Q3 2016 OUTLOOK
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Investment Strategy

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Growth is set to remain uneven and sluggish across major economies this year. It will stay above potential in the eurozone, narrowing the gap with the United States which should remain the strongest developed economy. Growth prospects in emerging markets should be somewhat better this year as the headwinds from tumbling raw material prices are easing.

The recent recovery in energy prices will exert upside pressure on headline inflation by end-2016, helping close the gap with ex-food and energy measures. In the US, the tight labour market has seen wages rise, further underpinning prices. In Japan and the eurozone, underlying measures suggest lower deflation risks although headline inflation remains negative.

The swings in US economic data and lack of guidance from the Federal Reserve have created great uncertainty as to when the central bank will resolve to hike interest rates. In Japan and the eurozone on the other hand, it is clear that policy settings will remain very accommodative for the foreseeable future.

Sizeable macro imbalances have built up across major economies, weighing on currencies like sterling and the dollar and boosting others such as the euro and yen. The Fed's hesitancy to hike has also encouraged USD selling. After a sharp correction in recent years, many emerging currencies look cheap.

Central banks remain active in global bond markets, even in the US where the Fed reinvests its holdings on maturity. With the European Central Bank (ECB) now buying corporate bonds, yields are set to remain under downward pressure. We highlight the relative attraction of eurozone corporate debt and US Treasury inflation-protected securities. The improving macro backdrop, stabilising currencies and attractive yields in local-currency emerging market bonds suggest they are worth revisiting.

Global equity valuations are high, although not extreme. Earnings growth has disappointed for a number of quarters and we expect only a modest recovery in profits this year. Overall, we believe that there are few catalysts for equities to move higher and continued volatility will warrant a cautious stance.

Diminishing mining supply and robust demand from emerging consumers and central banks still underpin gold prices. Recent supply disruptions in Nigeria and Iraq have combined with a modest decline in US oil production to push the barrel back towards $50. We expect oil to trade in a $40-50 range until year-end.

The volatile conditions this year have proved challenging for many actively-managed investment funds, including hedge funds. We still see opportunities in areas such as market neutral and merger arbitrage.

Spurts of growth are followed by soft patches in major economies, reducing investors' visibility about coming trends. The result is a combination of low bond yields, sluggish earnings growth and periodic spikes in volatility. In this context, we favour long-term investment themes and defensive portfolio diversification.

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Editorial – Stop and Go

One of the defining characteristics of this economic and market cycle has been the regular lament that we "lack visibility". On one level, this is no surprise – the future has never been predicted at any point in history with any degree of certainty. But we must recognise that the current cycle brings a number of new challenges. Perhaps it really is different this time?

One obvious difference has been the very low growth rate in the developed world since the Great Recession compared with previous decades. Since the US recovery began in late 2009, nominal GDP growth (i.e. real growth plus inflation) has averaged 3.6% per annum, in marked contrast to the 5.4% achieved between Q4 1991 and Q2 2008.

There are a number of contributory factors.

1. Productivity growth has slumped, due in part to under-investment by companies in their plant and machinery, but also to the difficulty statisticians have met in attempting to quantify the gains in productivity generated via new technologies (see p16 of Mind the Gaps, our December 2015 Outlook, for a fuller discussion).
2. Global trade volumes have also slowed, from over 5% per annum to an annual average of 2.2% over the past five years, as China's imports of raw materials have declined and more protectionist policies have begun to emerge.
3. Many governments, companies and households have attempted to reduce their leverage in order to repair their balance sheets, which has also contributed to slow growth.
4. Demographic trends in mature economies have seen population growth slow. Japan's population peaked in 2008 and has now started to decline, meaning that potential growth is no more than 0.4-0.5% at present.

In this context, central banks face a new set of challenges, which they have attempted to meet with a new set of tools – quantitative easing, targeted long-term refinancing operations, negative interest rates amongst others. The first central bank to attempt to normalise its monetary policy was the US Federal Reserve (Fed). Since the previous Chairman Ben Bernanke first suggested in May 2013 that Fed asset purchases might be "tapered" (i.e. gradually scaled back) sparking a market sell-off, investor expectations as to changes in Fed policy have fluctuated wildly. In a few short weeks this spring, the probability of a Fed hike in June rose from 4% to 35% before collapsing back to 0% on disappointing May job data. Bottom line – Fed Funds are still at 0.375% which leaves little firepower to deal with external shocks, let alone a recession.

Similar uncertainty has bedevilled equity analysts in recent years. The consensus estimate for European earnings growth has started at over 10% for each of the past four years before downward revisions pushed expectations lower and lower. According to current estimates, the annual rate of profit growth between 2013 and 2016 will average only 0.3%, illustrating just how difficult companies can find life in a low-nominal GDP growth environment.

This environment has created a number of distortions. Zero or negative interest rates have not been successful in encouraging companies to invest in plant and machinery. Rather, companies have tended to borrow to purchase competitors or to buy back their own shares. Such financial engineering can bolster asset prices in the short run but this comes at a high price – underinvestment depresses productivity growth and reduces future profitability. Hardly the desired outcome.

Also, central bank purchases of assets have boosted prices and depressed yields across global financial markets in a form of financial repression. Already, we estimate that 40% of outstanding eurozone sovereign bonds are trading at a negative yield to maturity, effectively eliminating the risk-free interest rate that many financial models are based on. And with corporate earnings growth stuck at historically low levels, rising equity prices in recent years have simply been achieved via rising valuations, meaning that future potential returns have declined.

The global economy will experience spurts and sputters, a Stop and Go environment. Central bank policy will have to adapt to the lack of clear trends and visibility. In this environment, we anticipate continued volatility and low returns from asset prices.

Sources: Societe Generale Private Banking, Datastream, Bloomberg as of 10/06/2016

Fixed Income

Rates: Fed – one step forward, one step back?

Times are tough for US policymakers. Since March 2015, the Federal Reserve (Fed) has been waiting to hike interest rates but global turbulence has delayed monetary tightening, leading to only one rate hike in December 2015, despite improvement in labour and inflation data.

Five months later, in early May 2016, the Fed still seemed in no hurry to signal a second move and market expectations for a June hike had almost vanished following disappointing GDP and payroll data. However, expectations suddenly rose a few days later when the Fed surprised with hawkish April meeting minutes (released on 18 May) and a series of statements pointing to an upcoming rate hike. Then the odds decreased again in early June, when poor job creation figures called the need for imminent tightening into question.

We still believe that conditions have been met for a less extreme monetary policy in the US. Labour markets have strengthened enough while underlying inflation – although no major threat – has been trending upwards. We expect headline inflation to be supported by base effects, and core inflation to stabilise around 2% thanks to a tight job market. However, we think the Fed will continue to err on the side of caution, making it unlikely to hike rates more than once this year.

Traditionally, US Treasury bond yields move in sync with changing monetary policy expectations. However, recently, long-term yields have been less sensitive to potential tightening than short rates, triggering premature curve flattening. The reason for this can be found in the "term premium", i.e. the extra yield required by bond investors to invest in longer-term securities. If we use the methodology developed by New York Fed economists Adrian, Crump and Moench (ACM), the premium is now negative and historically low. Basically, it is as if investors were "paying" to hold long-term bonds instead of being paid.

So why is the term premium so low? First, inflation and the US monetary policy are less uncertain than usual. Second, demand for US "safe" assets remains strong. Not only is the Fed still reinvesting maturing bonds but abundant global savings feed demand for US Treasuries. Also, ultra-accommodative monetary policies in other developed markets push investors towards US bonds. In the eurozone and Japan, central banks have further lowered rates and added to the existing quantitative easing. As a result, we have seen rising flows from these regions towards US Treasury bonds, offsetting Chinese outflows and keeping rates under downward pressure.

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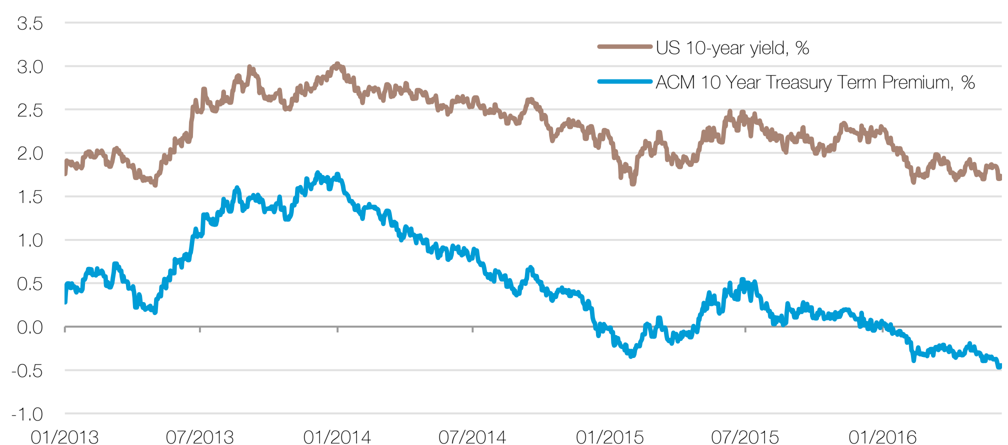
A depressed term premium keeps US 10-year yields low



Sources: Societe Generale Private Banking, Bloomberg. Data as at 07/06/2016

Such forces are likely to persist in the coming months, limiting the risk of a spike in interest rates. However, this may not prevent corrections and bouts of volatility. When Fed President Ben Bernanke announced the "tapering" of central bank bond purchases in 2013, the ACM term premium spiked from 0.2% to 1.6% in a few months and in H1 2015 it went up from -0.35% to 1.5%. With moderate but positive economic growth, inflation set to increase and expensive valuations, duration should be handled with caution. Maturity-wise, we prefer a combination of 2- and 10-year bonds over 5-year maturities given the latter's yields are rather low and more exposed to potential shifts in Fed expectations. We also think that US inflation-linked bonds (TIPS) offer the best opportunities as breakevens still underestimate future inflation.

