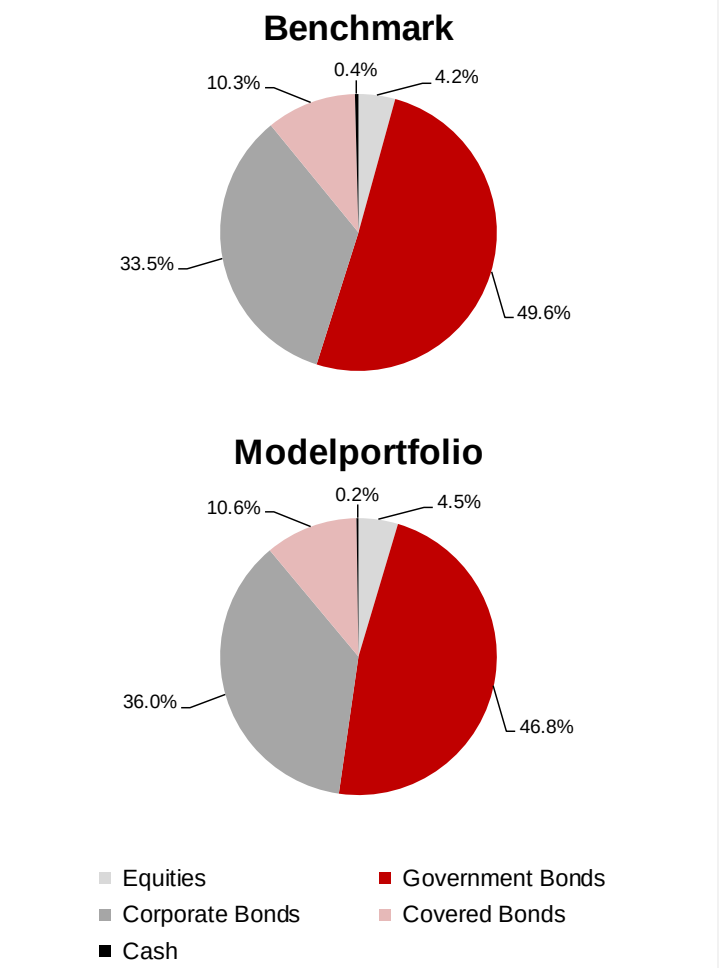
During the last few weeks, a modest pro-risk sentiment predominated on global financial markets. The developed equity markets of our investment universe revealed significantly positive performance figures. Core yields in Europe declined mildly on political uncertainties (German election, Catalan referendum). On the contrary, yields of US Treasuries moved slightly up, supported by a more hawkish perception of the Fed's rate outlook and a retrieved assuredness regarding the US tax reform. Southern European spreads rose only transitionally in the forefront of the Catalan separatist vote just to end the period slightly tighter. Risk premia on euro area IG corporate bonds eased slightly, with non-financials moderately outperforming financials. Against this backdrop, the latest recommended TAA portfolio was able to beat its benchmark.

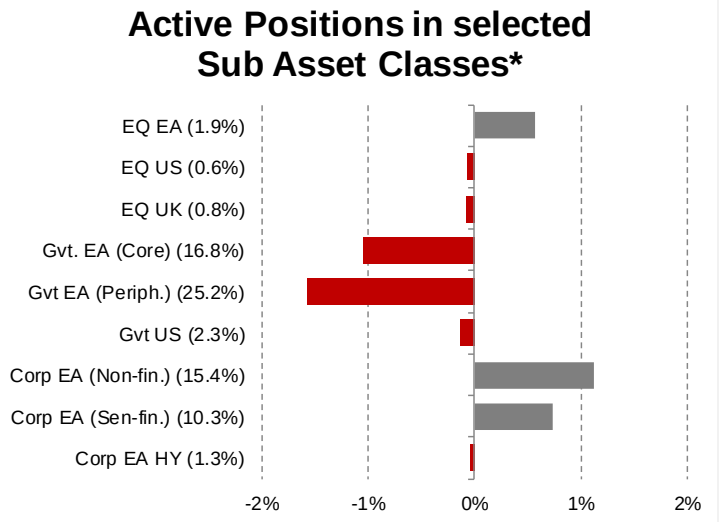
Reduced exposure to risk on a three-months view

Looking ahead, the favorable global macro environment (solid expansion, muted inflation) remains in place, lending support to risky assets. With major central banks normalizing their policy further, core yields should trend moderately upwards. Southern European sovereign spreads may re-widen somewhat in the months to come, with political uncertainties persisting. Spreads on euro area IG credit spreads are likely to remain contained near-term.

Having said that, already stretched equity valuations, in particular in the US, and very compressed high-yield spreads, have risen the risks of countermovements.

Against this backdrop we indeed basically stick to our tactical stance in favor of risky asset, but do at the same time recommend to reduce active positions.





