



Investment Strategy

April 2018



OVERSEAS

AN INVITATION
TO TRAVEL



OVERSEAS
CHRONOGRAPH



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TABLE OF CONTENTS

Introduction

- 4 Letter to Investors – Investment climate

« Big picture »

- 5-6 Key Convictions

Economic scenario by region

- 8-10 Global Outlook
11-15 United States
16-19 Switzerland
20-23 Eurozone
24-26 United Kingdom
27-28 Japan
29-30 China
31-32 United Arab Emirates
33-35 Emerging markets

Prospects and strategies by asset class

- 38-40 Currencies
41-43 International Bonds
44-45 Swiss Bonds
46-48 International Real Estate
49 Swiss Real Estate
50-52 International Equities - Regions
53 International Equities - Sectors
54 Swiss Equities
55 Swiss Equities - Sectors
56-57 Commodities
58 Alternative Investments - Hedge Funds & Private Equity

Global strategy - Asset allocation

- 60 CHF Portfolio
61 EUR Portfolio
62 USD Portfolio

Investment themes - Focus

- 64-67 The temporary fall in industrial metals is an opportunity

INTRODUCTION

Letter to Investors – Investment Climate

- Slight economic dip, but excellent prospects for 2018
- Renewed volatility forecast for financial markets
- Interest rates, inflation and the “trade war” push prices down
- High equity valuations have now corrected
- More attractive new investment opportunities

The first quarter 2018 saw our forecasts of renewed volatility on financial markets proven accurate. After a January still shaped by investors' optimism, robust American economic data suddenly revived fears of interest rates rising faster than expected. Employment figures suggested that inflation would likely pick up the pace in 2018, which could have led the new Federal Reserve chief to announce that monetary policy would be tightened up over the year. The more uncertain investment climate has gone hand in hand with an increase in inflationary forecasts and a change in the evaluation of risks in a context of weakened financial markets. However, on a macroeconomic level, signs have been rather favourable throughout the quarter. Global growth should exceed +4% in 2018, and remain robust in 2019. Developed economies should benefit from a sustained trend and post economic performances of nearly +3%, while emerging markets, particularly China (+6.5%) and India (+7.2%), will also help strengthen the global economic cycle. The renewed volatility seen in the first quarter is not therefore linked to fresh fears of an economic slowdown as has often been the case. On the contrary, it is the impact of the current strength of the economy on monetary policies and interest rates which has investors concerned. In our January strategy document, we had mentioned that the rise on equity markets had recently pushed valuations up to levels that were unsustainable in the long term. We believed that this represented a significant risk of price correction in the current environment. Such valuations therefore had to undergo adjustments, which, in the end, were sparked by the fresh fears of interest rate hikes. The last few weeks of the quarter were still shaped by new uncertainty caused by the US president's desire to impose new customs tariffs on certain imports, particularly Chinese aluminium. Fears of a trade war between the United States and China have fed profit-taking, which had not completely stopped on 31st March.

Equity markets have therefore suffered a two-phase drop. The first phase was caused by fear of rate rises, and the second by the risk of a trade war between the two largest global economies, with potentially serious consequences. The US market quickly slid nearly -10% from its peak in January, and we think it has yet to find its happy medium as of the end of the quarter. The drop in March was exacerbated by the change in perception of prospects for certain key assets in the technological and digital sectors. Tesla (-35%), Facebook (-21%) and Google (-15%) assets, for example, ended up undergoing considerable profit-taking, which went as far as to wipe out all of their gains of the past twelve months. Overall, the investment climate deteriorated, affecting most financial markets. In the end, the latter posted negative performances over the three months. American equities lost -3%, which was a little less than European equities (-3.6%) and Swiss equities (-6.8%), which fell to levels seen in the 1st quarter 2017, also wiping off any

growth over the past few quarters. The second quarter should be a little calmer, with the publication of company results which should be positive and provide encouragement for the second half of the year. The VIX indices, volatility and risk indicators, should also stabilise after having increased in line with expectations. We believe that in the short term, with yield approaching 3% for ten years, the US bond market is offering better opportunities, particularly compared to the European market, on which the risks of capital losses are growing with each step closer to the end of European quantitative easing.

In terms of currencies, the improvement in the international economy will have an increasingly clear impact on national inflation levels and interest rates. The SNB is continuing its expansionary policy, which will cause the Swiss franc to weaken slightly more against the euro, even though it is likely that the intensity of euro purchases will tail off temporarily as we approach the 1.20 threshold. The forecast correction to Bitcoin for 2018 has already clearly materialised; it fell from US \$20,000 to US \$6,000 over the period, though this did nothing to dampen the speculative enthusiasm for cryptocurrencies. In 2018, the economic environment should be particularly favourable for commodities for reasons specific to most individual commodities. This suggests a lack of balance between supply and demand, as well as changes in inventories, often favourable to further price rises.

At current financial market valuation levels, we believe that risks have finally fallen. After having recommended caution and reduced allocations of risky assets, we now believe that new opportunities have presented themselves. The coming months should be put to good use to recover market assets, taking advantage of more attractive valuation levels.



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Partner
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BIG PICTURE

Key convictions

- Global GDP growth may exceed + 4% in 2018
- Inflation and interest rates are still factors of uncertainty
- Price correction relieves valuations too high
- Finally, new investment opportunities in the 2nd quarter
- A context also favorable for real estate and commodities

Global GDP growth may exceed + 4% in 2018

Despite a noticeable economic slowdown at the beginning of the year, the outlook remained very favourable. In 2018, global growth should exceed +4% and ought to remain strong in 2019. Developed economies should benefit from sustained momentum and should register positive economic performances close to +3%. Meanwhile, the global business cycle, particularly in China (+6.5%) and India (+7.2%), should also be strengthened by the emerging market. Doubts over a trade war starting between the US and China have fuelled investors' fears, concerned about the possible repercussions of escalating measures taken by the two parties, which obviously could have a very negative impact on world trade. We believe that these concerns have been overestimated and favour a less pessimistic analysis at this time. Although it is true that the US president's decisions will inevitably encounter some resistance in China, it seems that none of the measures planned so far would have any real impact on global growth. Thus, we maintain a positive outlook on expected economic developments for upcoming quarters with a growing probability of seeing a global growth rate above +4% in 2018.

Inflation and interest rates are still factors of uncertainty

2018 will likely see a generalised strengthening of inflationary expectations worldwide. The prevailing view still focuses on stronger growth prospects and accommodating monetary policies. Although there is more and more talk in the euro zone of an upcoming change in policy when inflation will exceed 2% in particular, in many other countries, inflation has already exceeded that objective. Thus, 2018 will be characterised by growing awareness among populations and consumers that the global economic cycle – as well as national and regional cycles – has asserted itself with a positive impact on employment, household confidence, investment and inflation. Policymakers will be careful not to impose tighter monetary policies too soon, but this position directly implies that central banks will wait for strong evidence of accelerating prices before taking the risk of launching new policies that might then aim to counteract the upward trend in prices. In 2018 and 2019, investors will likely rediscover this factor that was discounted in previous years in times of deflation to assess their possible impact on the development of key rates and nominal rates. Inflation will thus once again become a factor of uncertainty when pressures on the employment market and developments in commodity prices start to support the rise of the various price indices.

Price correction relieves valuations too high

A few months ago, we warned that the high valuation levels of several equity markets posed a threat to the current upward trend's continuation. In this respect, the US market was one of the most generously valued with stocks in the technology and digital sectors trading at multiples that were deemed particularly excessive. We reckoned that the favourable economic environment was relatively widely recognised and integrated in earnings growth expectations, as reflected by the often-high levels of P/E multiples for instance. The price correction that was once again triggered at the end of the quarter with the emergence of new risks of a trade war between the US and China may be likely to create the expected opportunities for a possible repositioning. The valuation of S&P500 stocks has indeed dropped to 16.5x expected earnings for 2018 with a fall in the index to 2,550 points, while the valuation of European and Swiss values is below 14x and 15x 2018. At this time, we do not consider this risk as a major factor influencing corporate profitability trends. Consequently, while this uncertainty may cause a little more volatility in the next few weeks, it may also improve valuation levels and provide new medium-term investment opportunities.

Finally, new investment opportunities in the 2nd quarter

The corporate earnings season that is beginning may provide an opportunity to compare the share price corrections of the last few weeks with real opportunities for corporate earnings growth in the context of strengthening global economic activity in upcoming quarters. The correction to financial markets, starting in January 2018, was similar for Eurozone and US equities in the end. The price correction was not particularly intense, but it came at a point when the revaluation of European equities was far from over. We do not believe the approximately 25% valuation differential between US and European assets to be justified in a financial context which is also favourable for European assets. In terms of dividend yield, European assets also seem much more attractive, offering twice the yield of US assets. These elements enhance European equities' attractiveness that should be positively influenced by the return of foreign investors. After recommending taking profits on all positions held in developed and emerging markets a few months back, we now believe that price consolidation during the quarter has provided new opportunities for investment, especially in the euro zone and in emerging markets, in China and India in particular. US equities' valuation premium could persist in the next few months, but there is little chance it will now grow. However, US shares also provide opportunities for repositioning in Q2, which we nevertheless feel are a little less attractive.

A context also favorable for real estate and commodities

Indirect real estate has also suffered from the change in risk perception and has been subject to some price pressure in a global context of returning uncertainty and risks of rising rates. Long-term interest rates will likely follow an upward trend in the next few months, although we feel progress will remain insufficient to have a long-lasting impact on the valuation of real estate investments or even compete with this asset class in investment diversification strategies in most regions.

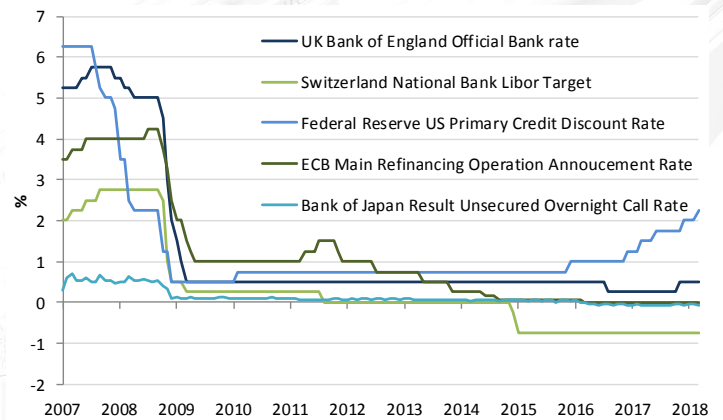
Yield spreads (or risk premiums) between long-term interest rates and indirect real estate returns have decreased slightly during the quarter, due mainly to rising long-term rates in the last few months. They remain attractive by historical comparison, in particular in the euro zone and Asia. In the US, valuations have improved but competition from the risk-free bond yield is restricting the growth of REITs. However, the US real estate market may hit back in the next few months with a recovery phase to catch up with other developed markets. Real estate returns in the euro zone and Asia appear more attractive again, supporting new investments in this segment.

With regards to commodities, volatility did not spare this asset class in February, but the quarter remains positive (+1.5%) despite the returning uncertainty. The S&P GSCI has thus outperformed the S&P Stocks Index (-2.5%) again this quarter, posting a satisfactory relative result of +9.7% over the nine past months. The international economic cycle is strengthening and global growth prospects beyond +4% will likely turn out to be a strong supporting factor for commodity prices in 2018. The positive development of global demand led by the industrial recovery will have a growing impact on the energy, industrial metal and precious metal segments. In these three sectors, investment has been rather weak in the past few years. Thus, we will likely see the supply and demand curves come closer together and even intersect in some cases, particularly in the oil sector.

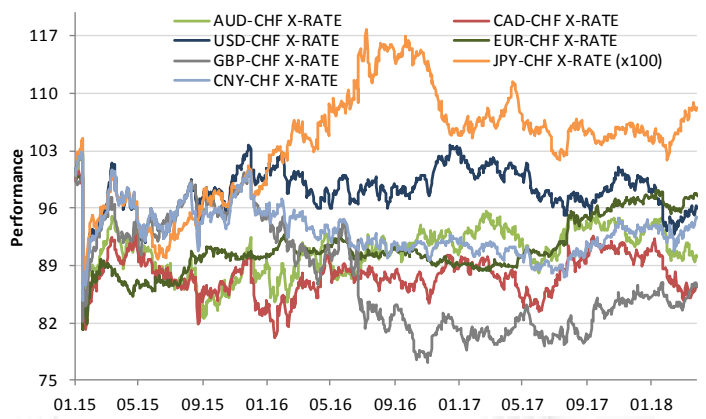
The drop in CAPEX and lower production capacities in several sectors (energy, gold, silver, industrial metals) will affect market balance more heavily in 2019 and will likely help create conditions for a sustainable bull market. Commodities have a tendency to outperform other asset classes when the economic cycle intensifies and inflationary pressures appear. In our minds, the current situation is particularly favourable for commodities to resume outperforming most other asset classes.

At a time when investors are once again concerned about the risks of interest rates rising and inflation resuming, it is important to highlight the rather positive correlation between this class of assets and those two factors.

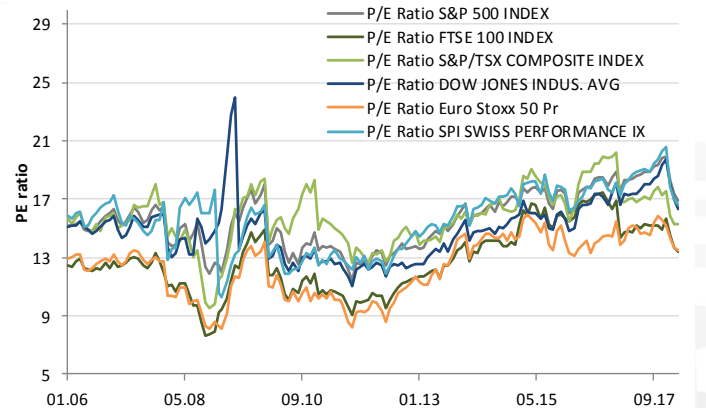
Central Bank rate (EUR, CHF, GBP, USD, JPY)



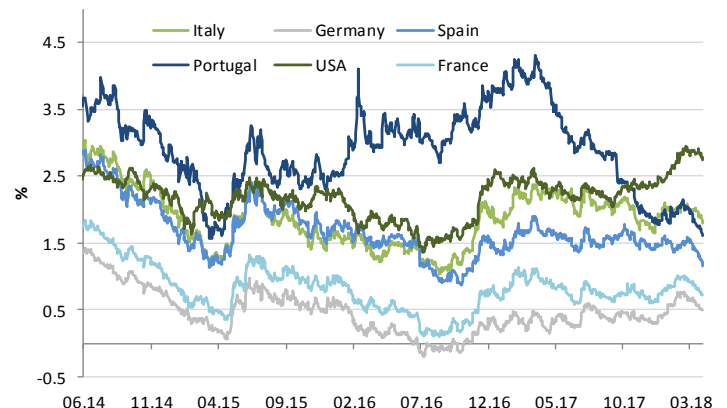
7 Major currencies against CHF (Normalized at 100)



Price/Earning Ratios in developed Markets



Government Bond yield (10 year)



MACROECONOMIC SCENARIO



MACROECONOMIC SCENARIO

Global Outlook

- Decelerating US growth ?
- Euro zone maintains sustained pace of growth
- Slowdown in economic activity in the UK
- Strength of yen threatens Japanese economy
- Upward revision of growth expectations for Swiss GDP



Decelerating US growth ?

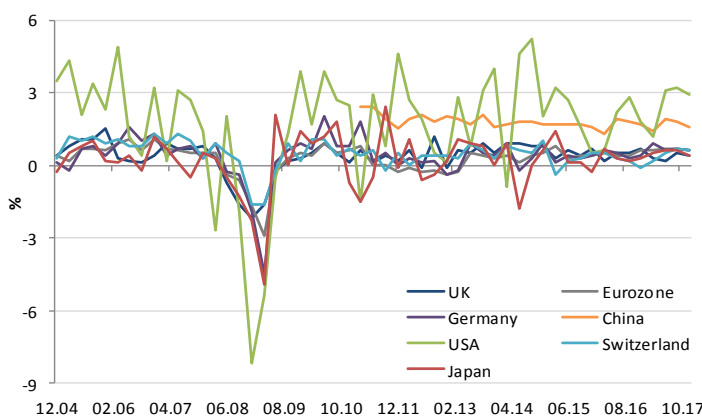
The US economy closed the year with an annualised growth rate (+2.5%) below that of the 3rd quarter (+3.2%). 1st quarter growth should come in close to +2.4%, somewhat treading water at the start of the year when compared to 2017's figures and the hopes of the economy picking up the pace in 2018. However, the Federal Reserve has not seemed particularly concerned at this rather sluggish start to the year, as yesterday it again raised its target for 2018 to +2.7%. In our forecasts at the start of the year, we mentioned that the US economy had very rarely been able to post two consecutive quarters of growth above +3% since 2000. At the time, we suggested that this pace could undoubtedly not be sustained in 2018, and that we should see a dip in the GDP growth rate. This seems to be what has been happening over the past two quarters. In fact, leading indicators point to economic activity bolstering in 2018. First of all, American consumers should have their minds put at rest by the influx of positive economic news and the increasingly favourable situation on the jobs market. The rise in personal income should further prop up household spending in the longer-term in 2018. In terms of investment, recent economic developments have affected production capacity levels, which will certainly spark new investment in a rather favourable context for company margins. In March, manufacturing PMI bounced back to 55.7, after having dwindled to 55.3 in February. It has therefore remained high, while the ISM Manufacturing Index hit a ten-year high (60.8) in February. Non-manufacturing indicators also dipped, such as the ISM Global which dropped from 59.9 to 59.5, remaining close to its highest point over the past ten years. Services PMI slid from 55.9 to 54.1 in March. It seems reasonable to expect the current trend to continue over the coming

quarters, propped up by factors that are already having an influence, unless the risks of a trade war, sparked anew by the introduction of customs duties in the United States, weaken the economic situation. Gradual rate rises should have a limited impact on GDP in 2018. However, expectations are high, and will undoubtedly only be fulfilled if US consumers are up to the task. The Federal Reserve is more confident than ever in the US growth outlook and raises its forecasts for 2018 + 2.5% to + 2.7%, and those for 2019 + 2.1% to + 2.4%. In its analysis of current conditions, it notes a temporary drop in momentum in the first quarter that does not question her vision for the whole year.

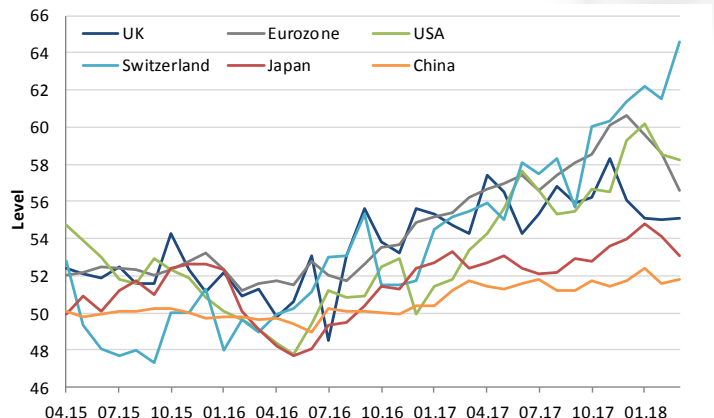
Euro zone maintains sustained pace of growth

Our forecasts of the European trend improving in 2017 were proven accurate, with the +2.7% rise in aggregate Eurozone GDP in the 4th quarter. In the end, the Eurozone posted higher growth than the US economy (+2.5%) due to a slight dip in activity in the United States. Growth forecasts for the current quarter stand at +0.6%, and +2.5% for 2018, which is slightly better than ECB forecasts. . 2018 could still benefit from the improvement in the trend and a rise in demand, particularly for German products, caused by the global recovery. German GDP could hit +2.6% of growth and the OECD estimates that European GDP could grow +2.2%. In France, there have been surprises on the jobs market, in company investment, and in export developments, which should be in line with the +0.7% GDP growth seen in the 4th quarter 2017. However, caution is still required in the current context of a strong euro and a rather stark slide in leading indicators. PMI indicators have done nothing but give ground since their peaks in December, giving a glimpse of a dip in activity in the 1st quarter 2018 too.

Quarterly GDP



Manufacturing PMI



The Markit Services Index slid from 58 (January) to 55 in March, confirming the trend first seen on the manufacturing index, which dropped from 60.6 in December to 56.6 in March. The start of 2018 should therefore be favourable, and confirm our positive growth forecasts for European GDP. Nonetheless, the risks posed by the rise in the euro are not trivial and could in the end weigh heavily on the forecast trend. The overall rise of around +20% in barely a year does indeed constitute a risk for inflation prospects, as well as for the future development of the European economy.

The euro's appreciation was the logical consequence of the relatively unexpected period of economic acceleration in 2017. However, in the current climate, the euro's strength is problematic for the ECB and could endanger the quality of the current recovery as well as the competitiveness of European industry. The ECB is showing increasingly self-assured confidence in the quality of the current economic recovery in the Eurozone. It is stating that the strength of growth could constitute a surprise over the coming months, and could even surpass forecasts. Indeed, everything seems to be looking up in the Eurozone; growth is able to post a faster pace thanks to good household spending, a more dynamic labour market, and rising exports, despite the euro's appreciation. The ECB has increased its growth forecasts to +2.4% for 2018. Economic indicators are suggesting that these positive trends will continue, backing up the ECB in its positive evaluation of 2018 and 2019 forecasts.

Slowdown in economic activity in the UK

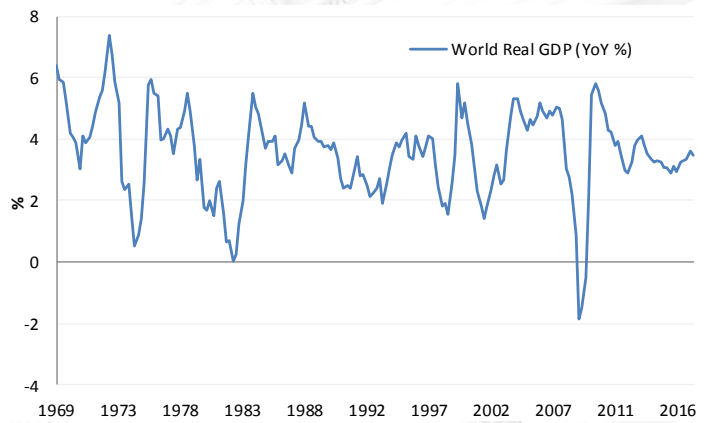
Q4 GDP (+0.4%) remains on a decelerating trend, though without worsening significantly. Yoy performance stabilised at +1.4%. Exports continued to lose steam in Q4 (-0.2%), and the rise in imports (+1.5%) does not bode well for the trade balance. Private consumption weakened again (+0.2%), although the +0.6% increase in public spending is compensating somewhat for this loss of momentum. Leading indicators are showing no sign that any sharp deterioration is to be expected in the beginning of the year. Manufacturing PMI's decline from 58.4 in November to 55.2 in February suggests a slowdown in the sector's activity. On the services side, the picture is somewhat rosier, as the PMI rose slightly from 53 to 54.5 in February. Construction exhibited a similar trend, increasing from 50.2 to 51.4. Overall, the composite index improved slightly, progressing from 53.5 to 54.5. Consumer confidence and the business barometer did not exhibit any significant change and continue to reflect the uncertainty caused by Brexit. In this context, the very slight uptick in the unemployment rate (from 4.3% to 4.4%) in December may already be pointing to a deterioration in the job market, which has nevertheless been growing (+88,000) after shedding 56,000 jobs in October. The increase in industrial production (+1.3% in January) and in manufacturing production (+0.1%) is encouraging. The growth outlook for the British economy is rather stable, with a growth forecast of +0.4% for Q1 and +1.5% for 2018.

In November we stated that the BOE's +0.25% rate hike would not be hastily followed by further monetary tightening, due to the risk of an economic slowdown. As we mentioned in our previous analysis, the rate hike to 0.5% could thus be followed by a long period of inaction. The BOE will likely keep rates unchanged or proceed with only minor hikes in the second part of the year.

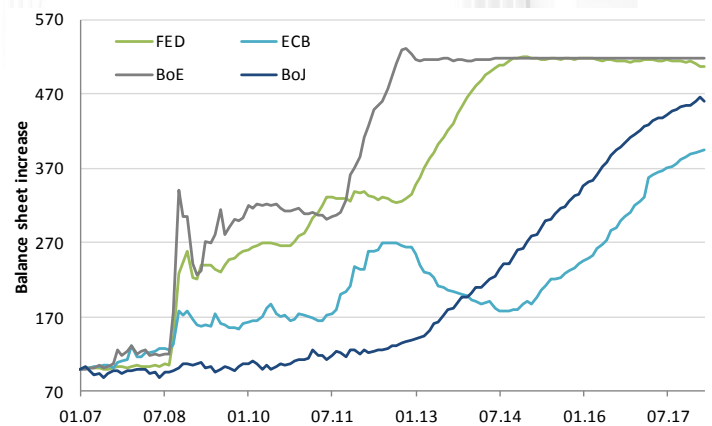
Strength of yen threatens Japanese economy

Japan's GDP growth ultimately turned out to be rather solid in 2017, although it closed the year on a weak note, with an annualised growth rate of +1.6% in Q4. Quarterly growth figures were relatively volatile, with Q3, for instance, coming in at +2.5%. The Japanese economy thus wrapped up the year on less positive footing, even though it extended its current growth phase by posting its eighth consecutive quarterly progression. Japanese GDP growth has lost some of its momentum, while the international economic environment has simultaneously strengthened. Over the next several months, growth could slow further due to the yen's strength in the past few months. Indeed, the Japanese economy will likely slow down in the first part of 2018 due in particular to the yen's +10% rise against the dollar.

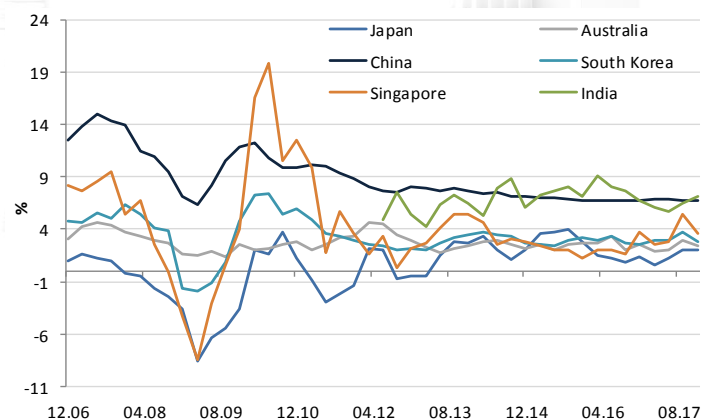
World Real GDP Growth



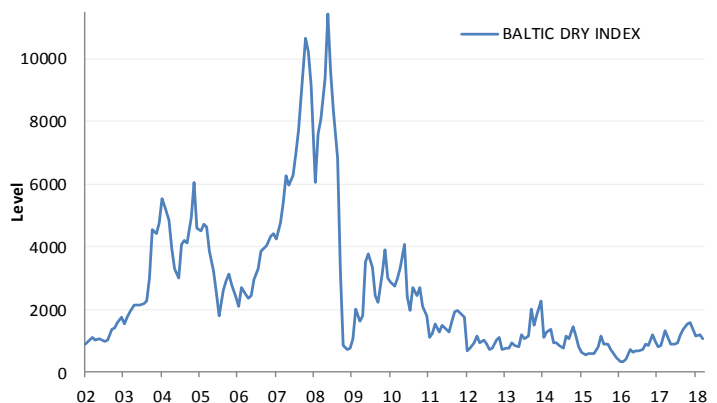
Balance sheet increase



GDP Growth rates in Asia



Baltic Dry Index

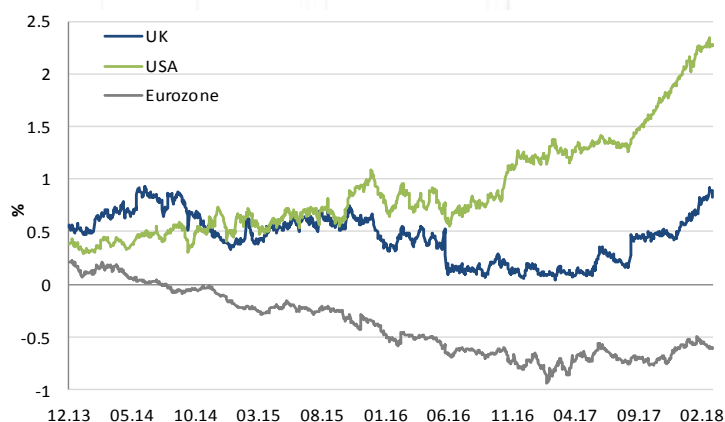


The unexpected strength of the yen is clearly threatening exports and corporate earnings, which have been significant drivers of economic growth. The Japanese economy has indeed been bolstered by an environment conducive to export growth and by an upswing in investment. However, export growth has already been flagging for several months, and even in January it clocked in at +12.2%, this is still significantly below the +18% growth rate posted in August. The Japanese economy is thus likely to flounder in the absence of a weak currency at the very moment when domestic demand is in dire need of a confidence boost as well as genuine growth in wages and household disposable income. While corporate earnings growth should have led to wage increases, the growth rate actually dropped from +5.5% to only +0.9% between Q3 and Q4 2017. We are now far from the +26.6% growth rate posted in Q1, hence calling into question the outlook for an increase in consumption. The strengthening yen is thus a significant threat to the Japanese economy, which is in no state to withstand a lasting appreciation of its currency. The BOJ is no doubt aware of the significance of this factor, but it has no further means at its disposal to counter the negative impact of a strong currency other than those already implemented. This situation is relatively concerning and calls into question the economic outlook for Japan over the next few quarters. If the yen does not depreciate in the near future, we expect economic growth in Japan to be more uncertain in 2018. GDP growth will likely receive less support from external demand while at the same time suffering from slowing domestic demand. Any hope of an economic upswing in 2018 thus rests upon a reversal of the current exchange rate trend and a net depreciation of the yen.

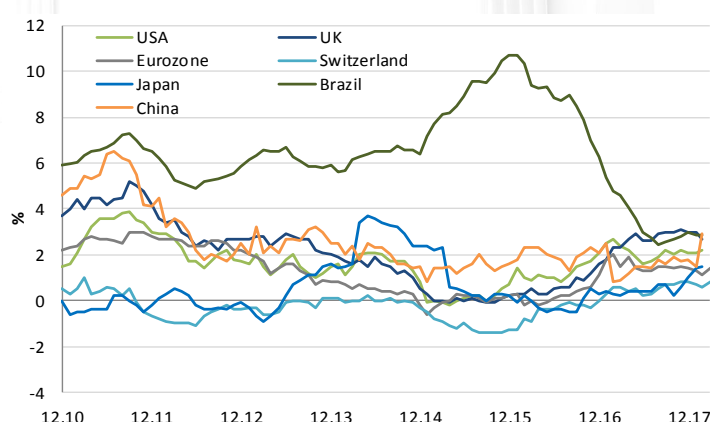
Upward revision of growth expectations for Swiss GDP

The economic trend and the adjustment of the Swiss franc's value are set to continue, which should enable the Swiss economy to further catch up with the lead peloton of the main European economies, perhaps exceeding +2% growth in 2018. In 2018, the Swiss economy will benefit from the general improvement in the economic climate and consumer confidence to an even greater degree than in the second half of 2017. The increasingly robust economic situation that should be seen in Switzerland's major economic partners in 2018 will act as a springboard for this trend. The Swiss franc's weakness against most currencies will make Swiss-made products more attractive. We have revised our Swiss economic growth forecasts upwards from +1.8% to +2.2% for 2018. The latest leading indicators were perhaps temporarily influenced by renewed uncertainty on financial markets in February, but they are still pointing to very strong economic activity for the coming months. In February, the KOF index was down compared to November, which had marked the highest levels of optimism since 2010. However, the indicator is still on the right track to suggest that the current sunny spell will continue. The manufacturing PMI indicator is also showing signs that the robust trend already underscored in 4th quarter GDP results will continue. It is now at its highest level since July 2010. Three years after the Swiss franc-Euro floor was dropped, the Swiss manufacturing sector seems to be back on its feet again, as suggested by the index, which has hit a ten-year high. The purchasing managers index is showing levels of enthusiasm rarely seen either for the manufacturing or the services sectors. The expected order book evolution indicator has retreated slightly, but the employment indicator has continued to rise. The spending climate remains good, despite the dip in the UBS consumer confidence indicator in December. The SECO yardstick has risen considerably, and has hit its highest level since 2011. Leading indicators are still suggesting that the Swiss economic trend will strengthen.

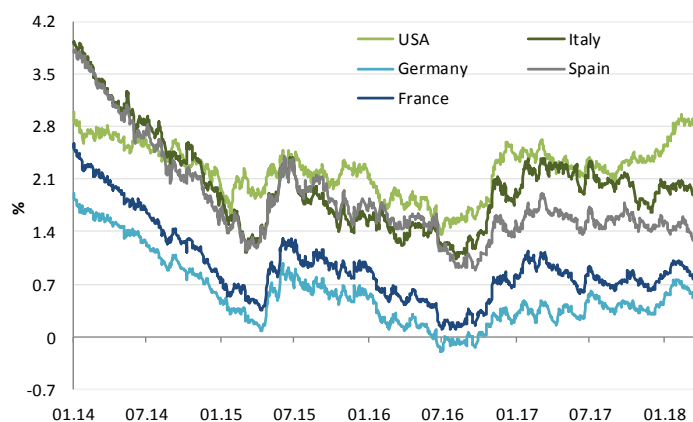
2-year Government Bond yield



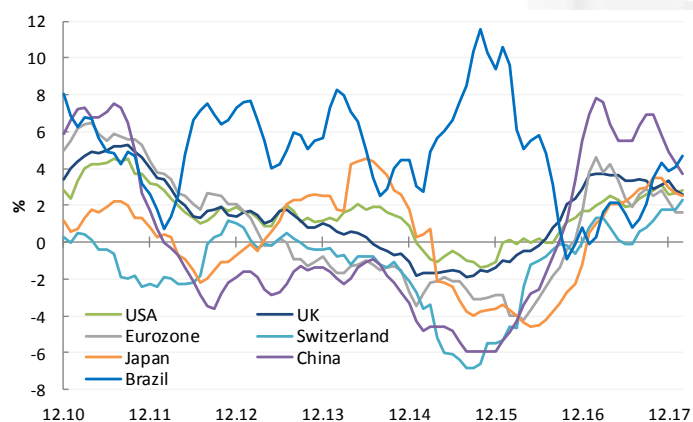
Inflation - CPI Indices



10-year Government Bond yield



Inflation - PPI Indices



MACROECONOMIC SCENARIO

United States

- Two further rate rises in 2018, and likely three in 2019
- Is US growth already slowing?
- New risks of a trade war
- Gradual rise in expected inflation
- The rise in the US dollar is keeping us waiting
- Margins, profits and multipliers are contracting

The Fed has announced two further rate rises in 2018, and likely three in 2019

The Federal Reserve has announced that it will stick to the planned pace for key rate rises in 2018 following the first FOMC meeting under Powell. As such, the handover seems to have been seamless, given that these two rises in key rates were to be predicted after yesterday's 0.25% rise, taking Fed Funds to +1.5%-+1.75%; unsurprisingly, the decision was taken unanimously. Key rates are therefore expected to hit +2.125% by the end of 2018, implying two further +0.25% rises. Less predictably, it was also announced that the normalisation already underway would be stepped up in 2019, with three rises in key rates now more likely. As such, the forecast level of Fed Funds at the end of 2019 has now risen from +2.688% to +2.875%.

The US central bank seems increasingly comfortable with communicating its positive analysis of the state of the US economy, and its implications for monetary policy. The trend is towards a likely increase in the pace of rate rises in 2019 and 2020 so as to avoid taking any risks in 2018. The flattening of the rate curve should now be gradual and adapted to improved economic activity.

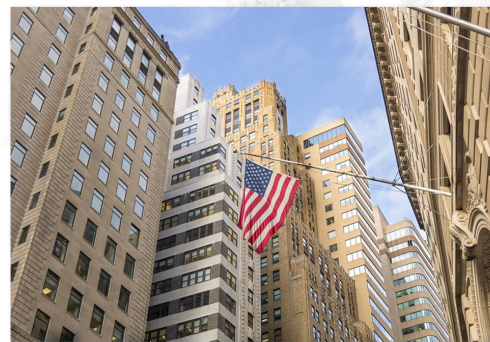
The Federal Reserve is more confident than ever in US growth prospects, and has increased its forecasts for 2018 from +2.5% to +2.7%, and those for 2019 from +2.1% to +2.4%.

In its analysis of current conditions, it highlighted a temporary dip in the trend in the first quarter, which does not cast doubt over its vision for the year as a whole. The core of the analysis remains focused on la-

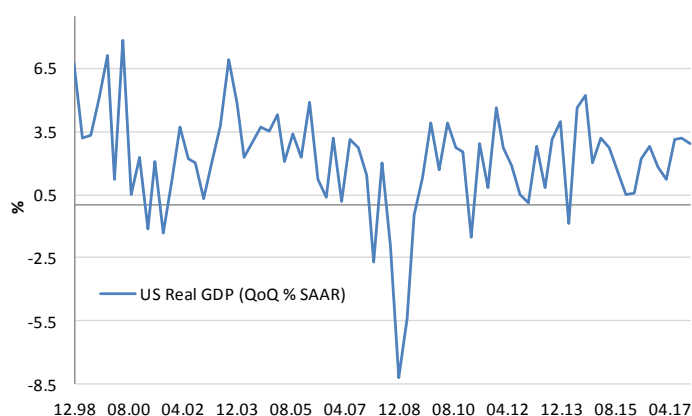
bour market conditions, which continue to show an increase in new jobs and a fall in the unemployment rate (3.9%). The latter could even drop to 3.8% in 2018, and perhaps 3.6% in 2019.

The Fed's vision for inflation has gone unaltered at the end of the first quarter 2018. It seems likely it will rise above the 2% target in 2018, though with no perceived risk of the target being exceeded quickly and to a considerable degree. It therefore seems that the handover has been smooth, with communication management that leaves little room for interpretation or for significant uncertainty regarding how the Federal Reserve will act in the future. However, in the current context, we do not believe that this will be enough to avoid dangerous new uncertainty bubbling back up within the investment community. For the time being, the bond market has not reacted to this phase of monetary policy being announced. 10-year rates still fall within the +2.8% to +2.95% fluctuation band which they have stuck to for nearly two months. The situation is a little less stable for the US dollar; the trade-weighted dollar index is sitting in the bottom half of its 89.5-90.8 fluctuation band of the past few months.

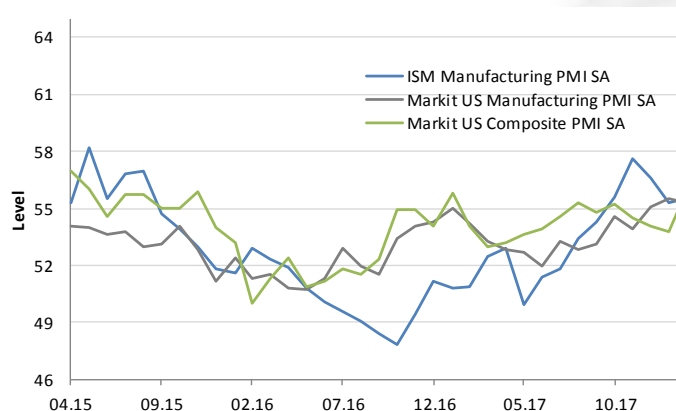
As regards the US market, although the risk of rate rises coming thicker and faster in 2018 has fizzled out, new forecasts for 2019 tend to confirm the concerns raised in February. As such, we believe that the equity market is still very fragile and at risk of further profit-taking.



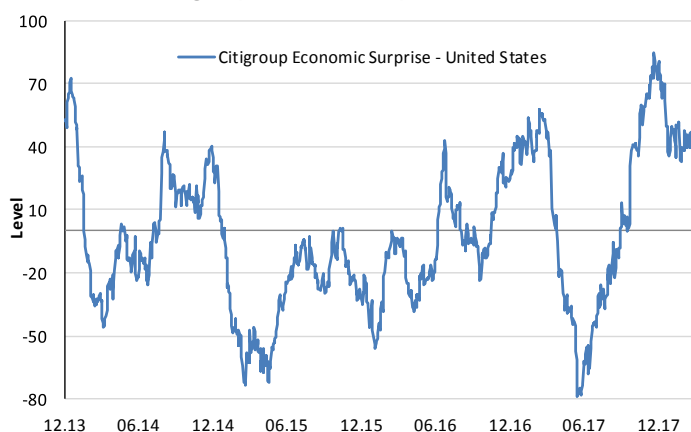
Quarterly US Real GDP Growth



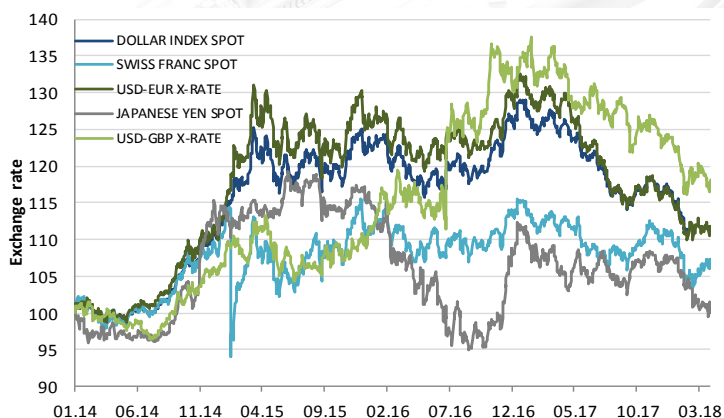
PMI Indices



Citigroup economic surprise index USA



Dollar trade-weighted index and currencies



Is US growth already slowing?

The US economy closed the year with an annualised growth rate (+2.5%) below that of the 3rd quarter (+3.2%). 1st quarter growth should come in close to +2.4%, somewhat treading water at the start of the year when compared to 2017's figures and the hopes of the economy picking up the pace in 2018. However, the Federal Reserve has not seemed particularly concerned at this rather sluggish start to the year, as yesterday it again raised its target for 2018 to +2.7%.