In the eurozone, sovereign yields remain unattractive. On 7 June, almost 40% of the bonds within the BofA ML Euro Government Index showed a negative yield (source: Bloomberg), while the 10-year German yield stood at historical lows. Given the yield pickup and supportive fundamentals, we continue to prefer corporate to sovereign bonds (see credit section below). Within the latter, we would favour longer durations to grab some yield and avoid negative rates. The European Central Bank's (ECB's) extremely accommodative monetary policy is likely to underpin duration in the coming months. However, the ongoing recovery in the eurozone and base effects on inflation may reduce the need for significant ECB stimulus. The Public Sector Purchase Programme (PSPP) is scheduled to run until March 2017. The ECB will then assess the probability that inflation might move towards its 2% target and decide whether to maintain the scheme. Obviously, bonds would suffer if the programme were scrapped. And while it is still too early to talk of "taper tantrum" in Europe, investors should bear this risk in mind when investing in a low-rate environment. We still view peripheral bonds as a source of extra yield. Given the political and economic situation and the very slight difference in rates, we prefer Italian to Spanish bonds.

Forward projections are not an indicator of future performance

Credit: Demand trumps everything

Since its announcement by the European Central Bank on 10 March, few details had filtered about the Corporate Sector Purchase Programme (CSPP), a supplementary asset purchase scheme targeting investment-grade (IG) non-bank corporate bonds. Then, on 2 June, the ECB finally decided to 1/ start purchases on 8 June, 2/ broaden the definition of "credit institutions", and 3/ disclose the list of bonds bought every week without detailing individual holdings – interestingly, the ECB also confirmed it would be under no obligation to sell bonds should they become ineligible following a rating downgrade.

Monthly purchase targets are still to be disclosed, although the consensus is for something between €3bn and €10bn. If the ECB bought €5bn corporate bonds per month or €60bn per year, this would amount to roughly 25% of 2015 gross issuance of non-financial investment-grade bonds, and 45% net. Whatever the final figure, the ECB is likely to become a key buyer in a yield-hunting market, further supporting demand for credit products.

On the supply side, corporate bond issuance has already accelerated. After a slow start to the year in January and February, non-financial companies have returned to the primary market, expecting lower risk aversion and stronger demand. Consequently, EUR issuance so far in 2016 is similar to the same time last year. Companies also took advantage of the supportive context to extend debt maturity to the 9-year and over sector – that bracket accounted for over 40% of overall issuance in March-May vs 15% in January-February.

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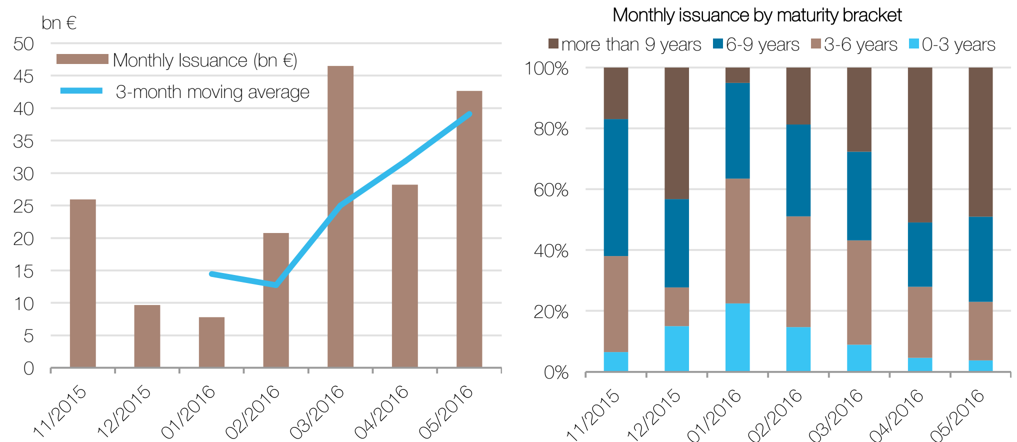
Interestingly, non-European companies still account for a large share of total issuance (almost 50%), which suggests to us that the stronger supply does not reflect a new wave of corporate releveraging in the Eurozone. Stronger demand, along with low defaults, will underpin credit markets. Although CSPP-eligible paper will be better shielded against volatility, both eligible and non-eligible bonds should be supported by the scheme, barring extreme events. We prefer eligible non-financial bonds to senior bank debt, although careful selection in subordinated bank debt could yield some interesting opportunities. The stronger demand will also benefit high-yield markets as yield hunters shift towards lower-rated bonds. However, it would be more advisable to grab extra yield by extending durations rather than increasing exposure to lower quality credit.

EUR IG non-financial issuance: larger volumes, longer maturities



Sources: Societe Generale Private Banking, Bloomberg. Data as at 06/06/2016.

The boost to credit demand will spread from Europe to the United States although the positive impact will be less noticeable there. The context is not as attractive in the US with weaker fundamentals. Also, valuations are less favourable now following a widespread tightening in spreads. The Barclays US Investment Grade spread now stands around 65 basis points (bp) below its February peak and only 55bp above its June 2014 lows (source: Bloomberg, 6 June 2016). High-yield (HY) spreads have also plummeted with the Barclays US HY spread down around 260bp from its February highs (source: Bloomberg, 6 June 2016). Higher oil prices can help explain the HY rally, given the size of the segment, but crude prices are now approaching the high end of our target range (see Commodities section p. 19). Also, HY commodity-related companies are still struggling. According to Moody's, the Oil & Gas and Metals & Mining sectors remain under heavy stress. Default rates will stay high in the coming quarters, and oil prices remain below the forecasts when bonds were first issued. Although stress in other sectors is less extreme, the situation remains worrisome – overall corporate leverage is increasing as debt is piled up and earnings remain low.

In summary, weaker fundamentals, neutral valuations and a possible pullback in oil prices reduce the odds of tighter US credit spreads in coming months. On the other hand, demand remains strong which will support markets – performance will be mostly carry-related. Short-dated non-energy high-yield bonds are best suited to this environment. Within the USD investment grade world, we still prefer banks to non-financial corporates for their stronger fundamentals.

Fixed-Income Theme
Chasing yield in EM debt

EM debt benefits from stronger fundamentals and the ongoing yield hunt

Since January, easing hard-landing concerns in China, stronger commodity prices and the end of the dollar bull-run have benefited emerging economies and markets (EM) – although not always to the same extent. We believe that this improvement in EM fundamentals will offset the risk of further Fed hikes and expect no market sell-off, unlike in summer 2013 when the Fed announced a reduction in asset purchases ("taper tantrum"). In addition, upside risk on US yields is limited and foreign investors have already slashed their exposure to emerging bonds since mid-2013.

Emerging debt is attractive for several reasons:

1. It remains one of the few bond segments offering an attractive yield pick-up.
2. Fundamentals remain supportive with stable or low public debt-to-GDP ratios in many countries.
3. Most emerging currencies have bottomed out and look fundamentally cheap.

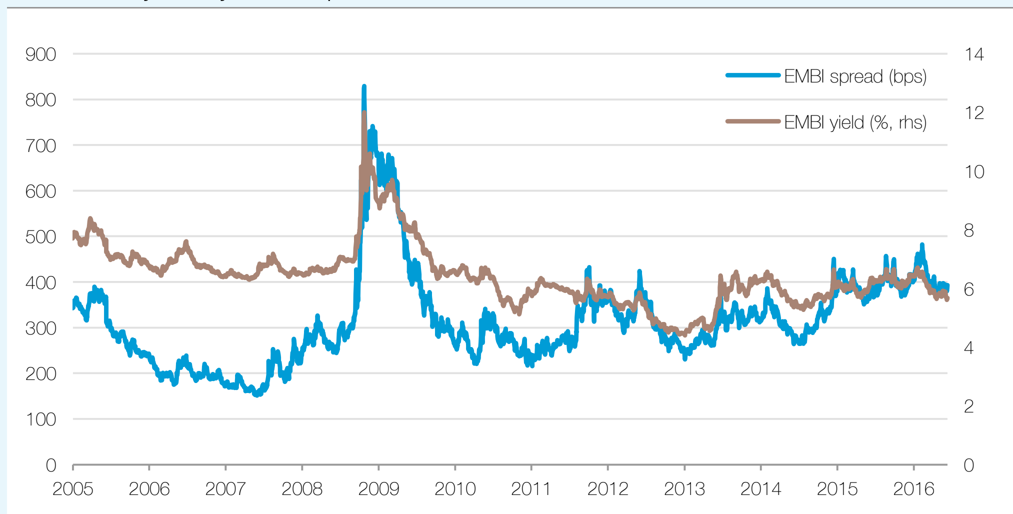
Given the rather poor earnings-per-share (EPS) growth prospects in global equity markets, emerging market bonds offer an attractive risk/return profile. And investors have already begun to return gradually to emerging bond markets as shown by the net inflows into bond funds year-to-date.

The main area of concern is the run-up in private sector debt in a handful of emerging countries, in particular in China. Caution is advised in those economies which combine domestic and external vulnerabilities (i.e. high current account deficits and private debt levels), such as South Africa and Turkey.