Benchmark weights in parentheses

Forecast Tables

Growth

	2015	2016	2017f	2018f
US	2.9	1.5	2.2	2.3
Euro area	1.9	1.8	2.2	1.9
Germany	1.5	1.9	2.1	1.9
France	1.0	1.1	1.7	1.8
Italy	0.7	1.0	1.5	1.2
Non-EMU	2.4	2.0	1.8	1.6
UK	2.2	1.8	1.6	1.4
Switzerland	1.2	1.4	0.8	1.8
Japan	1.2	1.0	1.5	1.2
Asia ex Japan	6.2	6.4	5.9	5.9
China	6.9	7.1	6.7	6.3
Central/Eastern Europe	1.3	1.4	3.4	3.2
Latin America	- 0.5	- 1.5	1.0	1.9
World	**3.5**	**3.1**	**3.5**	**3.5**

Inflation

	2015	2016	2017f	2018f
US	0.1	1.3	2.0	2.0
Euro area	0.0	0.2	1.5	1.3
Germany	0.1	0.4	1.7	1.6
France	0.1	0.3	1.1	1.2
Italy	0.1	- 0.1	1.4	1.1
Non-EMU	0.1	0.7	2.4	2.5
UK	0.0	0.7	2.7	2.7
Switzerland	- 1.1	- 0.4	0.4	0.6
Japan	0.8	- 0.1	0.4	0.7
Asia ex Japan	2.4	2.6	2.2	3.1
China	1.4	2.0	1.6	2.3
Central/Eastern Europe	9.2	5.2	5.0	4.7
Latin America	6.2	6.3	4.3	3.7
World	**2.3**	**2.3**	**2.4**	**2.7**

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

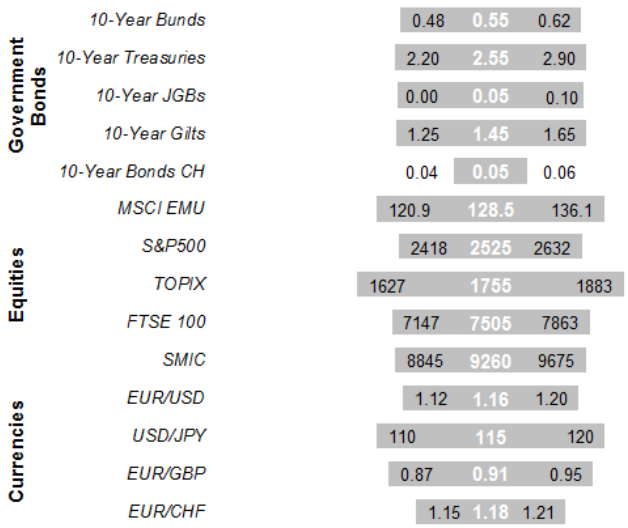
Financial Markets

3-month LIBOR	**26/10/17***	**3M**	**6M**	**12M**
USD	1.37	1.60	1.70	2.10
EUR	-0.38	-0.35	-0.35	-0.30
JPY	-0.04	0.00	0.05	0.05
GBP	0.41	0.55	0.60	0.80
CHF	-0.73	-0.75	-0.75	-0.75
10-Year Bonds	**26/10/17***	**3M**	**6M**	**12M**
Treasuries	2.44	2.55	2.65	2.80
Bunds	0.46	0.55	0.65	0.80
BTPs	2.02	2.30	2.60	2.65
OATs	0.87	0.95	1.00	1.10
JGBs	0.07	0.05	0.10	0.15
Gilts	1.38	1.45	1.55	1.70
SWI	-0.01	0.05	0.10	0.15
Spreads	**26/10/17***	**3M**	**6M**	**12M**
GIIPS	134	150	165	160
Covered Bonds	75	75	75	75

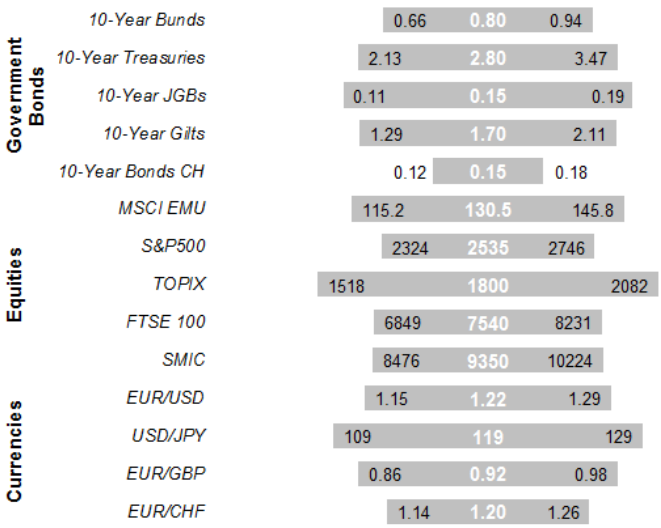
*average of last three trading days

Corporate Bond Spreads	**26/10/17***	**3M**	**6M**	**12M**
IBOXX Non-Financial	121	115	120	130
IBOXX Sen-Financial	109	110	120	120
Forex	**26/10/17***	**3M**	**6M**	**12M**
EUR/USD	1.18	1.16	1.16	1.22
USD/JPY	114	115	117	119
EUR/JPY	134	133	136	145
GBP/USD	1.32	1.27	1.26	1.33
EUR/GBP	0.89	0.91	0.92	0.92
EUR/CHF	1.17	1.18	1.19	1.20
Equities	**26/10/17***	**3M**	**6M**	**12M**
S&P500	2562	2525	2510	2535
MSCI EMU	128.3	128.5	128.5	130.5
TOPIX	1754	1755	1750	1800
FTSE	7487	7505	7455	7540
SMI	9160	9260	9260	9350

3-Months Horizon



12-Months Horizon



*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, exponentially weighted. The length of the bars within each asset group is proportional to the relative deviations from their mean forecasts.

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