In our forecasts at the start of the year, we mentioned that the US economy had very rarely been able to post two consecutive quarters of growth above +3% since 2000. At the time, we suggested that this pace could undoubtedly not be sustained in 2018, and that we should see a dip in the GDP growth rate. This seems to be what has been happening over the past two quarters. In fact, leading indicators point to economic activity bolstering in 2018.

First of all, American consumers should have their minds put at rest by the influx of positive economic news and the increasingly favourable situation on the jobs market. The rise in personal income should further prop up household spending in the longer-term in 2018. In terms of investment, recent economic developments have affected production capacity levels, which will certainly spark new investment in a rather favourable context for company margins.

In March, manufacturing PMI bounced back to 55.7, after having dwindled to 55.3 in February. It has therefore remained high, while the ISM Manufacturing Index hit a ten-year high (60.8) in February. Non-manufacturing indicators also dipped, such as the ISM Global which dropped from 59.9 to 59.5, remaining close to its highest point over the

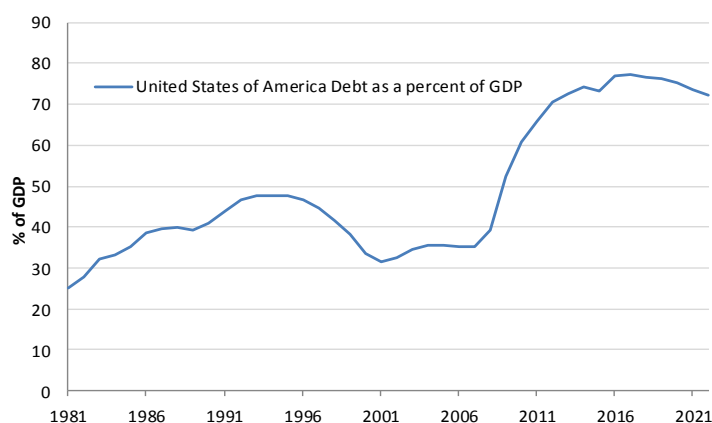
past ten years. Services PMI slid from 55.9 to 54.1 in March. It seems reasonable to expect the current trend to continue over the coming quarters, propped up by factors that are already having an influence, unless the risks of a trade war, sparked anew by the introduction of customs duties in the United States, weaken the economic situation.

Gradual rate rises should have a limited impact on GDP in 2018. However, expectations are high, and will undoubtedly only be fulfilled if US consumers are up to the task.

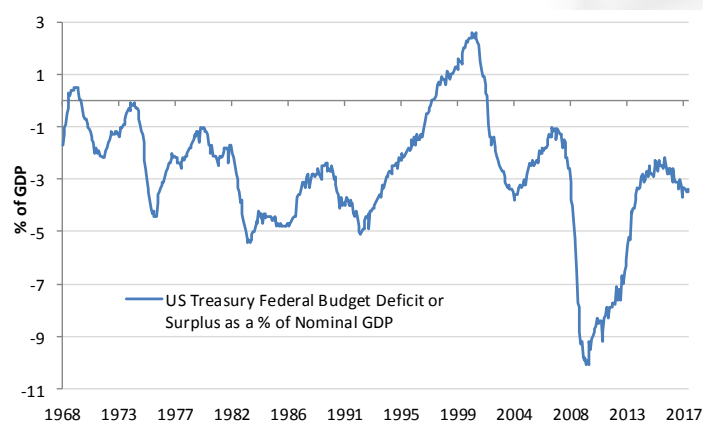
New risks of a trade war

There are substantial risks of disappointment regarding US GDP forecasts. These risks could swell in the context of Trump declaring a trade war if the higher customs tariffs, estimated at 60 billion US dollars' worth, are followed by retaliation measures by the United States' main trading partners. This was one of his electoral campaign promises, and he is keeping it in incisive fashion, likely targeting China to a greater degree than Europe in his strategy. The spectre of a potential world trade war is back, given the protectionist shift taken over the past few days with the introduction of a duty on steel (25%) and aluminium (10%) imports. Europe, of course, has made no protest, whilst not excluding the option of counter-measures, but China has entered the fray and roundly condemned this attack on free trade. US business circles are concerned, but Donald Trump should not stray far from this strategy, which he has always wanted to implement. More directly addressing China, he has declared war, listing more than a hundred products on which duties can be levied, and has promised investment restrictions in the United States.

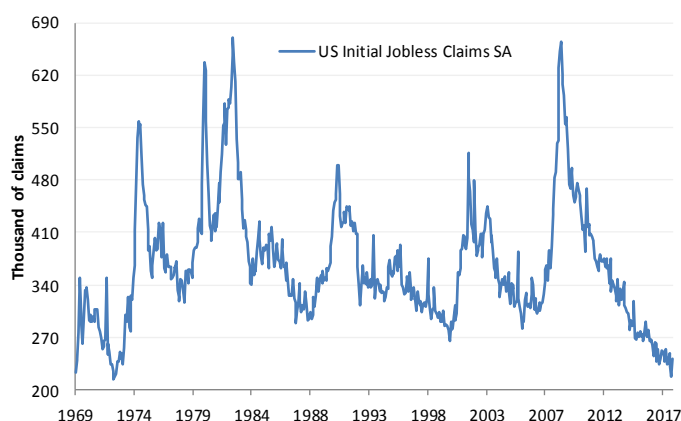
Debt (% GDP)



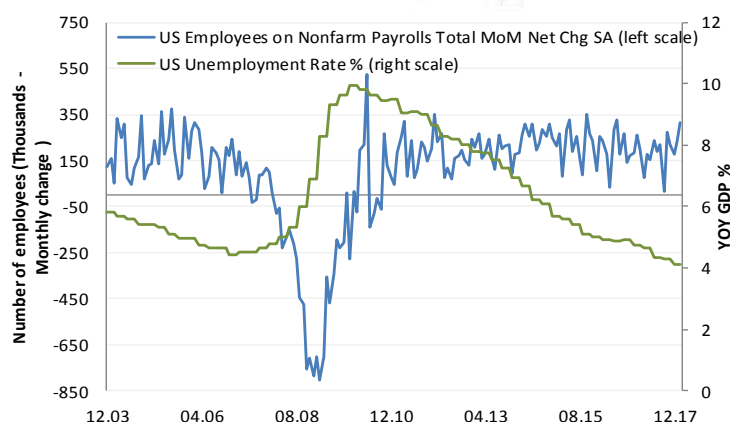
Deficit/Surplus



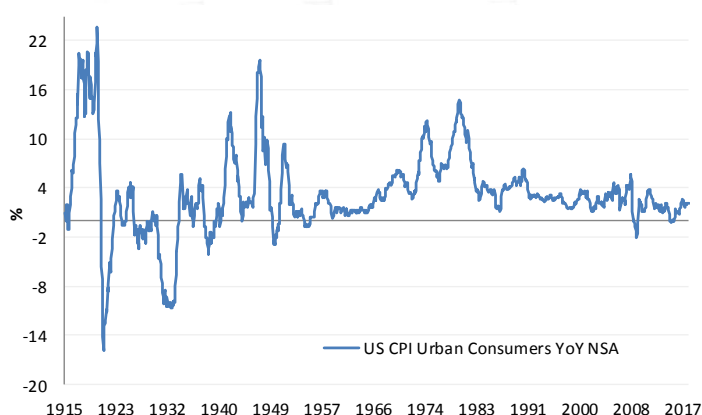
US Jobless Claims



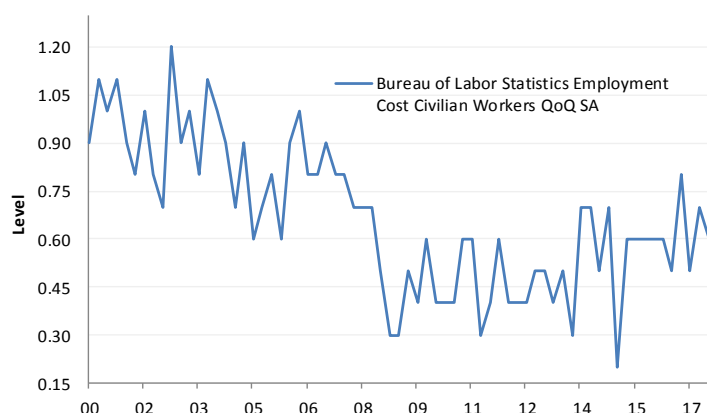
Non-farm Payrolls (MoM) and Unemployment rate



US Inflation (1914-2018)



Employment Cost Index



Donald Trump is not afraid of opening Pandora's box and exposing the US economy, which is currently really getting a boost, to new long-term risks, which are already starting to worry investors.

Gradual rise in expected inflation

The latest inflation figures (+2.2%) published in February surpass the Federal Reserve's +2% target. The index's year on year rise excluding food and energy (+1.8%) was lower than 2%. They have hit the target and should gradually move beyond it.

The upward trend has remained modest at the start of year, but leading indicators and the situation on the jobs market seem to suggest that the trend will be bolstered over the coming months. Expected year on year inflation has risen more starkly than monthly figures, coming in at +2.9% in March, compared to +2.7% in February.

In the longer-term, expected inflation for the next 5-10 years is also higher, standing at +2.5%. This trend cannot pick up the pace without an increase in salaries, which is taking its time despite the labour market being close to full employment. In contrast to the theory, inflationary pressures are still weak, even though the unemployment rate has stabilised at 4.1%.

2018 could be a year of surprises due to a combination of factors acting together. Indeed, the macro-economic context should foster new salary negotiations and spark tensions on commodity prices, propping up a price rise.

Might US Treasury long rates head above 3%?

Renewed inflation in a robust economic context should quickly lead to new adjustments to long-term nominal rates over the coming months. After remaining stable for a few quarters, US long rates were the first to spark the trend. As much as a few months ago, we had pointed out that the 2.1% correction to 10-year Treasury rates was not compatible with sustained economic activity and regular monetary policy normalisation on the part of the Fed.

Our forecasts of long rates rising to around 3% have played out in the meantime, but this came in the context of a likely boost to the economy. However, although we still believe that in the long-term long rates should exceed 3%, it is likely that in the short-term the volatility seen on equity markets, as well as risks of disappointments regarding growth over the coming months could lead to a period of consolidation of these rates at just below the 3% threshold.

The rise in the US dollar is keeping us waiting

The US economic trend should still be higher than that of other economies in 2018. The interest rate differential should further broaden across the whole rate curve, working in the US dollar's favour. In this context, the weakness the US dollar is reflecting seems ungrounded. The approximately -10% depreciation on the trade-weighted USD index against a basket of currencies almost halved the dollar's appreciation in 2014 and 2015. The US dollar's valuation should therefore change over the next few months, unless forecasts of a deterioration in public finances linked to tax reform get the upper hand and punish the dollar. In all, our forecasts are optimistic, predicting the US dollar rising above parity with the Swiss franc.

Margins, profits and multipliers are contracting, posing a risk to equity markets

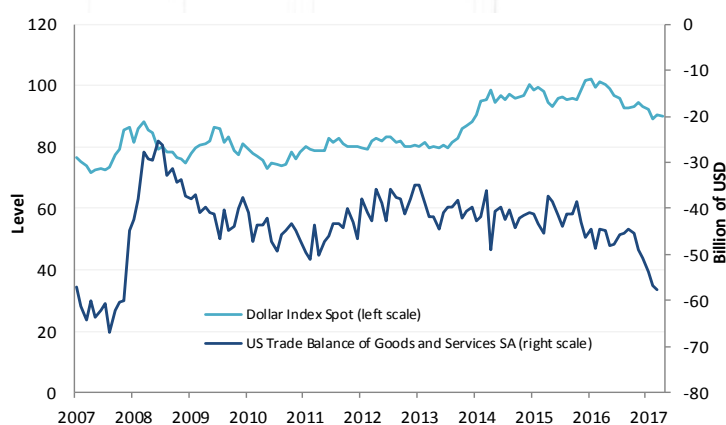
Prior to February, it seemed that nothing could stop the march of American assets. But the rise in inflation and interest rates, as well as risks of monetary policy normalisation being bolstered, in the end won at the expense of the, until then unwavering, optimism of investors. For a few weeks now, we have been reacquainting ourselves with the risks that the situation on the jobs market represents for company margins, as well as the risk of profit growth being insufficient to justify the particularly high valuation levels before the correction to stock market prices.

The growth of multinationals' profits may therefore have hit its peak, and come in lower than previously thought in the end, at close to the economy's growth rate. The tax reform could be less important for multinationals on the S&P 500 than for medium-sized American companies.

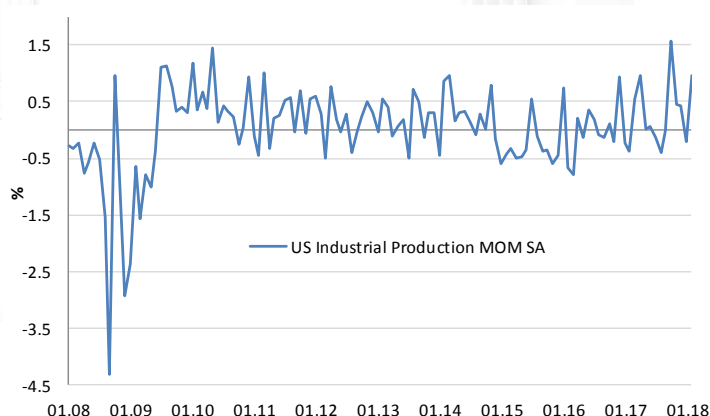
Beyond the fundamental issue of profit growth, we must not forget that the rise in US equities was sparked first and foremost by a strong rise in multipliers. The bounce back in March re-inflated valuation levels. When risks of the trend weakening rise, US assets become more fragile again. As such, the upward rate cycle could lead to a new phase of PE contractions. However company profits may develop, it is likely that interest rate rises will put an end to this ten-year expansion phase. In conclusion, the rise on the equity market has undoubtedly incorporated the positive impact that everyone has been expecting the tax reform to have on profits for more than a year now. This is despite the fact that multinationals will certainly be less affected than other companies, as we have already highlighted.

Following on from US equities bouncing back in March, we predict renewed volatility, which will provide better investment opportunities and more reasonable valuation levels. In the meantime, we are taking a rather cautious approach, and still recommend under-exposure to US assets.

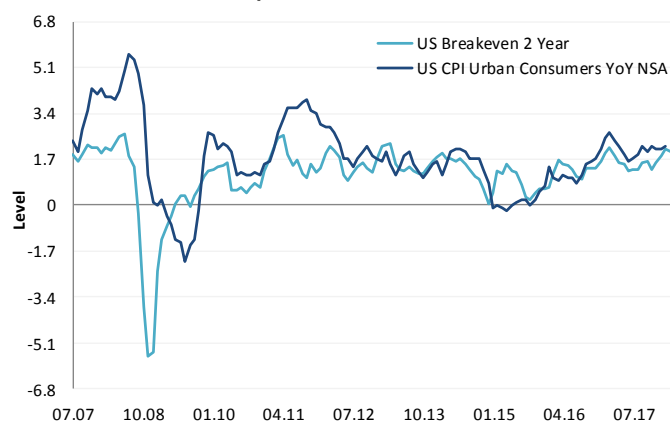
US Trade Balance of Goods and Services



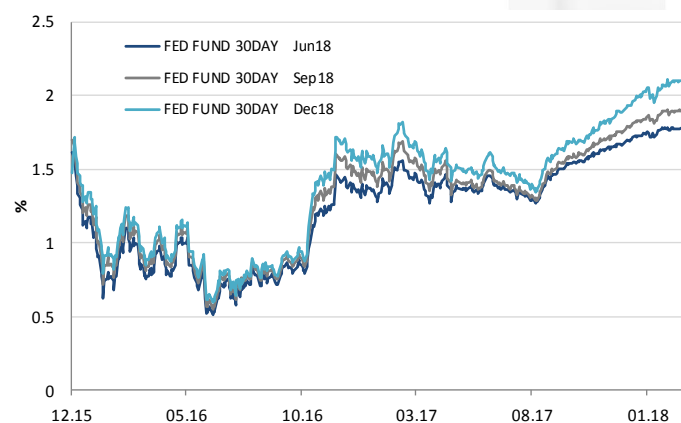
US Industrial Production



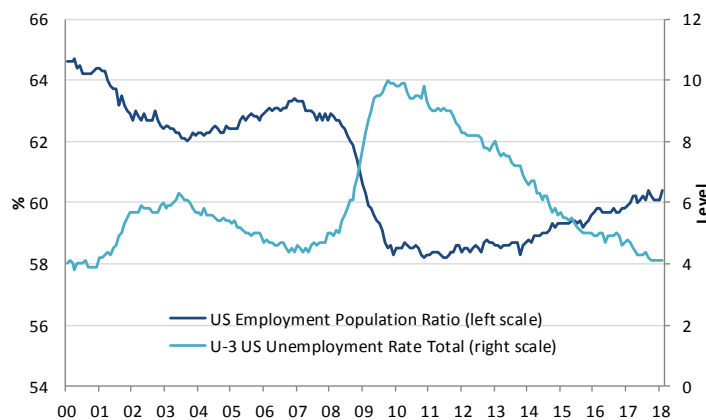
US Expected Inflation and CPI



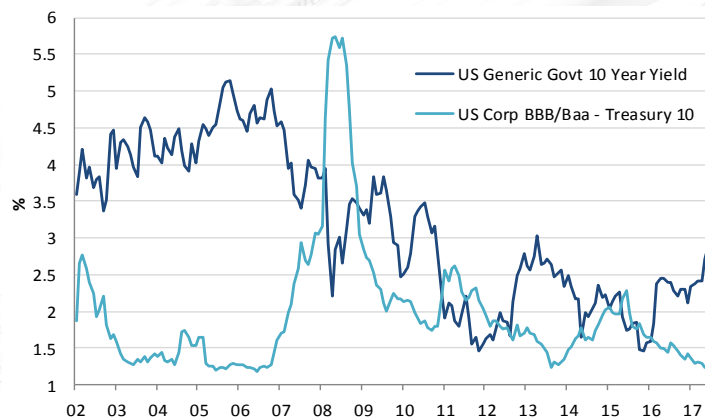
Fed Funds Futures



US Unemployment rate and Employment Population Ratio



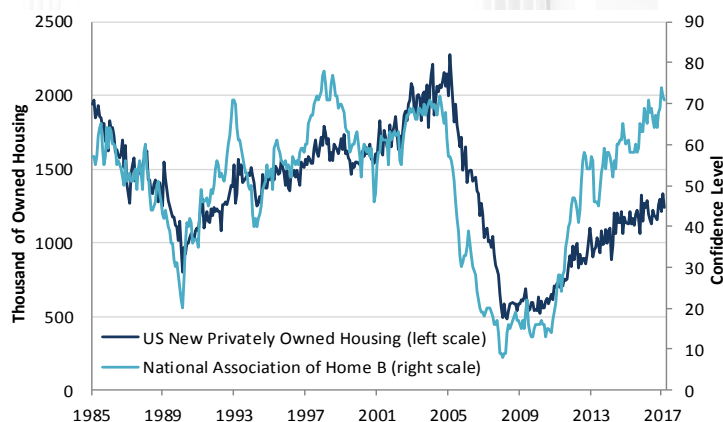
Yield spread Us Treasury - BBB 10 year



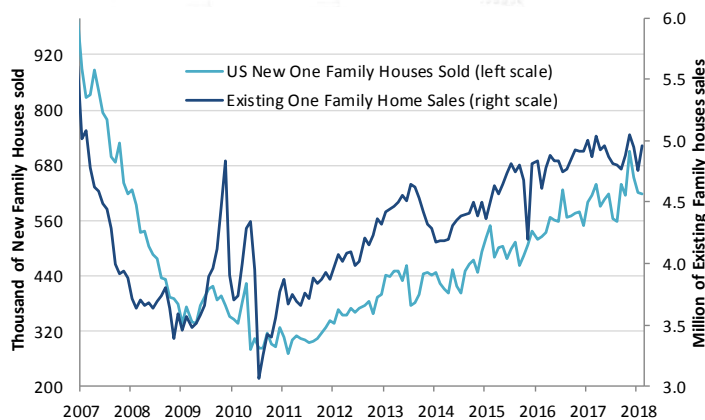
US Government Bonds 10 year yield



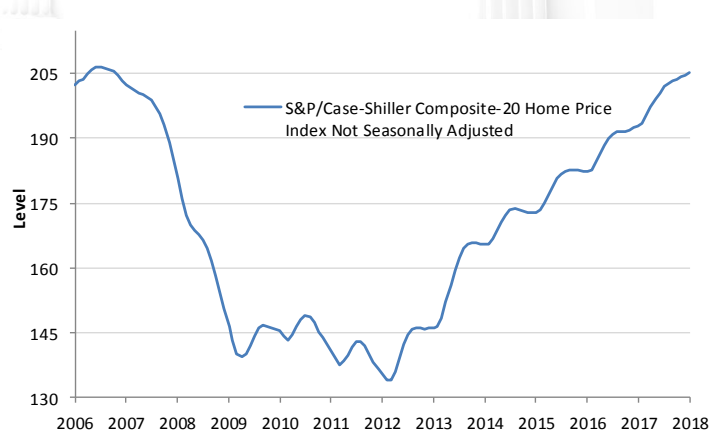
US New Privately Owned Housing and NAHB USA



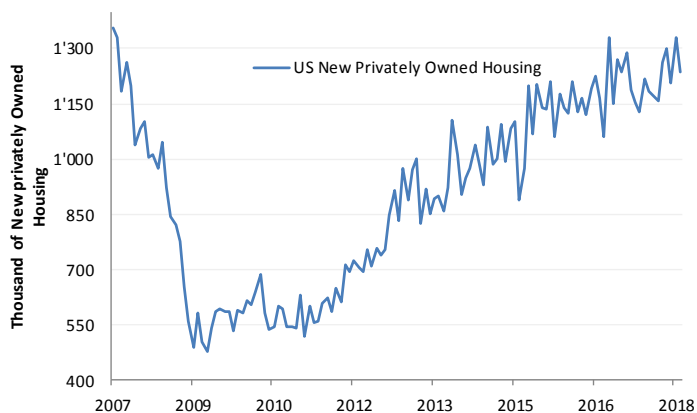
Sale of US New and Existing Family Houses



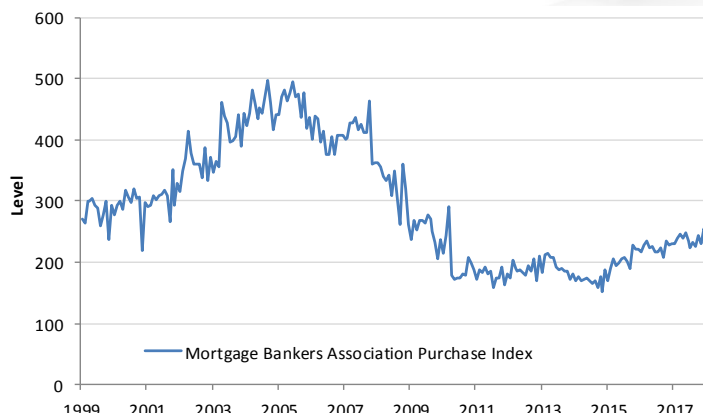
Real Estate Prices - S&P Case-Shiller Index



Housing Starts



New Mortgage Applications - MBA



MACROECONOMIC SCENARIO

SWITZERLAND

- +2.2% GDP growth in 2018
- Leading indicators are looking good
- Consumption will continue to be a key factor
- The SNB should be pleased with its policy
- Tensions on the interest rate curve in Switzerland



The forecast acceleration of Swiss GDP in the second half of the year will continue in 2018

Swiss GDP is still showing excellent growth in the 4th quarter (+0.6%) compared to the unrevised results for the previous quarter. As such, the Swiss economy has backed up its good Q3 results of +0.7% after revision, giving it an excellent second half of 2017, and meaning it closed the year with a very pleasing +1.9% rise compared to the same quarter 2016. This figure was 0.2% higher than economists' forecasts, pointing to a positive 2018.

As such, Swiss GDP has climbed back up to a growth rate of more than +0.5% per quarter, and fits into the more favourable trend seen in Europe and most other industrialised countries over the past few quarters. Real terms GDP growth, as measured by the SECO, should hit +1% for 2017. Despite having picked up the pace significantly in the second half of the year and the recovery broadening to encompass most sectors, the tentative start to the year is holding back annual performance. The Swiss economy has therefore considerably improved its quarterly growth rate, giving glimmers of better prospects for 2018, especially in light of the expected ongoing improvement in the global economy, as well as positive exchange rate conditions. Switzerland is finally enjoying the improvement in the international trend, which we believe to be more in step with the Swiss economy's development capacity within a more robust global context in 2018.

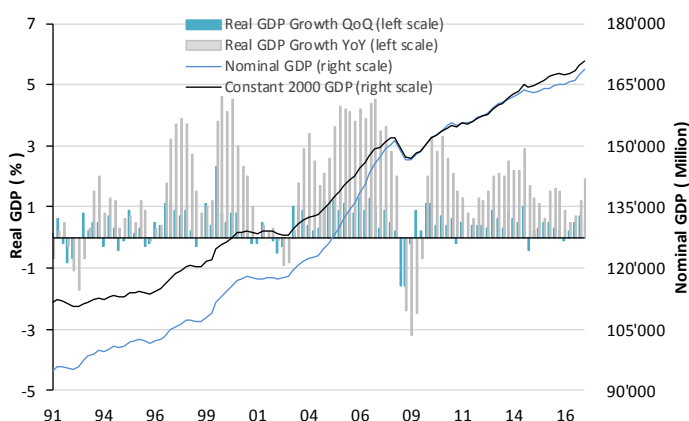
This faster pace has been propped up by the very stark recovery of the industrial sector, services and construction. Consumption continues to be a strong driving force, whilst, surprisingly, foreign trade trod water in a context in which currency conditions were nonetheless favourable due to the rise in the Euro. The manufacturing sector made a considerable contribution, given that it is still boosted by the Swiss franc's weak-

ness against the Euro. The manufacturing sector's +1.2% growth is certainly lower than the previous quarter (+2.2%), but its performance remains high. However, it came in lower than construction, which posted an excellent, above average performance of +1.4%. Most economic branches of the services segments posted growth, with the financial sector standing out with a +2.3% leap. Hospitality and catering seem to be benefiting from the "weak" Swiss franc (+1.6%), whilst health has maintained its +0.4% growth rate. Domestic demand still formed the cornerstone of growth, thanks to a positive combination of private spending, which is losing momentum (+0.2%), public spending (+0.5%), and construction investment (+1.1%). Investment in capital goods dipped after a robust Q3. Trade in goods and services did not make a positive contribution (-1.4%), following on from a very strong quarter beforehand (+2.1%). From a currency point of view, the quarter was especially important for the Swiss economy due to the forecast ongoing weakening of the Swiss franc against the Euro. The exchange rate correction, which we had been forecasting as soon as the Swiss franc-Euro floor was lifted, is now materialising, and is propping up growth. The movement revaluing the Euro from 1.06 to 1.18 Swiss francs contributed considerably to improving economic conditions. After having stood strong in the face of the Swiss franc's appreciation, the Swiss economy is now benefiting from normalisation of the exchange rate. This situation should continue in 2018.

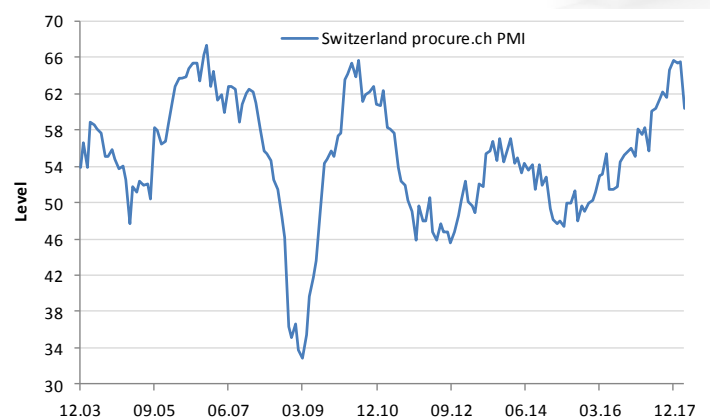
+2.2% GDP growth in 2018

The economic trend and the adjustment of the Swiss franc's value are set to continue, which should enable the Swiss economy to further catch up with the lead peloton of the main European economies, perhaps exceeding +2% growth in 2018. In 2018, the Swiss economy will benefit from the general improvement in the economic climate and

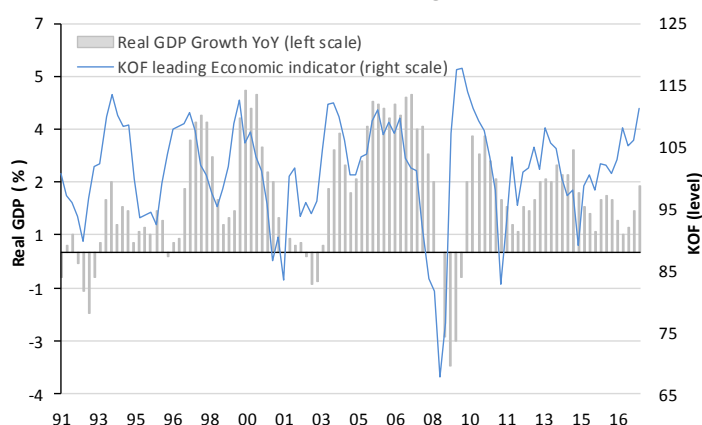
Nominal GDP - Nominal and Real GDP Growth rate



Swiss Purchasing Manager Index (PMI)



Real GDP Growth YoY - KOF leading economic indicator

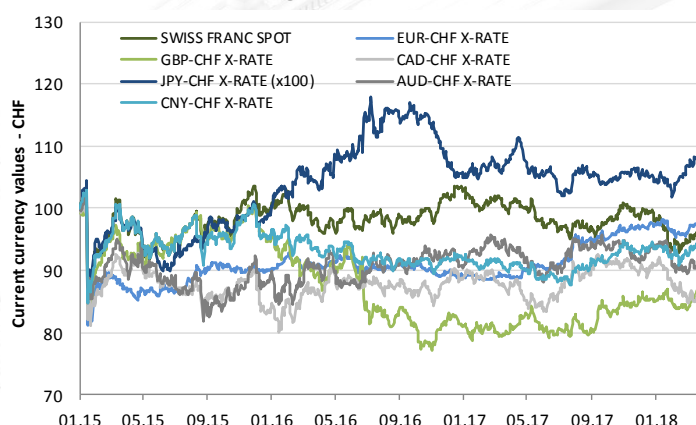


consumer confidence to an even greater degree than in the second half of 2017. The increasingly robust economic situation that should be seen in Switzerland's major economic partners in 2018 will act as a springboard for this trend. The Swiss franc's weakness against most currencies will make Swiss-made products more attractive. We have revised our Swiss economic growth forecasts upwards from +1.8% to +2.2% for 2018.

Leading indicators are looking good

The latest leading indicators were perhaps temporarily influenced by renewed uncertainty on financial markets in February, but they are still pointing to very strong economic activity for the coming months. In February, the KOF index was down (108) compared to November (110.3), which had marked the highest levels of optimism since 2010. However, the indicator is still on the right track to suggest that the current sunny spell will continue. The manufacturing PMI indicator is also showing signs that the robust trend already underscored in 4th quarter GDP results will continue. It is now at its highest level (65.5) since July 2010 (65.6). Three years after the Swiss franc-Euro floor was dropped, the Swiss manufacturing sector seems to be back on its feet again, as suggested by the index, which has hit a ten-year high. The purchasing managers index is showing levels of enthusiasm rarely seen either for the manufacturing or the services sectors (62.9 compared to 62.8 in January). The expected order book evolution indicator has retreated slightly (65.4 compared to 69.8 in January), but the employment indicator has continued to rise. The spending climate remains good, despite the dip in the UBS consumer confidence indicator in December. The SECO yardstick has risen considerably, and has hit its highest level since 2011. Leading indicators are still suggesting that the Swiss economic trend will strengthen.

CHF Exchange rate (Normalized at 100)



Consumption will continue to be a key factor

The latest drop in unemployment to 3.1% leaves it far from the +2.5% record in 2008, but the labour market is showing enough vim and vigour to enable consumption to gradually increase. Household confidence has been gradually improving since 2015, though without reaching levels seen in 2014. The improvement in growth prospects and the rise in the Euro should also influence the Swiss economic climate to a greater degree over the coming months. As such, private spending should remain a positive factor, propping up GDP. Public administrations' consumer spending will remain volatile in 2018, but national- and cantonal-level accounts are in good shape, and the debt to GDP ratio (34%) remains low when compared internationally. This provides grounds for the lack of change in the situation regarding public spending.

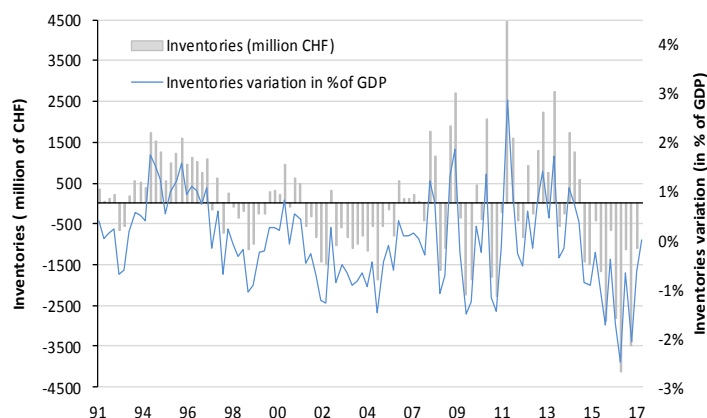
Boost expected for foreign trade

Although still clearly in surplus, the trade balance has been eaten away at since its peak in January 2017. The monthly foreign trade balance has in fact stabilised at between 2 and 3 billion Swiss francs. However, we believe that the improvement in international economic conditions and the weakness of the Swiss franc should finally join in supporting an export recovery. In January, the recovery of the watch-making sector was confirmed with a +12.6% year on year rise in exports. Machinery exports should also make a positive contribution given the context.

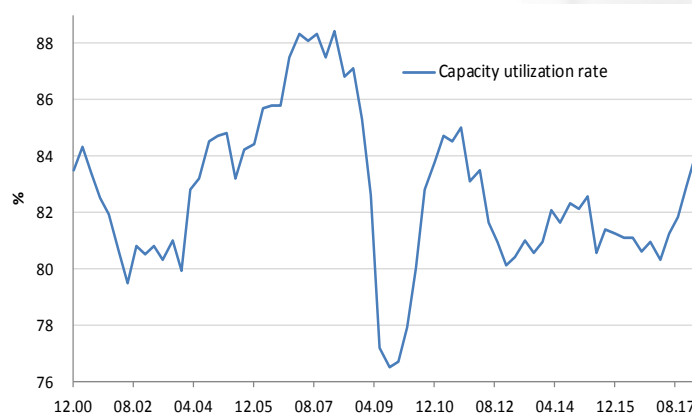
The SNB should be pleased with its policy

Since January 2015, we have regularly stated in our strategy analyses that the SNB's monetary policy would be a success, frequently mentioning the return of the EUR/CHF exchange rate to the 1.20 floor rate. We had to wait for the European economy to improve significantly in

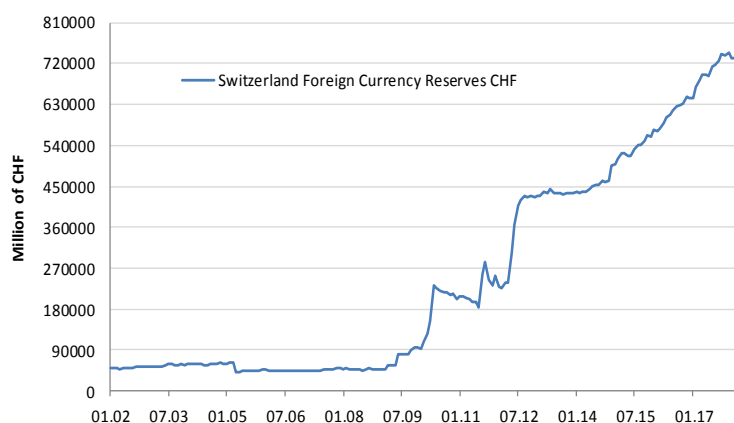
Inventories - variation in % of GDP



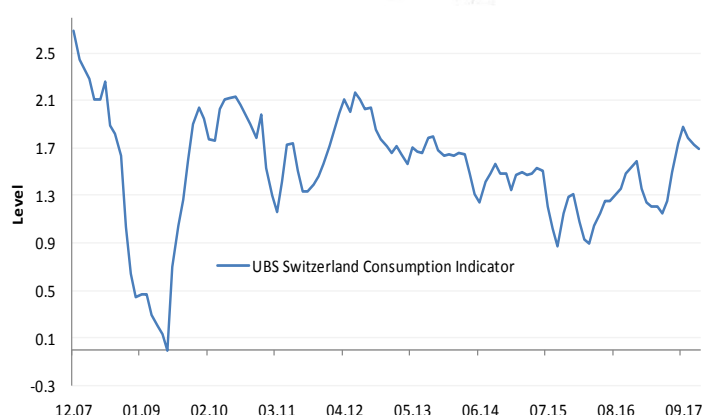
Capacity utilization rate



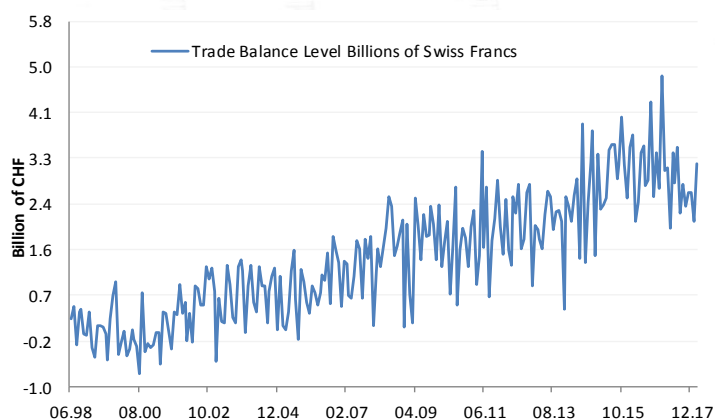
SNB Foreign Currency Reserves



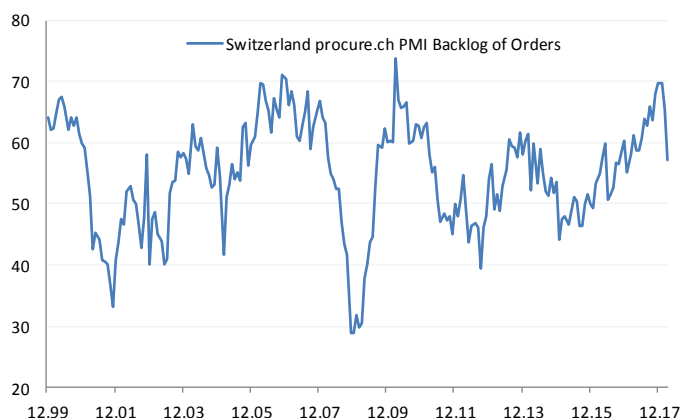
UBS Switzerland Consumption Indicator



Trade Balance level



Backlog of Orders



2017 alongside the prospect of an end to ECB liquidity injections in 2018 for normalisation to get underway and then speed up. Today, the exchange rate has hit 1.18, and is hovering barely 2% away from the floor rate from January 2015. As such, the SNB should be pleased with its policy over the last few years, which is increasingly proving to be a major monetary strategy success, as shown by the historic CHF 54.5 billion in profit for 2017, nearly doubling the previous year's profits. The SNB's currency reserves gathered over the past few years hit a 744 billion Swiss franc peak at the end of the year. However, at the end of February they posted their first contraction, although small, since 2015, falling to CHF 732.7 billion. Market effects over the past few weeks certainly explain the drop in currency reserves, so there is as yet no need to read into it a change in SNB policy.

The Swiss franc's weak spell is not over

The rise in the Euro is already well underway following a +20% change in the exchange rate. Increased Eurozone growth and a widening of the interest rate differential will help the Euro to continue to grow to 1.20. In the United States, the trend is also picking up the pace, and the interest rate curve increasingly favours the US dollar. In this context, a recovery of momentum could take the US dollar above 1.05.

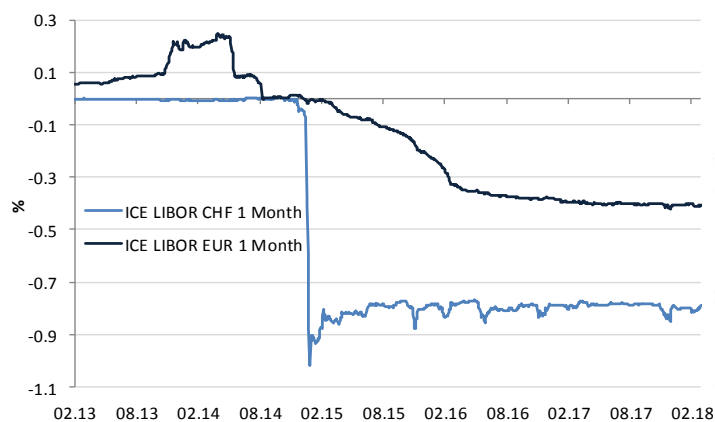
Tensions on the interest rate curve in Switzerland

Long rate normalisation in Switzerland got away to a tentative start in summer 2016 in the wake of the change in trend in the United States. Swiss ten-year rates in particular bounced back from their historic low of -0.6% to oscillate between -0.2% and 0% throughout 2017. Last year was therefore mostly a year of horizontal consolidation during which Swiss bond markets did not post a performance, but neither did the speculative bubble burst, as had been so often predicted for several years. This situation will certainly not last in 2018.