Investors can choose between bonds issued in hard currency or local currency.

1. Given stronger commodity prices should help limit the downside in emerging currencies, local-currency bonds are worth considering in a few countries including Brazil, Indonesia, Philippines, Romania and Russia. Unsurprisingly, these high-yielding markets are more risky and less liquid. They are also highly sensitive to both the global risk sentiment and domestic policy bias. However, current yields look attractive for those willing to play an economic recovery.
2. Hard-currency debt markets offer interesting opportunities but lower potential: we do not expect spreads to plunge, given risks are rather balanced between improving fundamentals and Fed hike prospects. While the carry (i.e. the pick-up in yields versus Treasuries) is attractive in the current context, short-maturity bonds are advised to limit interest rate risk. Hard-currency debt is worth considering in countries such as Indonesia, Mexico, and Peru.

Hard-currency debt: yield and spread since 2005



Source: Societe Generale Private Banking, Datastream (data as of 13/06/2016)

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Currencies

EUR/USD: Directionless

The euro will be left directionless as monetary policies have lost flexibility

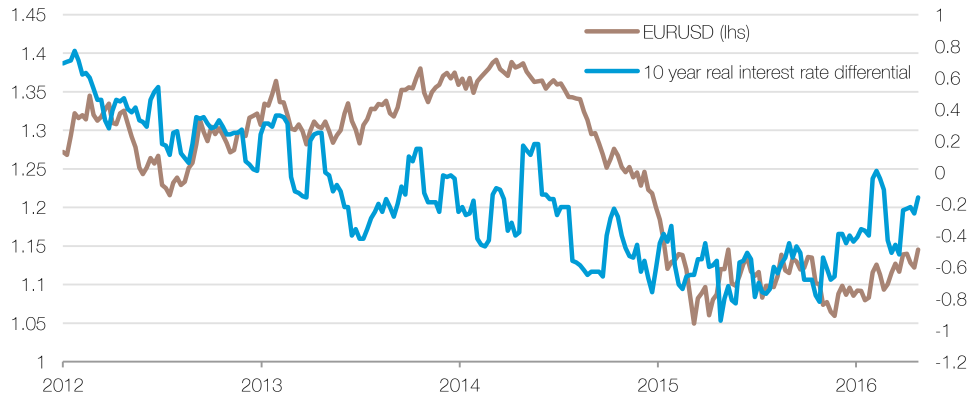
The US Federal Reserve (Fed) is blowing hot and cold but it's all down to fundamentals now. In shifting to a data-dependent policy last year, the Federal Open Market Committee (FOMC) indicated it would no longer provide forward guidance to anchor medium-term rate expectations. And that is why these declined following disappointing non-farm payrolls in June despite the Fed having highlighted the possibility for monetary tightening by this summer. We now expect the Fed to stay put until much later this year.

Across the ocean, the European Central Bank (ECB) has started purchasing corporate bonds and will embark on a second round of targeted long-term refinancing operations (TLTROs, which allow banks to borrow at negative rates provided they raise their lending to a given level) in late June. Extra easing is unlikely in coming months as the ECB will first want to assess the impact of current policy settings. Corporate lending is recovering slowly but this improvement will only extend very gradually to other sectors. The ECB is unlikely to cut rates further into negative territory as opposition is growing in the Eurozone and beyond – criticism is especially harsh in Germany despite the TLTRO programme. Negative rates are viewed as a drag on bank profitability and a challenge for institutional investors needing to generate returns for insurance-policy holders. For technical and political reasons therefore, the central bank is unlikely to ease further and only excessive currency appreciation might trigger an additional ECB rate cut.

After years of hyperactivity, both central banks have now hit the brakes. An ageing economic cycle and persistent global uncertainty prevent the Fed from moving ahead with monetary policy normalization at present, while the ECB could hardly do more. This will leave EUR/USD directionless this coming quarter.

All in all, we see EUR/USD trading around 1.13 in 6 months and 1.15 in a year.

Real interest rates have been driving EUR/USD lately



Sources: Societe Generale Private Banking, Bloomberg. Data as at 10/06/2016.

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GBP/USD: Sterling weakened by Brexit fears

UK referendum and slower growth to drive GBP lower

At the time of writing, the outcome of the June 23 UK referendum is more uncertain than ever. Sterling has recovered somewhat from late February when it hit a new 30-year low under 1.40. Investors fear cable could plunge 10-15% just after Brexit although losses would then be partially recouped. As a result, institutions have reduced their sterling exposure as they did before the Scottish vote and speculators are short GBP although not at extreme levels.

Even a vote to remain in the EU would only trigger a brief relief rally as the referendum campaign has weighed on UK economic activity, capped inflationary pressure and prompted investors to wait and see. As a result, the BoE will not act before the Fed – which is already quite dovish – and we expect no rate hikes before well into 2017.

All in all, GBP/USD should trade around 1.45 in 6 months and then edge up to 1.47 in a year.

EUR/CHF: Gradual weakening ahead

Further slide in CHF to depend on global factors

Although the shift to negative rates (currently at -0.75%) reduced upward pressure, the Swiss franc remains overvalued. The currency is supported by lingering deflationary pressures and a hefty current account surplus. Fears that Brexit might revive aspirations for independence in Europe would also reinforce its safe-haven status. However, these risks are not our core scenario and we view the potential upside for the franc as rather limited, especially as we think the ECB will avoid further deposit rate cuts.

Meanwhile, the Swiss National Bank (SNB) will keep a close eye on currency developments and stands ready to act more decisively should a stronger CHF foster deflation fears. Swiss foreign exchange reserves have crept up in 2015 as a result of periodic currency interventions.

A stronger recovery in the eurozone would also support the euro and relieve upward pressure on the Swiss franc.

All in all, EUR/CHF should rise to 1.12 in six months and then return to 1.16 in a year.

USD/JPY: Curbing upside forces

Yen to rise further unless BoJ extends non-conventional easing

Despite all their efforts, Japanese policymakers have not succeeded in stopping the yen's uptrend since early January – the currency is up 13% year-to-date against the US dollar. Even the unexpected shift to negative deposit rates in January backfired, triggering a further up-leg despite sovereign bond yields out to 10 years going negative. Obviously, markets are not convinced the Bank of Japan (BoJ) has the ability to escape from the deflation trap.

Lower inflation expectations and an uptick in domestic real rates have been instrumental in the yen's renewed strength. Retail and institutional investors have bought foreign assets in large volumes but they have also increased their hedging of foreign currencies, which has boosted the yen. In addition, the Fed's dovish stance has kept US yields low and weakened the dollar. Reported and forecast corporate earnings have been hit by yen strength, which has also encouraged companies not to grant pay rises, putting a lid on domestic wage growth, a key driver of inflation.

What could reverse the yen's strength? One possibility would be a series of Fed rate hikes which would widen the yield gap, although this looks unlikely in coming months. Another would be renewed meaningful easing from the BoJ to boost inflation expectations. However, the Japanese central bank has already used most of its ammunition and now holds around 32% of outstanding government debt securities – more than any other central bank. There is thus no certainty that the BoJ will extend non-conventional easing and risks remain tilted to the upside for the yen.

All in all, we expect the yen to trade around 108 in six months and 105 in a year.

USD/CNY: Sound currency management required

China will need a weaker yuan to meet the country's growth target in light of its currency's overvaluation

In August 2015 and January 2016, the Chinese central bank (PBoC) rocked global markets by miscommunicating its intentions – investors saw the bigger-than-usual cuts in the yuan-to-dollar fixing as the harbinger of larger-scale devaluation. This unexpected currency weakness spurred capital outflows leading to fears of further declines. As a result, the Chinese authorities decided in spring 2016 to commit to maintain some form of exchange rate stability. Markets eventually settled down when the PBoC raised the fixing versus the US dollar.

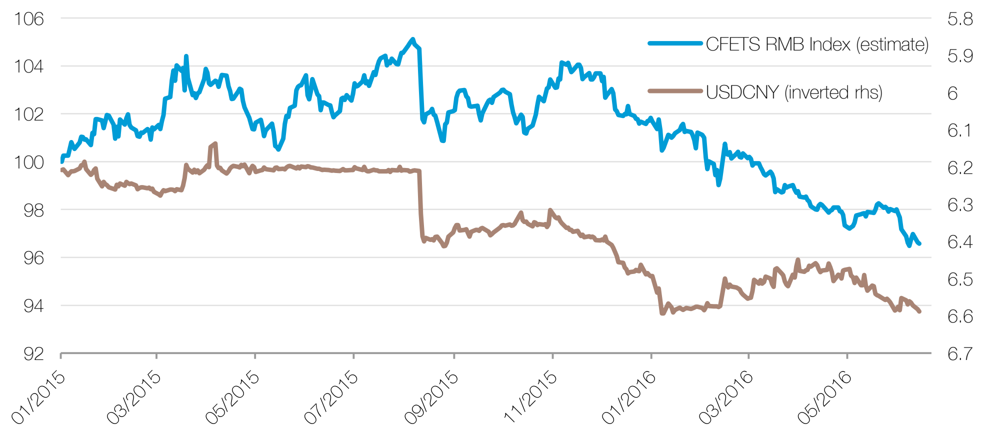
A stimulus package has helped to steady growth, dispelling hard-landing fears. Capital outflows have also receded but pressure will persist given the currency's overvaluation and the search for safe havens overseas. After a $800bn decline from their June 2014 peak, the country's foreign exchange reserves stabilized around $3.2tn in late May as authorities began to fight the capital leakage through stricter enforcement of existing regulations.

Taking advantage of calmer markets since late April, authorities have driven the yuan slightly lower versus the US dollar, which remains the prime focus for China's currency management. The currency is also down over 5% year-to-date versus its currency basket. Although the fall in the yuan's real effective exchange rate helped shore up external competitiveness and therefore growth, we think the CNY is still likely to slide further given its lingering overvaluation and potential further monetary easing by the PBoC.

China will struggle to reconcile the "impossible trinity" – it cannot achieve an independent monetary policy, capital account opening and a fixed exchange rate all at once. The PBoC may follow a stop-and-go approach – weakening its currency when market conditions allow and then opting for tighter currency management when turbulence returns.

Against this economic and political backdrop, USD/CNY should rise to 6.8 in six months and 6.9 in a year.

USD/CNY exchange rate vs CFETS RMB index



Sources: Societe Generale Private Banking, Bloomberg. Data as at 14/06/2016. CFETS = China Foreign Exchange Trade System

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Other emerging currencies: Supported by a dovish Fed

A move favourable global context will help some emerging currencies recover slightly from their current lows

Emerging currencies have bottomed out as their two main macro drivers have turned positive. First, commodity prices have edged up, especially oil which is up almost 90% since its January low. Second, the US dollar has lost ground against a basket of currencies, reflecting both the usual negative correlation to commodities and a more uncertain environment that will discourage the Fed from hiking too early. After a few quarters of slowdown, economic indicators have stabilized worldwide, providing a more favourable backdrop for global growth, in particular for emerging economies. Consensus growth

forecasts for this year and next have levelled off in emerging countries. In this improving context, emerging currencies will now become more sensitive to country-specific factors.

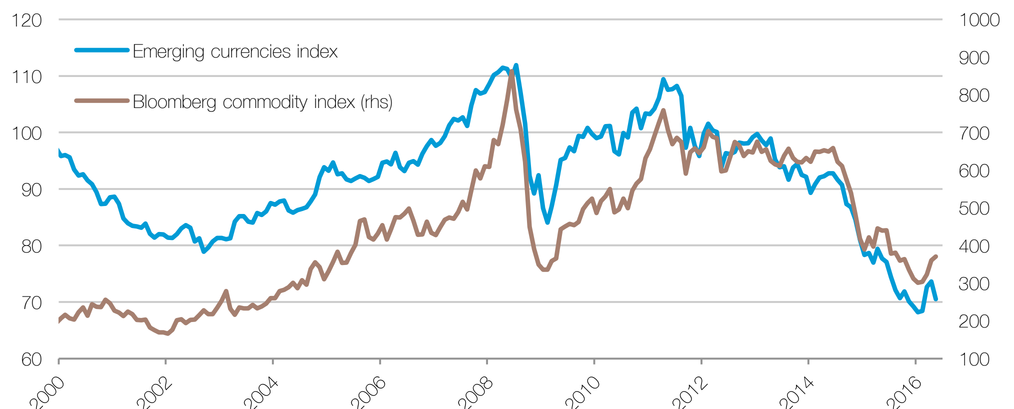
In Asia, China is obviously the key to the outlook given its trade relations and contribution to the regional supply chain. Despite worries about China's health and the CNY, Asian currencies have outperformed the rest of the emerging world recently. Looking forward, the renewed slide in the yuan we anticipate will counteract any strength in regional currencies in general, although there are some brighter spots. The Indian rupee (INR), for example, has lagged its counterparts year-to-date and could strengthen somewhat, supported by persistently strong growth, further improvement in the external balance and higher interest rates. Now that the presidential elections are over, the Philippine peso (PHP) could recover from its recent volatility, provided policy decisions comfort investors. The improving credibility of Bank Negara – the Indonesian central bank – should help support the higher-yielding Indonesia rupiah (IDR). The Malaysian ringgit (MYR) is more sensitive to risk appetite and commodity prices, and could see selling by investors should raw material prices fade.

In Latin America, the Brazilian real (BRL) staged an impressive bounce thanks to higher commodity prices and the presidential impeachment procedure. However, there is little upside potential left as policymakers will struggle to satisfy market expectations. If policy shifts towards fiscal responsibility and if inflation edges down, the currency should find some support, given that it is also helped by from high local yields. As such, downside risks will persist in case of disappointment. The Mexican peso (MXN) has done poorly so far versus both the US dollar and other emerging currencies. However, it now looks cheap and will benefit from decent growth prospects thanks to stronger manufacturing activity and commitment to fiscal discipline. This should encourage the central bank to hike key interest rates again, which would help the currency recover.

In the Europe, Middle East and Africa (EMEA) area, we would avoid currencies plagued with political uncertainty and unstable economic policies such as the Turkish lira (TRY) and South-African rand (ZAR). Growth prospects look bad and current account deficits have barely narrowed. This leaves both countries overly sensitive to the US Federal Reserve's decisions and to global risk appetite. In Russia, the rouble (RUB) is mainly an oil play. With bleak economic prospects and the possible extension of European sanctions, the outlook is not favourable for the currency. Given oil prices should now consolidate, we see no extra upside for the RUB.

In Eastern Europe, risks are to the upside as the European Central Bank (ECB) stepped up its easing in March and local central banks loosened their policies to avert currency appreciation. In particular, the zloty (PLN) and Czech krona (CZK) offer upside potential as growth in these countries will be supported by strong industrial demand from Germany. Even the Hungarian forint (HUF) could bounce if the central bank adopts a less dovish stance after its recent rate cuts.

After a sharp sell-off, emerging currencies have bottomed out



Sources: Societe Generale Private Banking, Bloomberg. Data as at 31/05/2016.

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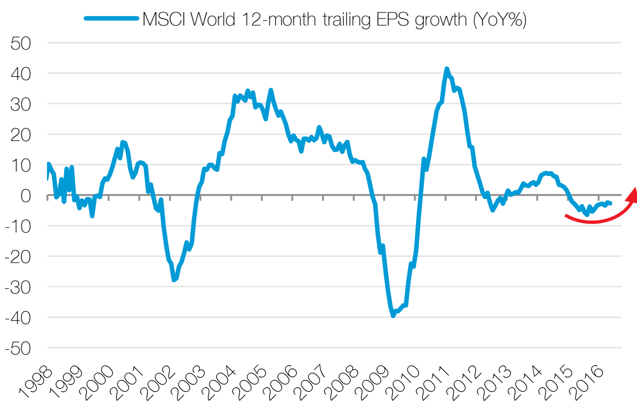
Equity markets

Bumpy road ahead

Global equity markets have recovered from their February lows, erasing part of the ground lost since their all-time high in mid-2015. At the time of writing, the MSCI World is up 1.6% in US dollar terms year-to-date but remains 7.5% below its 21 May 2015 peak. Over the same period, corporate profits have continued the downtrend initiated in mid-2014 following a slowdown in global trade and growth and a plunge in oil prices. Since their cyclical high in summer 2014 – at levels last seen in 2008 – the MSCI World's trailing earnings-per-share (EPS) have fallen 8.2%, mainly because of a 71.5% slump in energy companies' earnings.

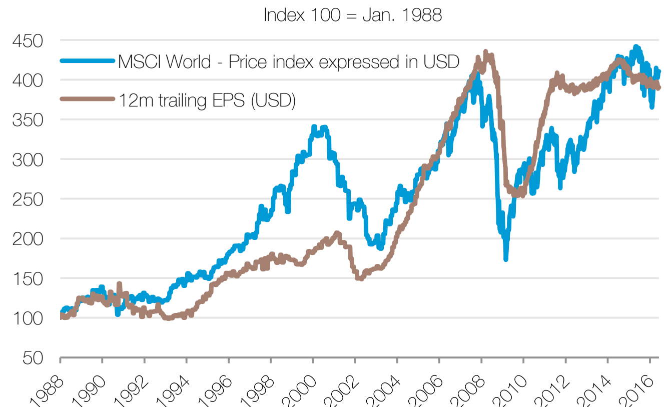
However, the headwinds have eased since the beginning of the year. EPS growth has hit bottom and should pick up in the coming quarters. Profit growth will benefit from higher commodity prices, positive base effects and economic improvement. However, with economic growth still weak, EPS should only grow in low single digits. The IBES consensus forecasts MSCI World EPS to grow 1.5% in 2016 after a 2.4% decline in 2015.

MSCI World EPS likely to grow in single digits this year



Sources: Societe Generale Private Banking, Datastream. Data as of 31/05/2016

MSCI World Price and EPS in the long term



Sources: Societe Generale Private Banking, Datastream. Data as of 08/06/2016

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

The outlook is less positive valuation-wise. With equity markets rallying these last four months and earnings falling further, valuations have become stretched, with most traditional ratios reaching cycle highs. At end-May 2016, the MSCI World's 12-month forward P/E stood at 16.9x, a 24% premium to its 10-year median and a higher level than before the Great Financial Crisis. It is only in comparison to other asset classes that global equities may still appear attractive (the MSCI World delivers higher free cash flow yield and dividend yield than developed government and corporate bond yields).

However, while global equities' absolute valuations are not extreme (for example compared to the late 1990s just before the tech bubble burst), the upside now seems limited given the moderate economic growth and earnings prospects for the next twelve months. Moreover, a heavy political agenda in the coming months (UK referendum, Spanish elections and US presidential election) and the uncertainty surrounding US Fed rate hikes are likely to cause higher volatility, which calls for greater caution on global equity markets.