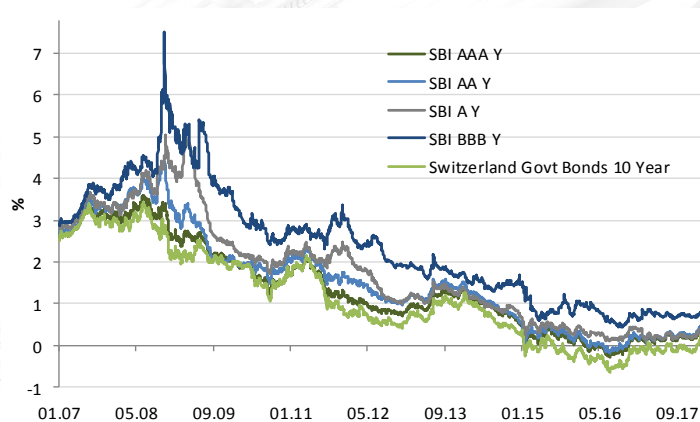
We have already been seeing a first significant shift in long rates for a few weeks now, which has finally brought Swiss long rates above the 0% threshold. In just a few weeks, long rates have leapt 40 basis points, and now clearly seem to be on a lasting upward trend. The rise of Swiss long rates at the start of this year heralds a faster pace of interest rate normalisation in Switzerland. This upward movement on ten-year rates is not isolated, of course, and is reproduced across the whole rate curve. This change only started to happen in the 4th quarter 2016 with a first rise of 40 basis points, and is now continuing in the 1st quarter 2018, and to a greater degree, on long-term maturities. The SNB's monetary policy of negative key rates is still influencing the very short part of the Swiss rate curve and is preventing any increase in yield on the very end of the curve. Ever since the start of this first shift (30/06/2016) short-term maturities have naturally had a muted reaction, whereas longer-term maturities have risen by 70 basis points for between 7 and 12 years. Further, the yield correction stood at 80 basis points for 15-year maturities. The rate curve is now steepening, as we mentioned in previous analyses, and should do so to a greater degree in 2018.

In this context, the long rate differential for the German Bund and Swiss bonds has not really changed, although it is a little higher (0.56%) than on 30th June 2016 (0.4%). This trend should continue in 2018, especially given the improvement in the European trend and the plan to end the ECB's bond purchases. Yield for ten-year Swiss bonds stood at 0.18% when it was announced that the 1.20 Euro-Swiss franc floor would be dropped. It hit 0.2% on 15th February 2018, shortly after the Euro/CHF exchange rate had hit 1.18. Equally, Swiss inflation posted one of its strongest months of growth since 2012 in February (+0.4%), and now sits at +0.6% year on year. This trend should be bolstered by the weakening of the Swiss franc. It should therefore prop up the next phase of interest rate normalisation in 2018. We have already stated that the bond bubble should start to deflate, though with no immediate signs of panic, before picking up the pace. We believe that this new faster-paced phase has already begun.

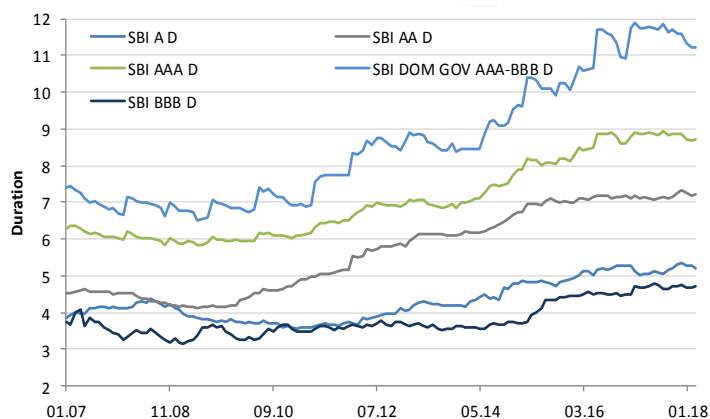
Libor spread rates 1 month



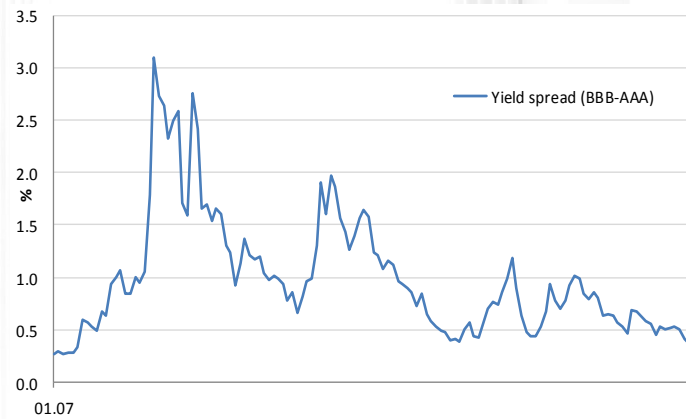
Yield (Government, AAA, AA, A, BBB)



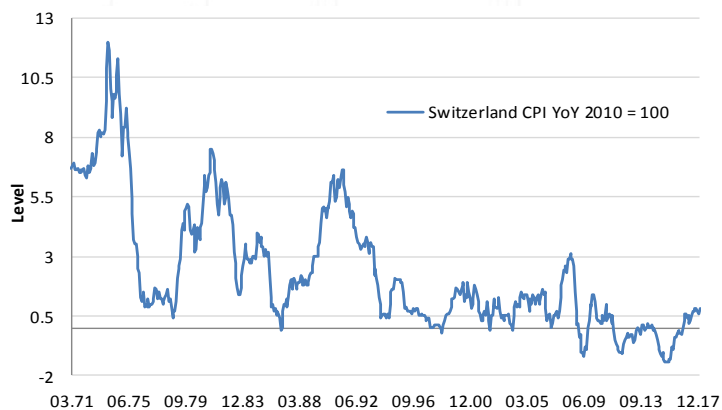
Duration of Swiss bonds



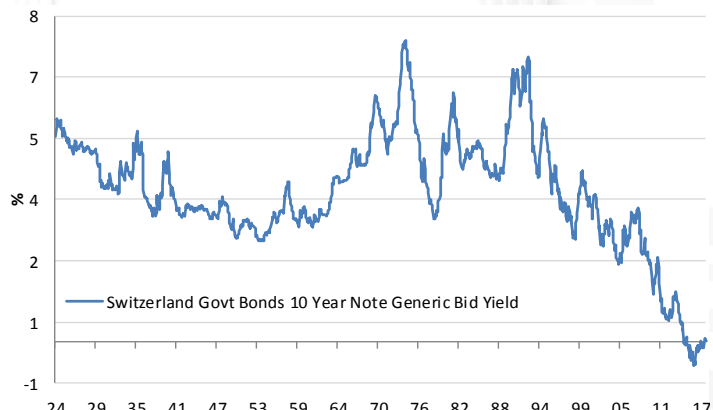
Yield spread



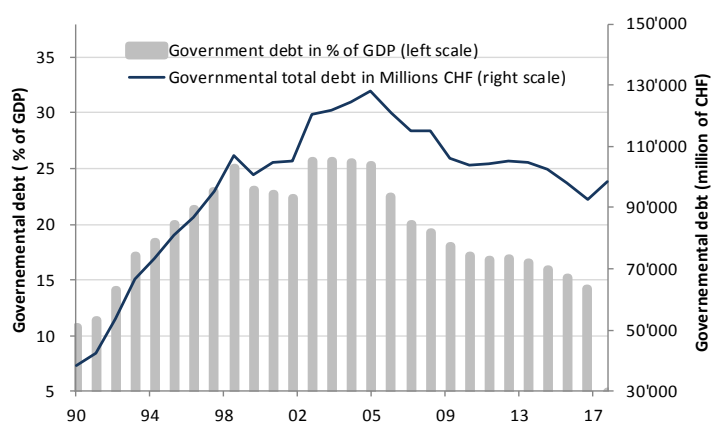
Inflation CPI



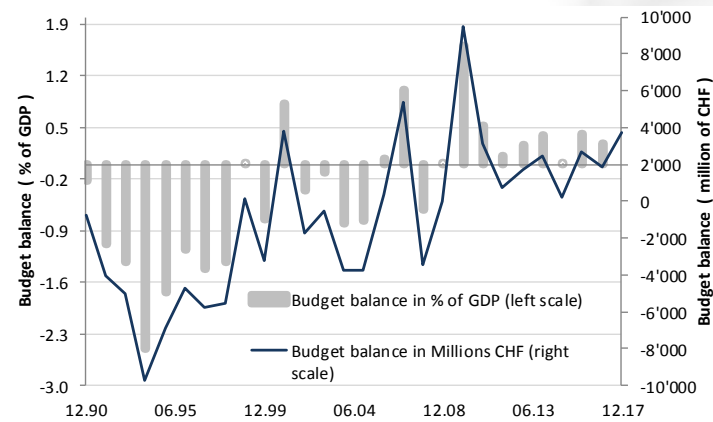
Government Bonds 10 year yield since 1924



Switzerland Government total debt



Switzerland Budget Balance



MACROECONOMIC SCENARIO

Eurozone

- The end of QE heralds upcoming key rate normalisation
- The risk of a strong euro is rising
- Eurozone growth is keeping up a sustained pace
- Confidence remains high
- Long rates are on the rise

The end of quantitative easing heralds upcoming key rate normalisation

The ECB is showing increasingly self-assured confidence in the quality of the current economic recovery in the Eurozone. It is stating that the strength of growth could constitute a surprise over the coming months, and could even surpass forecasts. Indeed, everything seems to be looking up in the Eurozone; growth is able to post a faster pace thanks to good household spending, a more dynamic labour market, and rising exports, despite the euro's appreciation. The ECB has increased its growth forecasts to +2.4% for 2018. Economic indicators are suggesting that these positive trends will continue, backing up the ECB in its positive evaluation of 2018 and 2019 forecasts.

Confidence is definitely part of the ECB chief's analysis. However, he is keen to avoid giving too many hints to financial markets that a tightening up of monetary policy is on the cards. As such, he is tempering the enthusiasm of those who would like to think that a reversal of monetary policy is imminent, pointing out that the adjustments made will be "predictable" and will be applied at a "moderate pace". There will therefore soon be a change in monetary policy, but undoubtedly not before inflation becomes much stronger. ECB monetary policy will continue to be "patient, persistent and prudent" in the words of its chief. The ECB's Governing Council has decided to change its stance, removing the reference to an "increase in QE if necessary" from its policy statement, whilst still keeping the option of extending the programme. Although the spectre of deflation seems to have been defeated, the inflation recovery remains too weak in past comparison to justify a move to raise key rates. However, it is more than enough to hope that quantitative easing will no longer have to be increased. The ECB is eager to underscore the importance of inflation as an element of its asset purchase programme. However, this should come to an end in 2018, as inflation is well on its way to its +2% target, although the rate of its

growth could be momentarily disappointing. The difficulty lies in choosing the right moment to stop net bond purchases.

The US president's latest policy decisions regarding international trade also contain fresh risks for global growth and price growth, which is added to the risk that the recent strength of the euro poses; these are two key factors that will need to be taken into account over the coming months. The ECB chief clearly seems concerned by the emergence of new protectionist risks, and sufficiently irritated by Donald Trump's position to want to remind him that trade tensions would not necessarily be beneficial for the US dollar.

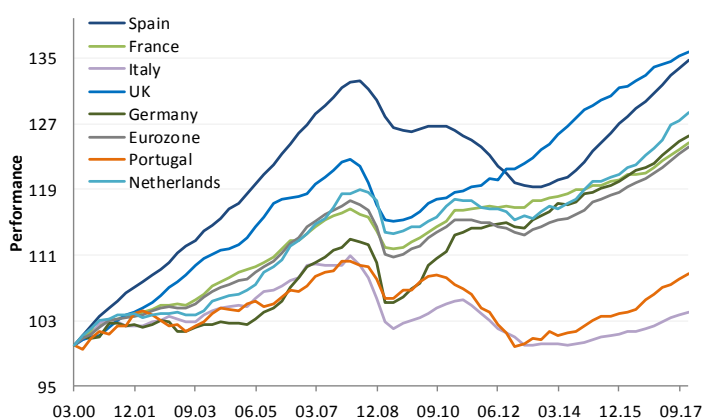
Consequently, we do not believe that the ECB will be particularly proactive in terms of wanting to hike key rates in the current context. We will certainly still need a few quarters of growth and improvement in employment for the ECB to risk changing its rates. Inflation will need to be "resilient" for the bank to feel comfortable enough to clearly change its stance without risking affecting the economic trend and financial conditions. The ECB is sticking to its chosen monetary policy path, leaving its rates unchanged, whilst very slightly dropping its 2019 inflation forecasts from 1.5% to 1.4%.

The risk of a strong euro is rising

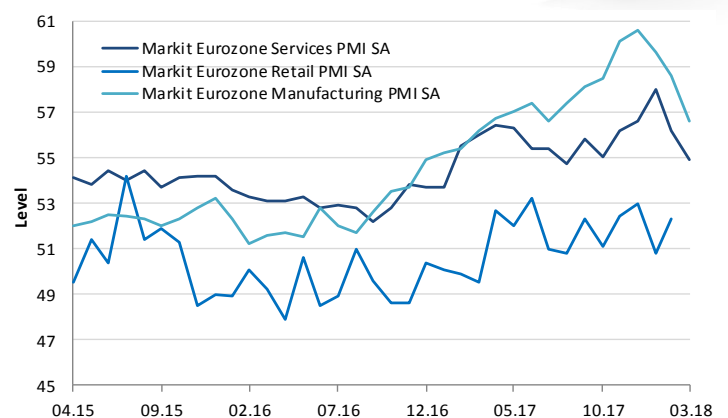
The ECB is not mistaken- the recent rise in the euro against the US dollar could represent a threat to the expected development of inflation over the coming months. The +15% rise in the single currency against the US dollar in 2017 has, in fact, continued in 2018, with nearly a further +3%. The overall rise of around +20% in barely a year does indeed constitute a risk for inflation prospects, as well as for the future development of the European economy. The euro's appreciation was the logical consequence of the relatively unexpected period of economic acceleration in 2017. However, in the current climate, the euro's strength is problematic for the ECB and could endanger the quality of the current



GDP Growth - Eurozone

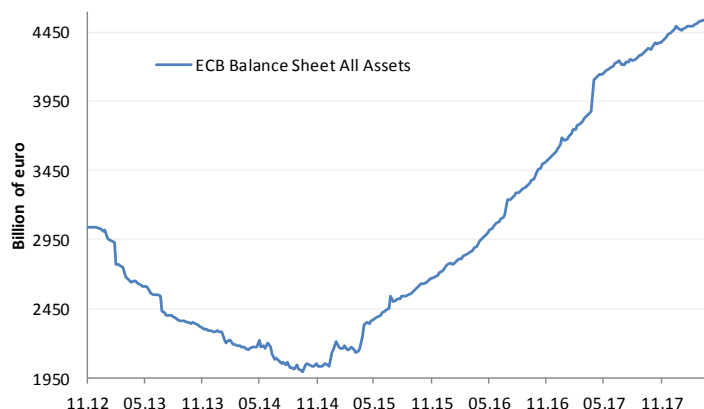


PMI (Manufacturing, Services and Retail) - Eurozone



Graph sources: Bloomberg/BBGI Group

ECB Balance Sheet



recovery as well as the competitiveness of European industry. The ECB will have to wait for weakness in the euro and an inflation recovery before increasing its key rates. This combination could take time to come about, which is why key rates have not been changed.

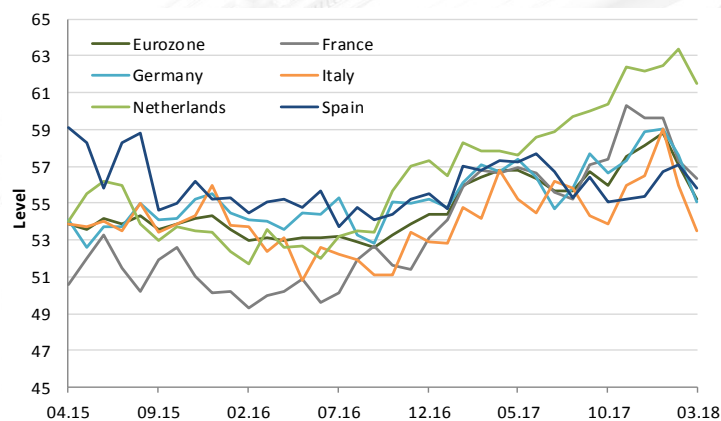
As regards the euro/chf exchange rate, we can see that the strategy we implemented immediately after the SNB's change in policy is still proving effective. The euro rose nearly +10% against the Swiss franc in 2017, meaning that it has bounced back nearly +20% over the past three years. The exchange rate has nearly recovered to the level it was at on 14th January 2015 (1.20). A few months ago, we highlighted that the bounce back in the euro seemed to us to be broadly reflecting the improvement in fundamentals and heading into a new phase of relatively horizontal consolidation, which would be conducive to some profit-taking.

Today, after two quarters of stabilisation, we now believe that it is highly likely we will see the single currency head towards and beyond the 1.20 level. The euro should soon lose some ground against the US dollar, but become more attractive as compared to the Swiss franc.

For the time being, Eurozone growth is keeping up a sustained pace

Our forecasts of the European trend improving in 2017 were proven accurate, with the +2.7% rise in aggregate Eurozone GDP in the 4th quarter. In the end, the Eurozone posted higher growth than the US economy (+2.5%) due to a slight dip in activity in the United States. Growth forecasts for the current quarter stand at +0.6%, and +2.5% for 2018, which is slightly better than ECB forecasts. 2018 could still benefit from the improvement in the trend and a rise in demand, particularly for German products, caused by the global recovery. German GDP could hit +2.6% of growth and the OECD estimates that European GDP could grow +2.2%. In France, there have been surprises on the jobs market, in company investment, and in export developments,

Composite PMI



which should be in line with the +0.7% GDP growth seen in the 4th quarter 2017.

However, caution is still required in the current context of a strong euro and a rather stark slide in leading indicators. PMI indicators have done nothing but give ground since their peaks in December, giving a glimpse of a dip in activity in the 1st quarter 2018 too. The Markit Services Index slid from 58 (January) to 55 in March, confirming the trend first seen on the manufacturing index, which dropped from 60.6 in December to 56.6 in March.

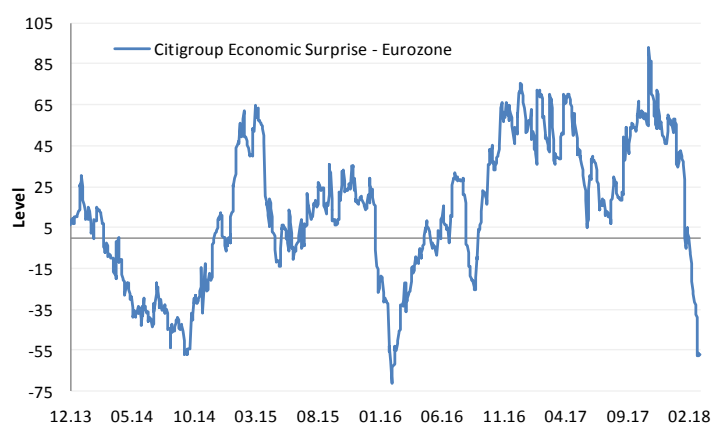
The start of 2018 should therefore be favourable, and confirm our positive growth forecasts for European GDP. Nonetheless, the risks posed by the rise in the euro are not trivial and could in the end weigh heavily on the forecast trend.

Confidence remains high

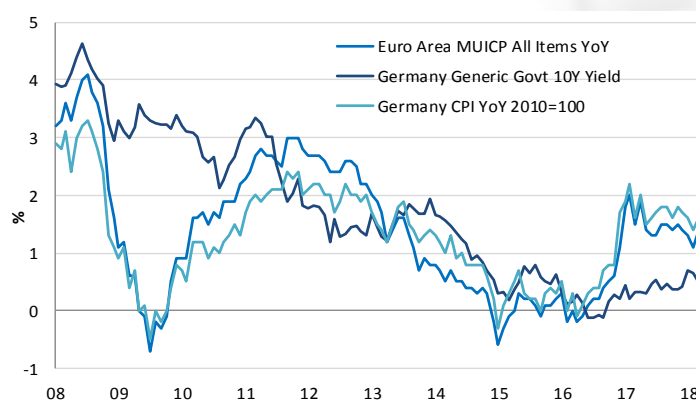
Brexit negotiations still do not seem to be affecting Eurozone confidence. The European Commission's economic confidence indicator has faltered slightly, but has remained close to its ten-year high. Sentiment has improved to quite a considerable degree, and this improvement is still being bolstered by the positive developments in job market conditions. Indeed, we have seen the strongest jobs growth since 2008, after having long seen negative growth until 2014. We have now seen the 4th consecutive year of growth in employment, which has led to a fall in the overall unemployment rate to 12% in 2013, and 8.6% today.

It is one of the factors propping up consumer confidence, which is also at a ten-year high. In most countries, we are seeing renewed optimism, which is very welcome, and should in turn prop up spending and GDP growth.

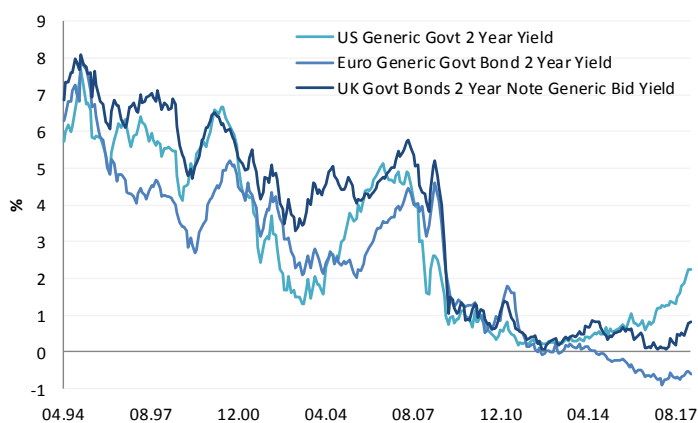
Citigroup Economic Surprise Index - Eurozone



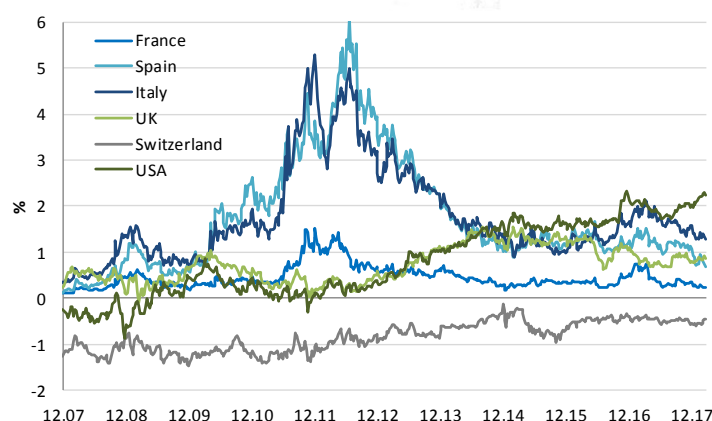
10 year Government Bond yield - CPI



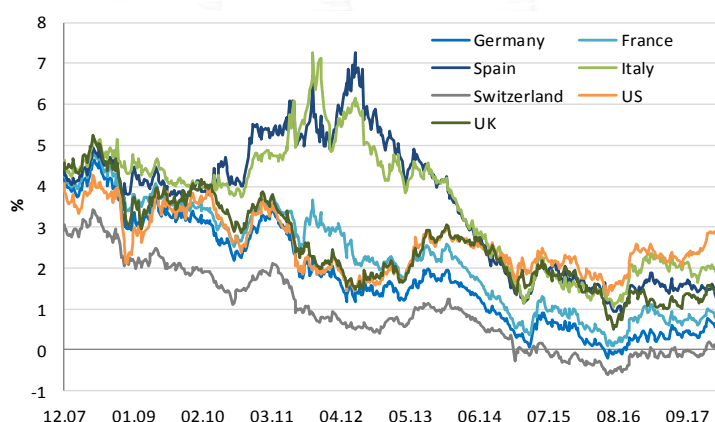
2-year Government Bond yield (US, Euro, UK)



Risk premium - Government vs. Bund



10-year Government Bond yield



Long rates are on the rise

For the time being, the rise in long rates is still being held back by two essential factors- inflation and monetary policy. The ECB's decision not to change its monetary policy and to continue with its bond purchase strategy has put a dampener on any adjustments that should otherwise have taken place in the current context of robust economic growth. The second factor- inflation- is also preventing a rise in long rates due to its recent weakness. This is key, as in the absence of inflation, the need to adjust interest rates is far from pressing. Indeed, inflation has been gradually tailing off since its peak in the 1st quarter 2017 (2%), and now only stands at 1.1% year on year. The euro's weakness against the US dollar will certainly be the main factor enabling new, more robust inflationary forecasts, and a rise in long rates thereafter. It is certainly too early yet to see a clear inflation recovery linked to the jobs market; it is still too far from its friction point for wage rises to contribute to an increase in prices. The ECB's aim of bringing inflation up to 2% will certainly be difficult to achieve, even if the central bank continues with its expansionary monetary policy in 2018, and particularly if the euro remains stronger in the longer term. Salary costs are proving slow to budge and, despite its significant drop, the Eurozone unemployment rate remains high in absolute terms. However, inflation should gradually rise back towards 1.7% by the end of the year.

Nevertheless, Eurozone long rates should not be able to cut loose from the upward trend sparked by US policy normalisation and the recovery on long rates in the United States. The long rate differential seems to us to be less and less well founded given how well the European economy's growth rate has caught up.

After a 1st quarter still shaped by somewhat stable long rates, we believe that it is now likely that we will finally see a clear change in investors' perception of risk. We recommend considerably reducing the bond risk in euros without delay.

New opportunities for European equities

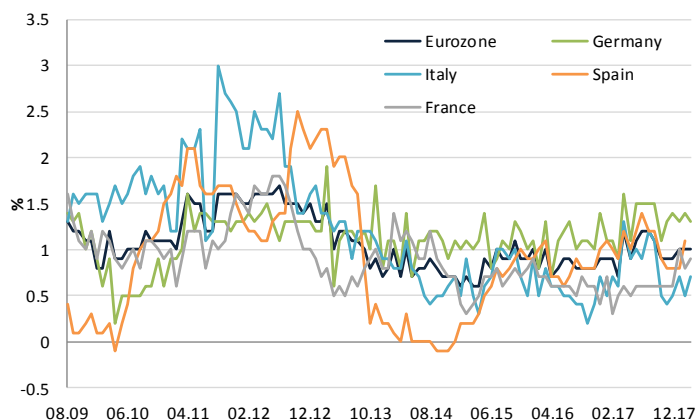
The correction to financial markets, starting in January 2018, was similar for Eurozone and US equities in the end. Fears linked mainly to the inflation recovery and faster rate rises in the United States plunged all equity markets into a general price correction of around -10%. European indices had a year's worth of growth wiped out, and are now at similar levels to the start of 2017. The price correction was not particularly intense, but it came at a point when the revaluation of European equities was far from over.

As such, the valuation of European equities has improved quite considerably over the past few weeks, both in past and international comparison. It is even significantly lower than the valuation of American assets. At just 13.2x 2018 profits, the valuation of European assets represents a 3.4 valuation point discount compared to US equities (PE 16.6x 2018). We do not believe the approximately 25% valuation differential between US and European assets to be justified in the current context, which is also favourable for European assets. In terms of dividend yield, European assets also seem much more attractive, offering 3.5% yield. This is nearly twice the yield of US assets (2%).

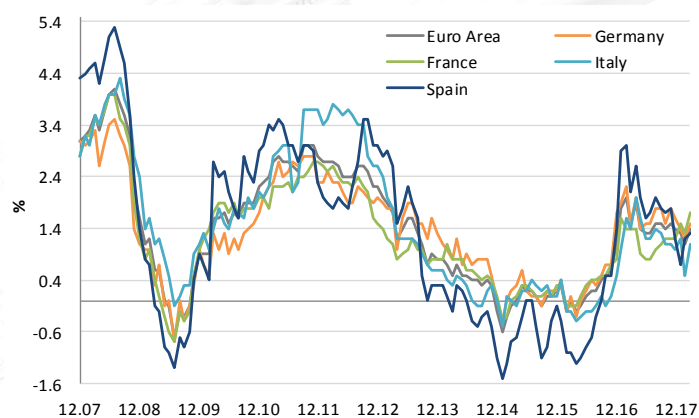
The recovery in growth and company profitability are key elements, which are then bolstered by other favourable factors, such as, inter alia, the fall in great political and systemic uncertainty, and the improvement in banking sector conditions. These factors make European assets more attractive; they should benefit from investors returning.

We believe that there are really no grounds for the valuation differential. European equities should considerably outperform US equities in 2018 in local currencies.

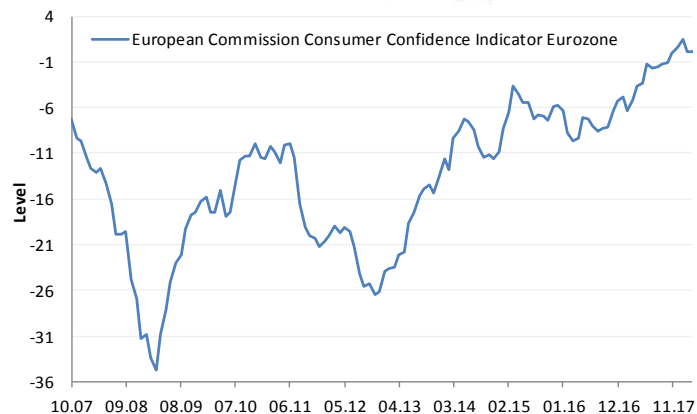
Eurostat CPI - Core Inflation (Eurozone, YoY)



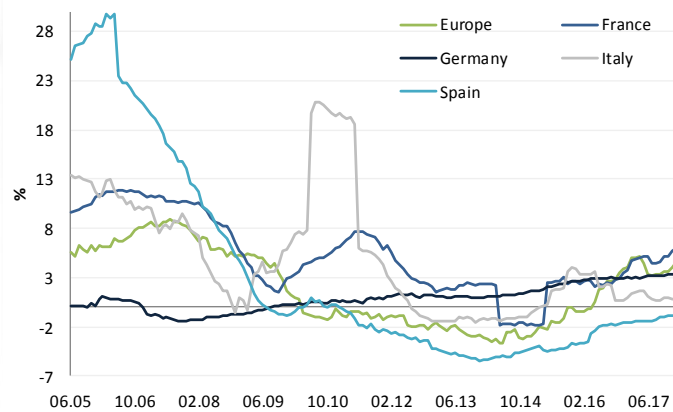
Eurostat CPI - all items (Eurozone, YoY)



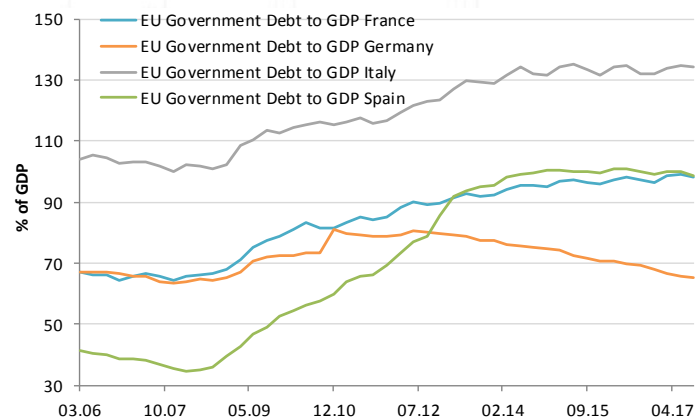
Consumer Confidence - Eurozone



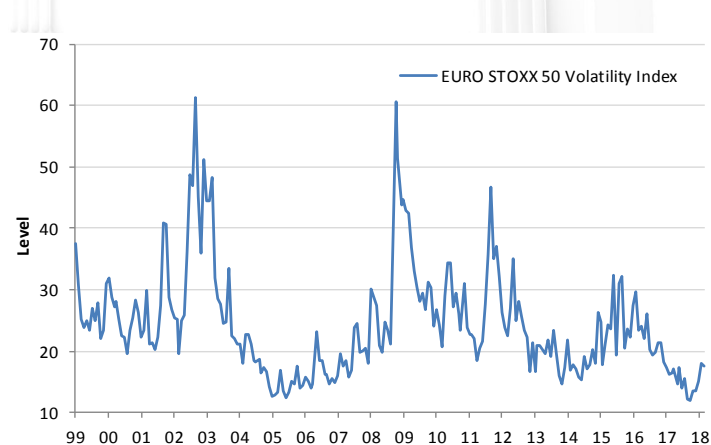
Loans to households (Eurozone - YoY)



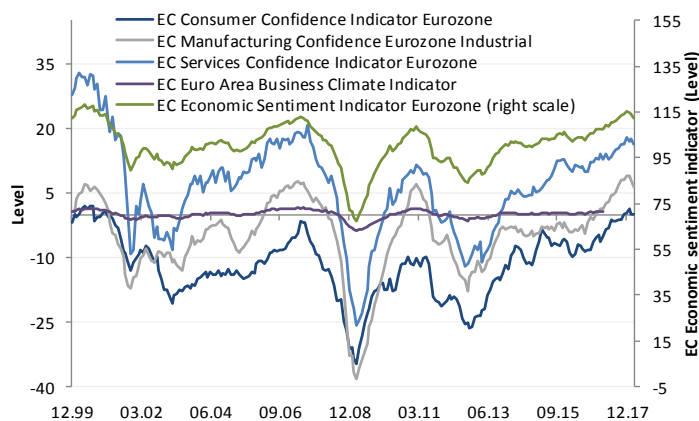
EU Government Debt



Euro Stoxx 50 Volatility Index



Economic Confidence Index



MACROECONOMIC SCENARIO

United Kingdom

- Twelve-month countdown for an agreement on Brexit terms
- Cost estimates of various possible trade agreements are concerning
- The pound remains stable and confident against the euro
- Monetary policy remains unchanged
- Likely increase of long-term government bond yields to 2%



Agreement on post-Brexit transition period offers relief given tense context

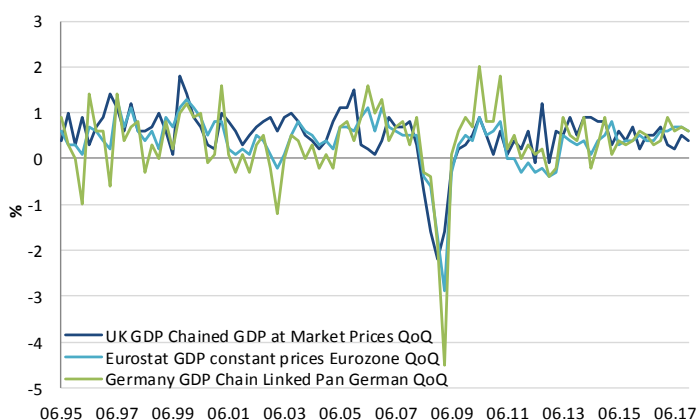
The agreement comes as a relief, as it appears to finally offer a solution with regard to the issue of citizens' rights for two additional years following the 29 March 2019 deadline. A two-year transition period has been granted to the UK, during which time the country will no longer participate in EU decision-making processes while nevertheless retaining the benefits of the single market, the customs union, and EU policies. The UK will thus have to abide by all European regulations just like member states. Yet, although the agreement signed by the UK and the EU was a predictable relief, it does not resolve any of the underlying issues.

This agreement essentially buys time and flexibility, but in and of itself it does not resolve outstanding issues. In fact, it is nothing more than a logical and rational concession to the various actors involved to enable a less brutal application of the rules, yet to be defined, which would otherwise have come into effect without further delay on 29 March 2019. It thus sets a transitional period that will allow smoother planning and adjustment of institutions, businesses, and citizens with regard to newly applicable rules. However, it does not provide a future outline for Brexit. Clearly the news will to some degree alleviate current tensions in the negotiations, but it is far from representing major progress, as it had already been perfectly obvious that a transition period had to be established in order to avert regulatory chaos in a year's time. The risk of this agreement is that it may foster the tendency once again to minimise the urgency of the situation and the necessity of finding tangible solutions to the very real problems posed by Brexit. Let us hope that this new stage will reinvigorate discussions between the parties regarding fundamental issues.

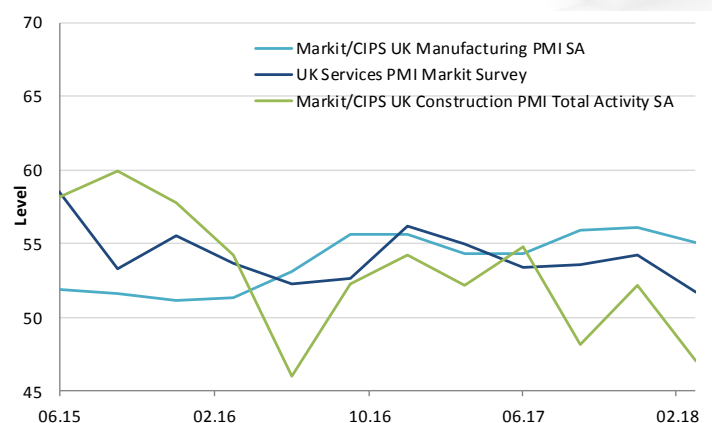
Forestalling failure in twelve months

At the beginning of the year, a deadlock in the negotiations was narrowly avoided thanks to an agreement in principle extracted from Theresa May. On 13 December 2017, European negotiators cheered a shift in the British position, which finally opened the door to a second round of talks between the two parties. The Europeans welcomed this shift warily, noting that they would engage in this new phase with great vigilance. Three months later, the commitment that had already at the time seemed like a fragile declaration of intent extracted at the last minute has not been shored up. Certainly, the British government is not calling into question the basic principles of a financial agreement whose outline remains vague and which involves a minimum payment of 45 to 50 billion euros, but it continues to prevaricate, which is hampering a process that had barely resumed. The attitude of the British negotiators constitutes a major problem with regard to the negotiation process, even though the latter is crucial for the UK. The British parliamentary committee overseeing the Brexit negotiations is now realising that talks between London and Brussels are stalling and threaten to delay the UK's withdrawal from the EU. Little progress has indeed been made on the issues of expatriate citizen rights, the border between Northern Ireland and the Irish Republic, or what tariff model to apply. This comes as a surprise to no one, but time is running short, yet the urgency of the situation does not seem to be rousing parties to find realistic common ground. The two-year timeframe set for the UK to withdraw from the EU ends on 29 March 2019, that is, in less than a year; half of the time allocated to finding an exit route has thus passed. The Europeans are justifiably exasperated by the UK's indecision. Michel Barnier, the European Commission's chief negotiator for Brexit, showed signs of annoyance after British Prime Minister Theresa May rejected the legal draft of a withdrawal agreement that will have to be discussed yet again during the next European member state summit on 22 and 23 March.

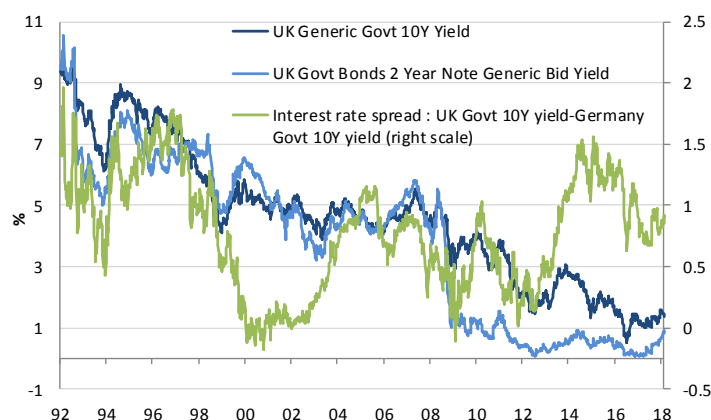
Quarterly GDP Growth - UK



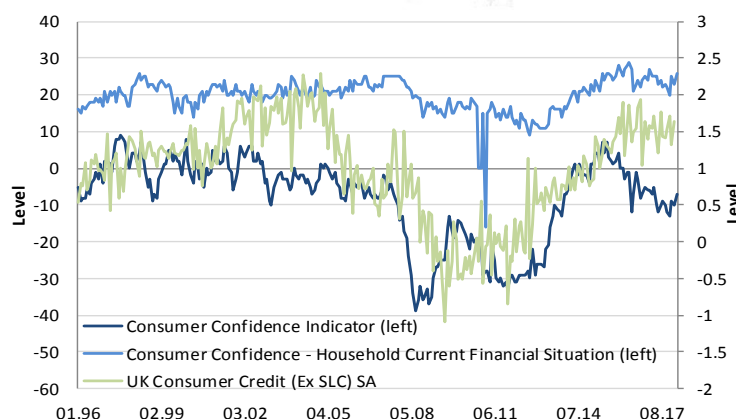
Manufacturing, Services and Construction PMI - UK



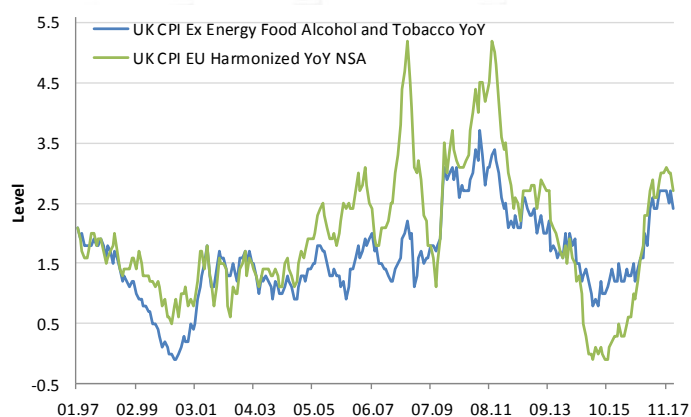
UK Government Bonds - 10 year and 2 year yield



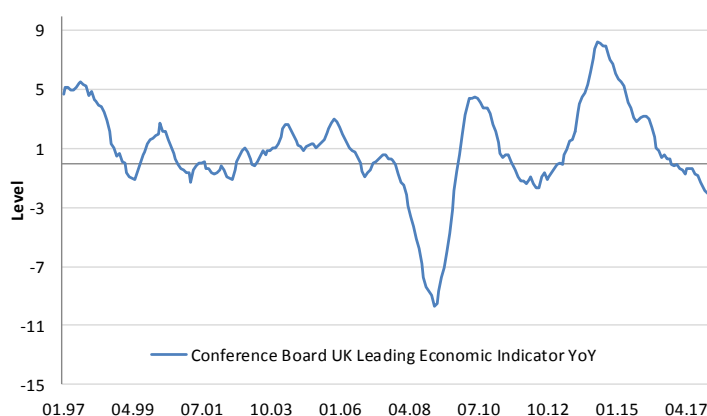
Consumer Confidence



Inflation CPI



UK Leading Economic Indicator



His stance could harden, as the EU's irritation is increasingly noticeable in the face of the UK's "unrealistic" demands. While the UK may well withdraw from the customs union's internal market and reclaim regulatory autonomy and legal independence, it will have to accept to pay the price. The European Union has no intention of letting the UK devise a customised withdrawal that would allow it to select an "à la carte" internal market and the elements that suit it while rejecting those that cross its "red lines". Impatience is mounting once again. The president of the European Commission, Jean-Claude Juncker, also called on the UK to show a little more discipline and realism, urging it to focus rapidly on key elements. Talks thus far have focused on delineating a Brexit agreement addressing the divorce's financial costs as well as the expatriate and Irish border issues. However, it is now urgent to also clarify the UK's position on the issue of post-Brexit trade and customs relations.