United States

After a seven-year rally, the US market seems expensive. Most valuation metrics are above the cyclical highs last seen in the mid-2000s when a period of economic expansion preceded the Great Financial Crisis of 2008. With a 12-month forward P/E at 18.1x at end May 2016, the MSCI USA trades at a 28% premium to its 10-year median and is the most expensive amongst main developed

countries. Besides the high valuations, the upside potential could also be limited by the lack of strong catalysts in the coming months. Almost in line with the IBES consensus for the MSCI USA, we see corporate profits up 1.1% in 2016 after +0.4% in 2015. The positive drivers behind profits will come from gradual economic improvement, solid consumer spending and low interest rates while the main negative will be growing margin pressure (rising unit labour costs due to a solid job market, higher wages and weak productivity). This means that profitability will be under pressure across the board, not just in Financials and Energy.

Sector-wise, we favour Financials, sectors with domestic exposure and reasonable valuations (Telecoms) or supported by long-term innovation (Technology). Healthcare is supported by strong long-term fundamentals (ageing population, innovation, rising middle class in emerging countries), positive earnings prospects and high profitability. However, the US election campaign and the debate on drug pricing may convince investors to stand on the sidelines for now.

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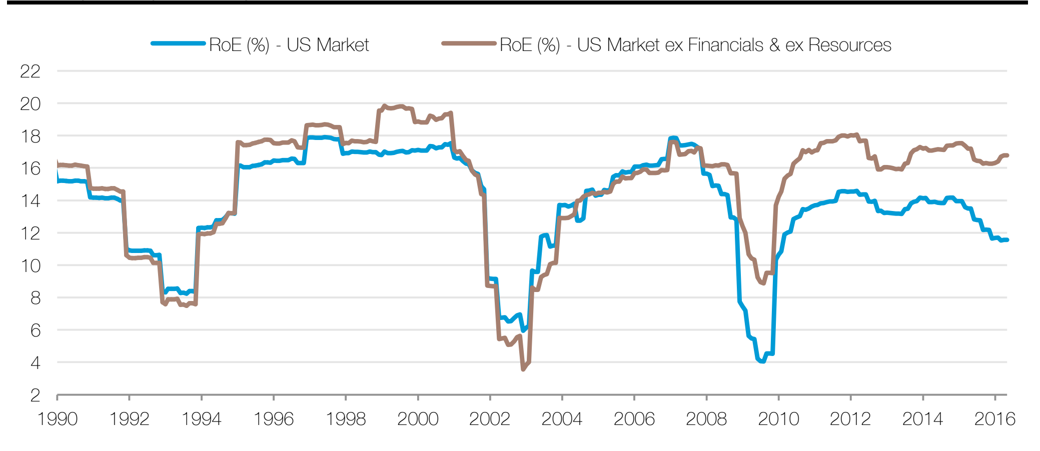
US corporate profitability: total and ex Financials & Resources



Sources: Societe Generale Private Banking, Datastream. Data as of 31/05/2016

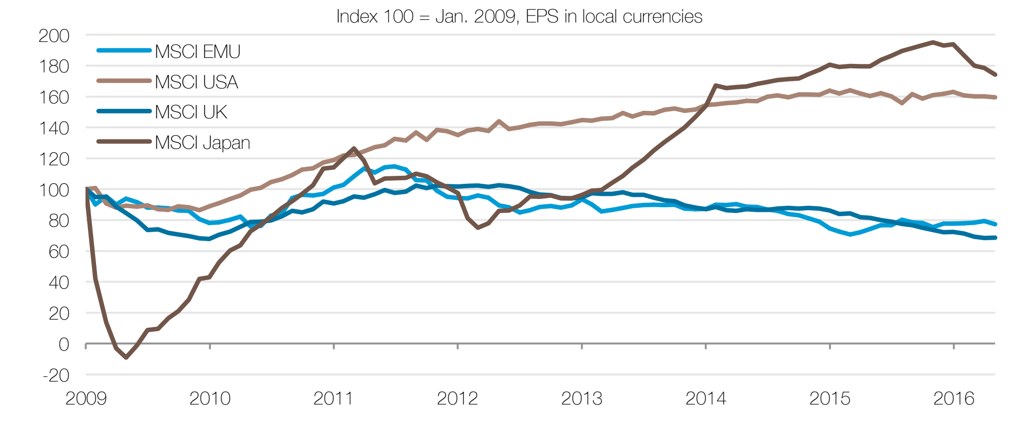
Eurozone

The ongoing economic recovery should be fed by the European Central Bank's (ECB's) ultra-accommodative monetary policy and more relaxed fiscal austerity from eurozone governments. Private sector credit growth further expanded in Q1 2016 thanks to very low interest rates, easier financing conditions and stronger consumer confidence coming from lower unemployment. Against this background, we expect a slow recovery in earnings this year amid weak global demand. The IBES consensus forecasts MSCI EMU EPS to grow +2.9% in 2016 after +6.4% in 2015.

However, weak company fundamentals should limit the upside on eurozone equity markets. Since the beginning of the global equity rally in March 2009, eurozone firms have significantly lagged their developed peers apart from the UK, a trend which only intensified with the European sovereign debt crisis. Between August 2011 and May 2016, the MSCI EMU saw its 12-month trailing EPS fall by nearly 36% against a 20% increase for the MSCI USA and +63% for the MSCI Japan. Ex-Financials, the MSCI EMU's return on equity is lower than the MSCI World's, mainly because of lower profit margins. Once short-term political risks are out of the way (Brexit, Spanish elections…), we will need to see sharper improvement in company fundamentals and a more stable euro (its nominal effective exchange rate is up 7% since April 2015 at the time of writing) to become more upbeat on eurozone equities for the coming 6 to 12 months.

Sector-wise, we favour sectors likely to benefit from the recovery in global consumption and from low interest rates, for instance Consumer Discretionary (good earnings prospects, a high return on equity and reasonable valuations) and Financials (real estate will continue to benefit from very low interest rates for long while recent ECB decisions should encourage credit growth, mitigating the impact of low rates on banks).

Earnings-per-share (EPS) in main developed countries



Sources: Societe Generale Private Banking, Datastream. Data as of 31/05/2016

Switzerland

We still see attraction in the Swiss equity market despite expensive valuations, given the very accommodative monetary policy, the recent pick-up in leading indicators and a sector breakdown tilted toward a few large-cap high-quality stocks in Healthcare and Consumer Staples, a useful defensive feature in volatile markets.

United Kingdom

At the time of writing, the outcome of the UK referendum is still unknown and a cautious stance on this market is justified by the risk of very high near-term volatility. However, on a 6 to 12-month horizon, we believe that sterling's effective exchange rate could remain under downward pressure because of twin deficits and an expected Bank of England status quo. As such, we would still favour large caps over smaller firms. Large multinationals – which generate most of their revenues abroad – should benefit from the weaker currency while domestically-oriented sectors could see their profits impacted by slower economic growth. Moreover, this year's recovery in commodity prices will benefit Energy and Materials, two key components of the MSCI UK index.

Japan

Prime Minister Abe's economic policy (Abenomics) and a weak yen have largely contributed to Japanese equities' strong outperformance these past three years. Economic reforms and improvement in corporate governance and company fundamentals will remain supportive in the longer term, but in the coming months a stronger yen, slower global trade and the BoJ's surprise announcement of negative interest rates at its late January meeting will weigh on company earnings, which have already fallen by 11% over the past six months. Moreover, the stronger yen has depressed inflation figures, undermining business, consumer and investor confidence. As we expect the yen to remain strong in the coming months and we have no details yet regarding the size and direction of the expected fiscal stimulus, Japanese equities may struggle to outperform in the coming months, calling for a more balanced stance.

Emerging markets

Emerging equities have underperformed developed markets by more than 50% over the past five years. We upgraded our view in the second quarter and still see value in these markets for the coming quarters. Despite persistently weak economic growth, anaemic global trade and the need for structural adjustments in many countries, emerging markets should, in coming months, benefit from the recovery in oil and commodity prices, a more stable Chinese economy, low rates worldwide and a dovish US Federal Reserve. However, we remain selective and still favour Asia over Latin America and EMEA, and low-volatility stocks to better navigate through volatile markets.

Equity theme

How demographic changes shape future spending

Population growth and ageing generate investment opportunities in several sectors

The world's population has boomed in a few decades, growing threefold from around 2.5bn people in 1950 to 7.3bn in 2015 according to the United Nations Population Division (UNPD). But with advanced economies now maturing and developing economies gradually catching up, population growth peaked a few years ago and has started to slow. The breakdown is also shifting rapidly. Against this background, it is important for investors to take fast-changing demographic trends into account.

The population will stop growing in developed regions – under its "medium" scenario, the UN estimates roughly the same population in 2060 as in 2015. Conversely, it is expected to increase by almost 50% in less developed regions over the same period, underpinning demand in many sectors. Companies involved in basic products (e.g. food and beverages) or consumer staples (household and personal products) will see stronger demand in the coming years. Moreover, the rise of the middle class will boost various technological and industrial sectors including Telecoms and Transportation.

Another key trend shaping the demographic transition is population ageing. The proportion of the population over 65 (65+) will continue to grow fast. According to the UN, they will account for 23.5% of the US population in 2060 against around 15% today and 12.5% in 1990. In Europe, the percentage will rise to 28.4% from 17.6% today and 12.7% in 1990. The trend will be even more marked in Japan and China. We see two channels through which these dynamics will impact consumption:

a) Live longer – be active longer: the newly retired will be in good shape and active, supporting discretionary consumption of various products and services, including cosmetics, cars and general leisure services.

b) Live longer – care more: as these retirees age, they will spend more on healthcare products and services. Medication use will increase and so will demand for other personal care products (e.g. hearing devices or eye care). Meanwhile, private and public spending on hospital and care services will also grow. Finally, older people will need to be taken care of in specialised senior housing structures – more and more nursing homes will be necessary.