A full year has gone by, and it is now time as Juncker stated to 'translate speeches into treaties, to turn commitments into agreements, broad suggestions and wishes on the future relationship into specific workable solutions', to prevent the negotiations from failing on 20 March 2019.

Cost estimates of various possible trade agreements are concerning

The British government recently estimated that withdrawing from the European Union would cost the country 4.8% of its expected economic growth over the next 15 years. The economic impact of Brexit is thus starting to be better understood, as a lower growth rate could entail an increase in the country's borrowing of approximately 55 billion pounds over the same period—enough to challenge the arguments put forward by the Brexit camp at the time of the vote in 2016. Figures released by the ministry in charge of Brexit negotiations with regard to the other two potential scenarios are also worrisome. Membership in the single market, an option that has already been ruled out by Theresa May, would result in lost growth worth 1.6% of GDP, while a no-deal exit would cost 7.7% of GDP. The amount required to service the public debt could in that case reach 80 billion pounds. Brexit's potential costs keep rising, while solutions involving new free trade agreements with the US and other countries are unlikely to come to fruition before March 2019. At any rate, even an agreement with the US would have only a limited impact of +0.2% of GDP and would be altogether insufficient to compensate for the estimated impact of withdrawal from the EU.

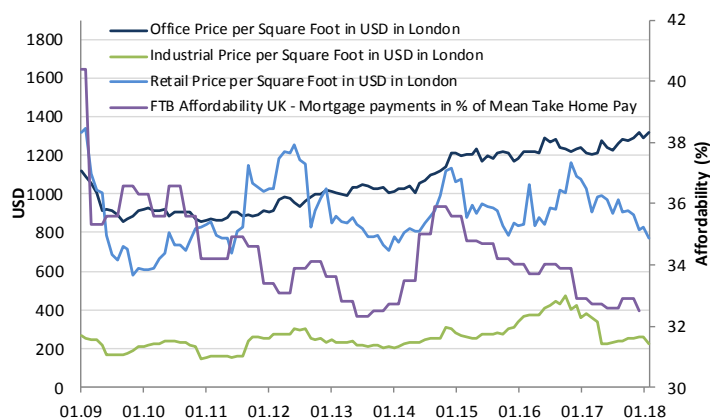
Rising unease among businesses and multinationals

Unilever recently announced its decision to consolidate its headquarters in the Netherlands, after having had a mixed presence in the UK for almost a century. The multinational will henceforth pay taxes only in the Netherlands. The news came out perhaps at the worst time for British negotiators, unless it finally makes them come to grips with reality and with businesses' perceptions of the likely consequences of Brexit. Even if Unilever's CEO, Paul Polman, refrained from linking the decision to the threats posed by Brexit, it is difficult not to infer a clear causal link. A recent study suggested that the costs of a UK withdrawal without an agreement with the EU were estimated at around 30 billion euros in tariff and non-tariff barriers. These extra costs would essentially be borne by the automobile, agri-food, chemical and financial sectors. The City accounts for close to 10% of GDP and is moreover the only sector operating a trade surplus with the EU. The City favours mutual recognition of regulations, which still seems to be rejected by Brussels, which would prefer to implement equivalency systems such as those in place with Switzerland, for instance. Businesses will likely welcome the agreement on a two-year transition period. While this period will help to prepare for the change, it will not reduce concern related to the glaring absence of a clear vision regarding the nature of the change that will affect them in a year.

The British taxpayer will pay for Brexit until 2064

Brexit supporters continue to be surprised, shocked, and caught wrong-footed by the withdrawal's impacts. Indeed, the Office for Budget Responsibility released an estimate viewed as credible of the costs of Brexit showing surprising consequences. What should most shock the population is the duration of the payments owed by the UK to the EU, as the report concludes by mentioning that British

Housing Prices



taxpayers will make payments until 2064 to cover the UK's share of the pensions of EU civil servants. This detail will likely cause no small amount of distress, as it is approximately equivalent to what will have been paid between 1973 and 2019—a bitter pill to swallow.

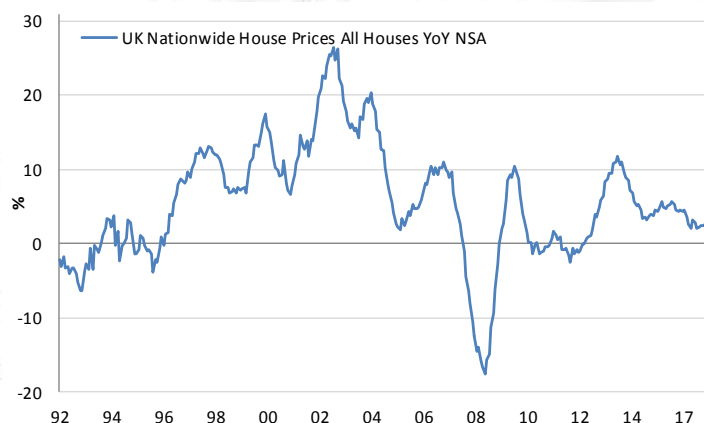
The pound remains stable and confident against the euro

The British currency does not seem to be affected by the absence of any tangible progress in defining a post-Brexit business model. We continue to believe that the pound has entered a stabilisation phase against most major currencies, after its record drop following the Brexit vote. Since talks resumed in December 2017, the pound has benefitted from a rather constructive environment, anticipating a reasonable solution between the UK and the EU. This expectation is still bolstering the pound/euro exchange rate, which has remained stable between 1.12 and 1.14 since October 2017. At this stage, we continue to bank on a stabilisation of the exchange rate in H1.

Economic activity slows

Q4 GDP (+0.4%) remains on a decelerating trend, though without worsening significantly. Yoy performance stabilised at +1.4%. Exports continued to lose steam in Q4 (-0.2%), and the rise in imports (+1.5%) does not bode well for the trade balance. Private consumption weakened again (+0.2%), although the +0.6% increase in public spending is compensating somewhat for this loss of momentum. Leading indicators are showing no sign that any sharp deterioration is to be expected in the beginning of the year. Manufacturing PMI's decline from 58.4 in November to 55.2 in February suggests a slowdown in the sector's activity. On the services side, the picture is somewhat rosier, as the PMI rose slightly from 53 to 54.5 in February. Construction exhibited a similar trend, increasing from 50.2 to 51.4. Overall, the composite index improved slightly, progressing from 53.5 to 54.5. Consumer confidence and the business barometer did not exhibit any significant change and

UK Nationwide House Prices



continue to reflect the uncertainty caused by Brexit. In this context, the very slight uptick in the unemployment rate (from 4.3% to 4.4%) in December may already be pointing to a deterioration in the job market, which has nevertheless been growing (+88,000) after shedding 56,000 jobs in October. The increase in industrial production (+1.3% in January) and in manufacturing production (+0.1%) is encouraging. The growth outlook for the British economy is rather stable, with a growth forecast of +0.4% for Q1 and +1.5% for 2018.

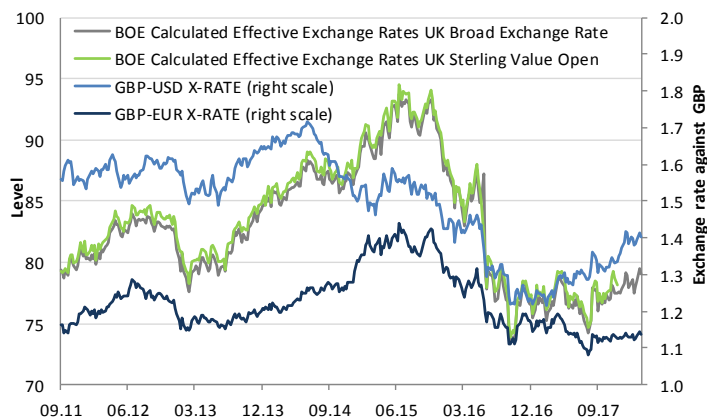
Policy rates remain unchanged

The status quo should persist given the current context and in view of the economic slowdown and higher inflation figures observed at the beginning of the year. In November we stated that the BOE's +0.25% rate hike would not be hastily followed by further monetary tightening, due to the risk of an economic slowdown. As we mentioned in our previous analysis, the rate hike to 0.5% could thus be followed by a long period of inaction. The BOE will likely keep rates unchanged or proceed with only minor hikes in the second part of the year. The Bank had applauded the agreement with the EU that decreased the probability of a disorderly withdrawal. It must now wait for the negotiations to proceed and develop their effects on consumer and business confidence to assess the likelihood of an upturn or downturn in GDP and inflation.

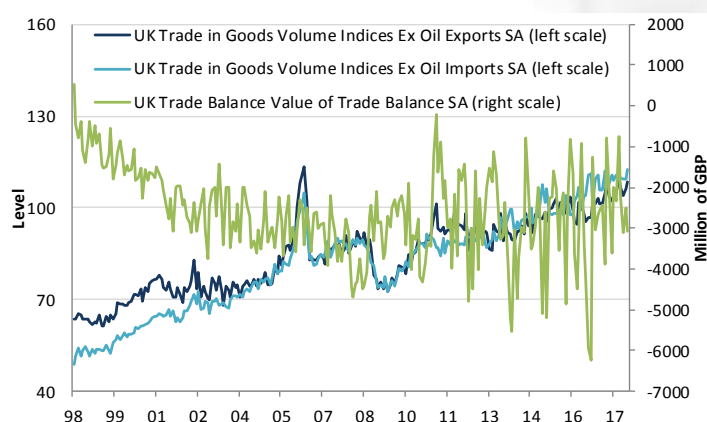
Long-term rates increase to 2%

The BOE released its one-year (+2.9%) and five-year (+3.5%) inflation forecast, indicating an expected increase. However, inflation has stabilised somewhat over the past months, clocking in at 2.7% yoy in February. Pressures have not intensified; production prices even fell from +19.3% to +3.4% over twelve months. We continue to predict that inflation will stabilise above the BOE's 2% target in the next quarters.

UK Effective Exchange rate



Trade Balance - Exports - Imports



MACROECONOMIC SCENARIO

Japan

- The strong yen is threatening Japanese growth
- Private consumption trends remain moderate
- Leading indicators remain lacklustre
- The yen temporarily regains its safe haven status



The strong yen is threatening Japanese growth

Japan's GDP growth ultimately turned out to be rather solid in 2017, although it closed the year on a weak note, with an annualised growth rate of +1.6% in Q4. Quarterly growth figures were relatively volatile, with Q3, for instance, coming in at +2.5%. The Japanese economy thus wrapped up the year on less positive footing, even though it extended its current growth phase by posting its eighth consecutive quarterly progression. Japanese GDP growth has lost some of its momentum, while the international economic environment has simultaneously strengthened. Over the next several months, growth could slow further due to the yen's strength in the past few months. Indeed, the Japanese economy will likely slow down in the first part of 2018 due in particular to the yen's +10% rise against the dollar. The unexpected strength of the yen is clearly threatening exports and corporate earnings, which have been significant drivers of economic growth.

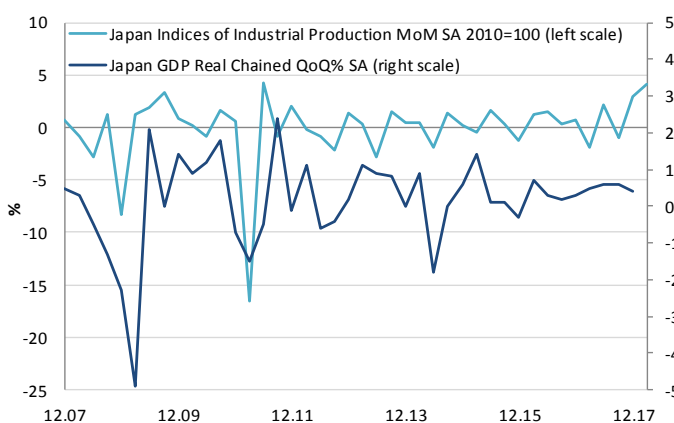
The Japanese economy has indeed been bolstered by an environment conducive to export growth and by an upswing in investment. However, export growth has already been flagging for several months, and even if in January it clocked in at +12.2%, this is still significantly below the +18% growth rate posted in August. The Japanese economy is thus likely to flounder in the absence of a weak currency at the very moment when domestic demand is in dire need of a confidence boost as well as genuine growth in wages and household disposable income. While corporate earnings growth should have led to wage increases, the growth rate actually dropped from +5.5% to only +0.9% between Q3 and Q4 2017. We are now far from the +26.6% growth rate posted in Q1, hence calling into question the outlook for an increase in consumption. The strengthening yen is thus a significant threat to the Japanese economy, which is in no state to withstand a lasting appreciation of its currency. The BOJ is no doubt aware of the significance of this factor, but it has no further means at its disposal to counter the negative impact of a strong currency other than those already implement-

ed. This situation is relatively concerning and calls into question the economic outlook for Japan over the next few quarters. If the yen does not depreciate in the near future, we expect economic growth in Japan to be more uncertain in 2018. GDP growth will likely receive less support from external demand while at the same time suffering from slowing domestic demand. Any hope of an economic upswing in 2018 thus rests upon a reversal of the current exchange rate trend and a net depreciation of the yen.

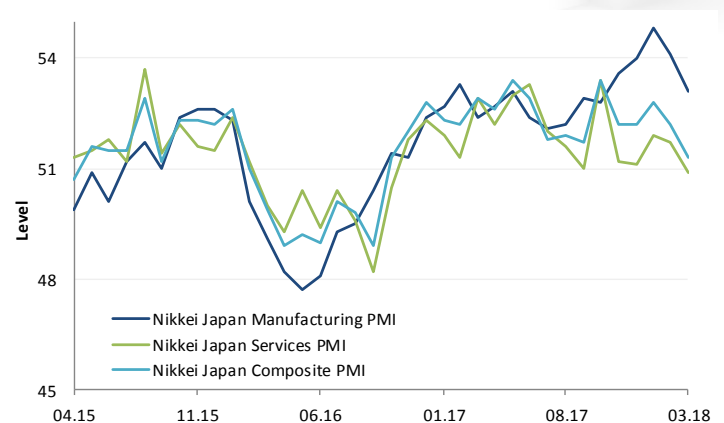
Private consumption trends remain moderate

In this context, it is hardly surprising that Japanese consumers are staying cautious overall. Indeed, no solid trend is visible in terms of indicators pertaining to domestic consumption, although the latter is likely to pick up somewhat in conjunction with positive developments in the job market and in the economy. Limited income and wage growth remains a major cause of this lack of enthusiasm. Consumption will thus remain a weak driver of GDP growth pending a sharper increase in household income. Overall, real household expenditures have in fact progressed, with an encouraging growth rate of +2% yoy in January. However, annual household income stagnated (+0.2%) in nominal terms and decreased by -1.5% in real terms. On a quarterly basis, GDP's private consumption index was up +0.5%, which explains the relative stability of household confidence, which declined only slightly from 44.7 to 44.4, still close to the 10-year high reached in 2013. The job market context will likely help improve household sentiment, as the unemployment rate dropped further from 2.8% to 2.4% and may presently have reached the threshold of full employment. The jobs-to-applicants ratio has logically also reached its highest level in thirty years at 1.59, slightly higher than in the previous quarter.

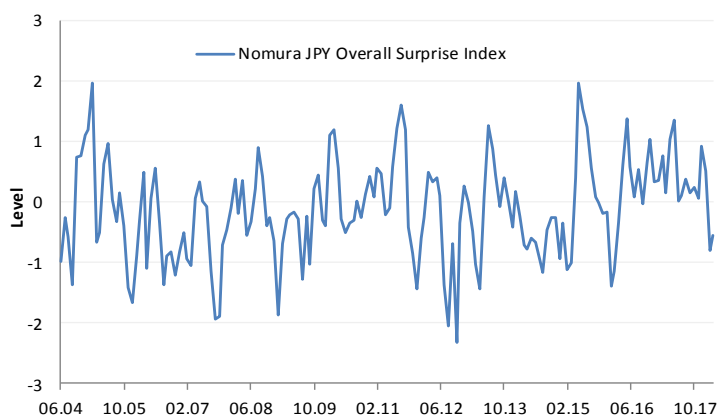
GDP and Industrial Production



Composite, manufacturing and Services PMI - Japan



Economic Surprise Index



Consumption could thus remain a significant contributor to GDP growth, but it will remain structurally weak as long as the distribution of income derived from growth is not more balanced. Indeed, the improvement in corporate earnings has yet to result in the expected wage hikes.

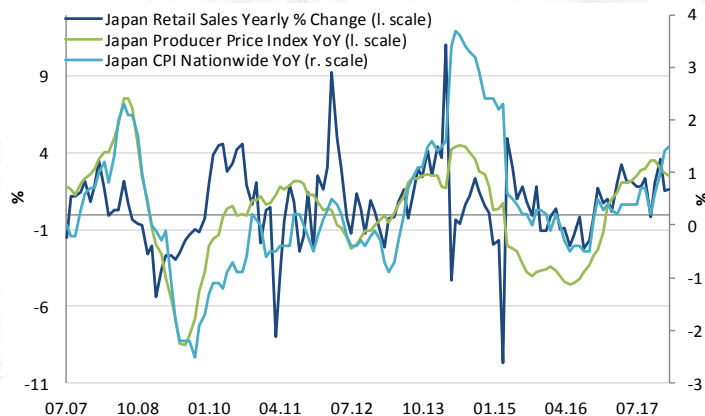
The BOJ is still hoping this redistribution of earnings will occur in order to boost inflation and consumption. While it has not yet come to pass, we believe it is now more likely to do so. However, a depreciation of the yen remains an essential condition for that to happen.

Leading indicators remain lacklustre

Rising uncertainty linked to Q4 results will not be alleviated by leading indicators in the short run, as the latter remain relatively lacklustre. The Japanese economy is growing, but hesitancy remains, and the likely temporary strength of the yen is not reassuring. The upswing in exports and external demand, supported in part by a more favourable international business cycle and by growing investment in Asia, initially had a visible impact on industrial production and on the outlook for the sector, but leading indicators are not pointing to any further acceleration at the outset of 2018. In fact, industrial production exhibited extreme volatility in January (-6.6%), resulting in a sharp correction of the annual growth rate from +4.4% to only +2.7%. Rising inventories over the past several months were indicating a likely decrease of future business activity and industrial production, but the decrease has been more substantial than expected. The trend remains positive though it was significantly destabilized by the yen's rise. The global PMI dropped further from 52.8 to 52.2 in February, reaching 2017 lows. The services PMI held steady at 51.7, slightly below its January level, suggesting a deceleration in the growth of new contracts.

The manufacturing PMI slid from 54.8 to 54 in February as a result of the yen's appreciation, although the collapse in the new orders sub-index was rather more significant (from 57.4 to 54) and more worrying in

Inflation (CPI and PPI) and retail sales



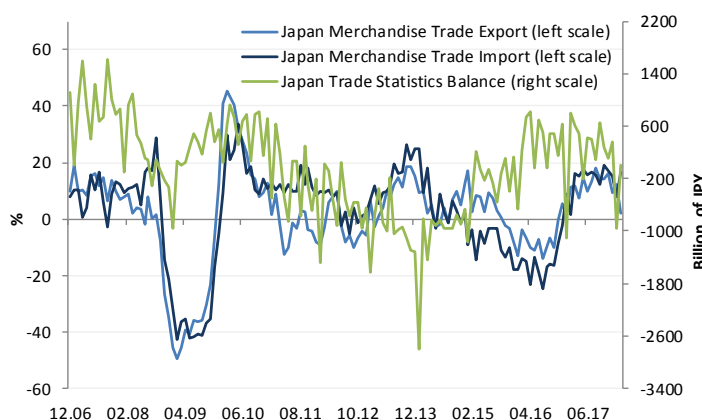
terms of future growth, even if this indicator remains in an expansion zone for the eighteenth consecutive month.

The yen temporarily regains its safe haven status

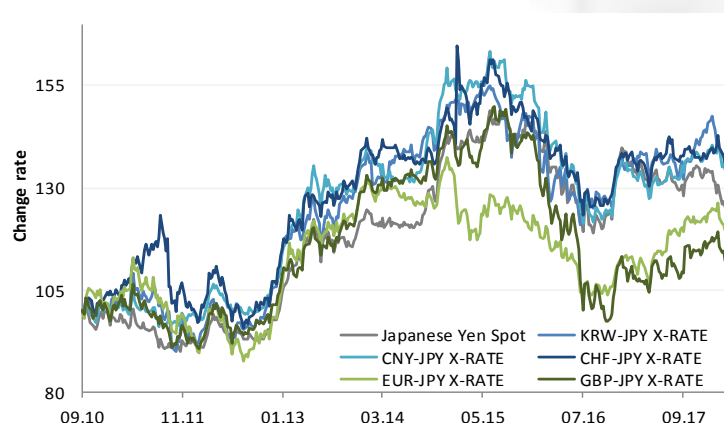
The Bank of Japan still does not have much room to act in terms of reaching its 2% inflation target (January CPI was 1.4%). It has not changed its assessment of economic conditions and is maintaining its monetary policy of low rates and monetary injections. The Bank is still hoping that economic growth will be sufficient to drive inflation up toward its target. The short-term interest rate objective remains unchanged (-0.1%), as is the aim of steering 10-year rates toward 0%. Governor Kuroda is unlikely to change the Bank's policies, which will remain a significant factor in the eventual decline of the Japanese currency. We continue to believe that an improvement in fundamentals will not have an immediate impact on the yen, which will continue to be disregarded by investors due to an utterly unfavourable interest rate environment. The government's policy is thus still to weaken the yen, as interest rate spreads are likely to widen and penalise the currency. The on-going normalisation of US monetary policy along with expectations of further increases in long-term rates in the US will likely further weigh on the yen in 2018. A weaker exchange rate has been one of the key elements of the government's policy to boost inflation and exports. This policy remains relevant. A change in monetary policy is indeed unlikely in 2018, even if the BOJ has significantly reduced the pace of its asset purchases, to the point where its balance sheet contracted ever so slightly for the first time in December. We do not believe this event heralds a change in monetary policy, even if Governor Kuroda recently announced that he would normalise the Bank's policy if its inflation target were achieved.

The yen has benefitted from its safe haven status over the past several weeks, but the currency will likely weaken again and draw closer to the high end of the band within which it has fluctuated over the past twelve months (USD 110, CHF 110, EUR 135).

Trade Balance (Billion of yen)



Exchange rate (Normalized at 100)



MACROECONOMIC SCENARIO

China

- Growth objective of +6.5% for the Chinese economy
- Surge in exports further irritates the United States
- Threats of another trade war
- New opportunities in the equity market



Growth objective of +6.5% for the Chinese economy

GDP growth is likely to clock in at a still solid +6.7% annualised at the end of Q1, before slowing slightly to +6.5% for 2018 as a whole. The government is emphasising qualitative growth, keeping its growth objective unchanged from 2017. In 2018, China is striving for economic growth predicated on improving the quality of the economy overall. The pursuit of rapid growth is thus obsolete, and China wants to focus on structural measures and reforms aiming at minimising major threats. Growth shall thus seek to promote investment and innovation, improve the quality of urbanisation, and achieve success with China's rural revitalisation strategy. High-level trade and investment liberalisation policies should also enable the country to achieve its qualitative objectives with regard to developing its domestic market and to maintain its capacity to grow exports of higher quality goods.

Surge in exports further irritates the United States

Chinese exports soared in February, growing by +44.5% yoy, while the growth rate of imports dropped from +36.9% to +6.3%. China thus exported over 175 billion dollars worth of merchandise. In only two months, China's trade surplus rose to 360 billion yuan. In this context, economic growth would be expected to be rather robust, but these numbers are stoking political tensions, further straining relations between China and the US. Trade tensions will certainly intensify following President Trump's announcement regarding further taxes on a number of Chinese imports such as steel and aluminium. The January-February period tends to be more volatile, but over the past two months, exports increased another +25% yoy.

Threats of another trade war

In February, China had a trade surplus of 21 billion dollars with the US. Chinese exports are the main factor sustaining economic growth overall in China thanks to a general improvement in world trade. The impact on the Chinese economy of new tariffs is likely to be limited. The Chinese government is probably more wary of measures to combat intellectual property rights violations because in fact the US has few alternative sources of supply for the products it buys from China. A trade war would benefit no one and would undoubtedly only further hinder material flows, ultimately leading to a decrease in world trade. While the war has not actually been declared, the US is likely aiming to place the bar very high with regard to future negotiations. The US president's ambition to rebalance trade and reduce the deficit, estimated at close to 373 billion dollars in 2017, may come up against reality, but he is fully determined to deliver on this campaign promise.

Inflation remains weak at the beginning of the year

Inflation was down slightly for FY2017 in China, so the release of the figures for February generated quite the surprise. Indeed, the price index posted its largest yoy increase since 2013. The +2.9% yoy increase marks a sharp increase over the January rate (+1.5%). The suddenness of the upturn in inflation may be due to a base effect with regard to food prices, which had dropped significantly in February 2017. Overall, inflationary pressures seem to have weakened, although they did increase by a significant +2.5%. Production price indices have continued to normalise at the beginning of the year, dropping from 4.3% to 3.7%. Pressure on the PBOC to raise rates does not appear sufficient to result in any immediate intervention.

Yoy GDP Growth



GDP and Industrial Production



Graph sources: Bloomberg/BBGI Group

Real Estate, Infrastructure and Industrial Investments (YoY)



Leading indicators still vacillating

Most leading indicators have remained relatively unchanged since the beginning of the year. China Caixin PMI index levels overall remain somewhat higher than those posted at the end of 2017. The various indices are still pointing toward sustained economic activity in 2018, without exhibiting any significant increase in optimism, however. The manufacturing PMI index progressed from 51.5 to 51.6, while the services sector fell back slightly (to 54.2 from 54.7). The global index thus also posted a small decline from 53.7 to 53.3. Although not spectacular, leading indicators are confirming the positive growth trend in the Chinese economy. Industrial production even rebounded, as shown by an improvement in yoy growth from 6.6% to 7.2%.

A new emperor in China to strengthen reforms

Following somewhat of a political upheaval in China in March, President Xi Jinping will benefit from a new measure approved by the Central Committee of the Communist Party authorizing more than two presidential mandates. President Xi Jinping, who had already been consolidating power since 2013, is now in even greater control of the administration in view of the newly announced nominations to government, and thanks to his constitutional reforms he will be able to run for another mandate when his current mandate expires in 2023. By solidifying his power in this way, Xi Jinping will be able to tackle his plans for fiscal and financial reform even more aggressively.

China's debt level is still perceived as a not insignificant threat to financial stability. Among Beijing's key objectives is thus to tackle financial risks, speculation, and the threat posed by bad debt, as public and private debt now exceeds 50% of GDP. The Chinese government is thus determined to ensure continued economic growth by accelerating

Exports and Imports (YoY)



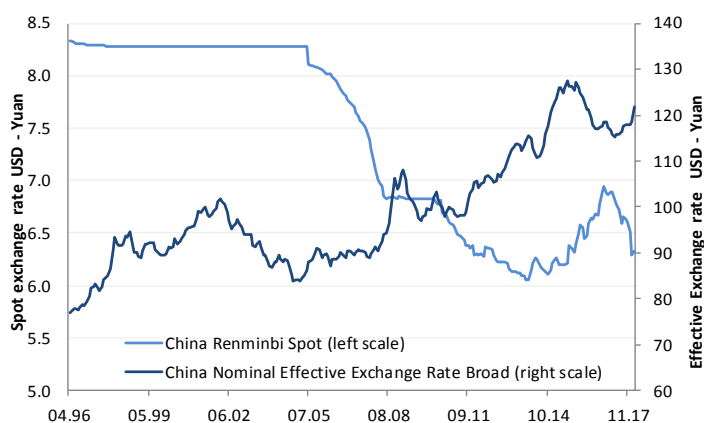
reforms that will ensure quality growth and better control of financial risks. In particular, the aim of deleveraging and reducing debt continues to be presented as a central task, and it should gradually affect businesses, households, and the real estate sector, after having initially been focused on the financial sector.

Exchange rate, monetary and fiscal policy

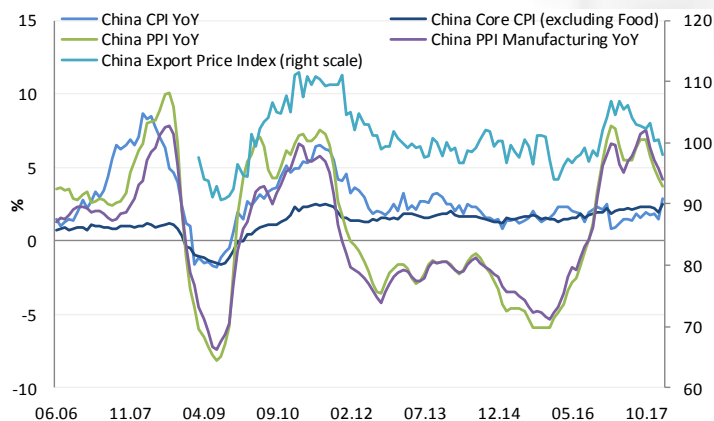
With regard to the exchange rate, the government does not seem to be willing to alter its language and is thus still talking about a stabilisation of the yuan. At the same time, China's currency reserves posted their first decline in a year (-27 billion dollars), although they still exceed three trillion dollars. Foreign exchange controls, reinstated at the beginning of 2017, played a significant role in reducing the outflow of capital, which thus remains in China, financing investment.

In terms of monetary policy, the current context should enable the PBOC to implement its neutral and cautious strategy in 2018. Any potential rate hikes aiming at reducing leverage will likely be very gradual. The required reserve ratio set by the PBOC for the major Chinese banks will likely remain unchanged at 17%, and the target policy rate, currently at 4.35%, should also remain stable in 2018. Fiscal policy will likely be somewhat less central in 2018. The government will have to balance its desire to support certain specific areas of growth while reducing overall expenditure.

Effective Exchange rate and USD/Yuan



Inflation CPI - Core CPI



MACROECONOMIC SCENARIO

United Arab Emirates

- Oil Production cuts made 2017 a challenging year for the UAE
- Stronger than expected GDP growth estimate in 2017
- Significant rebound in headline inflation in 2017
- Deflation in housing costs and increased risk of oversupply
- What lies ahead for the UAE's property market?



Oil Production cuts made 2017 a challenging year for the UAE

In line with its commitment to the OPEC agreement that took effect in January 2017, the UAE government participated actively in the coordinated oil production cut which was extended last November to the end of 2018. Accordingly, the UAE cut its oil production by 6% on a year-on-year basis in the fourth quarter of 2017 adding to a previous cut by 4% in the third quarter, leading to an average quarterly year-on-year decline by 2% in 2017. The Brent price increased by 25% on a year on year basis during the fourth quarter of 2017 against a previous increase by 14% during the third quarter, based on the latest data published by the EIA. The average quarterly increase of the Brent price reached 27% against a decline of 15% in 2016. The recovery in Brent values came as result of the production cuts decided by OPEC member countries and the recovery of the global economy coupled with the depreciation of the Dollar, leading to the revival of oil's global demand.

Stronger than expected GDP growth estimate in 2017

The Central Bank of the UAE revised its estimated of the Real GDP Growth for 2017 to 1.5% which compares favorably to the initial GDP projection by the IMF which expected the UAE to grow by 1.34%. According to the index of non-oil activity construct by the CBUAE (Non-Oil ECI), the non-hydrocarbon sector in the UAE grew by 2.9% in the fourth quarter of 2017, driven mainly by economic recover, employment resiliency, higher oil prices and improved growth in main UAE's trading partners. However, on a yearly basis, the oil-GDP growth declined by 1.4% and is expected to decline by another 0.2% in 2018. The dampening effect of the oil-production-cut was mitigated mainly by a stronger government spending, which grew by a staggering 23.3% in the first quarters of 2017, and by the resilience of the non-oil sector. Looking forward, the recovery of global external demand for oil should boost the UAE's economy by 2.5% in 2018 to which the non-oil sector should contribute by 3.9% according to the UAE's Central Bank forecasts.

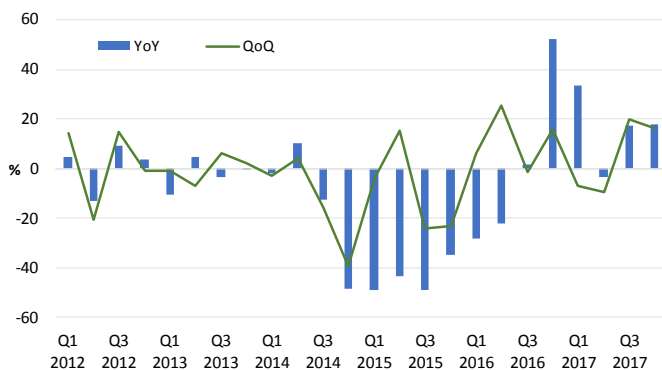
Significant rebound in headline inflation in 2017

As forecasted in our previous publication, the headline inflation rebounded strongly in the fourth quarter of 2017, driven mainly by the implementation of tax on Beverages and Tobacco and a stronger than expected domestic demand in anticipation of the VAT implementation in January 2018. Consequently, the inflation rate jumped during the fourth quarter of 2017 to reach 1.8% against 0.8% in the third quarter. In December, the overall Consumer Price Index (CPI) reached 2.7% which marks the highest monthly reading since March 2017. The most important increase in prices was on tradable goods, which account for 34% of the consumption basket in the UAE. Tradable prices inflation reached 4% in the fourth quarter of 2017 up from 0.6% in the fourth quarter of 2016. In fact, effective October 2017, an excise tax of 200% was imposed on Tobacco products and 50% on sugar and energetic drinks.

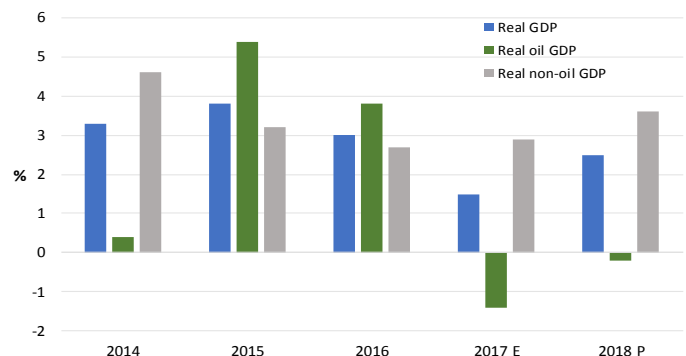
Deflation in quarterly housing costs and increased risk of oversupply

The UAE's housing market witnessed two consecutive quarters of deflation in the third and fourth quarters of 2017— respectively – 0.6% and – 1.0% due to excess supply in both Emirates, Dubai and Abu Dhabi. Real estate values both in Abu Dhabi and in Dubai peaked in Q2 2014 and corrected there after due mainly to the decline in oil prices, a strong US dollar and the implantation of reduced Loan-To-Value (LTV's) by the UAE's Central Bank to prevent excessive property speculation. The UAE real estate market then went through two years of consolidation that witnessed a substantial number of launches taking place mainly in the affordable segment amidst limited demand for high-end properties. In order to stimulate demand. Since 2016, most developers started offering incentives such as extended payment plans during the post completion stage coupled with lower deposits which made off-plan sales more attractive to a segment of the residing population that could not afford the minimum 25% down payment requirement for a mortgaged property.

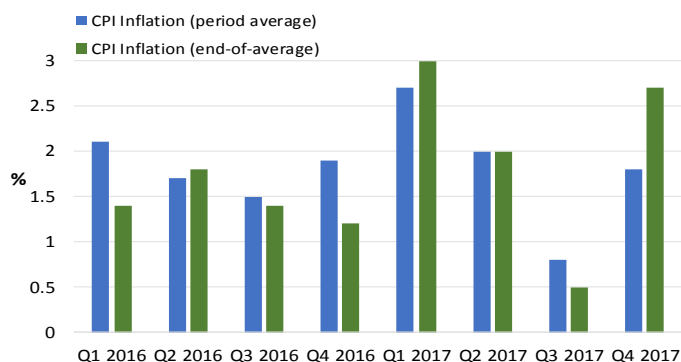
Brent Price - Quarterly Oil Prices Development



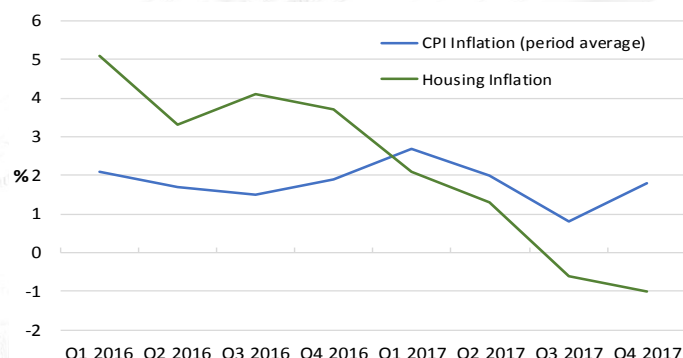
Economic Growth in the UAE



UAE CPI Inflation



UAE CPI Inflation vs Housing Inflation



Trend reversal in off-plan sales property sales?

It's no secret that off-plan property sales were responsible for the market momentum mainly in Dubai but also in Abu Dhabi after the implementation of increased property registration fees and higher LTV's. According to Dubai Land Department (DLD), the volume of off-plan transactions were up 60% year on year in 2017. They accounted for over 70% of all transactions fueled largely by back-ended and post handover plans provided by developers. However, the latest data from DLD indicates a reversal in this trend as off-plan sales in Dubai were down 37% in the first quarter of 2018 compared to a year ago. In terms of values, the decline in off-plan sales was steeper still, at an estimated 5.91 billion, down 46% from numbers recorded in the first quarter of 2017.

What lies ahead for the UAE's property market?

BearBull Group expects the UAE property market to follow similar trends with the previous years with increased pressure on both prices and rental values until the market finds a new equilibrium. Lower demand and softer labor market coupled with increased supply is expected to generate further deflationary pressure on rental prices. According to the latest data released by REIDIN and the CBUAE, rental prices in Dubai declined by 6.7% y-o-y in the fourth quarter, adding to previous decline of 6% in the previous quarter. Similarly, rental prices in Abu Dhabi fell by 11% y-on-y after a previous decline of 10.5% in Q3 2017. Looking forward, rental values are expected to drop at a faster pace compared to capital values both in Dubai and in Abu Dhabi as a result of the sheer amount of supply projected for delivery in 2018. Asteco estimates the supply of new apartments in Dubai to reach 23,000 units against 13,900 units in 2017, while the number of completed villas are expected to reach 8,500 units versus 3,600 units in 2017. Meanwhile, in Abu Dhabi, 2,800 apartments were delivered in 2017 and 6,200 apartments are expected for delivery in 2018. Number of completed villas are also expected to witness a strong growth from 750 units in 2017 to 2,800 units in 2018. Consequently, a large proportion of off-plan investors that have been driven by capital appreciation may fall short of

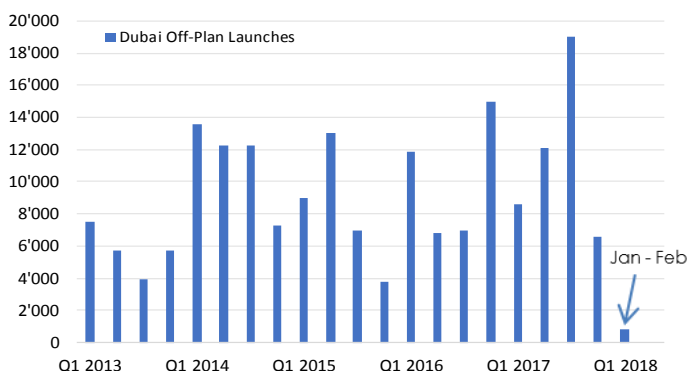
their expectations once they get delivery of their assets. This could lead to increased price divergence in 2018 that could benefit sophisticated investors. Property buyers will increasingly be required to seek professional advice when investing in UAE property and focus on projects that benefit from unique demand drivers, such as favourable location and infrastructure, established facilities, quality finishes, excellent property management and other added value incentives.

Introduction of a Value Added Tax and Inflationary Pressure

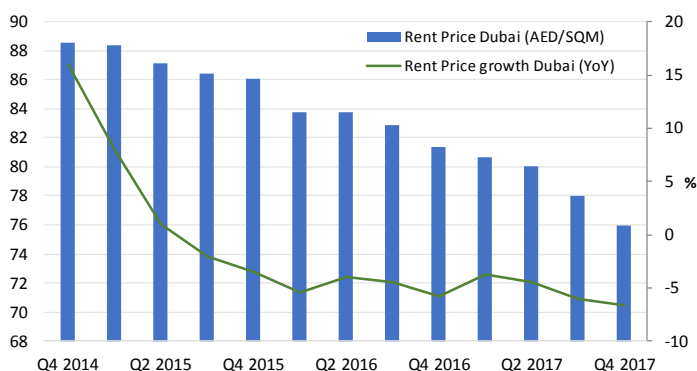
The United Arab Emirates' federal government has implemented a 5% Value Added Tax (VAT) in 2018 in compliance with an initial agreement signed between all six of the Gulf Cooperation Council (GCC) countries paving the way for the introduction of a Unified Value Added Tax throughout the GCC in 2018. The implementation of the VAT constitutes a fundamental transformation for businesses based in the UAE and a major shift in the country's tax policy. The implementation of the VAT is in line with the fast-track diversification of the UAE economy aimed at further reducing its reliance on crude oil revenues. Thus, the implementation of a 5% VAT tax is expected to add USD 3.27 billion to UAE government's coffers in 2018 and adding around 1.5% to GDP, rising as much as 5.45 billion in 2019 according to the Minister of State for financial affairs. The introduction of VAT should also help bringing transparency and help the financial sector in the UAE to differentiate between businesses thus making it easier for banks to finance small and medium enterprises.

That being said, as mentioned above, we believe that the introduction of the VAT tax will increase inflationary pressure on prices despite the a marginal softening anticipated by most experts on rental values across the UAE.

Dubai Off-Plan Launches



Dubai Residential Rent Prices



MACROECONOMIC SCENARIO

Emerging Markets

- Monetary easing is continuing in Brazil, South Africa and Russia, among others
- India and Turkey are posting growth greater than +7%



Economic situation by country

Brazil – The Central Bank of Brazil considers that current economic conditions warrant carrying out an accommodating monetary policy. In March, the bank's Monetary Policy Committee thus unanimously decided to further cut its Selic rate by -0.25% to 6.50%. Policy rates have thus more than halved since October 2016 (14.25%), when they had reached all time highs. The Committee is thus maintaining a coherent monetary policy given the country's still moderate level of inflation, with an inflation target of 4.5% for 2017 and 2018. Indeed, the IBGE inflation rate is currently 2.84% on an annualised basis vs. 2.95% in December. On a monthly basis, inflation has risen continuously since July 2017. Economic growth is similarly trending upward (+2.10% in Q4 2017) since Q2 of last year and its return into positive territory (+0.3%) after having spent 12 quarters in the red.

Although the central bank is currently planning to maintain its accommodating monetary policy, thus reducing the risk of hampering inflation's convergence to its target, in the absence of relevant changes in its base scenario, it may consider suspending this accommodating policy and assessing next steps. The Monetary Policy Committee has emphasised that next steps in terms of monetary policy implementation will continue to depend on the economic situation, the balance of risks, and on inflation forecasts and expectations.

South Africa – The growth outlook for 2018, while still challenging, is nevertheless more favourable, following an upward revision in previous GDP figures and 3.1% growth in Q4, a positive surprise for analysts. FY 2017 GDP growth clocked in at 1.3%, and the South African Reserve Bank is forecasting a growth rate of 1.7% in 2018 vs. its previous forecast of 1.4%, and a growth rate of 1.5% for 2019, slightly below its previous forecast (1.6%), while it is forecasting growth of 2.0% in 2020.

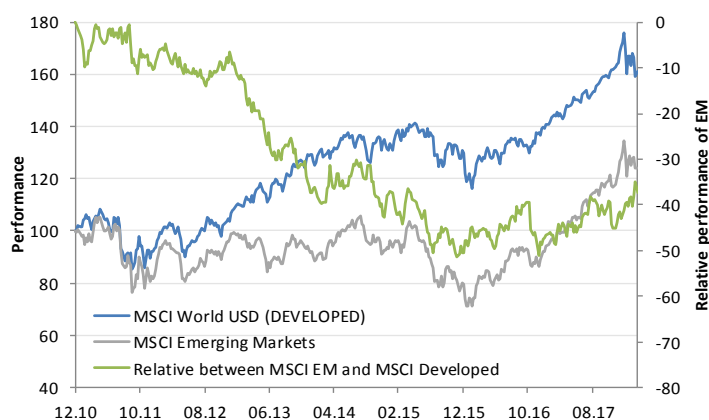
The improvement in the economic outlook is bolstered in particular by signs of improving business confidence, reflected in the Bureau for Economic Research's business confidence index, which progressed sharply in Q1 2018 from 34 in December to 45 in March. The leading indicator for the South African economy continued to tend upward in January (+1.5 points to 106.1), in line with the improving outlook.

The yoy inflation rate, measured by the consumer price index (CPI) for all urban areas, was 4.4% in January 2018 before declining to 4.0% in February. In spite of the negative impact of the planned increase in the VAT in April, inflation should reach 4.9% in 2018, 5.2% in 2019 and 5.1% in 2020.

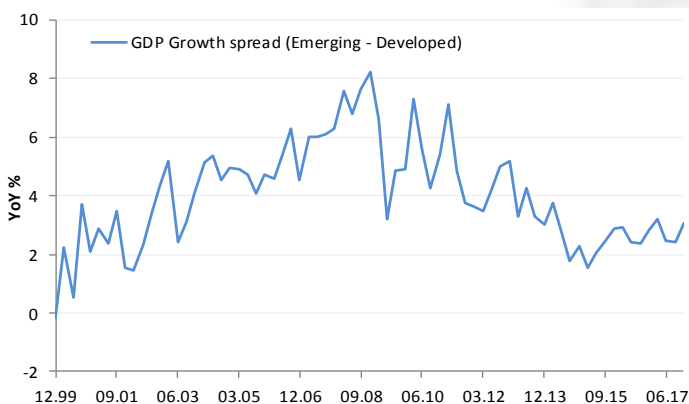
The rand has held on to its recent gains achieved since the end of last year, and some of the main risks weighing on the currency have dissipated. Since the previous meeting of the SARB's Monetary Policy Committee, the rand has appreciated by +4.8% against the US dollar, +3.2% against the euro, and +3.5% against a basket of currencies. The South African currency is now considered slightly overvalued.

Given the improvement in the inflation forecast and decreasing risks related to the economic outlook, the SARB deemed it possible to relax its monetary policy without compromising inflation. Accordingly, the central bank decided to cut policy rates by -0.25% effective 29 March 2018, bringing rates down to 6.50% at the end of Q1. However, the bank is projecting a 25 bps hike by the end of 2019, followed by two further hikes in 2020.

Emerging and Developed Markets - Performance



GDP Growth spread



Graph sources: Bloomberg/BBGI Group

GDP (YoY) - Russia



India – After slowing down for a large part of 2017, due in particular to the demonetisation at the end of 2016 and the introduction of a new tax on goods and services, economic growth has bounced back in India. Indeed, GDP growth was 7.2% in Q4 2017, once again leapfrogging China (6.8%) to become the fastest-growing among the world's major economies. The inflation rate remained above its long-run target (4.0%), clocking in at 4.44% in February.

The current growth rate, however, seems too optimistic for the coming months in the absence of further economic reform, and even a growth rate of 7% does not seem sufficient to absorb approximately one million new entrants to the job market every month.

At the beginning of Prime Minister Modi's term, growth was boosted by the fall in oil prices, as India imports oil in large quantities. However, the price of crude, which dropped from \$110/barrel to \$30 over his first two years in power, has since bounced back to \$65. A current account deficit, insufficient budgets, and high inflation could therefore re-emerge. Yields on Indian government bonds thus rose from 6.4% last summer to about 7.5% in March, suggesting investors are increasingly worried.

Russia – GDP growth in Russia was back above 1.8% over the past two quarters and should clock in at 1.9% in Q4 2017. Over the first two months of the year, annual growth of industrial production was back in positive territory. Investment also increased continuously over the period, while the recovery in consumer demand was sustained by rising real wages and an expansion in personal loans. The Central Bank of Russia's overall perceptions of the country's economic growth outlook have remained unchanged. In spite of an increase in oil prices in its base scenario, the central bank has not made any significant revisions in its forecasted growth rate in the medium term due to the economy's reduced sensitivity to changes in oil prices as well as to remaining structural constraints. Thus, for 2018-2020, GDP growth is forecast to be between +1.5% and +2%.

GDP (YoY) - Brazil



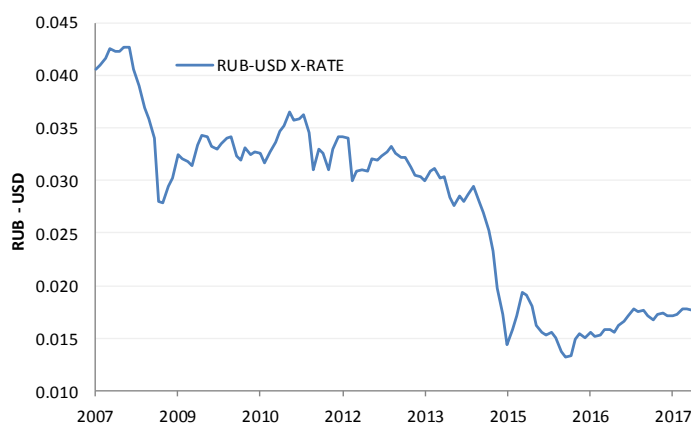
Current trends in interest rates were a key factor in the easing of monetary conditions. Real interest rates remain positive and support saving. Overall, financing terms for businesses remain constraining as a result of banks' conservative approach to assessing borrowers and to increasing loan volume.

On 23 March, the central bank decided to cut its policy rates by -0.25% to 7.25%, which constitutes the eighth cut since March 2017. These decisions along with a still significant likelihood of a decline in rates will contribute to a further easing of monetary conditions in the future, thus sustaining domestic demand and creating conditions favourable to achieving the 4% target inflation rate. Although annual inflation could continue to slow in Q1 2018, as a result in particular of the significant base effect with regard to food price inflation last year, inflation should gradually draw nearer to its target rate in the second half of the year, boosted by an upswing in domestic demand. Inflation (2.2% in February) has remained below 4% for longer than initially expected, thus allowing a more rapid transition to a neutral monetary policy this year.

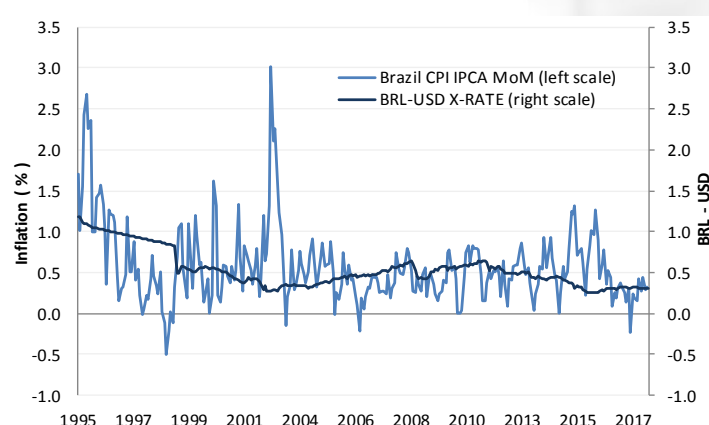
The Central Bank of Russia is thus forecasting annual inflation to be between 3% and 4% in 2018 and close to 4% in 2019. Developments in the job market and external factors such as rising uncertainty with regards to trade policy will be of specific concern in the central bank's assessment of inflationary risks.

As we mentioned in our previous edition, the outcome of the Russian presidential election was never in any doubt, and Vladimir Putin was re-elected for a fourth consecutive term. Russia's strongman was re-elected in the first round, winning 76% of the votes, namely, his most decisive victory in 18 years at the helm.

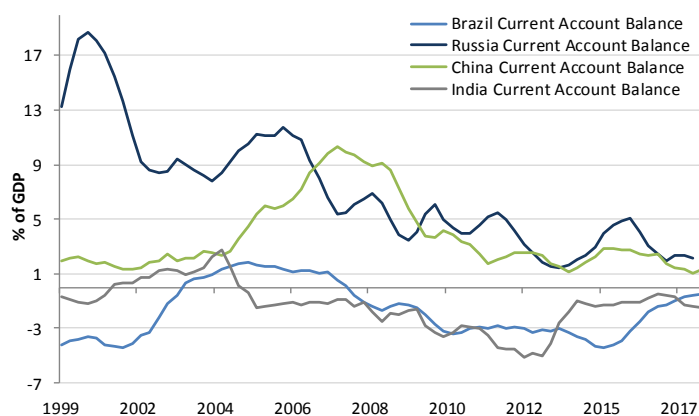
Ruble VS USD



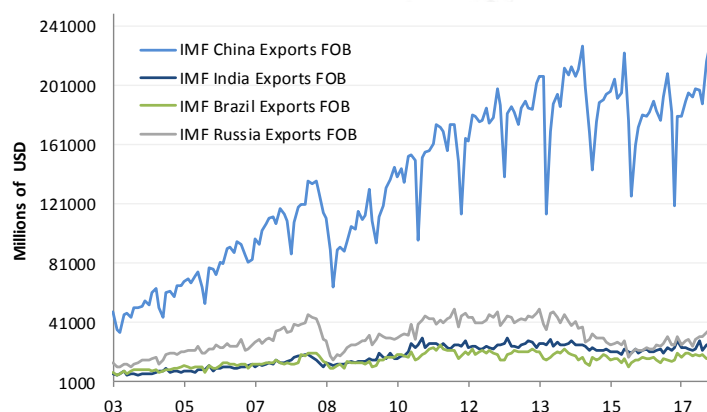
Inflation and Exchange rates



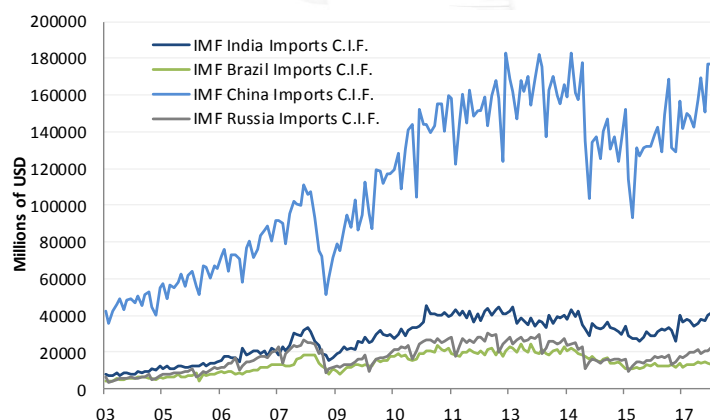
Current Account Balance



BRIC Exports



BRIC Imports



Colombia – Over the first two months of 2018, annualised inflation slackened slightly more than expected, with a rate of 3.37% in February vs. 4.09% in December, thus drawing nearer to its 3.0% target. During this period, the food and tradable goods CPIs, excluding regulated food and goods, posted the largest annual decreases. The direct impact on inflation of tax increases following the implementation of fiscal reform at the beginning of 2017 have diminished, translating into a decline of inflation. GDP progressed by +1.6% yoy in Q4 2017, below both the +1.8% forecast and the previous quarter's figure of +2.3%, which was the highest rate reached since June 2016. Based on available leading indicators for the economy, the central bank decided to maintain its growth forecast of +2.7% for FY2018, expecting the economy to be buttressed by an upswing in external demand led by developed countries and the major emerging economies, a decrease in interest rates, and public investment. During its 20 March 2018 meeting, the Central Bank of Colombia thus decided to keep its key rate unchanged at 4.5%, following the -0.25% cut in January, and to continue carrying out a slightly expansionary monetary policy.

Mexico – The Mexican economy continued to expand in 2017 (+1.5%), but at its slowest pace of the past four years, as it was penalised by sluggish growth in the industrial sector as well as a slight downturn in the services sector. The only good news comes from international tourism (USD 21.3 billion), whose 2017 revenues were up +8.6% compared with 2016. Analysts are predicting slow economic growth in Q1 2018, due in particular to private consumption, which could slow down significantly as a result of higher inflation.

Indonesia – The Indonesian economy grew by 5.19% in Q4 2017, beating initial forecasts of 5.10%. GDP thus continues to expand, reaching its fastest annual growth rate since 2013. The surprise comes from high domestic demand, which compensated for struggling exports. Private consumption, which accounted for over half of the country's GDP growth, increased by 5% (annualised) in Q4, thus slightly more than in Q3 (4.9%).

Taiwan – In 2018, Taiwan's GDP will likely continue to trend upward as it did in 2017 (+3.28%). Indeed, with regard to domestic demand, the steady growth of the domestic economy, improvement in the job market, rising basic wages, and salary increases for employees in the public sector and in some private companies should boost domestic consumption. In addition, increasing investment by major semi-conductor companies in cutting-edge, next-generation technologies as well as the government's implementation of programmes to develop innovative industries will contribute to boosting investment in the country.

Turkey – Turkey became the country with the fastest pace of growth in the world, with a GDP growth rate of +7.3% in 2017. The main factors driving this strong growth were the credit guarantee fund launched by the government to support small and medium-sized enterprises, the boom in international tourism, and the tax cut on durable goods and property.

Romania, Czech Republic, Poland, Hungary

The Romanian economy expanded by +6.9% yoy in Q4 2017. Inflation stood at 4.72% in February, compared to 3.32% in December. Over Q1, the National Bank of Romania increased policy rates by +0.25% twice, reaching 2.25%.

In the Czech Republic, GDP grew further in Q4 2017 (+5.2%), thus posting a second consecutive quarter of positive growth. Inflation contracted slightly between December (2.4%) and February (1.8%), and policy rates increased from +0.25% to 0.75%.

The Polish economy posted annual growth slightly above 5% as of year-end 2017 (+5.1%). Inflation decreased from 2.1% in December to 1.4% in February.

Finally, in Hungary, GDP grew by +4.4% in Q4 2017, thus posting its 19th consecutive quarter on the rise. The consumer price index declined slightly over the first two months of the year (-0.2%), for an inflation rate of 1.9% in February.



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PROSPECTS AND STRATEGIES



PROSPECTS AND STRATEGIES

Currencies

- The rise in the US dollar is keeping us waiting
- The risk of a strong euro is rising
- Turning points of economic cycle that benefit commodity-related currencies

LIQUIDITY/ CURRENCY	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight	neutral	overweight				
EUR vs CHF	↗	↗							
USD vs CHF	↗	↗↗							
GBP vs CHF	↘	↘							
JPY vs CHF	↘	↘							
EUR vs USD	↘	↘							
USD vs JPY	↗	↗							
GBP vs USD	↘	↘							

The rise in the US dollar is keeping us waiting

the outlook for increased US debt and the budget deficit / GDP ratio have weighed on the dollar these last months, but the good performance of the economy, labor market and labor costs which have raised fears of a rise in risk inflationary and further interest rate increases, should favour the greenback.

Speculation of a more rapid normalization of the Fed's monetary policy had reignited fears that interest rates would rise. Inflationary pressures will still remain limited, which should not motivate a toughening of the Fed's action which could threaten the growth rate of the economy. US economic momentum will likely most often be superior to that of other developed economies in 2018. Consequently, the interest rate spread will likely widen further across the yield curve and benefit the investors' interest in the greenback.

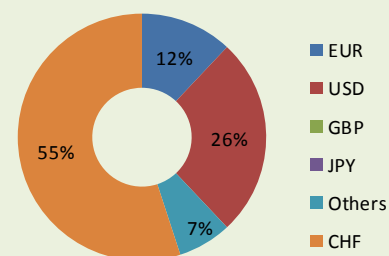
In this environment, the weakness of the dollar in 2017 seems unjustified. The depreciation of around -10% of the trade weighted USD index against a basket of currencies erased almost half of the dollar's gains between 2014 and 2015. The value of the US currency will thus undoubtedly adjust in the coming months, unless expectations of deteriorating public finances linked to the tax reform start to prevail the dollar. Ultimately, our forecasts are positive and support an increase above 1 Swiss franc to the dollar.

Recent rebound in speculative positions since the lows

In this rather dollar-friendly environment, "Long dollar" CFTC speculative positions are still low, showing strong disinterest from investors. Yet this indicator deserves closer attention, as over the last decade every significant dollar increase has been preceded by a surprisingly low ratio.

The last time the current level was reached in March 2014, the dollar appreciated +25% in the following twelve months. For the past few weeks, there has been a slight rebound in this indicator, suggesting a timid comeback of positive positioning. We believe it is likely that the dollar will rise against most major and emerging currencies.

Currency allocation - CHF portfolio



Tactical Allocation

- Underweight CHF
- Favor the USD
- Overweight EUR and AUD
- Avoid JPY

The risk of a strong euro is rising

The ECB is not mistaken- the recent rise in the euro against the US dollar could represent a threat to the expected development of inflation over the coming months. The +15% rise in the single currency against the US dollar in 2017 has, in fact, continued in 2018, with nearly a further +3%. The overall rise of around +20% in barely a year does indeed constitute a risk for inflation prospects, as well as for the future development of the European economy. The euro's appreciation was the logical consequence of the relatively unexpected period of economic acceleration in 2017.

However, in the current climate, the euro's strength is problematic for the ECB and could endanger the quality of the current recovery as well as the competitiveness of European industry. The ECB will have to wait for weakness in the euro and an inflation recovery before increasing its key rates. This combination could take time to come about, which is why key rates have not been changed.

As regards the euro/CHF exchange rate, we can see that the strategy we implemented immediately after the SNB's change in policy is still proving effective. The euro rose nearly +10% against the Swiss franc in 2017, meaning that it has bounced back nearly +20% over the past three years. The exchange rate has nearly recovered to the level it was at on 14th January 2015 (1.20). A few months ago, we highlighted that the bounce back in the euro seemed to us to be broadly reflecting the improvement in fundamentals and heading into a new phase of relatively horizontal consolidation, which would be conducive to some profit-taking.

Today, after two quarters of stabilisation, we now believe that it is highly likely we will see the single currency head towards and beyond the 1.20 level. The euro should soon lose some ground against the US dollar, but become more attractive as compared to the Swiss franc.

The yen has temporarily regained its safe haven status

The Bank of Japan still does not have much room to act in terms of reaching its 2% inflation target (January CPI was 1.4%). It has not changed its assessment of economic conditions and is maintaining its monetary policy of low rates and monetary injections. The Bank is still hoping that economic growth will be sufficient to drive inflation up toward its target. The short-term interest rate objective remains unchanged (-0.1%), as is the aim of steering 10-year rates toward 0%. Governor Kuroda is unlikely to change the Bank's policies, which will remain a significant factor in the eventual decline of the Japanese currency. We continue to believe that an improvement in fundamentals will not have an immediate impact on the yen, which will continue to be disregarded by investors due to an utterly unfavourable interest rate environment. The government's policy is thus still to weaken the yen, as interest rate spreads are likely to widen and penalise the currency. The on-going normalisation of US monetary policy along with expectations of further increases in long-term rates in the US will likely further weigh on the yen in 2018. A weaker exchange rate has been one of the key elements of the government's policy to boost inflation and exports. This policy remains relevant. A change in monetary policy is indeed unlikely in 2018, even if the BOJ has significantly reduced the pace of its asset purchases, to the point where its balance sheet contracted ever so slightly for the first time in December. We do not believe this event heralds a change in monetary policy, even if Governor Kuroda recently announced that he would normalise the Bank's policy if its inflation target were achieved. The yen has benefitted from its safe haven status over the past several weeks, but the currency will likely weaken again and draw closer to the high end of the band within which it has fluctuated over the past twelve months (USD 110, CHF 110, EUR 135).

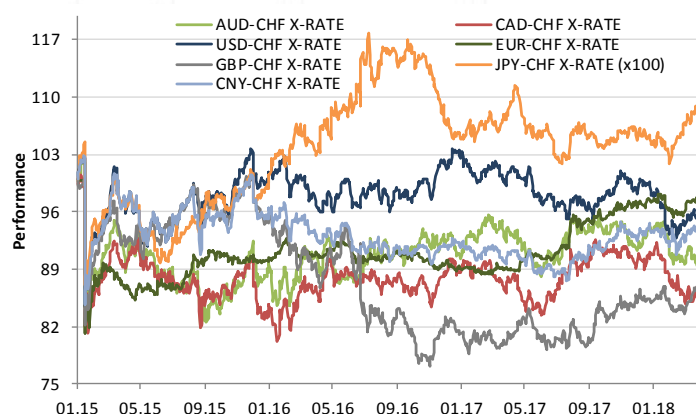
Pound remains stable and confident against the euro

The British currency does not seem to be affected by the absence of any tangible progress in defining a post-Brexit business model in negotiations between the United Kingdom and the European Union. We continue to believe that the pound has entered a stabilisation phase against most major currencies, after its record drop following the Brexit vote. Since talks resumed in December 2017, the pound has benefitted from a rather constructive environment, anticipating a reasonable solution between the UK and the EU. This expectation is still bolstering the pound/euro exchange rate, which has remained stable between 1.12 and 1.14 since October 2017. At the beginning of the second quarter, we continue to bank on a stabilisation of the exchange rate.

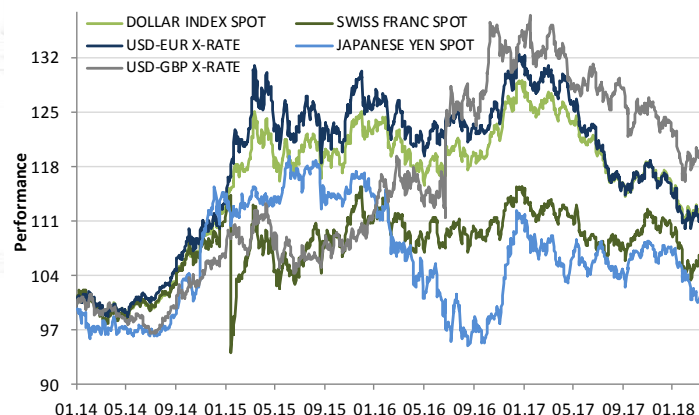
Australian dollar likely to rise further

After a volatile year in 2017, in which the Australian dollar depreciated against the euro, the franc and the yuan, while remaining relatively stable against the dollar, it stayed relatively stable in the first quarter of 2018. The Australian central bank could possibly proceed with a surprise initial rate hike in June given the country's excellent economic performance. Since it remained slightly below expectations in Q4 2017 (+2.4%), in addition to a tight labour market, RBA will probably wait for the second semester before acting. The increase in commodities prices expected in 2018 will likely contribute to positive developments of the Australian dollar.

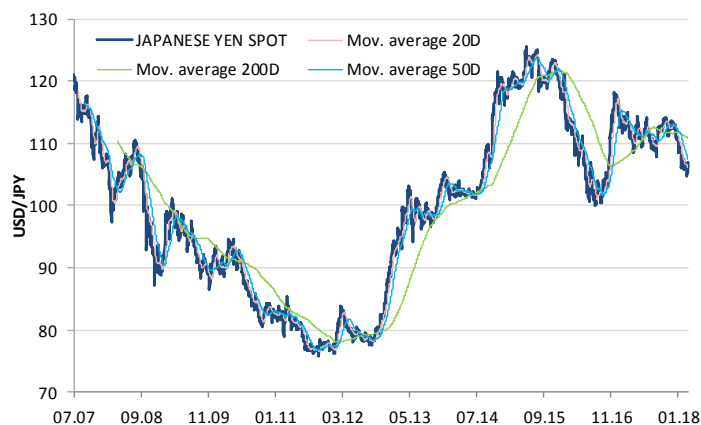
7 currencies against CHF (Normalized at 100)



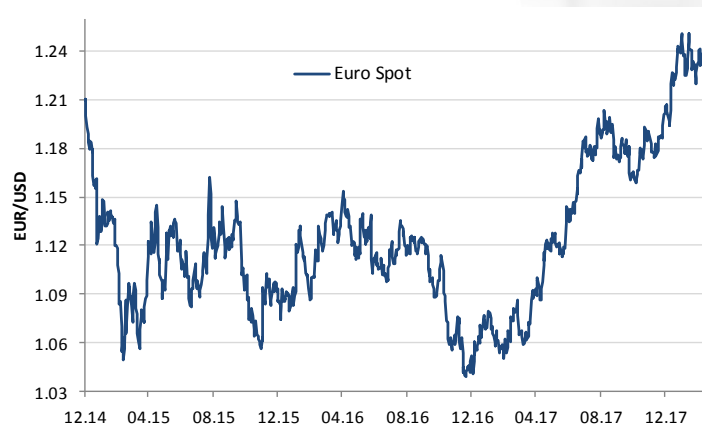
Dollar Trade-weighted index & cross rates (Normalized at 100)



JPY/USD



EUR/USD



The Swedish crown is still waiting

In Europe, the probability of an appreciation of the Swedish crown decreases. Policy rates in Sweden may also be raised more quickly than expected in 2018, given GDP growth of +3.3%, but the absence of inflationary pressures will put on hold the rise of interest rates. A readjustment of policy rates would be surprising with regard to a currency that appears to be among the most undervalued in real terms. However, the Riksbank could adjust its rates several times if the price evolution should finally be more dynamic, thus boosting the appeal of the Swedish crown.

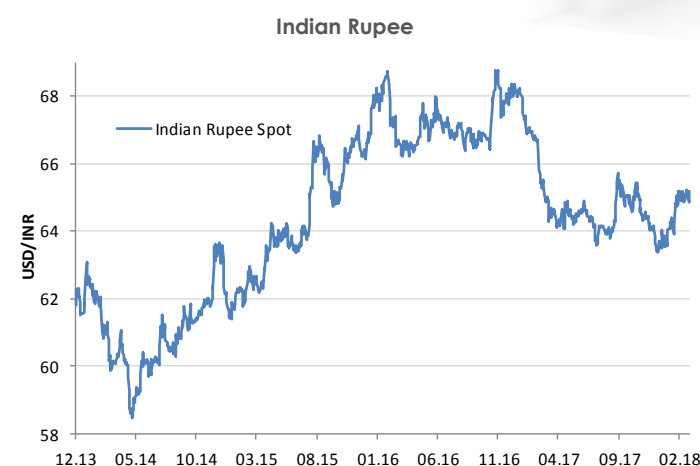
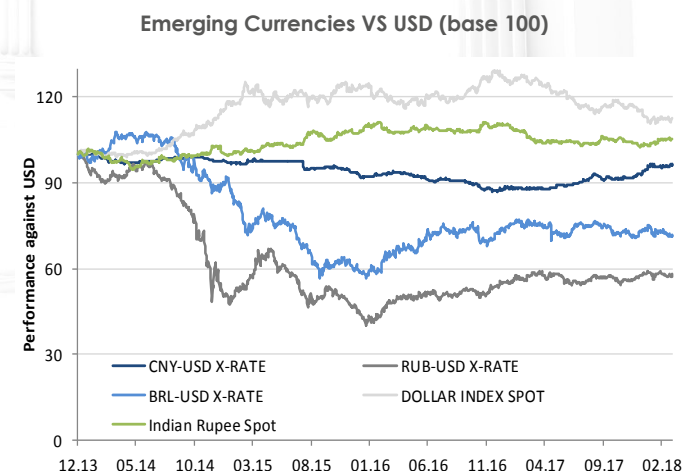
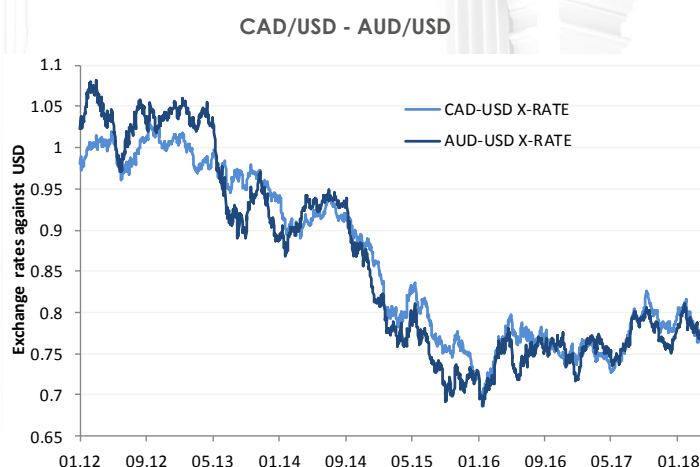
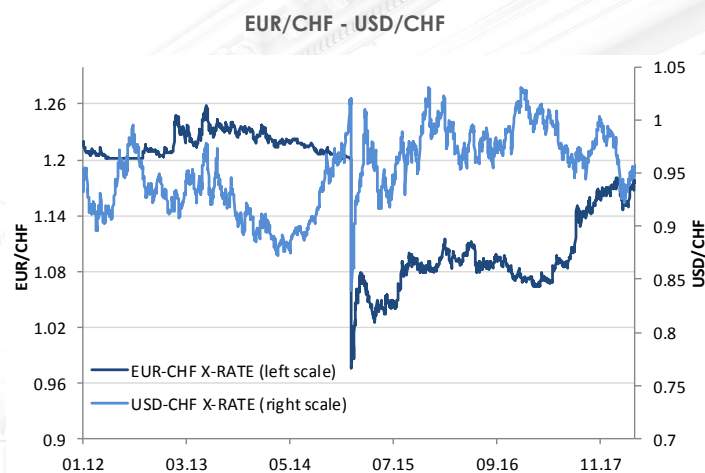
Currencies linked to commodities benefit from the favorable cycle

In Russia, Brazil, and Indonesia and in commodities-producing countries more generally, the new records of progress for oil prices in H1 and the high level of prices of industrial metals and precious metals confirm the trend reversal. The improvement in the general context driven by the upswing in commodities and a more solid global economic outlook will have an increasingly positive impact on the valuation and demand of these countries' currencies. In contrast to the situations described above, in these countries it is the combination of factors such as improving GDP growth coupled with a better control of inflation and a reduction in policy rates that will drive the rise in exchange rates.

CURRENCIES

31.03.2018

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.2	-0.2	0.5	2.7	5.0	2.7
CHF-USD X-RATE	1.0	-0.7	-1.2	2.2	2.2	2.2
GBP-USD X-RATE	1.4	-0.8	1.7	3.7	5.6	3.7
JPY-USD X-RATE	0.0	-1.4	0.0	6.0	6.1	6.0
CAD-USD X-RATE	0.8	0.0	-0.4	-2.5	-3.0	-2.5
AUD-USD X-RATE	0.8	-0.3	-1.0	-1.7	-1.9	-1.7
RUB-USD X-RATE	0.0	1.0	0.2	1.7	2.1	1.7
CNY-USD X-RATE	0.2	0.4	1.1	3.5	5.9	3.5
INR-USD X-RATE	0.0	0.0	0.2	-1.9	0.8	-1.9
BRL-USD X-RATE	0.3	0.2	-1.7	0.2	-4.6	0.2
AGAINST SWISS FRANC						
USD-CHF X-RATE	1.0	0.7	1.3	-2.1	-2.1	-2.1
EUR-CHF X-RATE	1.2	0.4	1.7	0.4	2.8	0.4
GBP-CHF X-RATE	1.3	-0.1	3.1	1.5	3.3	1.5
JPY-CHF X-RATE (x100)	0.9	-0.7	1.3	3.8	3.9	3.8
CAD-CHF X-RATE	0.7	0.7	0.8	-4.7	-5.1	-4.7
AUD-CHF X-RATE	0.7	0.4	0.3	-3.7	-4.0	-3.7
RUB-CHF X-RATE	0.0	1.7	1.4	-0.5	-0.1	-0.5
CNY-CHF X-RATE	0.2	1.1	2.4	1.3	3.7	1.3
INR-CHF X-RATE	0.0	0.7	1.4	-3.9	-1.3	-3.9
BRL-CHF X-RATE	0.3	0.7	-0.7	-2.0	-6.8	-2.0



Graph sources: Bloomberg/BBGI Group

PROSPECTS AND STRATEGIES

International bonds

- Gradual increase in expected inflation in the United States
- US Treasury long rates above 3%
- Reversal of the long-term rate cycle in the euro area
- Still no prospect for the Japanese market

BONDS (Areas/currency)	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight		neutral		overweight		
			---	--	-	=	+	++	+++
Switzerland	↘	↘							
United States	↘	↘							
Eurozone	↘	↘							
UK	↘	↘							
Europe	↘	↘							
Japan	↘	↘							
Emerging	→	→							
Other (AUD, CAD, NOK...)	→	→							

Gradual increase in expected inflation

The latest inflation figures (+2.2%) published in February surpass the Federal Reserve's +2% target. The index's year on year rise excluding food and energy (+1.8%) was lower than 2%. They have hit the target and should gradually move beyond it. The upward trend has remained modest at the start of year, but leading indicators and the situation on the jobs market seem to suggest that the trend will be bolstered over the coming months. Expected year on year inflation has risen more starkly than monthly figures, coming in at +2.9% in March, compared to +2.7% in February. In the longer-term, expected inflation for the next 5-10 years is also higher, standing at +2.5%. This trend cannot pick up the pace without an increase in salaries, which is taking its time despite the labour market being close to full employment. In contrast to the theory, inflationary pressures are still weak, even though the unemployment rate has stabilised at 4.1%.

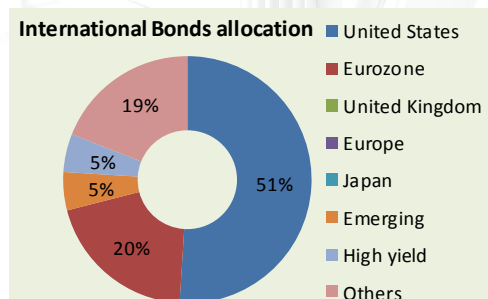
2018 could be a year of surprises due to a combination of factors acting together. Indeed, the macro-economic context should foster new salary negotiations and spark tensions on commodity prices, propping up a price rise.

At its last meeting, the Federal Reserve was more confident than ever in US growth prospects, and has increased its forecasts for 2018 from +2.5% to +2.7%, and those for 2019 from +2.1% to +2.4%.

In its analysis of current conditions, it highlighted a temporary dip in the trend in the first quarter, which does not cast doubt over its vision for the year as a whole. The core of the analysis remains focused on labour market conditions, which continue to show an increase in new jobs and a fall in the unemployment rate (3.9%). The latter could even drop to 3.8% in 2018, and perhaps 3.6% in 2019. The Fed's vision for inflation has gone unaltered at the end of the first quarter 2018. It seems likely it will rise above the 2% target in 2018, though with no perceived risk of the target being exceeded quickly and to a considerable degree.

US Treasury long rates above 3%

Renewed inflation in a robust economic context should quickly lead to new adjustments to long-term nominal rates over the coming months. After remaining stable for a few quarters, US long rates were the first to



Tactical Allocation

- Reduce exposure to Eurozone
- Reduce duration again
- Diversify exposure to CAD, AUD and commodity-related currencies
- Reduce exposure to Emerging and high yield bonds

spark the trend. As much as a few months ago, we had pointed out that the 2.1% correction to 10-year Treasury rates was not compatible with sustained economic activity and regular monetary policy normalisation on the part of the Fed.

Our forecasts of long rates rising to around 3% have played out in the meantime, but this came in the context of a likely boost to the economy. However, although we still believe that in the long-term long rates should exceed 3%, it is likely that in the short-term the volatility seen on equity markets, as well as risks of disappointments regarding growth over the coming months could lead to a period of consolidation of these rates at just below the 3% threshold.

The risk of rate rises coming thicker and faster in 2018 has fizzled out for now, new forecasts for 2019 tend to confirm the concerns raised in February.

BOND INDICES (local currency)

		Total Return Performance						
		Last price	Curr.	7 d%	1 m %	3 m %	6 m %	YTD %
SWISS BONDS								
	SBI AAA-BBB	135.5	CHF	0.2	0.4	-0.7	-0.2	-0.7
UE BONDS								
	Barclays EuroAgg	250.5	EUR	0.3	1.0	0.7	1.3	0.7
UE BONDS - SHORT DURATION								
	ISHARES EURO GOV BND 1-3	144.9	EUR	0.1	0.3	0.3	0.3	0.3
US BONDS								
	JPM U.S. Aggregate Bond Index	623.0	USD	0.5	0.4	-1.5	-1.1	-1.5
US BONDS - SHORT DURATION								
	BGF-USD ST DURATN BOND-USA1	8.4	USD	0.2	0.0	-0.2	-0.4	-0.2
EMERGING BONDS								
	JPMorgan Emerging Markets Bond	540.7	USD	1.0	0.4	-2.0	-0.9	-2.0
INTERNATIONAL BONDS (DIVERSIFIED) - USD								
	JPM Global Aggregate Bond Index	575.4	USD	0.1	1.1	0.9	2.2	0.9
INTERNATIONAL BONDS (DIVERSIFIED) - EUR								
	JPM Global Aggregate Bond Index	614.3	EUR	0.6	0.1	-1.4	-2.4	-1.4
INTERNATIONAL BONDS (DIVERSIFIED) - CHF								
	Barclays Global Agg Corporate	141.1	CHF	1.5	1.4	-2.6	-0.9	-2.6
CONVERTIBLE BONDS (UE)								
	Exane Europe Convertible Bond	7605.0	EUR	0.3	-0.3	-1.6	-1.0	-1.6
HIGH YIELD BONDS								
	Markit iBoxx Gbl Dev Lq HY USD	144.7	USD	-0.1	0.1	0.1	1.0	0.1
HIGH YIELD BONDS - SHORT DURATION								
	AB SHORT DURATION HI YD-AT	14.8	USD	0.1	-0.1	-0.5	-0.5	-0.5

- 1) Short & Medium-term (1-5 years)
- 2) Emerging Bonds (Corporate)
- 3) Emerging Bonds - Eastern Europe

Reversal of the committed rate cycle in the euro zone

For the time being, the rise in long rates is still being held back by two essential factors- inflation and monetary policy. The ECB's decision not to change its monetary policy and to continue with its bond purchase strategy has put a dampener on any adjustments that should otherwise have taken place in the current context of robust economic growth.

The second factor- inflation- is also preventing a rise in long rates due to its recent weakness. This is key, as in the absence of inflation, the need to adjust interest rates is far from pressing. Indeed, inflation has been gradually tailing off since its peak in the 1st quarter 2017 (2%), and now only stands at 1.1% year on year. The euro's weakness against the US dollar will certainly be the main factor enabling new, more robust inflationary forecasts, and a rise in long rates thereafter. It is certainly too early yet to see a clear inflation recovery linked to the jobs market; it is still too far from its friction point for wage rises to contribute to an increase in prices.

The ECB's aim of bringing inflation up to 2% will certainly be difficult to achieve, even if the central bank continues with its expansionary monetary policy in 2018, and particularly if the euro remains stronger in the longer term. Salary costs are proving slow to budge and, despite its significant drop, the Eurozone unemployment rate remains high in absolute terms. However, inflation should gradually rise back towards 1.7% by the end of the year.

Nevertheless, Eurozone long rates should not be able to cut loose from the upward trend sparked by US policy normalisation and the recovery on long rates in the United States. The long rate differential seems to us

to be less and less well founded given how well the European economy's growth rate has caught up.

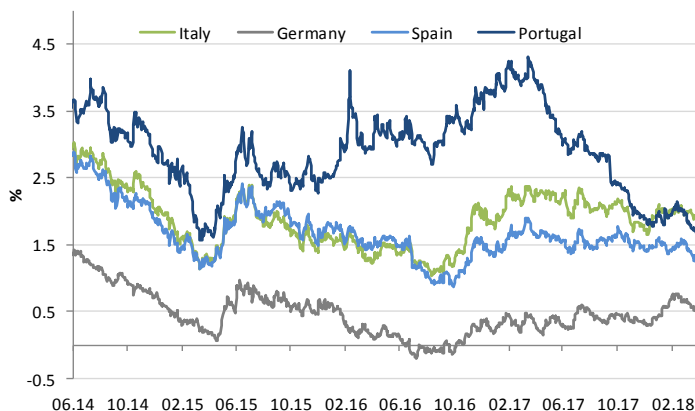
After a 1st quarter still shaped by somewhat stable long rates, we believe that it is now likely that we will finally see a clear change in investors' perception of risk. We recommend considerably reducing the bond risk in euros without delay.