The demographic shift is already underway, creating opportunities for tomorrow. Identifying the right trends will be crucial for long-term investors.

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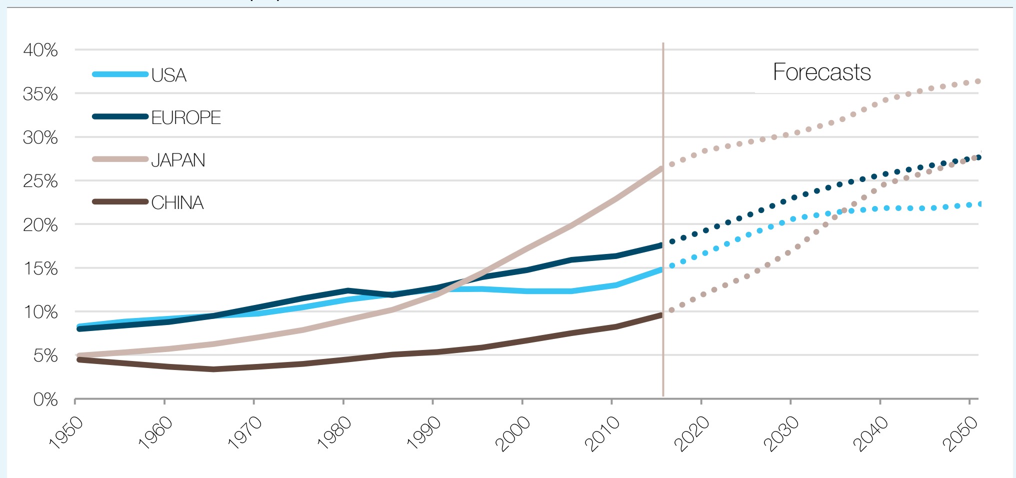
Share of 65+ as a % of population



Source: Societe Generale Private Banking, United Nations "World Population prospects: the 2015 revision". Data as of July 2015.

Equity theme

Climate change – The global shift towards energy efficiency

The world's transition to an energy-efficient and low-carbon economy will create long-term investment opportunities in a wide range of sectors

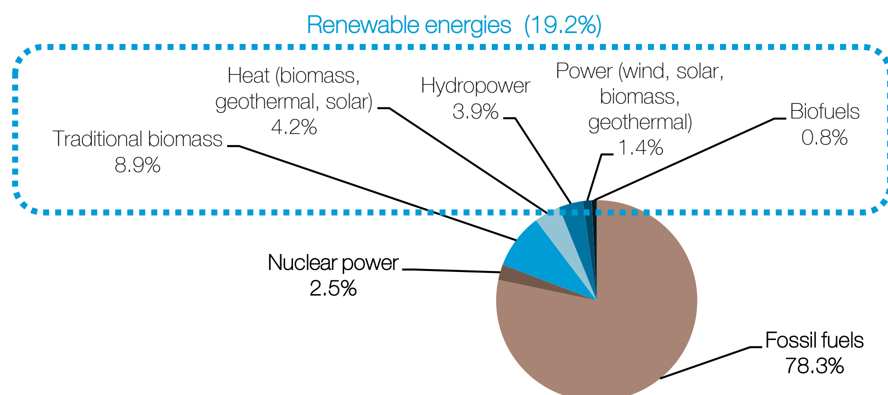
Growing concerns over the increase in greenhouse gas emissions and their impact on global warming are understandable given that world population growth will be accompanied by continued urbanisation. The United Nations foresees a population increase to more than 10 billion people by 2060. With no change to the current trends, global energy consumption and carbon dioxide (CO_2) emissions would double by then as they did from the early 1970s to 2013, according to the International Energy Agency (IEA). This would be devastating for the environment, forcing us to reconsider how we produce and consume energy.

As the largest source of greenhouse-gas emissions, the energy sector (two-thirds of emissions result from energy production and use) is most concerned by global efforts to reduce reliance on fossil fuels (oil, coal and natural gas). For instance, oil accounts for 40% of total energy consumption (IEA figures). Given that world fossil fuel reserves are limited, one of tomorrow's major challenges will be to shift towards more sustainable sources of energy, especially through a wider use of renewable energies. 2015 set the trend with renewable power capacity up by 147 gigawatts (+8.7% from 2014), the largest annual increase on record.

The good news is that governments have stepped up efforts to favour green growth and energy efficiency. Last December, at the COP21 climate change conference in Paris, 195 countries committed to restrict CO_2 emissions in order to keep temperature increases below 2°C compared to pre-industrial levels. Also, a minimum $100bn per year will be transferred from developed to developing countries to help them improve their infrastructure. According to IEA estimates, reaching the COP21 goal will require a cumulative investment of $13.5 trillion in low-carbon technologies and energy efficiency by 2030. 60% should be invested in energy-efficient technologies in the transport, building and industry sectors, while the remaining 40% will be dedicated to decarbonising the power sector, by investing in wind, solar and hydro power.

Bottom line, the world's transition to a low-carbon economy will offer investment opportunities in a wide range of sectors. Companies developing activities to curb climate change, such as renewable power capacity (e.g. onshore wind farms, solar photovoltaic systems), waste and pollution, low carbon players and energy efficiency (e.g. electric transportation, energy-efficient buildings and appliances/lighting/equipment) should all benefit from this long-term trend.

Energy consumption in 2014



Source: Societe Generale Private Banking, REN21 (data as of June 2016).

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Equity theme

Time for emerging challengers to conquer the world

Emerging heavyweights are investing more aggressively in emerging and developed markets

After two decades of multinationals chasing growth and market share in fast-growing emerging economies, we are now seeing this trend in reverse with large emerging companies looking to conquer the world. By expanding into mature markets overseas, emerging heavyweights are mimicking the strategies successfully followed by Japanese and Korean companies in past decades.

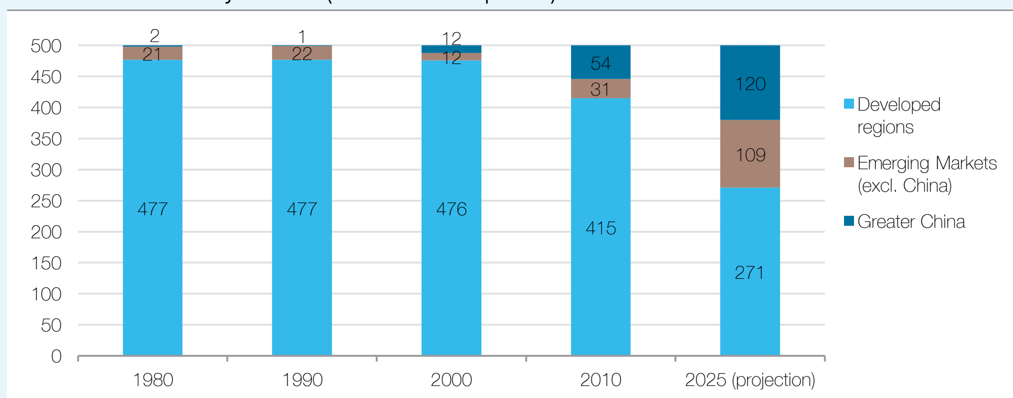
Once large emerging companies have reached a sufficiently strong domestic market share, they can begin to consider going global. There are many reasons to do so – beyond simple appetite for expansion.

1. The fast growth in the emerging market middle class is pushing companies to upgrade products and services, focusing on quality and brand rather than costs.
2. Their fast-expanding domestic base is giving them more revenue visibility.
3. They are often more profitable than their mature counterparts in the developed world thanks to lower labour and regulatory costs. Some companies may also focus their international expansion on other emerging economies where they have a clear cost advantage.
4. Many emerging heavyweights are largely owned or controlled by a family or by management, enabling them to take a long-term view, which requires strong commitment and patience given that the return on their investment may be slow.
5. By expanding internationally, they can improve their brand image and attract new talent, creating a positive feedback loop in their domestic market.

However, global expansion will not be smooth. Developed market multinationals have learned from their experience in emerging markets and often derive strong competitive advantage in non-price areas such as quality, innovation or brand recognition. Challengers going global may face harsher competition from competitors determined to defend their domestic and regional franchises. Finally, overseas expansion is a costly challenge for companies which could be ill-prepared to manage global teams.

But some emerging heavyweights are now better equipped to achieve global success, in interesting markets such as Africa. Many sectors offer investment opportunities. For example, Chinese information technology companies specialising in services and hardware could expand further overseas and are often already listed abroad. Another interesting sector is telecommunications as developed market multinationals are selling their emerging market assets to local players. In chemicals, emerging companies could continue to gain large market shares abroad. China's "One Road One Belt" scheme – a programme introduced last year to boost trade links with its neighbours – will fund development for construction and logistics companies and open up frontiers for them in Southern Asia, Central Asia, the Middle East and Europe. In consumption, we see strong growth opportunities in Food & Beverage and in consumer discretionary items such as home or electronic appliances.

Fortune Global 500 by location (number of companies)



Source: Societe Generale Private Banking, Source: McKinsey (data as of 14/06/2016).

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Hedge funds

Patience is a Virtue

Contrary to our expectations, hedge funds have continued to struggle to achieve their target returns in the light of the high volatility recorded since end 2015. However, we continue to see attraction in allocating to managers who do not simply rely on the direction of asset prices to generate performance. In addition, they can represent a good independent source of returns in terms of portfolio construction.