British long-term rates will reach 2%

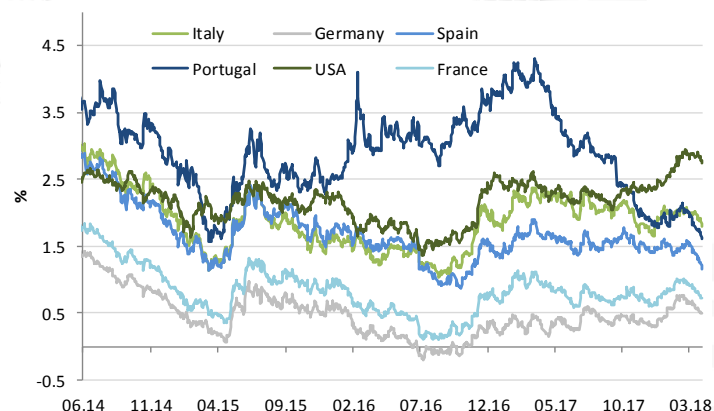
The BOE released its one-year (+2.9%) and five-year (+3.5%) inflation forecast, indicating an expected increase. However, inflation has stabilised somewhat over the past months, clocking in at 2.7% yoy in February. Pressures have not intensified; production prices even fell from +19.3% to +3.4% over twelve months. We continue to predict that inflation will stabilise above the BOE's 2% target in the next quarters. It may seem surprising that long-term interest rates are not experiencing larger shifts in this context.

The UK bond market is likely to soon be somewhat more affected by domestic fundamentals and the approaching 29 March 2019 deadline. The rise in 10-year yields we had mentioned in our latest investment strategy reached 1.6% before stabilising above 1.4%, but these levels still seem low in the present context and should rise to 2%.

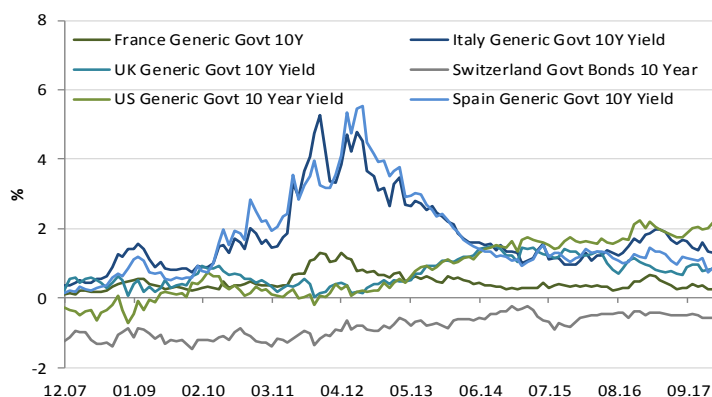
European Bonds (10 year yield)



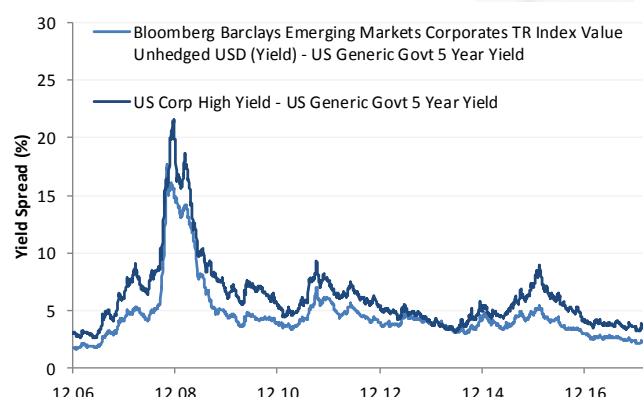
10 year yield



Risk premium over Bund



Risk premium over Treasury



Signs of rising inflation in Japan

The upswing in price indices was petering out at year end 2017, but could pick up again in H1, as signalled by the CPI's +1.4% increase in January and the February data for Tokyo, a more reliable indicator of the evolution of prices in the country overall.

The best hope for a lasting rise in prices is for the yen to depreciate, although tightness in the job market may now finally have an effect on wages and prices. Indeed, the unemployment rate fell to 2.4% in January, significantly below expectations (2.8%). The BOJ could thus shortly see its expectations finally materialise, although we are still far short of the stated 2% target.

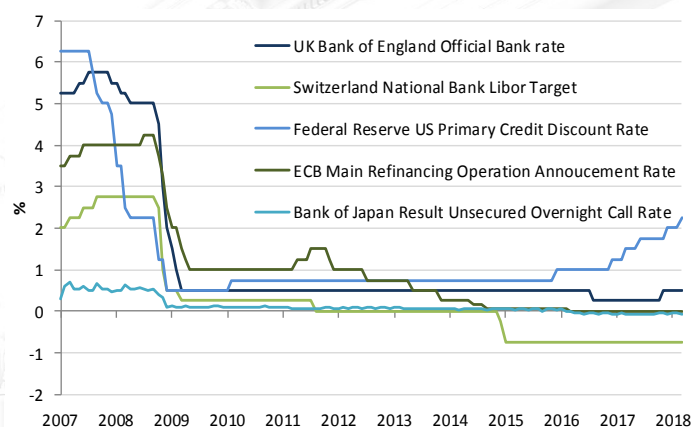
A weaker yen remains a crucial factor in terms of boosting corporate earnings and wage growth. In this context, the Japanese bond market still fails to offer any interesting opportunities for foreign investors.

Focus on short maturities and take a cautious stance on peripheral debtors

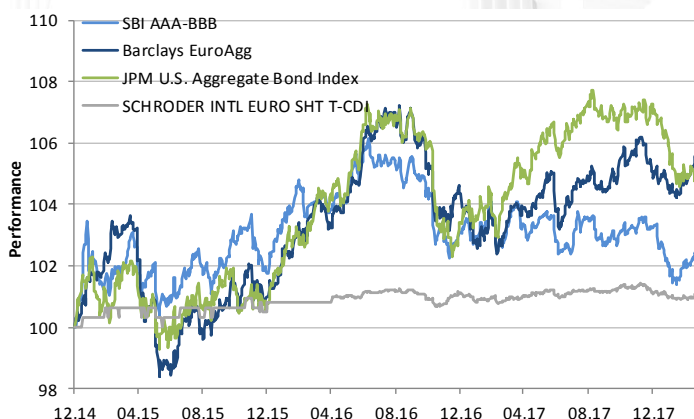
The Year 2018 has thus begun in a strong macroeconomic context on the international level by new tensions on long-term rates and the expected rebound in interest rates in most countries. We should also see next H1 the widening of credit spreads. Prudence will therefore be decisive in order to avoid significant losses during this shift in paradigm. The yield on short-term Greek debt is now lower than that of the US Treasury. The performance of the European peripheral debt will certainly be disappointing.

Overall, risk premiums are expected to increase in 2018 with the rebound in interest rates. We prefer investment grade bonds in US, Canadian and Australian dollars to the detriment of bonds in euro and yen.

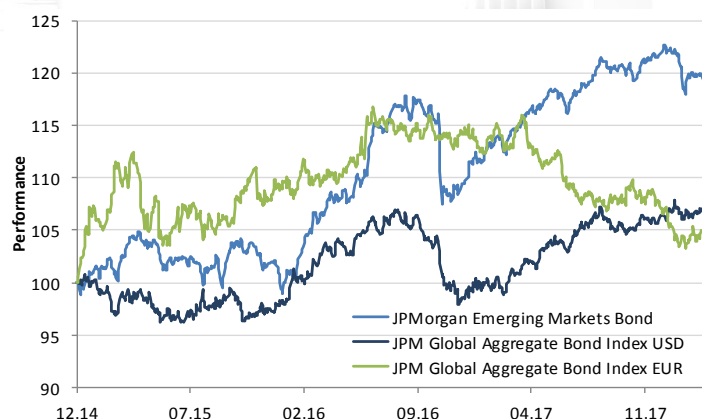
Central Bank rate (EUR, CHF, GBP, USD, JPY)



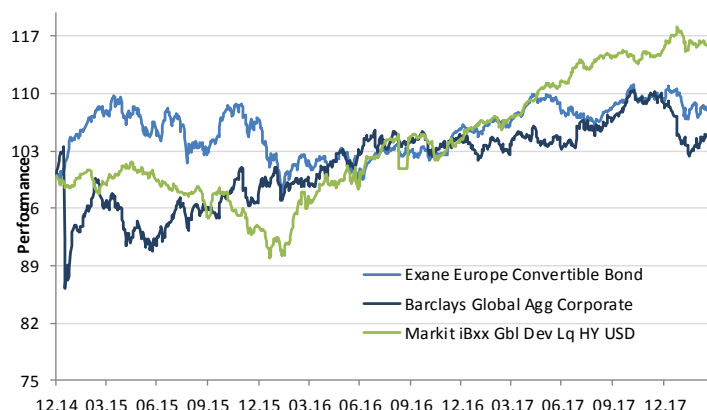
YTD Performance of Bond Indices 1 - 5 years (Normalized at 100)



Emerging Bonds - Performance (Normalized at 100)



Eastern Europe Bonds - Performance (Normalized at 100)



PROSPECTS AND STRATEGIES

Swiss bonds

- Normalization Swiss long-term rates begins
- Steepening of the yield curve continues
- Inflation reaches its highest level since March 2011
- Focus on quality and short maturities

BONDS Type of Debtor	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight			neutral			
			---	--	-	=	+	++	+++
Gouvernement	↓	↓							
Corporate (IG)	↓	↓							
Others	↓	↓							

Normalization Swiss long-term rates begins

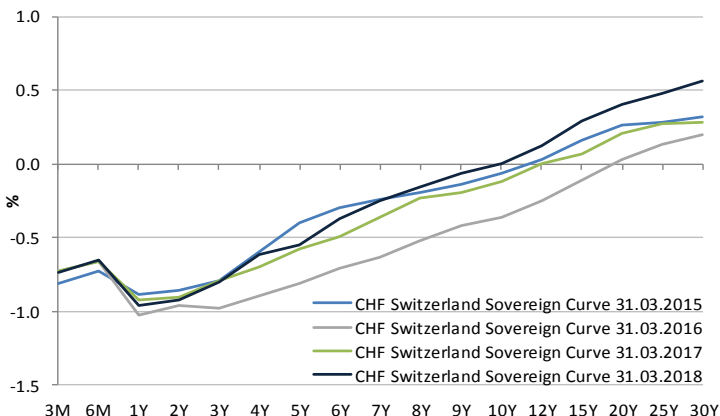
Last year was mostly a year of horizontal consolidation during which Swiss bond markets did not post a performance, but neither did the speculative bubble burst, as had been so often predicted for several years. This situation will certainly not last in 2018.

We have already been seeing a first significant shift in long rates for a few weeks now, which has finally brought Swiss long rates above the 0% threshold. In just a few weeks, long rates have leapt 40 basis points, and now clearly seem to be on a lasting upward trend. The rise of Swiss long rates at the start of this year heralds a faster pace of interest rate normalisation in Switzerland. This upward movement on ten-year rates is not isolated, of course, and is reproduced across the whole rate curve. This change only started to happen in the 4th quarter 2016 with a first rise of 40 basis points, and is now continuing in the 1st quarter 2018, and to a greater degree, on long-term maturities.

Steepening of the yield curve continues

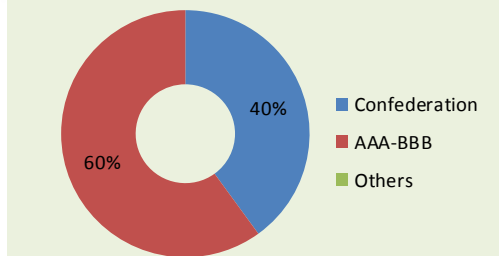
The SNB's monetary policy of negative key rates is still influencing the very short part of the Swiss rate curve and is preventing any increase in yield on the very end of the curve. Ever since the start of this first shift (30/06/2016) short-term maturities have naturally had a muted reaction, whereas longer-term maturities have risen by 70 basis points for between 7 and 12 years. Further, the yield correction stood at 80 basis points for 15-year maturities. The rate curve is now steepening, as we

Switzerland Sovereign Yield Curve



Graph sources: Bloomberg/BBGI Group

Swiss Bonds allocation



Tactical Allocation

- Underweight Swiss Government Bonds
- Overweight the "IG" segment
- Prioritise short durations on all segments

mentioned in previous analyses, and should do so to a greater degree in 2018. In this context, the long rate differential for the German Bund and Swiss bonds has not really changed, although it is a little higher (0.56%) than on 30th June 2016 (0.4%). This trend should continue in 2018, especially given the improvement in the European trend and the plan to end the ECB's bond purchases. Yield for ten-year Swiss bonds stood at 0.18% when it was announced that the 1.20 Euro-Swiss franc floor would be dropped. It hit 0.2% on 15th February 2018, shortly after the Euro/CHF exchange rate had hit 1.18

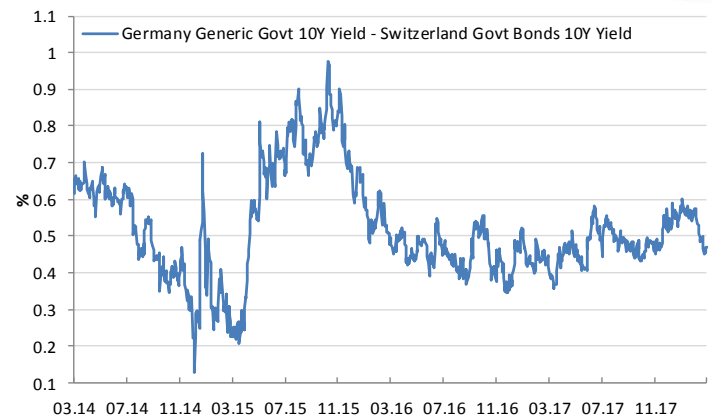
Inflation reaches its highest level since March 2011

Swiss inflation posted one of its strongest months of growth since 2011 in February (+0.4%), and now sits at +0.6% year on year. This trend should be bolstered by the weakening of the Swiss franc. It should therefore prop up the next phase of interest rate normalisation in 2018. We have already stated that the bond bubble should start to deflate, though with no immediate signs of panic, before picking up the pace. We believe that this new faster-paced phase has already begun.

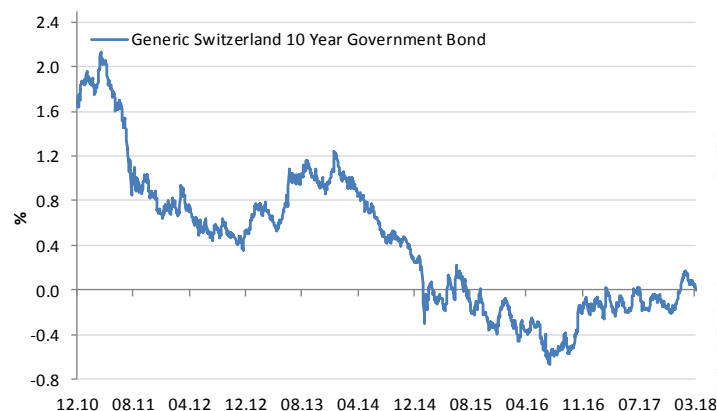
Focus on quality and short maturity

Negative real interest rates should be temporary and gradually correct as long-term rates rise above inflation. However, they will remain negative in 2018, foretelling another upcoming correction in the valuation of bond markets. We favour quality and short maturities.

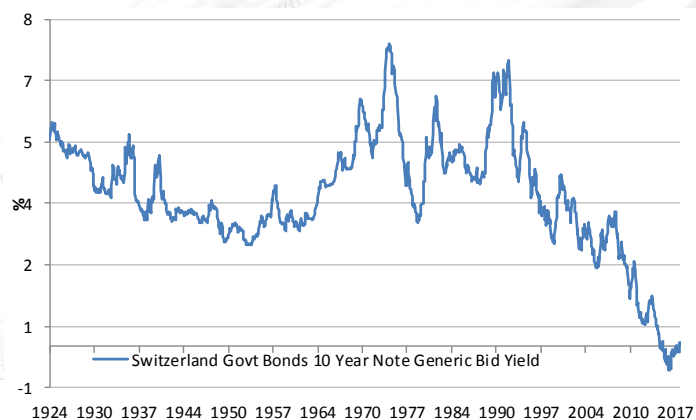
Long rates Yield Spread (German Bund - Swiss Confederation)



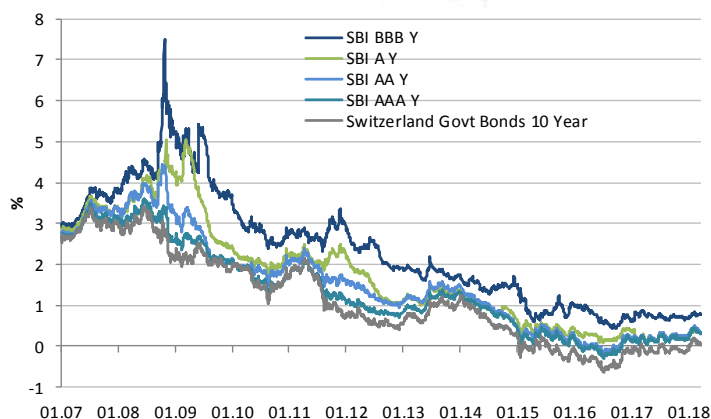
Switzerland Government Bond yield (10 year)



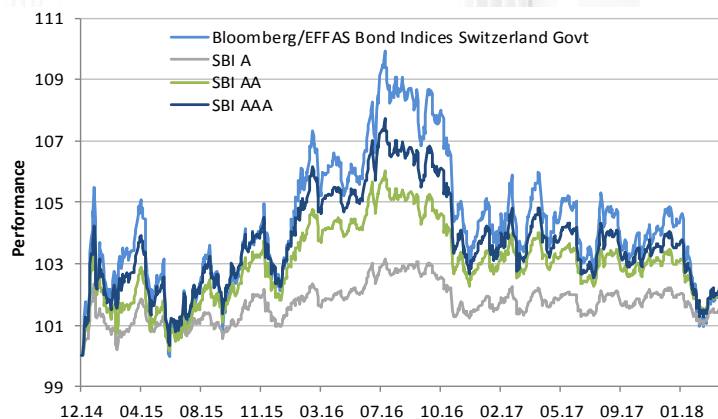
Switzerland Government Bond yield (10 year) since 1924



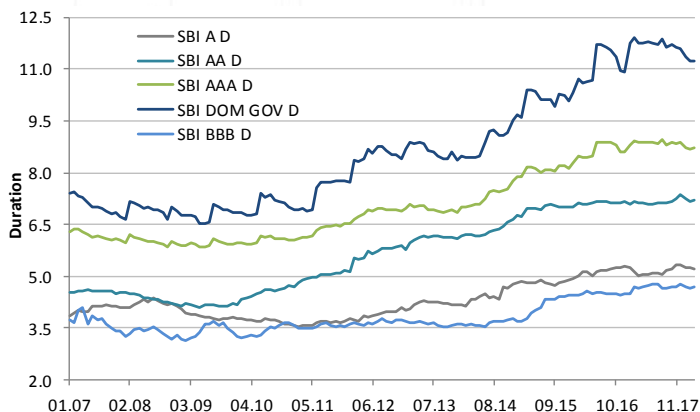
Yield by debtor type



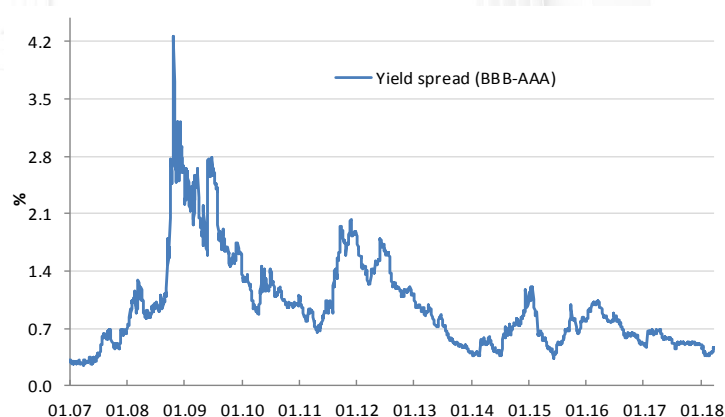
Performance of Swiss Bonds (Normalized at 100)



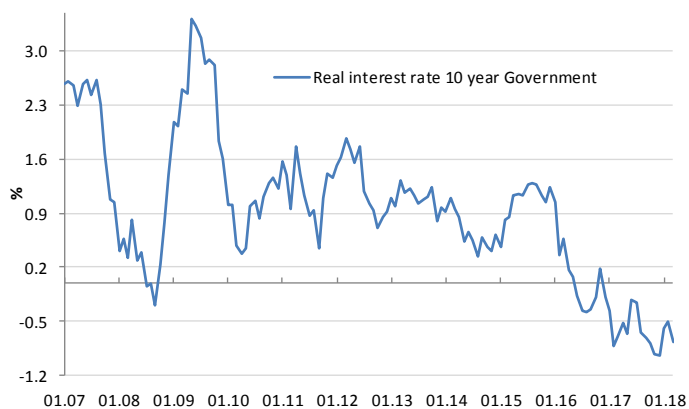
Duration of Bond Indices



Yield spread



Real Interest Rates



SWISS BOND INDICES (CHF)

	Last price	Total Return Performance					
		Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	257.2	CHF	0.4	0.6	-1.6	-0.7	-1.6
SBI A-BBB	135.8	CHF	0.1	0.1	-0.3	0.1	-0.3
SBI AA-BBB	134.2	CHF	0.1	0.3	-0.4	-0.1	-0.4
SBI AAA-AA	134.9	CHF	0.2	0.5	-0.8	-0.3	-0.8
SBI BBB	147.5	CHF	0.1	0.0	-0.1	0.2	-0.1
SBI AAA-BBB	135.5	CHF	0.2	0.4	-0.7	-0.2	-0.7
SBI DOM GOV AAA-BBB 1-3P	70.4	CHF	-0.1	-0.3	-0.7	-1.4	-0.7
SBI DOM GOV AAA-BBB 3-7P	89.1	CHF	0.1	0.0	-0.4	-0.8	-0.4
SBI DOM GOV AAA-BBB 7+ P	125.2	CHF	0.5	0.7	-2.9	-1.9	-2.9

Graph sources: Bloomberg/BBGI Group

PROSPECTS AND STRATEGIES

International Real Estate

- Temporary correction of real estate indices in Q1
- International growth favorable to real estate
- Expected rebound in US stocks after a difficult quarter
- Very favorable economic situation in the euro zone
- Specific dynamics for Asian markets

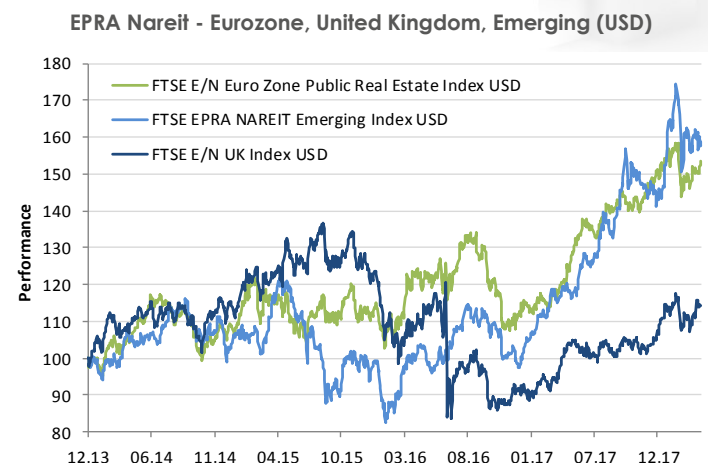
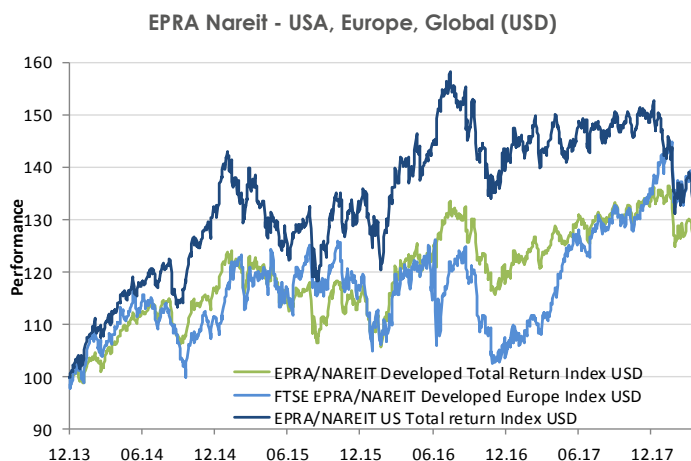
REAL ESTATE Areas	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight		neutral		overweight		
			---	--	-	=	+	++	+++
Switzerland	↗	↗							
United States	↗	↗							
Eurozone	↗	↗↗							
United Kingdom	↗	↗							
Asia	↗	↗↗							
Emergents	↗	↗↗							
Liquidity									

Temporary correction of real estate indices in Q1

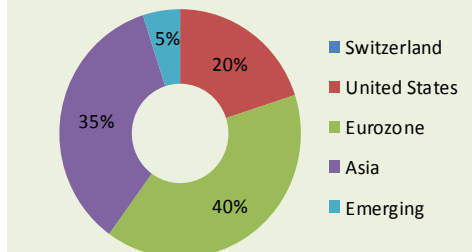
International real estate was not completely unaffected by the increase in volatility in the equities markets in Q1. Most regional markets wrapped up 2017 with strong performances, which made for a stark contrast at the beginning of the year. A -6.8% correction in the global index in USD thus erased the +4% increase in Q4 and just under half of the total increase for the year (+15% in USD).

However, this correction in real estate markets was once again significantly impacted by the substantial underperformance of the US market. Indeed, the US REITs index lost -10% over the period, while European markets fell back only -1.6% (in USD) and Asian markets remained particularly resilient and stable (+0.01% in USD). At the beginning of the year, our diversified real estate investment strategy was still overweight the latter two regions within our relative allocation and underweight the US. This approach contributed significantly to our positive results for Q1.

In local currencies, the Eurozone posted a similar consolidation (4.6%) to that of the United Kingdom (-4.6% and -3.2% in euro) which made out relatively well considering the Brexit context, which continues to be extremely uncertain. Developed markets in Asia only slipped 0.9% in dollars, while markets in the Asia Pacific region even grew +1.4% in USD.



International Real Estate allocation



Tactical Allocation

- Overweight Europe and Asia
- Cash 0%

The performance of Asian markets thus also exceeds that of US real estate, far more affected by rate hike risks than most other markets.

The normalisation of policy rates and of long-term further reduced the attractiveness of diversifying into US real estate. In the Eurozone, Spain generated the best performance thanks to a +6.6% increase in the securitised real estate index. German real estate stayed resilient, falling back by only -2.5%, while French real estate plunged into the red (-9%) and Italian REITs plummeted -15%.

International growth favorable to real estate

Global GDP growth reached +3.7% in 2017 and should tick up to +3.9% in 2018 and 4% in 2019 according to the OECD. In all likelihood it will thus reach its highest level in 2018 since 2011 and will benefit from the synchronisation of regional business cycles.

The global economic expansion is gaining strength on the back of a robust increase in investment along with an upswing in trade and an employment boost that is driving an overall increase in growth according to the institution.

Both developed and emerging countries will largely participate in this stronger growth. These upward revisions in expectations will also be advantageous to long-term real estate investments,

which will benefit from the improvement in economic factors and from the likely increase in global demand will have a relatively significant impact on both occupancy rates and rents given an environment characterised by sluggish supply. The macroeconomic environment will thus likely support real estate investments in view of the positive combination of several factors.

Rising interest rates may soon be threatening in some countries

As we mentioned in our previous economic outlooks, in 2018 we will likely see a shift in the global monetary policy paradigm. The Federal Reserve has initiated a process of rate normalisation that will likely intensify once inflation is found to be persistently higher than the Fed's 2% target. Financial markets barely considered this risk until January 2018, when they started taking into account the increasing risk of stronger action by the central bank given rising inflationary expectations in the US.

At the international level, it is probably still somewhat early to fear a complete reversal of monetary policies, but the future is clearly trending towards normalisation. The key question is to determine when investors will truly start to worry about the impact of this shift on real estate valuations. We believe that if long-term interest rates indeed follow an upward trend in 2018, this upturn in long-term rates will remain entirely insufficient to impact the valuation of real estate investments or even to compete with this asset class in terms of diversification strategies.

Yield spreads (or risk premiums) between long-term interest rates and the yields on indirect real estate investments have tightened slightly in the last quarter, essentially due to the rise in long rates in recent months. They remain attractive by historical comparison, in particular in the Eurozone.

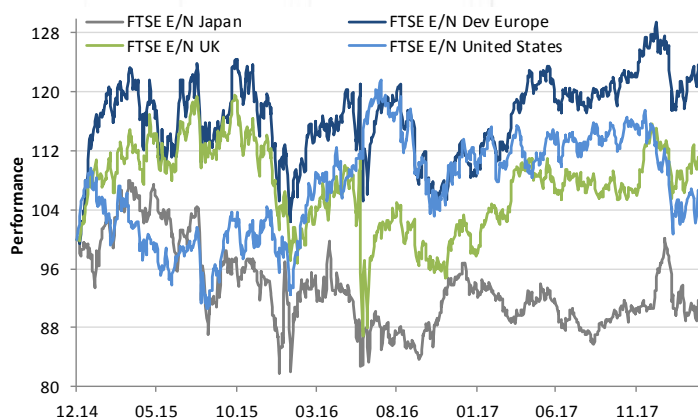
Note that the normalisation of interest rates has not even been truly initiated in several economic zones (Eurozone and Japan). It is thus premature to worry about its negative effects on real estate capitalisation rates in 2018 in general. At the current stage in the global business cycle, this phenomenon is unlikely to have a lasting impact on real estate fundamentals except in the US market, whose growth cycle is already well under way.

Inflation will hold up real interest rates

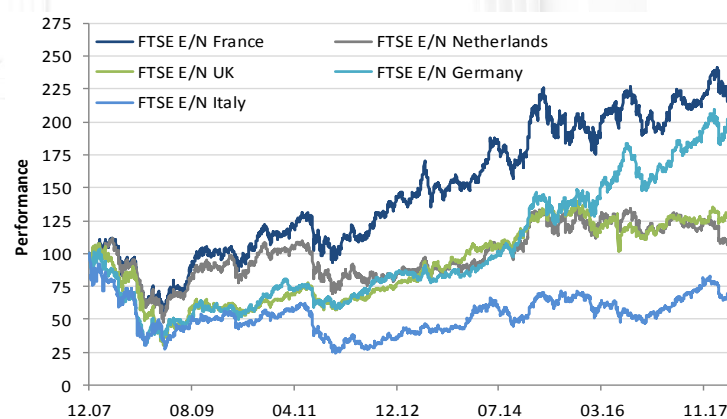
We continue to predict that inflation will rise faster than expected in 2018, in particular in the US. Indeed, inflation will ultimately likely increase due to a tighter job market and have an even greater impact on real interest rates. In spite of the normalisation of monetary policy currently under way in the US and forthcoming in the Eurozone, the upturn in inflation could be swifter than that of long-term rates in our view.

Over the next few quarters, real interest rates are thus likely to stabilize or slightly decline, which would be favourable to real estate markets in the US, Europe, and Japan in particular. The steady increase in inflation will only further reinforce this trend, which we believe will indeed benefit the sector. The performance of real estate markets should thus be stronger when real interest rates are low and when the growth outlook is equal to or better than its historical average. The acceleration of global economic momentum will be accompanied by expectations of higher rent growth, which should benefit the valuation of real estate assets.

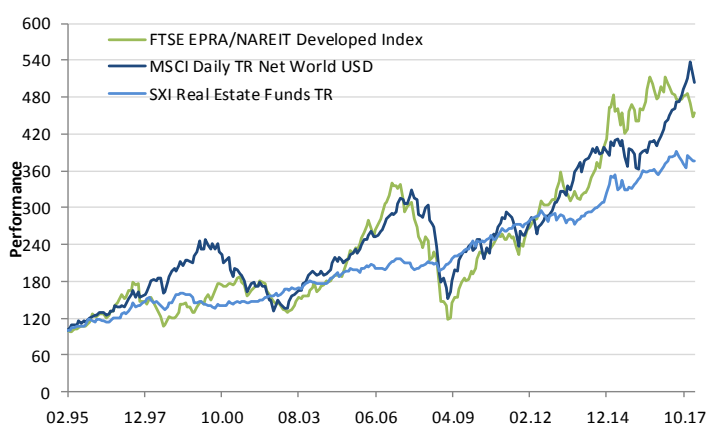
Performance (local currency)



Performance (local currency)



Long-term Performance (local currency)



INTERNATIONAL REAL ESTATE INDICES (local currency)

31.03.2018		Total Return Performance						
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT GIB TR	2597.6	USD	2.2	2.3	-3.3	0.5	-3.3
DEVELOPED	EPRA/NAREIT Dev TR USD	4770.4	USD	2.4	2.5	-4.3	-0.4	-4.3
DEVELOPED EUROPE	FTSE E/N Dev Europe	2158.4	EUR	1.8	4.3	-3.1	2.8	-3.1
EUROZONE	FTSE E/N Euro Zone	2578.0	EUR	2.4	4.2	-3.0	3.5	-3.0
USA	FTSE E/N United States	2672.0	USD	4.1	3.5	-7.8	-6.1	-7.8
DEVELOPED ASIA	FTSE E/N Dev Asia	1468.2	EUR	0.7	-1.9	-2.5	0.6	-2.5

Expected rebound in US stocks after a difficult quarter

Our growth forecast for the quarter with regard to the US real estate market noted the very clear risk that the US market would underperform relative to other developed markets in the Eurozone and Asia. Thus, we recommended under-exposure to this market within our international diversified investment strategy.

Over the quarter, the US real estate market was indeed the most impacted by the change in the assessment of the risk of rising inflation and policy rates. The sharp -10% correction over just a few weeks in conjunction with the correction in equity markets turned out to be close to the most significant among regional real estate markets. We mentioned the fact that the US real estate cycle was ahead of most other regional cycles and that the increase in real estate prices had already been quite substantial, as prices had already exceeded those reached before the real estate bubble burst in 2007. US real estate market fundamentals are not negative, but the risks involved seem to be higher given that the US market is ahead in the cycle. Short-term interest rates will be above +2% in 2018 and could exceed +3% for 10-year terms. Mortgage rates are already above 4% (10-year) and could also reach 4.5% by the end of the year.

Overall, the increase in borrowing costs could have some constraining effects on demand and slow the rise in prices. The underperformance of listed US real estate shares reflects the real estate sector's loss of momentum. In spite of a positive economic outlook, US securitised real estate is doubtless ahead in the growth cycle. However, the recent correction has partially reconstituted risk premiums, which could sustain an increase in prices in Q2. At current levels, valuations are no longer as unfavourable, even if competition from risk-free bond yields remains an important factor that could hamper REITs' progression. The US real estate market could surprise investors in the next few months by rebounding and potentially catching up with other developed markets. We are thus changing our outlook and reducing our under-exposure to this market in our tactical real estate allocation.

The economy will support real estate in the euro zone

In our previous outlook reviews, we forecast that economic growth in Europe would accelerate, and indeed it did; in fact it seems like it may well strengthen further in 2018 and 2019. Our positive outlook on European economic growth and in particular with regard to those drivers of growth such as Germany, Spain, and even France should have a positive impact on these countries' respective real estate markets. The resumption of talks between the European Union and the British government has also eased political tensions without entirely removing the uncertainty stemming from Brexit. It is important to note that for now the prospects of Brexit have no impact on the future improvement of economic conditions in the Eurozone.

Inflation in the Eurozone remains below the ECB's stated target, but the time of the change in monetary policy is even more precise the probability that policy rates will increase, even modestly, in 2018 is low. The European economy is not at the same stage in its economic cycle as the US's, but it is now growing at a similar pace. Long-term interest rate normalisation in the Eurozone could occur faster than predicted and could subsequently affect European securitised real estate similarly to what happened in the US over the past few months the acceleration of European growth already warrants an adjustment of long-term rates, which will doubtless be more brutal than in the US.

For the European real estate market, the economic context in 2018 will likely boost demand for commercial real estate and gradually reduce excess supply in certain large cities. The uncertain context of previous years had somewhat hampered development projects especially given the environment already presented excess supply. These developments will allow rents to continue rising in Europe.

The trend reversal with regard to interest rates will likely increase borrowing costs, but real costs (after inflation) and the lack of alternatives will enable the European real estate market to attract new investors. We do not believe that rising borrowing costs will be enough to impede real estate investment in 2018. The yield spread between real estate investments and government bonds in euros at the beginning of 2018 remains at 20-year highs. More particularly, the spread for investments in premium real estate is approximately 250 basis points, while for less central areas the yield spread is much higher and more attractive by historical comparison. We continue to maintain that European real estate investments thus provide a very attractive alternative to bonds.

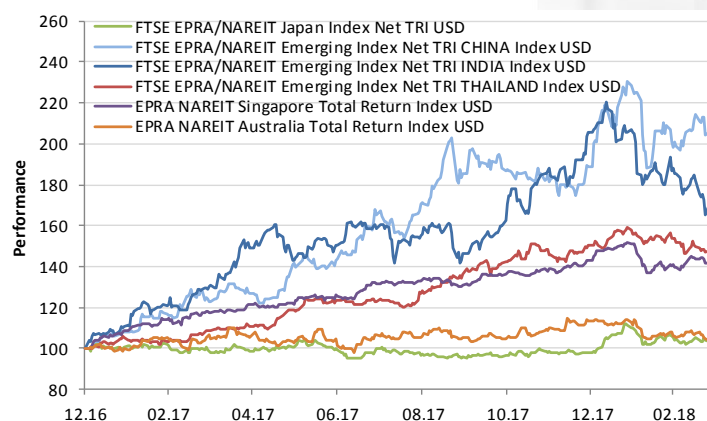
With regard to securitised real estate, we believe that the increasing risk of capital losses on bonds will support a reallocation of assets to real estate in institutional portfolios more broadly in 2018.

In terms of regional allocations, the Eurozone will continue to present a higher likelihood of rent growth and of more sustained price increases.

The real estate market in Asia follows another dynamic

Securitised real estate in Asia did not suffer from the change in expectations regarding rates in the US in Q1. A very specific economic situation is bolstering investment demand. Economic growth will likely strengthen in 2018 thanks to positive regional and international momentum. It will continue to be much stronger than in Europe or the US; however, it is unlikely that interest rates will rise significantly. There is a real likelihood that rents will rise, although constrained in part by the increase in supply. The likelihood of price increases is certainly limited. The progression of rents for the office segment in Asia will benefit from positive developments in the Australian and Indian markets. In China, rents seem to have decreased somewhat due to the arrival on the market of new capacity. In Singapore, relocation demand has remained relatively strong, without significantly impacting rents. In Hong Kong and Tokyo, however, demand has weakened somewhat. In India, demand for office and retail space will likely remain solid and will boost rent growth. Asia continues to benefit from better economic conditions and remains overweight in our regional allocation.

Real estate markets (USD)



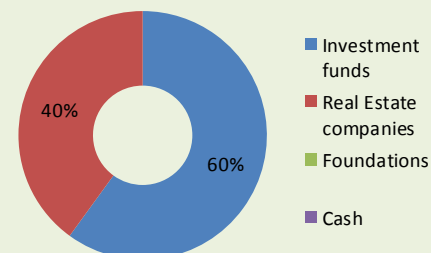
PROSPECTS AND STRATEGIES

Swiss Real Estate

- Listed real estate withstands the volatility of equity markets
- The yield of securitized real estate is still very attractive
- Limited rate adjustment in 2018 will not have a major impact

REAL ESTATE Switzerland	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight			neutral overweight			
			---	--	-	=	+	++	+++
Investment funds	↗	↗							
Real Estate companies	↗	↗							
Foundations	→	→							
Cash									

Swiss Real Estate allocation



Tactical Allocation

- Favor Funds 60%
- Increase exposure to Real Estate Shares : 40%

Listed real estate withstands the volatility of equity markets

In Q1, securitised real estate in Switzerland resisted much better than the equity market to the emergence of external risks and to changes in expectations with regard to interest rates in a more robust global macroeconomic context. The correlation often observed between equities and securitised real estate in Switzerland was indeed not as strong over the past few months. While Swiss equities fell in February and March for an overall quarterly performance of -6%, Swiss real estate investment funds dropped only -2.7%. In the equity market, listed real estate companies were still sought after for their yields and defensive quality. The global real estate index posted a very slight decrease of only -0.3%

We believe that fundamentals were not really affected during this period by the very marginal increase in long-term rates of around 40 basis points in September. Today, it seems that residential real estate market fundamentals in Switzerland will continue to sustain certain imbalances between supply and demand.

We maintain our positive outlook with regard to Swiss real estate as a diversification play and as the most appropriate alternative to yieldless bonds and recommend reinvesting in this asset class.

The yield of securitized real estate is still very attractive

The yields on real estate funds are now slightly under 3% (3.9% for listed real estate companies), while the net yields on direct residential and

commercial real estate investments are slightly higher. A recent study by KPMG noted that the net yields on transactions carried out in Geneva fluctuated around 3.5%. The yield spread on long-term bonds remains significant and attractive. We are still not seeing any genuine signs of a speculative bubble with regard to Swiss real estate. Final demand will remain robust but rational over the next few quarters. Asset allocation transfers between bonds and real estate shares will likely continue, but not at any price.

Limited rate adjustment in 2018 will not have a major impact

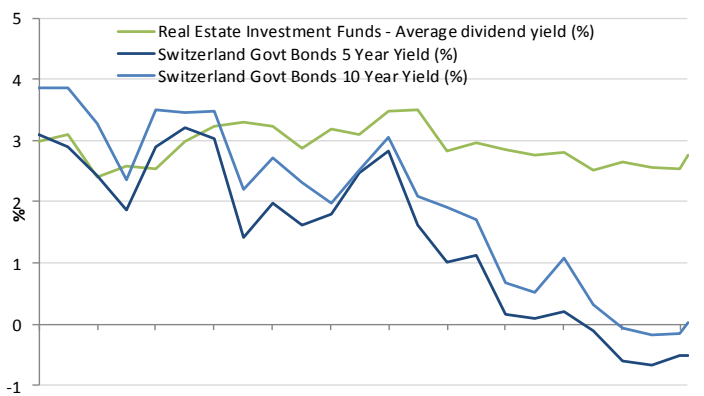
We do not think that the rise in rates in 2018 will not be sufficient to have a significant impact on real estate prices and capitalisation rates. The risk of price corrections for these assets in this case should thus not be overestimated.

SWISS REAL ESTATE

Name	Last price	Total Return Performance				
		7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	374.8	1.0	-0.3	-1.9	1.1	-1.9
SXI Real Estate Idx TR	2447.3	1.8	4.0	0.3	2.3	0.3
KGAST Immo-Index*	275.2				2.6	1.0

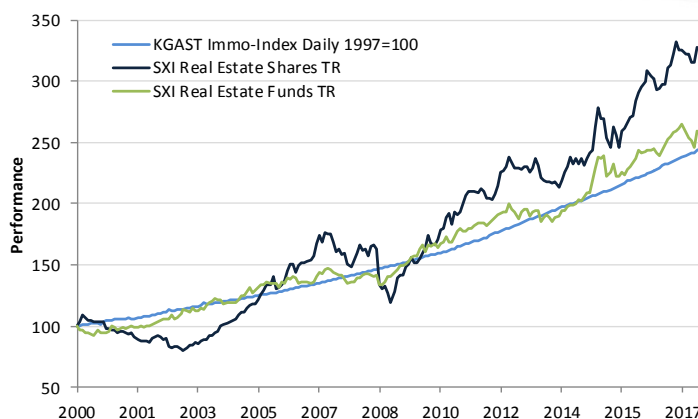
* subject to one-month lag

Government and Real Estate Yield



Graph sources: Bloomberg/BBGI Group

Performance of Swiss Real Estate

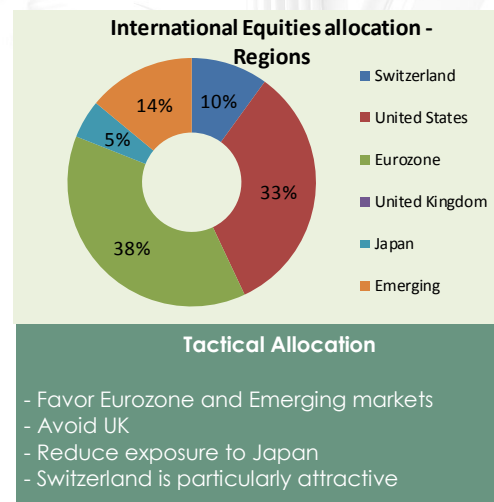


PROSPECTS AND STRATEGIES

International equities by region

- A margins, profits and multiples contraction threatens equity markets
- New opportunities for European equities
- Still too early to go long the Nikkei

EQUITIES REGIONS	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight			neutral		overweight	
			---	--	-	=	+	++	+++
Switzerland	↗	↗							
United States	↗	↗							
Eurozone	↗	↗							
United Kingdom	↗	↗							
Europe	↗	↗							
Japan	↗	↗							
Emergents	↗	↗							



A margins, profits and multiples contraction threatens equity markets

Prior to February, it seemed that nothing could stop the march of American assets. But the rise in inflation and interest rates, as well as risks of monetary policy normalisation being bolstered, in the end won at the expense of the, until then unwavering, optimism of investors.

For a few weeks now, we have been reacquainting ourselves with the risks that the situation on the jobs market represents for company margins, as well as the risk of profit growth being insufficient to justify the particularly high valuation levels before the correction to stock market prices. The growth of multinationals' profits may therefore have hit its peak, and come in lower than previously thought in the end, at close to the economy's growth rate.

The tax reform could be less important for multinationals on the S&P 500 than for medium-sized American companies. Beyond the fundamental issue of profit growth, we must not forget that the rise in US equities was sparked first and foremost by a strong rise in multipliers. The bounce back in March re-inflated valuation levels. When risks of the trend weakening rise, US assets become more fragile again. As such, the upward rate cycle could lead to a new phase of PE contractions.

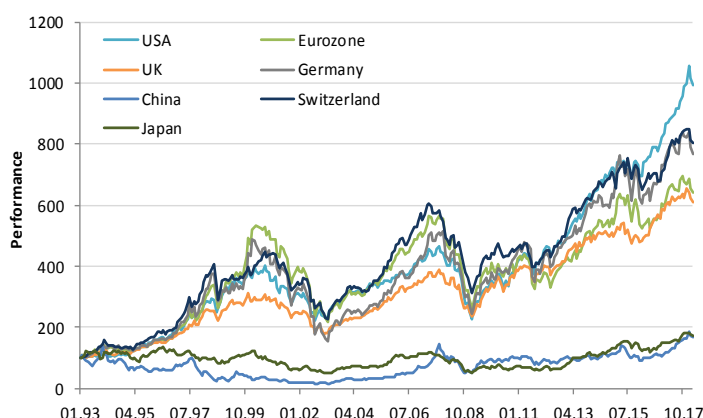
However company profits may develop, it is likely that interest rate rises will put an end to this ten-year expansion phase. In conclusion, the rise on the equity market has undoubtedly incorporated the positive im-

pact that everyone has been expecting the tax reform to have on profits for more than a year now. This is despite the fact that multinationals will certainly be less affected than other companies, as we have already highlighted.

Following on from US equities bouncing back in March, we predict renewed volatility, which will provide better investment opportunities and more reasonable valuation levels. The fall in share prices at the end of the quarter following the emergence of new risks of a trade war between the US and China may generate such opportunities. Indeed, the valuation of the S&P500 index declined to 17x expected 2018 earnings, as prices dropped to 2,600 points. At this point, we do not consider the risk of a trade war as a key factor impacting corporate earnings growth.

Consequently, if this uncertainty were to cause volatility to further increase over the next few weeks, valuation levels could also improve and provide further investment opportunities. In the meantime, we are taking a rather cautious approach, and still recommend under-exposure to US assets.

Long-term Performance (Normalized at 100)



Chinese Equities - A and B (Normalized at 100)



Graph sources: Bloomberg/BBGI Group

New opportunities for European equities

The correction to financial markets, starting in January 2018, was similar for Eurozone and US equities in the end. Fears linked mainly to the inflation recovery and faster rate rises in the United States plunged all equity markets into a general price correction of around -10%. European indices had a year's worth of growth wiped out, and are now at similar levels to the start of 2017. The price correction was not particularly intense, but it came at a point when the revaluation of European equities was far from over.

As such, the valuation of European equities has improved quite considerably over the past few weeks, both in past and international comparison. It is even significantly lower than the valuation of American assets. At just 13.2x 2018 profits, the valuation of European assets represents a 3.4 valuation point discount compared to US equities (PE 16.6x 2018). We do not believe the approximately 25% valuation differential between US and European assets to be justified in the current context, which is also favourable for European assets. In terms of dividend yield, European assets also seem much more attractive, offering 3.5% yield. This is nearly twice the yield of US assets (2%).

The recovery in growth and company profitability are key elements, which are then bolstered by other favourable factors, such as, inter alia, the fall in great political and systemic uncertainty, and the improvement in banking sector conditions. These factors make European assets more attractive; they should benefit from investors returning.

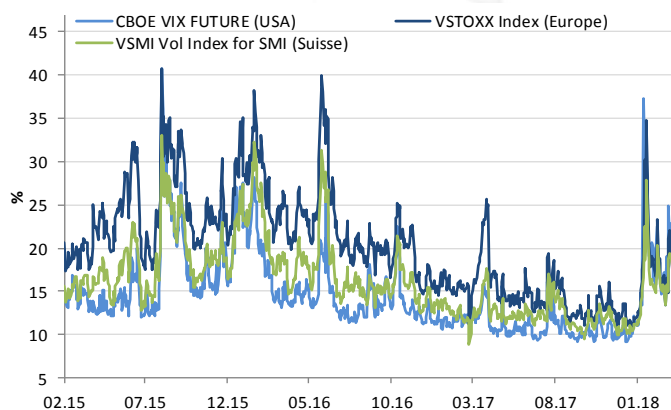
UK equities: remain cautious

The UK market is currently trading at the same level as in October 2016, a few weeks after the vote (7,000 UKX). The drop in share prices over the past weeks has adjusted the valuation level. At around 13x earnings and an expected yield of 4.5%, the UK market does not yet present the opportunity we expect given the still uncertain context of the Brexit negotiations. The pound has remained resilient in the face of these uncertainties, but we maintain our advice to remain cautious with regard to UK equities at this time.

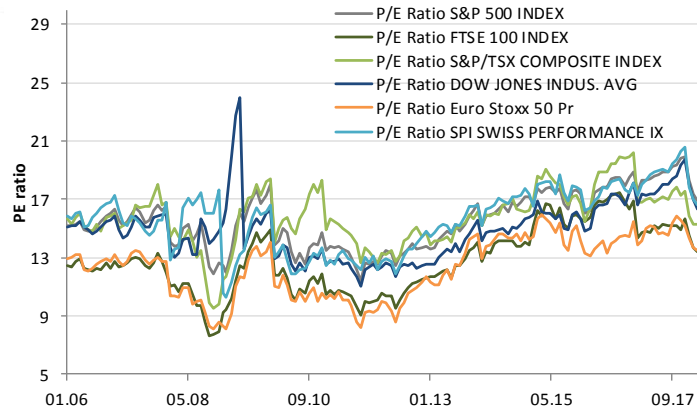
Still too early to go long the Nikkei

In December 2017 we recommended that investors take profits in the Japanese market as it reached the 23,000 mark. Since then, a fall-off in international stock markets likely contributed to investors' awareness that Japanese equities remain very dependent on the exchange rate. The Nikkei's -13% drop to 21,000 points was among the steepest of the developed markets. Several weeks ago we cautioned that it seemed unlikely that Japanese equities would continue to rise in 2018 if the monetary context did not become more unfavourable to the yen. The yen's +6% increase against the dollar, along with renewed uncertainties among investors at the beginning of the year, was thus a key factor in the weakness of Japanese shares. Today we believe that an uptick in the earnings growth of Japanese companies is still likely, due in particular to the upturn in the global business cycle; however such growth is ever more dependent on a depreciation of the yen.

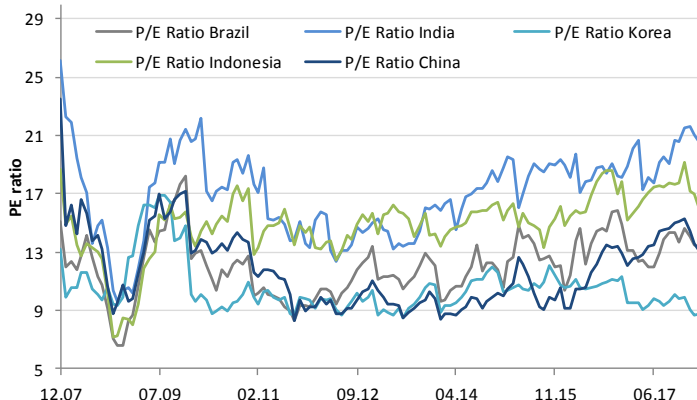
Volatility (USA, Europe, Switzerland)



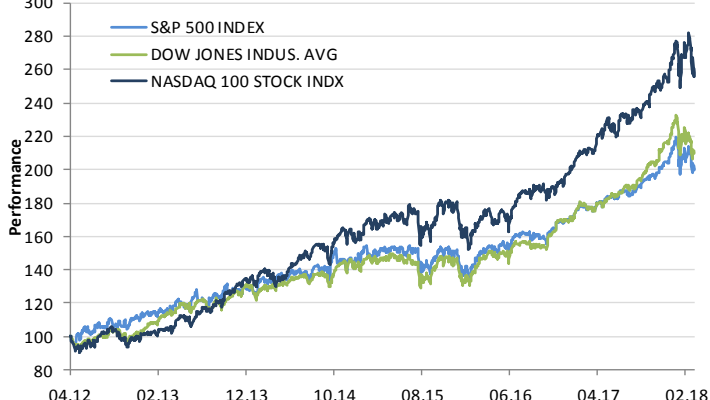
Price/Earnings



Price/Earnings Emerging markets



US Equities (Normalized at 100)



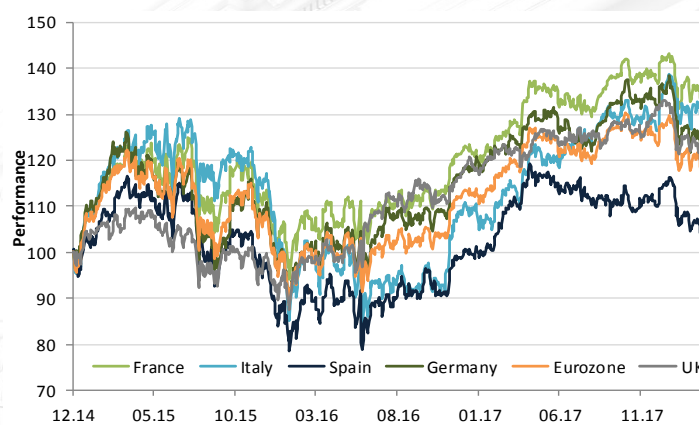
Results posted were indeed better than expected, leading to upward earnings revisions for 2018. The most recent earnings season has thus led us to expect an increase in profits for the period ending on 31 March 2018, possibly higher than the 13-15% consensus forecast, in a possibly somewhat cautious forward guidance context. Listed companies' expected dividend distributions could progress for the fifth consecutive year.

In December, we recommended that investors take profits in the Japanese market as the Nikkei reached new highs. Japanese equities were then trading at 19x expected March 2018 earnings (17x 2019), which could still be considered reasonable, given the likelihood of positive surprises with regard to full year results. However, while their valuation was in fact similar to that of US shares, we cautioned that currency risk had to be taken into account. Even though the market was still offering opportunities for positive surprises and upward revisions over the next several quarters, the high valuations warranted profit-taking pending better opportunities. Valuations fell by 10% and are now less excessive. However, Japanese shares are unlikely to be able to free themselves from a stock market climate still marked by uncertainty with regard to rising interest rates. Thus, pending better visibility and an adjustment in the exchange rate, it seems somewhat premature to reinvest in the Japanese market.

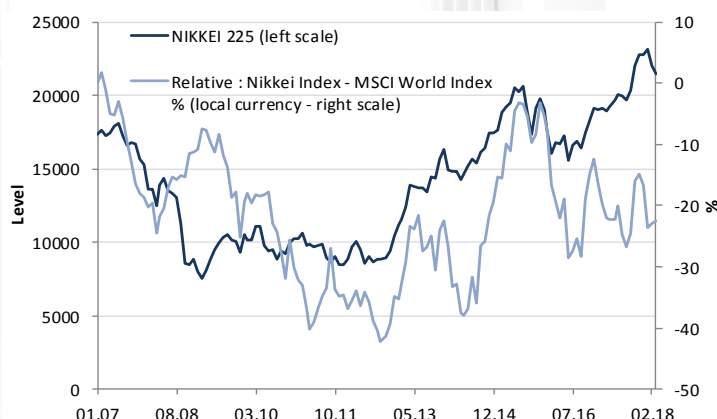
Heading towards emerging markets is a necessity

Several months ago we recommended taking profits on positions in emerging markets, and in China and India in particular; presently, however, we believe that price consolidation over the quarter offers new investment opportunities. In China, risks of a trade war already seem to be overrated in the short term, as Chinese companies overall generate only 9% of their revenues abroad, which at the national level is ultimately not that significant. It seems that most Chinese companies will not be heavily impacted by a potential trade war given the relatively high share of domestic sales in their overall revenues. Chinese equities were not spared by the wave of profit-taking triggered at the end of January 2018. Nevertheless, we believe that Chinese corporate earnings growth will stay robust in 2018. The valuation of Chinese shares at 13x expected 2018 earnings is not excessive, and the -15% correction constitutes a new opportunity to invest.

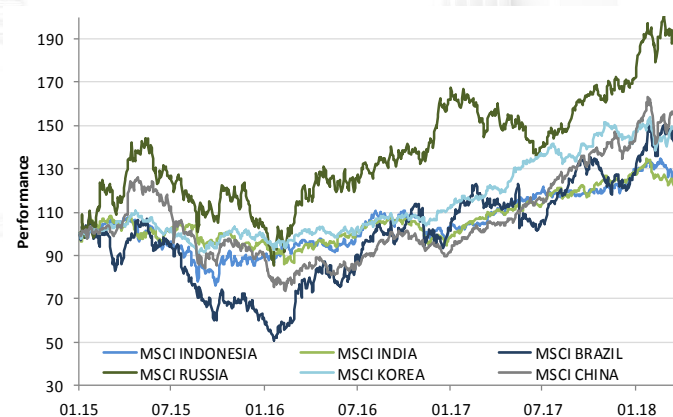
Performance of Stock markets (Normalized at 100)



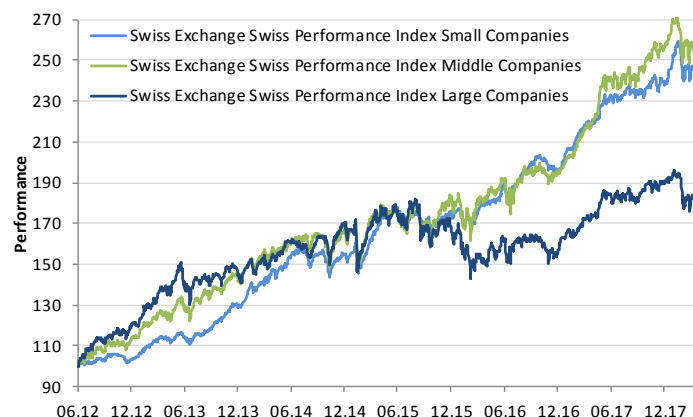
Japanese Equities VS MSCI World



Emerging Markets (Normalized at 100)



Swiss Equities (large - middle - small caps/Normalized at 100)



EQUITIES - BY REGION (local currency)

31.03.2018			Total Return Performance						
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %	
SWITZERLAND	SPI Swiss Performance Index	9443.1	CHF	1.8	0.7	-5.2	-3.3	-5.2	
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	2903.8	CHF	0.8	-0.1	-2.8	1.6	-2.8	
EUROPE	STXE 600 € Pr	394.6	EUR	1.4	-0.7	-4.0	-3.9	-4.0	
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	352.7	EUR	0.0	-0.4	-2.7	-0.6	-2.7	
UK	FTSE All-Share Index	3595.9	GBP	1.7	-1.2	-6.9	-3.0	-6.9	
USA	S&P 500 Index	2640.9	USD	2.1	-1.2	-0.8	5.4	-0.8	
USA SMALL-MID CAPS	RUSSELL 2500	602.5	USD	1.7	1.4	-0.2	4.0	-0.2	
JAPAN	NIKKEI 225	21454.3	JPY	4.8	-0.6	-5.1	6.1	-5.1	
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	892.8	JPY	4.4	0.1	-4.6	4.5	-4.6	
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	564.0	USD	-0.1	-2.0	-0.6	7.1	-0.6	
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	1074.7	USD	1.0	-1.6	-1.3	8.0	-1.3	
EMERGING	MSCI EM	910.4	USD	-0.1	-1.6	1.4	8.9	1.4	
INTERNATIONAL EQUITIES -DIVERSIFIED USD	MSCI Daily TR Net World	4693.2	USD	1.6	-0.9	-1.3	3.9	-1.3	

Graph sources: Bloomberg/BBGI Group

PROSPECTS AND STRATEGIES

International equities by sector

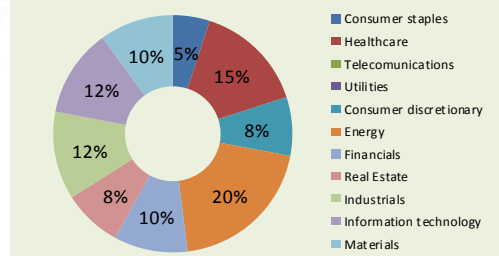
- Focus on cyclicals, industrials and materials values
- Excessive valuation of technology stocks and GAFA
- Favour value stocks
- Energy - positive surprises and higher EPS growth

EQUITIES Sectors	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight			neutral overweight			
			---	--	-	=	+	++	+++
Consumer staples	↘	↗							
Healthcare	→	↗							
Telecommunications	↘	→							
Utilities	↘	→							
Consumer discretionary	→	↗							
Energy	↗	↗							
Financials	→	↗							
Real Estate	↗	↗							
Industrials	→	↗							
Information technology	↗	↗							
Materials	↗	↗							

EQUITIES - BY SECTOR

31.03.2018	Total Return Performance							
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	200.9	USD	1.1	-1.0	1.8	9.6	1.8
CONSUMER STAPLES	MSCI WORLD/CON STPL	208,3	USD	3.0	0.8	-5.1	0.4	-5.1
ENERGY	MSCI WORLD/ENERGY	206.3	USD	1.2	1.9	-5.2	1.5	-5.2
FINANCIALS	MSCI WORLD/FINANCE	105.4	USD	1.3	-2.7	-1.8	3.6	-1.8
HEALTHCARE	MSCI WORLD/HLTH CARE	222.5	USD	1.8	-0.5	-1.0	-1.0	-1.0
INDUSTRIALS	MSCI WORLD/INDUSTRL	196.5	USD	1.8	-0.6	-1.5	3.4	-1.5
MATERIALS	MSCI WORLD/MATERIAL	208.5	USD	0.8	-2.1	-4.4	2.6	-4.4
REAL ESTATE	MSCI WORLD/REAL ESTATE	192.1	USD	2.3	2.7	-3.6	1.1	-3.6
TECHNOLOGY	MSCI WORLD/INF TECH	145.5	USD	1.4	-1.9	3.5	12.0	3.5
TELECOMMUNICATION	MSCI WORLD/TEL SVC	71.1	USD	1.5	-0.7	-5.6	-3.4	-5.6
UTILITIES	MSCI WORLD/UTILITY	113.8	USD	2.7	4.5	-1.4	-1.8	-1.4

International Equities allocation - sectors



Tactical Allocation

- Underweight digital stocks
- Overweight value stocks
- Overweight energy, materials and real estate

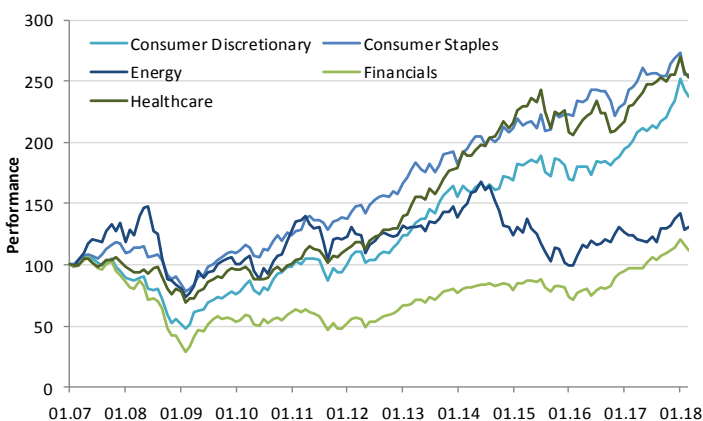
The equity markets tumble in Q1 significantly altered the performance ranking of various sectors. Several leading digital and tech stocks suffered share price setbacks, including Facebook, Tesla, and Google, while others seemed not to be affected at all by general profit-taking in spite of astronomically high multiples (Amazon at 180 x 2018 earnings, Netflix at 110x). No real sector rotation has taken place yet, in spite of increasing risks that interest rates will rise. We believe that **growth stocks** will likely lose momentum to the benefit of **value stocks** and cyclical sectors given the current stage in the global business cycle

The **finance and insurance** sector will likely see some downward revisions of earnings expectations. Thus, we stay underweight in this sector to the benefit of the **real estate** sector, which offers better both visibility and opportu-

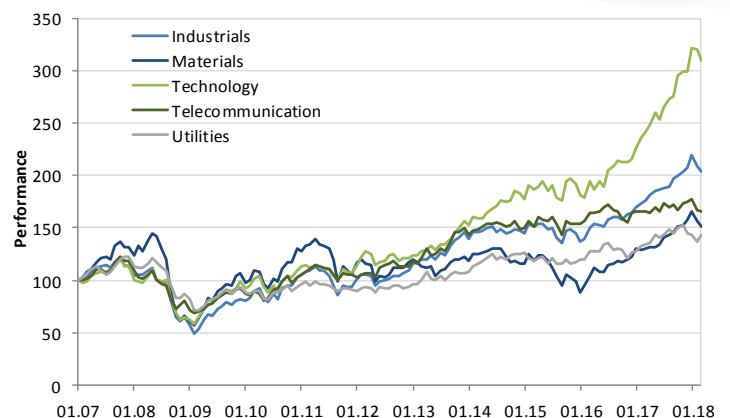
nities for price progression after being unduly penalized in a context of rising interest rates. Valuation levels of key **technology stocks** remain high and continue to warrant an underweight position. We also maintain reduced exposure to stocks in the **tech sector**.

The **industrial, energy, and materials** sectors offer the strongest opportunities for earnings growth in 2018. These sectors are thus overweight within our sector diversification strategy. Among cyclical sectors, the energy sector remains the most undervalued given the positive surprises and positive outlook with regard to **energy** prices and thus warrants more significant exposure. Alternative energy will likely be favoured by investors due to significant growth in this sector driven by a global trend toward developing energy sources other than fossil fuels.

Sectors - MSCI World (Normalized at 100)



Sectors - MSCI World (Normalized at 100)



Graph sources: Bloomberg/BBG Group

PROSPECTS AND STRATEGIES

Swiss Equities

- The correction to risky assets could represent an opportunity
- Dividend yield increased up to 3.2%
- Negative external factors have lost influence

EQUITIES capitalization	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight	neutral	overweight				
Small	↗	↗↗							
Medium	↗	↗↗							
Large	↗	↗							

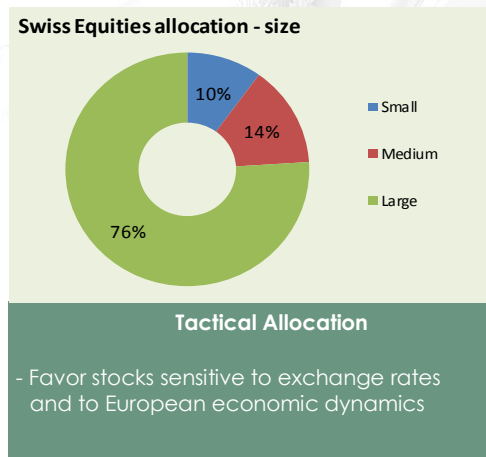
The correction to risky assets could represent an opportunity

In 2017, equity markets benefited from a favourable economic and financial context, but at the end of the year we were already concerned by an increased risk of a price correction in 2018. At the end of January, fresh fears of inflation increases in the United States surfaced, and key rates sparked an adjustment to long rates and to equity market valuations. This was obviously not limited to assets in US dollars. The correction to Swiss equities in February has already considerably reduced valuation levels, as seen in the price/profit ratio of Swiss indices, for example. We had stated that it was very likely we would see a short-term fall in prices at the start of the year; in the end, this drop hit -10%, and has therefore pulled valuations down from 17x to 15x. As such, the SPI is now trading at around 10,000 points, after having corrected 1,000 points from its peak in January (11,000) to bring it back down to levels seen at the end of April 2017.

This correction to Swiss equities as a whole is now already offering a purchase opportunity for investors with an eye to the long-term. However, the possibility of the volatility seen over the last few weeks continuing and offering even better opportunities still cannot be excluded for a while.

More positive bottoms up forecasts

The correction in the Swiss stock market improves analysts' consensus growth forecast somewhat. However, we are not seeing much in terms of significant earnings and price target revisions following the recent volatility in the markets. Bottom-up forecasts left little room for further share price increases at the beginning of the year, although this poten-



tial has presently revived to some extent. The average growth target for share prices is approximately +13% over twelve months.

Dividend yield increased up to 3.2%

The recent volatility in the markets has further improved the dividend yield of Swiss equities, from 3% to 3.2%. This yield is attractive by historical comparison but also compared with yields on Swiss bonds, which remain close to zero. A number of major Swiss firms show higher yield levels and are thus relatively attractive.

Negative external factors have lost influence

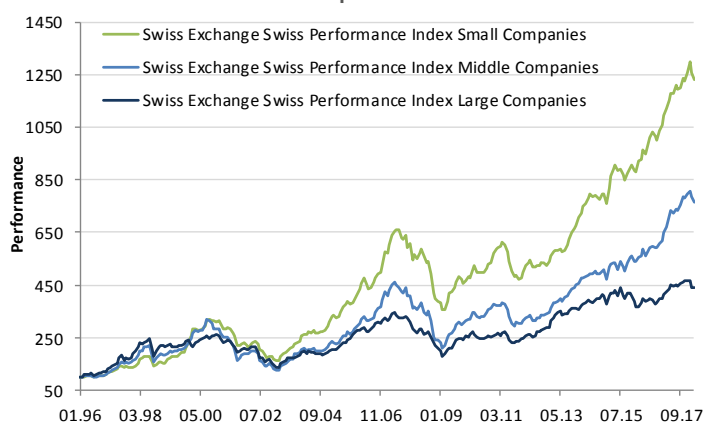
As we had mentioned in the previous quarter, a significant though temporary consolidation of share prices was to occur at the beginning of the year, driven by external rather than domestic factors. The rather generous valuation of the Swiss market offered little cushion in the event that international risks and uncertainty increased. This consolidation took place during Q1 based on external factors whose impact we expect to be only temporary. The external factors that should have a greater impact over the next several months will likely be positive and linked to the resilience of global growth and to its positive effects on Swiss corporate earnings. The persistent weakness of the franc will also contribute to higher profits.

SWISS EQUITIES - Capitalization

Name	Last price	Total Return Performance				
		7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	10189.9	1.8	0.7	-5.2	-3.3	-5.2
SPI SMALL COMPANIES INDX	27147.1	0.8	-0.9	-2.0	2.3	-2.0
SPI MIDDLE COMPANIES INDX	15991.1	0.9	-0.4	-3.4	0.9	-3.4
SPI LARGE COMPANIES INDX	9423.0	2.1	1.0	-5.7	-4.3	-5.7

Graph sources: Bloomberg/BBGI Group

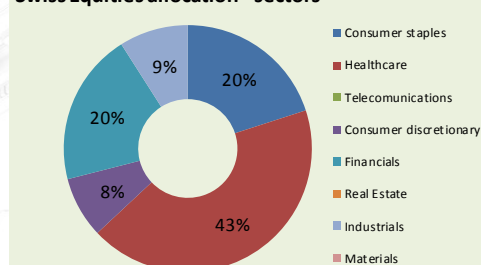
Swiss Equities Performance



Swiss Equities - Sectors

SWISS EQUITIES Sectors	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight			neutral			
			---	--	-	=	+	++	+++
Consumer staples	↗	↗							
Healthcare	↗	↗							
Telecommunications	↗	↗							
Consumer discretionary	↗	↗							
Financials	↗	↗							
Real Estate	↗	↗							
Industrials	↗	↗							
Materials	↗	↗							

Swiss Equities allocation - sectors



Tactical Allocation

- Favor sectors and stocks sensitive to exchange rates
- Favor high-yield stocks
- Positive situation for exporters

There is value in the big Swiss "blue chips"

Large caps on the Swiss stock market were considerably more impacted by profit-taking during the recent consolidation. Indeed, the SMI index fell by -6.66% over the quarter, significantly more than the rest of the Swiss stock market (-3.3%) and than small caps (-1.7%). A bottom-up approach currently shows more growth potential for the main SMI stocks over twelve months (around 15%-17%) than for other shares (around +12%). The outlook for Swiss small caps has also become more attractive. The healthy outlook in terms of the growth and recovery of global trade in 2018 will favour stocks exposed to international markets. We recommend reinvesting in a diversified portfolio of Swiss equities, emphasising Roche, Novartis, and Nestlé in the blue chip segment. In addition, we recommend an overweight exposure to small caps.

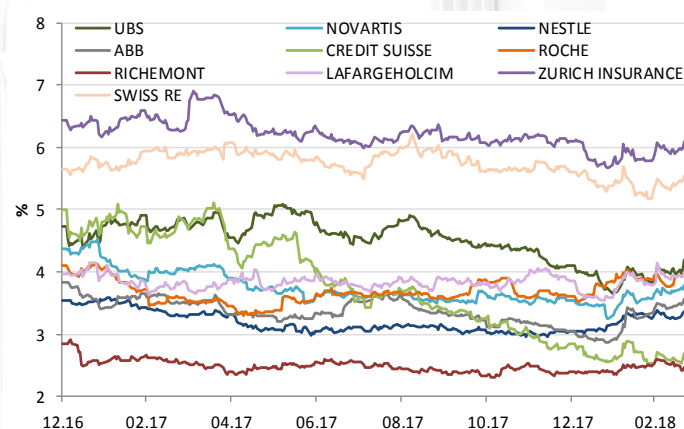
In 2018, exchange rate factor gains importance

Our positive forecast regarding how the major currencies will trend against the Swiss franc in 2018 supports our approach favouring stocks sensitive to exchange rates. Stocks exposed to the dollar in particular will likely benefit more significantly from this positive factor in 2018. We believe this factor will once again play a significant role in expanding the growth potential of the revenues and profits of Swiss companies.

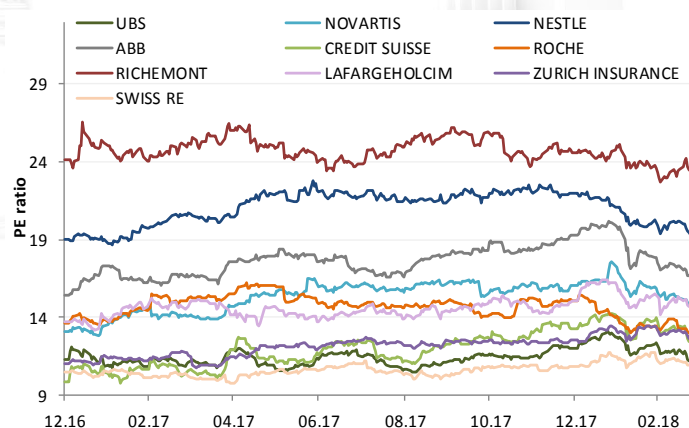
Take advantage of high yields

Swiss stocks, that present high yield and growth characteristics, should also benefit from the relative attractiveness based on the low bond yields that will persist in 2018.

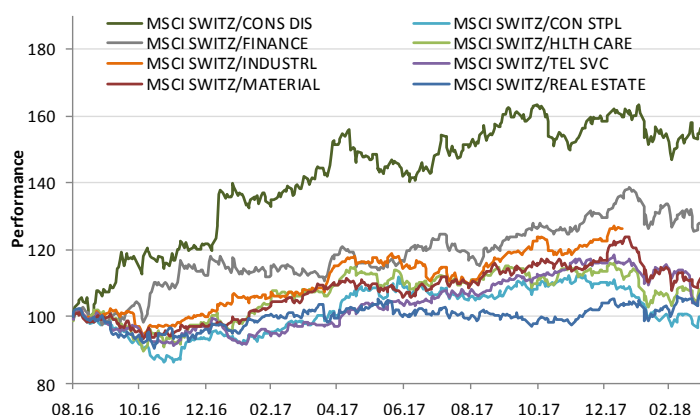
Dividend Yield



PE ratio



Performance



SWISS EQUITIES - BY SECTOR

31.03.2018

Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	344.2	1.7	5.0	-1.4	-2.6	-1.4
MSCI SWITZ/CON STPL	251.0	2.5	1.7	-9.3	-7.1	-9.3
MSCI SWITZ/FINANCE	60.8	2.0	-2.0	-1.3	4.1	-1.3
MSCI SWITZ/HLTH CARE	133.0	2.0	2.8	-5.4	-6.8	-5.4
MSCI SWITZ/INDUSTRL	180.6	2.2	-0.7	-9.2	-6.0	-9.2
MSCI SWITZ/MATERIAL	278.7	2.1	-0.8	-4.5	-1.5	-4.5
MSCI SWITZ/REAL ESTATE	1068.8	2.6	6.8	2.7	6.4	2.7
MSCI SWITZ/TEL SVC	89.5	1.4	-6.1	-8.7	-4.5	-8.7

PROSPECTS AND STRATEGIES

Commodities

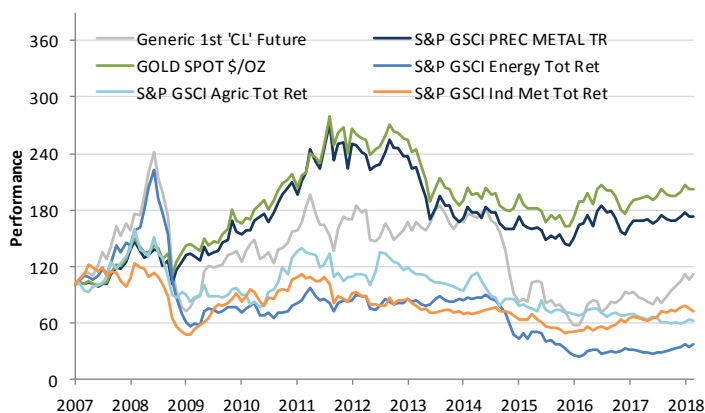
- Positive cyclical and financial cycles for commodities in 2018
- Decreased positive momentum for industrial metals
- Clear improvement in fundamentals for oil
- Precious metals will benefit from ETF investment flows

COMMODITIES	Expected Return		ALLOCATION (CHF Portfolio)							
	3months	1year	underweight		neutral		overweight			
			---	--	-	=	+	++	+++	
Energy	↗	↗↗								
Precious metals	↗	↗↗								
Industrial metals	↗	↗↗								
Agricultural products	→	↗								

Positive cyclical and financial cycles for commodities in 2018

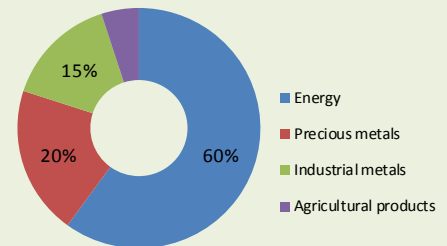
The last two quarters of 2017 were particularly good, with commodities rising by nearly +20% over six months, but this trend was interrupted in early 2018, no doubt temporarily. Indeed, commodities exhibited some volatility in February, although the quarter remained positive (+1.5%) despite the return of uncertainty. The S&P GSCI thus outperformed the S&P500 Index (-2.5%) again this quarter, posting a satisfactory relative result of +9.7% over the past nine months. The international business cycle is strengthening, and the global growth outlook, at slightly above +4%, will likely be a significant factor supporting commodity prices in 2018. A positive trend in global demand driven by a recovery in the industrials sector will have growing effects on the energy, industrial metals and precious metals segments. In these three sectors, investment has been rather weak in the past few years. Thus, we will likely see the supply and demand curves come closer together and even intersect in some cases, particularly in the oil sector. The drop in CAPEX and lower production capacities in several sectors (energy, gold, silver, industrial metals) will affect market balance more heavily in 2019 and will likely help create conditions for a sustainable bull market. Commodities have a tendency to outperform other asset classes when the business cycle is on the upswing and inflationary pressures appear. In our view, the current situation is particularly favourable for commodities to resume outperforming most other asset classes. At a time when investors are once again concerned about the risks of interest rates rising and inflation resuming, it is important to highlight the rather positive correlation between this class of assets and those two factors. In the very long term, the annualised performance of commodities stands at

Commodities



Graph sources: Bloomberg/BBGI Group

Commodities allocation



Tactical Allocation

- Large energy exposure
- Overweight precious metals
- Overweight industrial metals
- Introduce agricultural products

about +7% in USD, but this composite annual result has been greatly weighed down the last few years by the underperformances in 2008 (-49.65%) and then in 2014-15 (-58%). Investment in this asset class based on a 10-year horizon has produced an annualised return of +7% for all rolling periods since 1970, with the exception of the last four periods affected by the 2014-2015 episodes.

Thus, economic and financial cycles seem to be perfectly aligned in 2018 to enable a continuation and likely acceleration of the upward trend in commodities.

Industrial metals weaken before next round (cf. Investment Themes)

Sharp improvement of fundamentals for oil

Higher oil production in non-OPEC countries has increased global supply and weighed on price developments. The US market is the primary cause of the increase in global supply, thwarting the efforts of OPEC countries and Russia to stabilise the world market. The EIA recently estimated that US production had reached 10.2 MBD on average in January, a little more than in December 2017 and a little less than the average estimated for 2018 of 10.6 MBD. At this pace, US production will overtake Russia's and come close to Saudi Arabia's. Nevertheless, global supply has declined due to the disciplined action of OPEC members.

COMMODITIES (USD)

		Total Return Performance						
		Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	MSCI Daily TR Net World USD	5852.64	USD	1.59	-0.89	-1.28	3.94	-1.28
GLOBAL	S&P GSCI Tot Return Indx	2612.6	USD	-0.5	2.8	2.2	13.8	2.2
WTI CRUDE	Generic 1st 'CL' Future	64.9	USD	-1.4	6.5	7.5	28.4	7.5
BRENT OIL	Generic 1st 'CO' Future	70.3	USD	-0.3	10.1	5.1	25.2	5.1
NATURAL GAS	Generic 1st 'NG' Future	2.7	USD	5.5	1.3	-7.5	-6.3	-7.5
OR	GOLD SPOT \$/OZ	1325.0	USD	-1.7	0.6	1.7	4.3	1.7
ARGENT	Silver Spot \$/Oz	16.4	USD	-1.2	-0.6	-3.4	-1.3	-3.4
AGRICULTURE	S&P GSCI Agric Indx Spot	295.2	USD	0.4	-4.7	4.6	5.7	4.6
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	365.9	USD	0.2	-4.2	-7.1	1.3	-7.1

Saudi Arabia remains entirely focused on maintaining a strict supply control policy to balance the market and has contributed effectively to improving prices. In terms of demand, the EIA has increased its forecast for global crude oil demand from 1.3 to 1.4 MBD in the next few years based on the likely strengthening of global economic growth. Growth in demand in a global context of shrinking supply can only positively affect the sought-for rebalancing. In the last few months, dwindling inventories have clearly confirmed that this trend is in process. Inventories of OECD stocks have also dropped, reaching their lowest levels since 2015, slightly above the 5-year average. In the shorter term, US crude oil inventories have progressed by 5.1 MB in February, i.e. half what was expected.