Equity Long / Short. Our outlook for global equity markets (see page 12) continues to suggest a challenging combination of spikes in volatility and modest upside potential. In this context, the most promising areas for managers are to be found in Market Neutral and Variable Bias strategies. As its name suggests, the former involves a careful balance between long and short positions in order to minimise the sensitivity to the direction of the underlying market. In recent months, the dispersion of US equity returns has risen back to levels last seen in 2012, which suggests better opportunities for this segment. In addition, Variable Bias managers – who have the flexibility to adapt their portfolio to changing equity market trends – are well placed to take advantage of any rallies but are also able to reduce their directional exposure during drawdowns.

Event Driven. May 2016 was another strong month for corporate takeovers – the busiest in Europe since July 2007 – which suggests an improving opportunity set for Merger Arbitrage strategies. In addition, the premiums available between share prices of acquirers and their targets have increased, meaning that each deal is potentially more profitable for arbitrageurs. However, it should be noted that there is a high concentration of deals in healthcare, which does introduce a measure of political risk given the focus on drug prices and healthcare spending in the US presidential campaign. There is also a rising number of opportunities in Special Situations – however, we would caution that these positions are very much more sensitive to the direction of equity prices. Also, investors should beware of the risk of concentration, especially in some less liquid areas of the market. Within the Event Driven category therefore, we continue to prefer Merger Arbitrage.

Credit / Distressed Debt. In recent months, the correlations between different Credit sectors have risen, suggesting that certain macro drivers – such as global growth fears, or the slump in oil prices – are key focal points for traders. On the other hand, correlations between regions remain low, meaning that global funds should be preferred to local players. The opportunities in Distressed Debt investing are growing as the number of defaults on debt obligations begins to rise. According to Standard & Poor's, the rating agency, 70 issuers have defaulted on $148bn of debt so far this year, as opposed to 106 issuers for $108bn for the whole of 2015. Some diversified Credit fund managers have begun to hike exposure to this area. Overall, Credit still provides attractive « carry » (the pick-up in yields over Treasuries), notably in longer duration Investment Grade and selected High Yield bonds.

Global Macro / Commodity Trading Advisor (CTA). Diversified Global Macro funds have tended to struggle in the choppy market conditions in place since late 2015. And because certain key macro drivers have dominated trading, correlations between funds have risen – managers may be running different positions but as the catalysts are the same, meaning few diversification benefits. The most promising area appears to be for managers who focus on emerging markets, where correlations are lower, as are valuations. Systematic traders such as CTAs started the year strongly but have since given back some of their gains. However, such managers provide an excellent source of uncorrelated returns when compared with other hedge fund strategies or with traditional asset classes.

Prospective investors should be aware that they are exposed to the credit risk of the product issuer throughout the term of the investment product and that if the product issuer were to default, for example by becoming insolvent or failing to pay the redemption amount on the maturity date, then investors may receive nothing back, or an amount that is less than their initial investment.

In conclusion, we believe that patience will be rewarded when allocating to the Hedge Fund sector, with a particular focus on Market Neutral, Merger Arbitrage, Credit and long-term CTA strategies.

Sources: Societe Generale Private Banking, Datastream, Bloomberg as of 15/06/2016

Commodities

Consolidation ahead

Gold prices picked up in early 2016, ending the downtrend initiated in September 2012. Gold demand hit 1,289.8 tons in the first three months of 2016, the strongest quarter on record. The surge mainly resulted from huge inflows into gold Exchange Traded Funds (ETFs), amounting to 363.7 tons, as investor concerns about the global economy translated into a flight to safe-haven assets. The rise to a seven-year high is all the more impressive considering that the past three years have seen regular outflows from gold ETFs (see chart below).

Gold prices have remained stuck in the $1,200-1,300 range so far this quarter as concerns about global growth have eased somewhat. Also, the US Federal Reserve's (Fed's) hawkish comments about rate hikes pushed prices to the bottom of this trading range in the second half of May. But there are some supportive factors that will persist.

1. Negative yields on large volumes of bank deposits and sovereign bonds make gold an attractive store of value.
2. Demand from central banks and consumers should remain high in emerging markets.
3. Despite the easing of growth fears, global economic momentum remains sluggish.
4. Adding gold to portfolios makes sense as a diversification tool in asset allocation.

Downside risks come from the normalisation in the Fed's policy, as a stronger dollar usually means lower gold prices. But as monetary tightening will only be gradual, downward pressure should be contained, and we believe gold prices will continue to hover around $1,250 in 6 months and $1,300 in a year.

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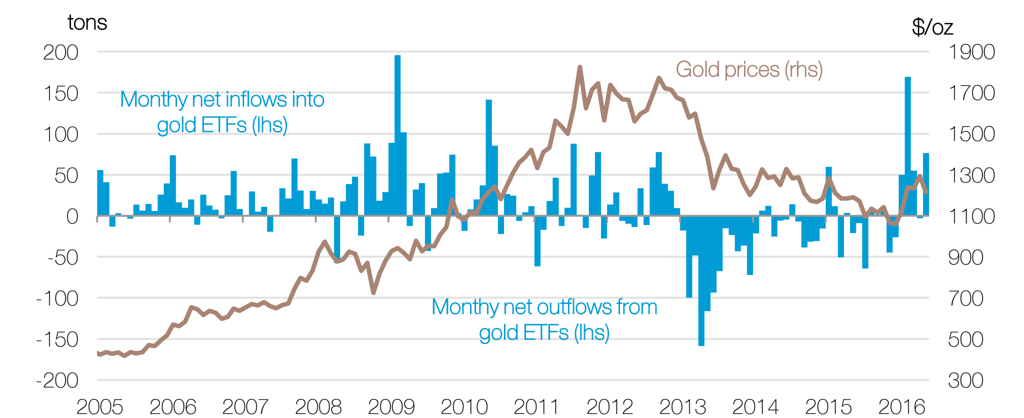
Gold ETFs – back into fashion



Source: Societe Generale Private Banking, Bloomberg (data as of 31/05/2016).

Oil has been among the best performing assets since the beginning of the year. Prices almost doubled from their January lows. The sharp rise mainly results from supply disruptions in Nigeria, Canada and Venezuela that have cut back total production. Despite Iran's unexpectedly quick return to the market, global crude oil supply has fallen to 95.3 million barrels/day in May from 96.7Mb/d last August. The outage was of such magnitude that OPEC saw no need to freeze output at its April and June meetings, although this could have improved market sentiment. If disruptions become less frequent, oil prices will soon pull back. But with US oil production declining steadily, we still expect gradual supply/demand rebalancing in the second half of 2016. On the other hand, $50 is the average breakeven price for US shale producers, so any move above this level would boost production, and in turn limit the upside. Bottom line, the barrel should trade in a $40-50 range until the end of H1 2017.

Tactical and strategic themes: open strategies

Inception date	Conviction	CUR	Strategy description	Time horizon*
27/11/2014	Blue gold (Water)	EUR	Many regions of the world face large water supply disruptions. Water remains underpriced.	Strategic
27/11/2014	Sustained upturn in the German housing market.	EUR	High demand and short supply have led to an increase in German property prices. However, residential housing still looks affordable compared with London and Paris.	Strategic
13/03/2015	Higher shareholders' return should further sustain Japanese stocks	JPY	Shareholder returns are clearly the main structural and cyclical factors supporting Japanese stocks. When companies launch share buybacks, their performance is more resilient to external shocks.	Strategic
13/03/2015	Internet of things: are you connected?	USD	The inexorable advance of the Internet of Things will change our lives - again.	Strategic
13/03/2015	Chindia (China & India) : becoming global leaders	USD	China and India are set to shape the future of the global economy given their size, favourable growth prospects and their increasing global footprint.	Strategic
01/06/2015	Fed rate hike will warrant change in US investment style	USD	With the Fed gradually tightening its policy, expensive growth sectors will come under pressure in the medium term. Switch to US value stocks.	Tactical
01/06/2015	Infrastructure: building the future	EUR	With global infrastructure spending set to double by 2015, stocks exposed to long-term dynamics of population growth and urbanization will enjoy an increase in revenues.	Strategic
24/09/2015	Inflation linkers: Useful TIPS	USD	Market prices for forward inflation levels in the US are well below our expectations	Tactical
24/09/2015	Dividend Futures: after the summer storm	EUR	Systematic selling of dividend futures by investment banks creates an attractive opportunity with no exposure to market direction	Strategic
24/09/2015	Industrial Internet: the 4th revolution	USD	A revolution in Big Data capture and analytics to power a new era in industrial processes	Strategic
04/12/2015	Surviving Disruption	USD	Focus on high quality companies with clear growth prospects	Strategic
04/12/2015	Convertible bonds - the best of both worlds	EUR	Upside participation and capital preservation in one package	Strategic
04/12/2015	US credit: prefer banks to corporates, floating to fixed	USD	Favour Banks over non-financial companies in the US	Tactical
04/12/2015	Edge Funds	USD	Enhanced performance potential with rising dispersion, volatility and interest rates	Strategic
24/03/2016	ILS: True diversification	USD	Diversify risks and returns through an uncorrelated asset class	Strategic
24/03/2016	Big is better	USD	Small caps tend to deliver poorer returns at times of sluggish growth, rising volatility (illiquid risk) and currency weakness – Favour US and UK large caps	Strategic
24/03/2016	Favour low-volatility emerging stocks in uncertain times	USD	Low-volatility stocks tend to deliver higher returns in the long run except when equity markets rise sharply	Strategic
24/03/2016	The Gold rush	USD	Gold mining stocks are a good way to benefit from the gold price recovery	Tactical
15/06/2016	How demographic changes shape future spending	EUR	Population growth and ageing generate investment opportunities in several sectors	Strategic
15/06/2016	Climate change – The global shift towards energy efficiency	USD	The world's transition to an energy-efficient and low-carbon economy will create long-term investment opportunities in a wide range of sectors	Strategic
15/06/2016	Chasing yield in EM debt	USD	Improving fundamentals and attractive yield pick-up make this asset class appealing	Tactical
15/06/2016	Time for emerging challengers to conquer the world	USD	After two decades of multinationals chasing growth and market share in fast-growing emerging economies, the trend is reversing with large emerging companies looking to conquer the world	Strategic

Sources: Societe Generale Private Banking, on 15/06/2016

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

Denotes a change from our previous quarterly

Closing strategies

Inception date	Conviction	CUR	Closing rationale	Type
01/12/2013	European banks beauty contest (Bonds)	EUR	▪ With the ECB now buying eligible non-financial bonds, senior bank bonds are unlikely to overperform going forward	Strategic
19/03/2014	TOPIX - Multiples rerating still underway	JPY	▪ After 3 years of strong outperformance, some tailwinds have recently reversed ▪ In the medium term, a stronger yen, slower global trade and the BoJ's surprise announcement of negative interest rates in late January will weigh on company earnings ▪ Investor are losing confidence in Abenomics as inflation returns below zero ▪ We prefer to take profits and close the strategy	Strategic
12/06/2014	Eastern Europe back in the game	EUR	▪ Positive factors faded ▪ Time to close this theme and to open a broader EM debt strategy	Strategic
01/06/2015	Fed rate hike raises volatility	USD	▪ The Fed is expected to be more cautious going forward	Tactical

Sources: Societe Generale Private Banking, on 15/06/2016

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Global economic forecasts

GDP and CPI forecasts

% changes yoy	Real GDP*						CPI*					
	2014	2015f	2016f	2017f	2018f	2019f	2014	2015f	2016f	2017f	2018f	2019f
World (Mkt FX weights)	2.8	2.8	2.7	3.0	2.6	2.2	2.7	2.2	2.2	2.9	3.0	2.7
World (PPP** weights)	3.4	3.1	3.1	3.5	3.3	3.0	3.6	3.4	3.0	3.6	3.7	3.2
Developed countries (PPP)	1.8	1.9	1.8	2.0	1.4	0.8	1.4	0.3	0.9	1.9	2.1	1.9
Emerging countries (PPP)	4.5	4.0	4.1	4.5	4.6	4.4	5.3	5.6	4.6	4.9	4.8	4.0
Developed countries												
US	2.4	2.4	1.9	2.3	0.9	0.0	1.6	0.1	1.3	2.4	2.7	2.2
Euro area	0.9	1.5	1.6	1.5	1.3	1.0	0.4	0.0	0.4	1.7	1.6	1.5
Germany	1.6	1.4	1.6	1.5	1.4	0.9	0.8	0.1	0.5	1.8	1.7	1.5
France	0.2	1.2	1.5	1.5	1.3	1.0	0.6	0.1	0.4	1.7	1.6	1.5
Italy	-0.3	0.6	1.1	0.9	0.8	0.5	0.3	0.1	0.6	1.8	1.7	1.5
Spain	1.4	3.2	2.5	1.7	1.6	1.2	-0.2	-0.6	-0.2	1.6	1.5	1.4
UK	2.9	2.2	1.8	1.6	1.4	1.1	1.5	0.0	0.7	1.9	2.2	2.0
Japan	-0.1	0.6	0.7	1.6	1.3	1.2	2.7	0.8	-0.1	0.9	1.5	2.0
Switzerland	1.9	0.9	1.3	1.7	1.6	0.9	0.0	-1.1	-0.4	0.7	0.9	0.8
Australia	2.7	2.5	3.0	2.9	3.2	2.0	2.5	1.5	1.3	2.2	2.5	2.4
Emerging countries												
China	7.3	6.9	6.5	6.0	5.5	5.0	2.0	1.4	2.1	2.5	2.2	2.0
South Korea	3.3	2.6	2.8	3.0	2.9	2.5	1.3	0.7	1.2	2.3	2.0	1.8
Taiwan	3.9	0.6	1.3	2.6	1.3	0.5	1.2	-0.3	1.4	0.9	0.9	0.6
India***	6.0	7.2	7.5	7.3	7.6	7.8	9.4	5.8	4.9	4.9	4.7	4.6
Indonesia	5.0	4.8	5.0	5.5	5.9	5.6	6.4	6.4	4.2	4.5	4.5	4.1
Brazil	0.1	-3.9	-4.2	-0.8	0.4	0.8	6.3	9.0	8.7	6.4	6.0	5.6
Mexico	2.2	2.5	2.4	2.3	1.6	0.4	4.0	2.7	3.0	3.2	2.9	3.0
Chile	1.9	2.1	2.0	2.2	2.1	1.7	4.4	4.3	4.2	3.4	3.1	3.0
Russia	0.7	-3.7	-1.1	0.4	0.9	1.0	8.6	15.2	7.0	6.0	5.2	4.5
Poland	3.3	3.6	3.4	3.6	4.0	2.8	0.0	-0.9	-0.8	0.5	1.0	1.5
Czech Republic	1.9	4.3	2.1	2.5	2.7	1.9	0.4	0.3	0.6	1.8	2.2	1.8

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

Sources: SG Cross Asset Research / Economics, IMF (data published on 31 May 2016)

Forecast figures are not a reliable indicator of future performance

Market performance

Developed equity markets performance *(in local currency)*

	Current level	1m total return	3m total return	YTD total return	12m total return
S&P500	2096	0.8%	5.9%	3.6%	1.8%
DJ Euro Stoxx 50	2911	-1.3%	0.7%	-8.2%	-14.3%
FTSE100	6116	0.0%	2.6%	0.2%	-6.8%
Topix	1331	-0.3%	-0.6%	-13.1%	-16.6%
MSCI AC World ($)	401	0.7%	5.3%	1.9%	-4.8%

Developed bond markets performance *(in local currency)*

		1m total return	3m total return	YTD total return	12m total return
Citigroup US Sovereign 3-7y		0.3%	1.8%	3.6%	5.0%
Citigroup Germany Sovereign 3-7y		0.2%	0.8%	1.8%	3.3%
Citigroup UK Sovereign 3-7y		0.3%	1.1%	3.3%	5.0%
Citigroup Japan Sovereign 3-7y		0.1%	0.4%	1.4%	2.0%
	Yield to maturity				
BAML Corp Euro IG	0.96%	0.6%	2.8%	3.8%	4.9%
BAML Corp Euro HY	4.63%	1.6%	4.5%	4.7%	2.7%
BAML Corp US IG	3.00%	1.1%	5.0%	6.6%	7.1%
BAML Corp US HY	7.50%	2.3%	7.3%	9.1%	1.0%
BAML Corp UK IG	3.00%	2.0%	6.1%	6.7%	8.2%

Emerging equity markets performance *(in USD)*

	Current level	1m total return	3m total return	YTD total return	12m total return
MSCI EM	824	2.4%	4.9%	4.6%	-13.4%
MSCI EM Asia	406	3.9%	4.9%	1.3%	-13.1%
MSCI EMEA	230	2.1%	5.9%	11.1%	-12.7%
MSCI Latam	2110	-4.4%	3.7%	16.8%	-15.0%

Emerging bond markets performance *(in USD)*

	Yield to maturity	1m total return	3m total return	YTD total return	12m total return
BAML EM Sovereign	5.00%	1.3%	4.9%	8.4%	8.3%
Asia	3.97%	0.7%	4.1%	9.1%	9.5%
EMEA	4.33%	1.1%	3.8%	6.1%	7.5%
Latam	6.29%	1.8%	6.8%	11.5%	8.9%
BAML EM Corp	4.86%	1.2%	4.9%	7.3%	4.8%
Asia	3.41%	0.9%	3.5%	5.4%	6.4%
EMEA	4.48%	1.2%	4.5%	6.6%	8.2%
Latam	7.16%	1.7%	7.3%	10.9%	0.3%

Source: Societe Generale Private Banking, Bloomberg, Datastream (data as of 10/06/2016)

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

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

Forecast figures are not a reliable indicator of future performance

Market performance and forecasts

Currencies	Performance YTD	Current	6-month forecast	12-month forecast
EUR/USD	3.6%	1.13	1.13	1.15
USD/JPY	-11.1%	107	108	105
EUR/CHF	-0.2%	1.09	1.12	1.16
GBP/USD	-3.3%	1.43	1.45	1.47
EUR/GBP	7.2%	0.79	0.77	0.78

10-year yields	YTD change	Current	6-month forecast	12-month forecast
(in local currency)	*basis points*			
USA	-12	1.6%	2.5%	2.8%
GER	-10	0.0%	0.7%	1.0%
UK	-5	1.4%	2.1%	2.5%

Commodities	Performance YTD	Current	6-month forecast	12-month forecast
Gold in USD	19.9%	1274	1250	1300
Oil (Brent) in USD	43.0%	49	45	50

Equities *(in local currency)*	YTD Total return	Current	6-month forecast	12-month forecast
S&P 500	3.6%	2096	2050	2000
DJ Euro Stoxx 50	-8.2%	2911	2800	2900
Topix	-13.1%	1331	1310	1350

Source: Societe Generale Private Banking, Bloomberg, Datastream (data as of 10/06/2016)

BAML : Bank of America Merrill Lynch
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