In 2018 we therefore still expect that demand should already come to exceed supply and drive prices up further as well as progressively reduce stocks. The increase in demand will likely be greater than the ability of the US to expand its production of shale oil in particular. The production of shale oil could potentially increase by 500 million barrels in 2018 without changing the likelihood of a supply deficit.

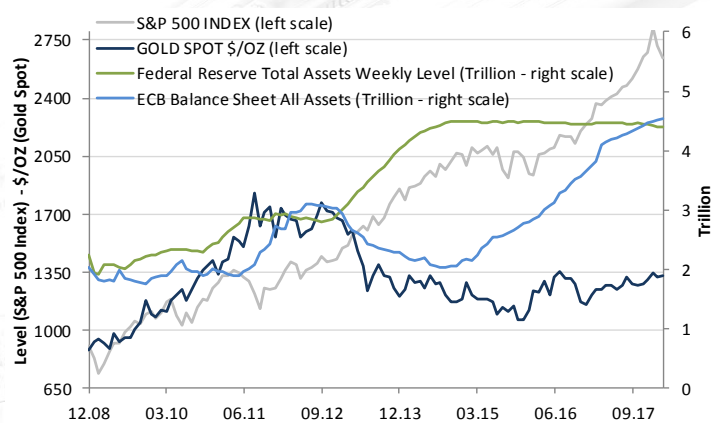
Global demand in 2018 will still be heavily influenced by the growth in China's demand for crude. Overall, we believe that the increase in global demand is likely underestimated due to various factors, in particular those directly affecting the level of supply and demand in China. Chinese demand has no reason to dampen given GDP growth of +6.5% in 2018. Moreover, Chinese oil imports increased further in 2017 and will likely increase at a sustained pace in 2018. Chinese crude production is struggling, and it appears likely that China is rapidly nearing peak crude extraction. China will inevitably make up for its production deficit by increasing crude imports, which will also be boosted by an increase in substitution demand due to China's policy of decreasing coal extraction for energy production. Note that energy derived from coal currently represents two thirds of China's energy production. In the medium-term the conclusion of these forecasts is that China will make up for its production deficit by continuing to import oil, thus bolstering global demand for crude.

Alignment of positive factors for precious metals

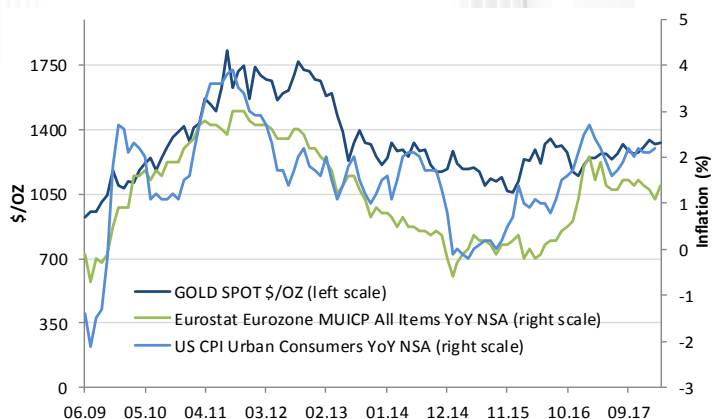
Fluctuations in gold prices have often been associated with fluctuations in the dollar in recent years. The persistent negative correlation has thus justified rises in gold prices when the dollar has corrected. The rise in interest rates has been another factor underlying the movements of gold prices in recent years. Falling interest rates have thus been associated with positive trends in gold prices. We believe the main uncertainty factor that caused the return of volatility in financial markets in late January was the change in risk assessment with regard to rising inflation as well as to faster rising key interest rates and long-term rates. We believe that in the long term a gradual rise of inflationary expectations cannot be without consequence on the gold market. It clearly appears that inflation will be a new factor of influence on precious metal prices. From now on, we believe inflation will become dominant among global influential factors, supporting the rise in gold prices even in a context of pressures on rates and appreciation of the dollar. As for fundamental factors on the physical market, we reckon most of them look favourable. The global supply of physical gold remains constrained by limited production capacity and by declining supply from recycling. With regard to demand, central banks will remain net buyers in 2018, while the demand for jewellery is also likely to increase significantly in China and India as well as the US. Investment demand will likely strengthen given the financial, economic and geopolitical context of 2018. Investment flows into physical gold ETFs will likely increase and perhaps return in 2018-2019 to the highs reached in 2013.

Gold prices (+1%) have risen slightly during the quarter without benefiting, however, from the increased volatility and the development of uncertainty usually favourable to this safe haven. Nevertheless, they should benefit from this favourable environment and rise from \$1,300 to \$1,500, while silver prices will rise from \$17 to \$22 in 2018.

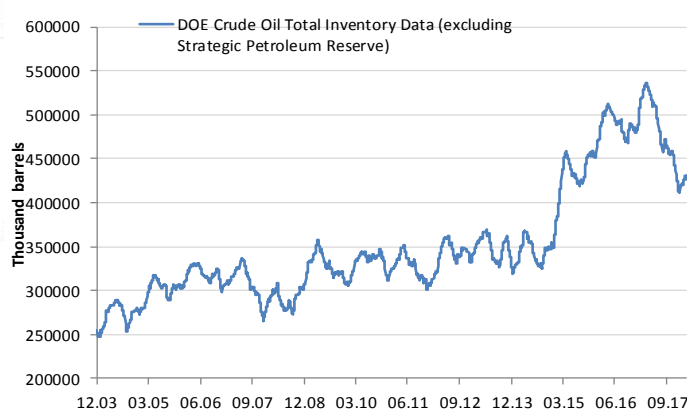
Gold and Global liquidity



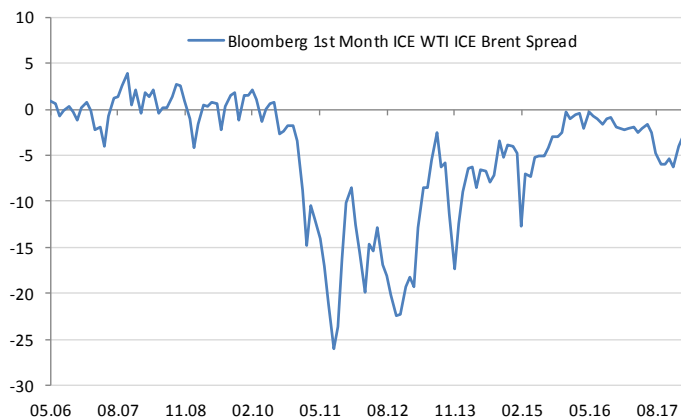
Gold and Inflation



Crude Oil Inventory (USA)



WTI - Brent Price Spread



PROSPECTS AND STRATEGIES

Hedge Funds

- Alternative management adjusts within a difficult environment in Q1

Alternative management adjusts within a difficult environment in Q1

Overall in the last quarter, alternative management strategies posted negative performances, in line with the corrections observed on the various global equity markets. Indeed, global equities declined by 1.28% over the period analysed.

With regards to the different styles of management, event-driven investing declined the most dramatically (-4.80%) while equity hedge investing posted a positive result at the end of the first three months of the year (+1.17%). In between, we find the macro/STA strategy and relative-value arbitrage respectively at -2.03% and +0.99%.

Overall, hedge funds, as represented by the HFRX Global Index (-1.02%), fell back but to a lesser extent than global equities.

On a geographic level, Latin America (+2.44%) and Asia ex-Japan (+2.10%) fared fairly well with quarterly results above +2%.

The Composite Private Equity Index drops -3.81%

Private equity ends Q1 at the back of the pack of the main asset classes.

Results are the most disappointing in the US (-5.11%), affected in particular by the appreciation of the euro against the greenback (+2.66%).

Private Equity

- Composite Private Equity Index drops -3.81%

The European private equity index posted a favourable result at -2.77%, i.e. slightly below the performance of the main European equity markets (-3.71%).

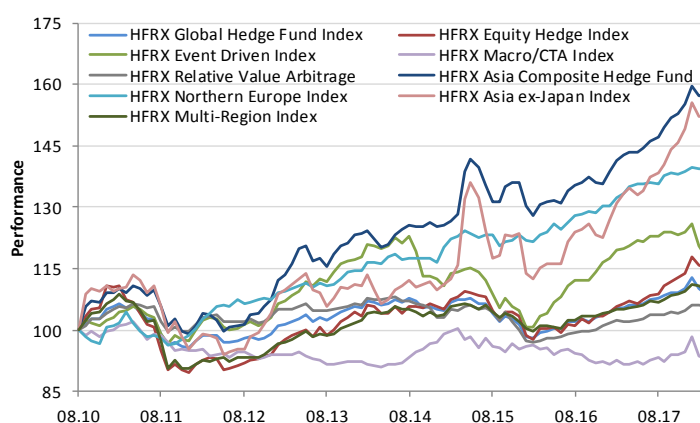
In the UK (-4.68%), private equity is also lagging behind since the beginning of the year.

HEDGE FUND INDICES (USD)

31.03.2018		Total Return Performance						
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1262.6	USD	-0.3	-0.7	-1.0	0.3	-1.0
EQUITY HEDGE	HFRX Equity Hedge Index	1285.7	USD	0.5	-0.2	1.2	3.7	1.2
EVENT DRIVEN	HFRX Event Driven Index	1585.8	USD	-0.7	-2.3	-4.8	-5.0	-4.8
MACRO/CTA	HFRX Macro/CTA Index	1140.3	USD	-1.4	-0.1	-2.0	0.7	-2.0
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1196.5	USD	-0.1	-0.2	1.0	1.7	1.0
LATIN AMERICA*	HFRX Latin America Index	2284.5	USD	-	0.0	2.4	3.6	2.4
ASIA COMPOSITE*	HFRX Asia Composite Hedge Fund Index	2534.9	USD	-	0.0	1.2	5.2	1.2
NORTHERN EUROPE*	HFRX Northern Europe Index	2011.4	USD	-	0.0	0.5	1.1	0.5
ASIA EX-JAPAN*	HFRX Asia ex-Japan Index	2877.0	USD	-	0.0	2.1	8.4	2.1
MULTI-REGION	HFRX Multi-Region Index	1366.8	USD	-0.2	-0.5	0.1	2.1	0.1

* Subject to one-month lag

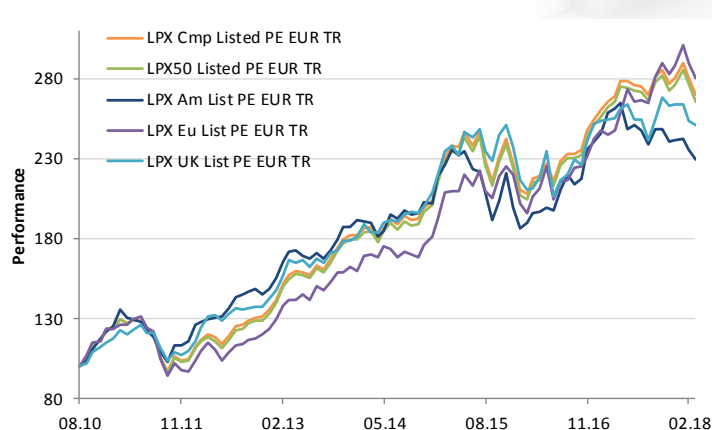
Hedge funds



PRIVATE EQUITY INDICES (EUR)

31.03.2018		Total Return Performance						
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	224.1	EUR	0.1	-2.7	-3.8	-4.5	-3.8
MAJOR COMPANIES	LPX50 Listed PE EUR TR	2100.6	EUR	0.1	-2.9	-4.0	-4.8	-4.0
USA	LPX Am List PE EUR TR	304.8	EUR	0.0	-2.4	-5.1	-8.5	-5.1
EUROPE	LPX Eu List PE EUR TR	894.1	EUR	0.2	-1.8	-2.8	-0.6	-2.8
UK	LPX UK List PE EUR TR	280.8	EUR	0.2	-0.1	-4.7	-1.7	-4.7

Private Equity



Graph sources: Bloomberg/BBGI Group

GLOBAL STRATEGY & ASSET ALLOCATION



GLOBAL STRATEGY | ASSET ALLOCATION

Diversified portfolio: medium risk - CHF

- Continue to underweight bonds and reduce maturities
- Real estate yields remain attractive
- New opportunities on equity markets - overweighting
- Positive prospects for commodities and currencies

ASSETS	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight	neutral	overweight				
Cash	↘	↘							
Bonds	↘	↘							
Real Estate	↗	↗							
Equities	↗	↗							
Hedge funds	↗	↗							
Commodities	↗	↗							
Private equity	↗	↗							

Asset allocation

The core of our investment strategy is made up of traditional liquid assets (liquidities, bonds, equities and real estate), which is then complemented by other diversified, tradable assets (commodities, hedge funds, private equity).

Bonds

Global growth should exceed +4% in 2018. The likelihood of inflation surpassing central banks' targets is growing. These prospects suggest a continuation of long-term rate adjustment dynamics in the United States, but also in the euro zone in particular. The normalization of key interest rates will continue in the United States and the asset buyback program in Europe should be discontinued in 2018. In Switzerland, the weakness of the euro/chf exchange rate offers new prospects that could also provoke tensions on the interest rate markets. Emerging markets and high yield are less attractive. Bond risks are more present; we are maintaining a reduced allocation.

Real Estate

Real estate benefits from improved global business cycle and still low interest rates. In most countries, real estate yields remain attractive and still represent an alternative to fixed income investments. We continue to overweight this segment, prioritising the European and Asian markets, taking into consideration American real estate's real-terms capacity to bounce back.

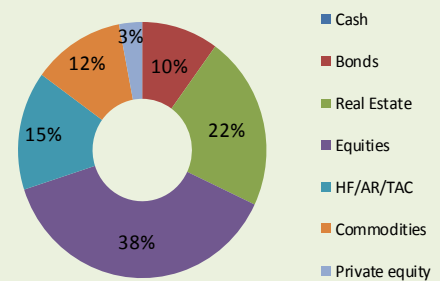
Equities

We recommended reduced equity allocation at the start of the quarter. This proved particularly appropriate given the correction to equity markets over the past few weeks. The roughly -10% drop in most stock market indices corrected valuations that we believed to be excessive. At current levels, we now believe that equity markets are once again offering reasonable and attractive investment opportunities. As such, we are altering our asset allocation, increasing exposure to equities from underweighted to overweighted.

Commodities

The international economic climate should still be very favourable, propping up upward forecasts for commodities. The fundamentals specific to the four segments (energy, precious metals, industrial metals, agricultural products) seem to have come together to have a

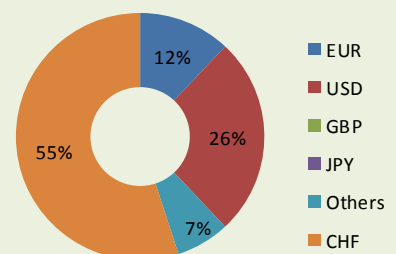
Asset allocation - CHF portfolio



Tactical Allocation

- Overweight equities again
- Overweight real estate, commo, currencies
- Underweight bonds

Currency allocation - CHF portfolio



positive impact on prices. The rise in inflationary forecasts and a context of gradual tension on interest rates will also have a positive effect, particularly on gold and silver. Crude oil prices will benefit from an increase in demand following an upcoming period of stabilisation. Industrial metals are offering an opportunity to reposition, following a drop linked to the risk of a trade war. In the end, prices for agricultural products could leap following less favourable harvest forecasts for 2018.

Currencies

The Swiss Franc will still remain weak, but the rapid rise in the Euro will trail off a little as it approaches 1.20. We recommend a decrease in the exposure to the euro, in favor of the US dollar, Canadian dollar and Australian dollar.

Market performances - Q1 2018

Q1 2018						YTD				Q1 2018						YTD			
		local		CHF		local		CHF				local		CHF		local		CHF	
Exchange rates																			
USD/CHF				-2.1%				-2.1%											
EUR/CHF				0.4%				0.4%											
GBP/CHF				1.5%				1.5%											
JPY/CHF				3.8%				3.8%											
Interest rates (3 months)																			
										(level)									
CHF																		-0.74%	
EUR																		-0.37%	
USD																		2.31%	
JPY																		-0.03%	
Equity markets																			
World		MSCI World USD		-1.3%		-3.3%		-1.3%		-3.3%									
Europe		DJ Stoxx 600		-4.2%		-3.7%		-4.2%		-3.7%									
Eurozone		DJ Eurostoxx 50		-4.1%		-3.7%		-4.1%		-3.7%									
		MSCI Europe S.C.		-3.0%		-2.5%		-3.0%		-2.5%									
Germany		Dax 30		-6.4%		-5.9%		-6.4%		-5.9%									
France		Cac 40		-2.7%		-2.3%		-2.7%		-2.3%									
United Kingdom		FTSE 100		-8.2%		-6.8%		-8.2%		-6.8%									
Switzerland		SPI		-5.2%		-5.2%		-5.2%		-5.2%									
		SMI		-6.8%		-6.8%		-6.8%		-6.8%									
		MSCI Swiss S.C.		-2.1%		-2.1%		-2.1%		-2.1%									
North America		SP500		-1.2%		-3.3%		-1.2%		-3.3%									
		Nasdaq		2.3%		0.2%		2.3%		0.2%									
		Tse 300		-5.2%		-9.6%		-5.2%		-9.6%									
		SP600 Small C.		0.2%		-1.9%		0.2%		-1.9%									
Japan		Nikkei 225		-5.8%		-2.1%		-5.8%		-2.1%									
Emerging		MSCI EMF USD		1.1%		-1.0%		1.1%		-1.0%									
Bonds markets																			
World		Cit Gr Global GovtUSD		2.5%		0.4%		2.5%		0.4%									
Europe		Euro Ser-E Gov > 1		1.4%		1.9%		1.4%		1.9%									
United Kingdom		UK Ser-E Gov > 1		0.1%		1.6%		0.1%		1.6%									
Switzerland		SBI Général AAA-BBB		-0.7%		-0.7%		-0.7%		-0.7%									
		SBI Govt		-1.6%		-1.6%		-1.6%		-1.6%									
USA		US Ser-E Gov > 1		-1.2%		-3.2%		-1.2%		-3.2%									
Japan		Japan Ser-E Gov > 1		0.4%		4.3%		0.4%		4.3%									
Emerging		J.P. Morgan EMBI Global		-1.8%		-3.8%		-1.8%		-3.8%									
Miscellaneous																			
		LPP 25 Index		-1.2%		-1.2%		-1.2%		-1.2%									
		LPP 40 Index		-1.6%		-1.6%		-1.6%		-1.6%									
		LPP 60 Index		-2.1%		-2.1%		-2.1%		-2.1%									
Real Estate CH		DB RB Swiss Real Est Fd		-1.5%		-1.5%		-1.5%		-1.5%									
Hedge Funds		Hedge Fund Research USD		-1.3%		-3.3%		-1.3%		-3.3%									
Commodities		GS Commodity USD		2.2%		0.1%		2.2%		0.1%									

GLOBAL STRATEGY | ASSET ALLOCATION

Diversified portfolio: medium risk - EUR

- The Eurozone is on the verge of a clear rate rise
- Real estate is emerging as the alternative to prioritise
- Back to over-weighting on equity markets
- Positive prospects for commodities and currencies

ASSETS	Expected Return		ALLOCATION (EUR Portfolio)						
	3months	1year	underweight	neutral	overweight				
Cash	→	→							
Bonds	↘	↘							
Real Estate	↗	↗							
Equities	↗	↗							
Hedge funds	↗	↗							
Commodities	↗	↗							
Private equity	↗	↗							

Asset allocation

The core of our investment strategy is made up of traditional liquid assets (liquidities, bonds, equities and real estate), which is then complemented by other diversified, tradable assets (commodities, hedge funds, private equity).

Bonds

Global growth should exceed +4% in 2018. The likelihood of inflation surpassing central banks' targets is growing. These prospects suggest a continuation of long-term rate adjustment dynamics in the United States, but also in the euro zone in particular. The normalization of key interest rates will continue in the United States and the asset buyback program in Europe should be discontinued in 2018. Tread carefully on the bond market in euros - it will soon no longer be receiving ECB support. Emerging markets and high yield are less attractive. Bond risks are more present; we are maintaining a reduced allocation.

Real Estate

Real estate benefits from improved global business cycle and still low interest rates. In most countries, real estate yields remain attractive and still represent an alternative to fixed income investments. We continue to overweight this segment, prioritising the European and Asian markets, taking into consideration American real estate's real-terms capacity to bounce back.

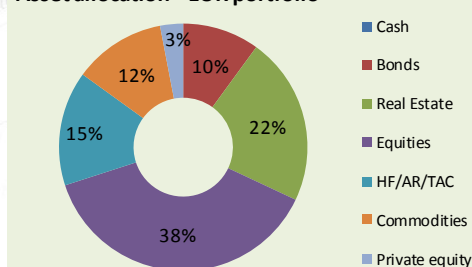
Equities

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Commodities

The international economic climate should still be very favourable, propping up upward forecasts for commodities. The fundamentals specific to the four segments (energy, precious metals, industrial metals, agricultural products) seem to have come together to have a

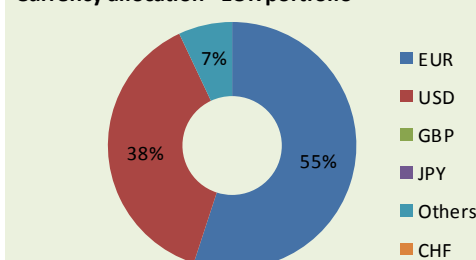
Asset allocation - EUR portfolio



Tactical Allocation

- Overweight equities again
- Overweight real estate, commo, dollar
- Underweight bonds

Currency allocation - EUR portfolio



positive impact on prices. The rise in inflationary forecasts and a context of gradual tension on interest rates will also have a positive effect, particularly on gold and silver. Crude oil prices will benefit from an increase in demand following an upcoming period of stabilisation. Industrial metals are offering an opportunity to reposition, following a drop linked to the risk of a trade war. In the end, prices for agricultural products could leap following less favourable harvest forecasts for 2018.

Devises

The euro has appreciated considerably against most currencies. However, we believe that the improvement in fundamentals has already been well incorporated into current exchange rates. We should see stabilisation, particularly against the US dollar and currencies linked to commodities.

Market performances - Q1 2018

					Q1 2018				YTD					
					local		EUR		local		EUR			
Exchange rates														
USD/EUR					-2.6%				-2.6%					
CHF/EUR					-0.5%				-0.5%					
GBP/EUR					1.0%				1.0%					
JPY/EUR					3.3%				3.3%					
Equity markets														
World					MSCI World USD		-1.3%		-3.8%		-1.3%		-3.8%	
Europe					DJ Stoxx 600		-4.2%		-4.2%		-4.2%		-4.2%	
Eurozone					DJ Eurostoxx 50		-4.1%		-4.1%		-4.1%		-4.1%	
					MSCI Europe S.C.		-3.0%		-3.0%		-3.0%		-3.0%	
Germany					Dax 30		-6.4%		-6.4%		-6.4%		-6.4%	
					Cac 40		-2.7%		-2.7%		-2.7%		-2.7%	
United Kingdom					FTSE 100		-8.2%		-7.3%		-8.2%		-7.3%	
Switzerland					SPI		-5.2%		-5.7%		-5.2%		-5.7%	
					SMI		-6.8%		-7.3%		-6.8%		-7.3%	
					MSCI Swiss S.C.		-2.1%		-4.7%		-2.1%		-4.7%	
North America					SP500		-1.2%		-3.8%		-1.2%		-3.8%	
					Nasdaq		2.3%		-0.3%		2.3%		-0.3%	
					Tse 300		-5.2%		-10.0%		-5.2%		-10.0%	
					SP600 Small C.		0.2%		-2.4%		0.2%		-2.4%	
Japan					Nikkei 225		-5.8%		-2.7%		-5.8%		-2.7%	
Emerging					MSCI EMF USD		1.1%		-1.5%		1.1%		-1.5%	
Interest rates (3 months)														
(level)														
CHF									-0.74%					
EUR									-0.37%					
USD									2.31%					
JPY									-0.03%					
Bonds markets														
World					Cit Gr Global Govt USD		2.5%		2.0%		2.5%		2.0%	
Europe					Euro Ser-E Gov > 1		1.4%		1.4%		1.4%		1.4%	
United Kingdom					UK Ser-E Gov > 1		0.1%		1.1%		0.1%		1.1%	
Switzerland					SBI Général AAA-BBB		-0.7%		-1.2%		-0.7%		-1.2%	
					SBI Govt		-1.6%		-2.1%		-1.6%		-2.1%	
USA					US Ser-E Gov > 1		-1.2%		-3.7%		-1.2%		-3.7%	
Japan					Japan Ser-E Gov > 1		0.4%		3.7%		0.4%		3.7%	
Emerging					J.P. Morgan EMBI Global		-1.8%		-4.3%		-1.8%		-4.3%	
Miscellaneous														
					LPP 25 Index		-1.2%		-1.7%		-1.2%		-1.7%	
					LPP 40 Index		-1.6%		-2.1%		-1.6%		-2.1%	
					LPP 60 Index		-2.1%		-2.6%		-2.1%		-2.6%	
Real Estate CH					DB RB Swiss Real Est Fd		-1.5%		-1.5%		-1.5%		-2.0%	
Hedge Funds					Hedge Fund Research USD		-1.3%		-3.8%		-1.3%		-3.8%	
Commodities					GS Commodity USD		2.2%		-0.5%		2.2%		-0.5%	

GLOBAL STRATEGY | ASSET ALLOCATION

Diversified portfolio: medium risk - USD

- Global rise in long rates in 2018
- Real estate remains an alternative to bonds to be prioritised
- Back to overweighting equities
- Positive outlook for commodities and the dollar

ASSETS	Expected Return		ALLOCATION (USD Portfolio)						
	3months	1year	underweight	neutral	overweight				
Cash	→	→							
Bonds	↘	↘							
Real Estate	↗	↗							
Equities	↗	↗							
Hedge funds	↗	↗							
Commodities	↗	↗							
Private equity	↗	↗							

Asset allocation

The core of our investment strategy is made up of traditional liquid assets (liquidities, bonds, equities and real estate), which is then complemented by other diversified, tradable assets (commodities, hedge funds, private equity).

Bonds

Global growth should exceed +4% in 2018. The likelihood of inflation surpassing central banks' targets is growing. These prospects suggest a continuation of long-term rate adjustment dynamics in the United States, but also in the euro zone in particular. Unsurprisingly, normalisation of key rates will continue in the United States, leading to fresh, though limited, tensions on long rates. Tread carefully on the bond market in euros- it will soon no longer be receiving ECB support. Emerging markets and high yield are less attractive. Bond risks are more present; we are maintaining a reduced allocation.

Real Estate

Real estate benefits from improved global business cycle and still low interest rates. In most countries, real estate yields remain attractive and still represent an alternative to fixed income investments. We continue to overweight this segment, prioritising the European and Asian markets, taking into consideration American real estate's real-terms capacity to bounce back.

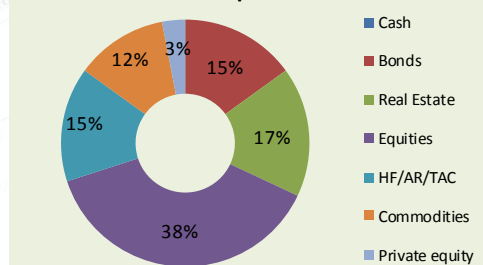
Equities

We recommended reduced equity allocation at the start of the quarter. This proved particularly appropriate given the correction to equity markets over the past few weeks. The roughly -10% drop in most stock market indices corrected valuations that we believed to be excessive. At current levels, we now believe that equity markets are once again offering reasonable and attractive investment opportunities. As such, we are altering our asset allocation, increasing exposure to equities from underweight to overweighted.

Commodities

The international economic climate should still be very favourable, propping up upward forecasts for commodities. The fundamentals specific to the four segments (energy, precious metals, industrial metals, agricultural products) seem to have come together to have a

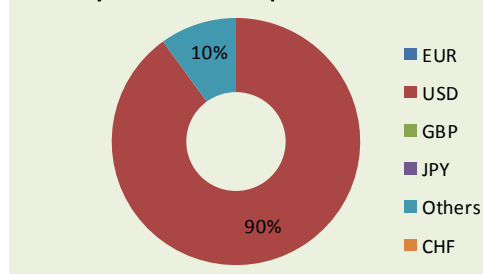
Asset allocation - USD portfolio



Tactical Allocation

- Overweight equities again
- Overweight real estate and commodities
- Concentrate on USD assets

Currency allocation - USD portfolio



positive impact on prices. The rise in inflationary forecasts and a context of gradual tension on interest rates will also have a positive effect, particularly on gold and silver. Crude oil prices will benefit from an increase in demand following an upcoming period of stabilisation. Industrial metals are offering an opportunity to reposition, following a drop linked to the risk of a trade war. In the end, prices for agricultural products could leap following less favourable harvest forecasts for 2018.

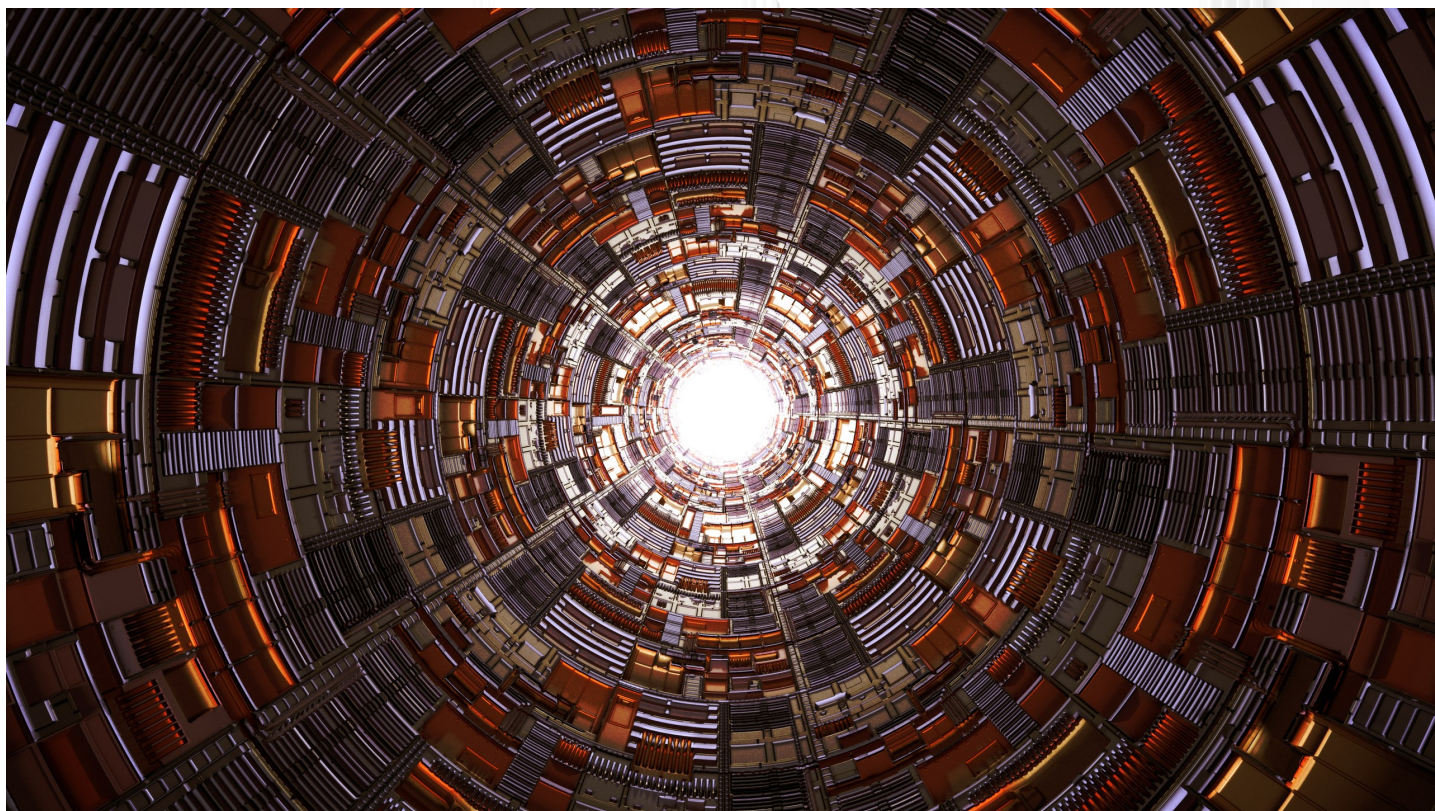
Currencies

The US dollar has been weakening for a few months, but GDP and interest rate growth differentials in particular should once again work in its favour. We believe that the US dollar could emerge as the most sought-after currency in 2018. Diversification outside of the US dollar should prioritise currencies linked to commodities.

Market performances - Q1 2018

						Q1 2018		YTD								Q1 2018		YTD									
						local		USD		local		USD								local		USD					
Exchange rates																											
CHF/USD						2.2%				2.2%				CHF						-0.74%							
EUR/USD						2.7%				2.7%				EUR						-0.37%							
GBP/USD						3.7%				3.7%				USD						2.31%							
JPY/USD						6.0%				6.0%				JPY						-0.03%							
Equity markets																											
World		MSCI World USD		-1.3%		-1.3%		-1.3%		-1.3%		World						Cit Gr Global GovtUSD		2.5%		4.7%		2.5%		4.7%	
Europe		DJ Stoxx 600		-4.2%		-1.6%		-4.2%		-1.6%		Europe						Euro Ser-E Gov > 1		1.4%		4.1%		1.4%		4.1%	
Eurozone		DJ Eurostoxx 50		-4.1%		-1.5%		-4.1%		-1.5%		United Kingdom						UK Ser-E Gov > 1		0.1%		3.8%		0.1%		3.8%	
		MSCI Europe S.C.		-3.0%		-0.4%		-3.0%		-0.4%		Switzerland						SBI Général AAA-BBB		-0.7%		1.5%		-0.7%		1.5%	
Germany		Dax 30		-6.4%		-3.9%		-6.4%		-3.9%								SBI Govt		-1.6%		0.6%		-1.6%		0.6%	
France		Cac 40		-2.7%		-0.1%		-2.7%		-0.1%		USA						US Ser-E Gov > 1		-1.2%		-1.2%		-1.2%		-1.2%	
United Kingdom		FTSE 100		-8.2%		-4.8%		-8.2%		-4.8%		Japan						Japan Ser-E Gov > 1		0.4%		6.5%		0.4%		6.5%	
Switzerland		SPI		-5.2%		-3.1%		-5.2%		-3.1%		Emerging						J.P. Morgan EMBI Global		-1.8%		-1.8%		-1.8%		-1.8%	
		SMI		-6.8%		-4.8%		-6.8%		-4.8%																	
		MSCI Swiss S.C.		-2.1%		-2.1%		-2.1%		-2.1%																	
North America		SP500		-1.2%		-1.2%		-1.2%		-1.2%																	
		Nasdaq		2.3%		2.3%		2.3%		2.3%																	
		Tse 300		-5.2%		-7.6%		-5.2%		-7.6%																	
		SP600 Small C.		0.2%		0.2%		0.2%		0.2%																	
Japan		Nikkei 225		-5.8%		-0.1%		-5.8%		-0.1%																	
Emerging		MSCI EME USD		1.1%		1.1%		1.1%		1.1%																	
Interest rates (3 months)																								(level)			
Bonds markets																											
World		Cit Gr Global GovtUSD		2.5%		4.7%		2.5%		4.7%		World						Cit Gr Global GovtUSD		2.5%		4.7%		2.5%		4.7%	
Europe		Euro Ser-E Gov > 1		1.4%		4.1%		1.4%		4.1%		Europe						Euro Ser-E Gov > 1		1.4%		4.1%		1.4%		4.1%	
United Kingdom		UK Ser-E Gov > 1		0.1%		3.8%		0.1%		3.8%		United Kingdom						UK Ser-E Gov > 1		0.1%		3.8%		0.1%		3.8%	
Switzerland		SBI Général AAA-BBB		-0.7%		1.5%		-0.7%		1.5%		Switzerland						SBI Général AAA-BBB		-0.7%		1.5%		-0.7%		1.5%	
		SBI Govt		-1.6%		0.6%		-1.6%		0.6%								SBI Govt		-1.6%		0.6%		-1.6%		0.6%	
USA		US Ser-E Gov > 1		-1.2%		-1.2%		-1.2%		-1.2%		USA						US Ser-E Gov > 1		-1.2%		-1.2%		-1.2%		-1.2%	
Japan		Japan Ser-E Gov > 1		0.4%		6.5%		0.4%		6.5%		Japan						Japan Ser-E Gov > 1		0.4%		6.5%		0.4%		6.5%	
Emerging		J.P. Morgan EMBI Global		-1.8%		-1.8%		-1.8%		-1.8%		Emerging						J.P. Morgan EMBI Global		-1.8%		-1.8%		-1.8%		-1.8%	
Miscellaneous																											
		LPP 25 Index		-1.2%		1.0%		-1.2%		1.0%		LPP 25 Index						-1.2%		1.0%		-1.2%		1.0%			
		LPP 40 Index		-1.6%		0.6%		-1.6%		0.6%		LPP 40 Index						-1.6%		0.6%		-1.6%		0.6%			
		LPP 60 Index		-2.1%		0.0%		-2.1%		0.0%		LPP 60 Index						-2.1%		0.0%		-2.1%		0.0%			
Real Estate CH		DB RB Swiss Real Est Fd		-1.5%		-1.5%		-1.5%		0.6%		Real Estate CH						DB RB Swiss Real Est Fd		-1.5%		-1.5%		-1.5%		0.6%	
Hedge Funds		Hedge Fund Research USI		-1.3%		-1.3%		-1.3%		-1.3%		Hedge Funds						Hedge Fund Research USI		-1.3%		-1.3%		-1.3%		-1.3%	
Commodities		GS Commodity USD		2.2%		2.2%		2.2%		2.2%		Commodities						GS Commodity USD		2.2%		2.2%		2.2%		2.2%	

INVESTMENT THEMES



INVESTMENT THEMES:

The temporary fall in industrial metals is an opportunity

- Risks of a trade war are sparking widespread profit-taking
- Aluminium - balanced market
- Zinc - supply and inventories are falling
- Copper - limited supply and growing demand
- Nickel - net deficit on the market

Industrial metals are flagging, but soon to recover

Despite the robust macroeconomic environment working in the segment's favour in 2018, we were expecting a loss of momentum for industrial metals after the +29% rise in 2017, following on the heels of the +15.5% increase already posted in 2016. The quarter was indeed rather difficult for certain industrial metals and for the global index (S&P GS industrial metals), which has posted roughly a -7% correction over the past six weeks.

These developments in industrial metal prices coincide with a strong global economy, but uncertainty over the past few weeks, sparked by risks of a trade war between the United States and China have dragged basic metal prices down.

The introduction of a 25% import tax on Chinese aluminium and steel into the United States was the catalyst for a change in perspective and for profit-taking. Aluminium, copper, and zinc prices plunged from -8% to -12% during the last weeks of the first quarter, wiping out strong growth in December. Only nickel still played its cards right, with a +4.3% quarterly rise in this negative climate.

Tensions persist regarding customs duties at the start of the 2nd quarter. Donald Trump wants to reduce the trade deficit from 375 to 100 billion US dollars by imposing 25% duties on 1,300 Chinese products. The list of products is broad, and represents around 50 billion US dollars' worth of imports. It is likely that China will now respond more robustly and call on the World Trade Organisation to call the United States to heel.

The United States' attack may turn out to be entirely unproductive, as raising customs duties on Chinese imports will only affect producers, and then US consumers due to American products becoming more expensive.

We therefore believe that the risk of a trade war has been overblown, given the context which makes it so counter-productive for the United States. However, we cannot exclude the possibility that in the short-term it could have some negative impact on forecasts regarding demand for industrial metals and their prices. In 2018, the growth rates for the Chinese and Indian economies will be important factors propping up global demand for industrial metals. The issue of securing commodity supply will still be crucial for China, which will continue to try to control its sources, whilst reinforcing its influence.

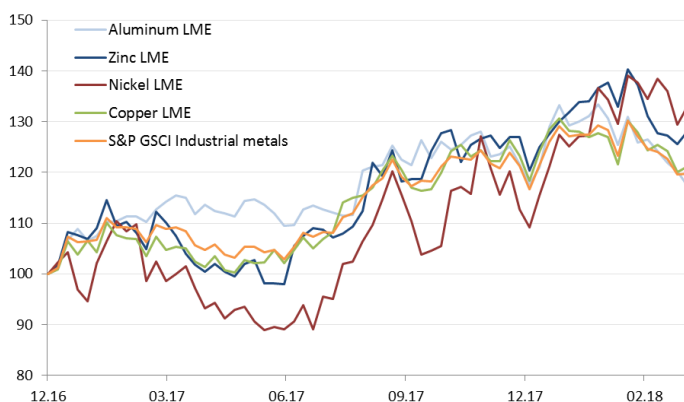
We believe that short-term uncertainty will gradually fade away in the face of positive economic news, which will bolster a recovery in metal prices.

Aluminium - balanced market

The global aluminium market should grow at an annual pace of more than +5% over the next five years, thanks to increased demand in the automobile, transport, and construction sectors. Chinese demand will continue to provide considerable support for the increased demand for aluminium, but Europe, with the second highest levels of demand internationally, will not be to be outdone. Germany alone represents nearly a third of European consumption, and will remain a key stakeholder in this market, whilst the US market should prove less dynamic. China accounts for nearly 60% of global production, and has committed to undertaking considerable reform, which, in our opinion, will have a wide-reaching impact on market balance. As such, the evolution of aluminium prices will be dependent on efforts to reduce production, particularly the closure of unprofitable production zones, and the knock-on effects of this on surplus stock. China has decided to temporarily slash production by 30%. The aim is to reduce air pollution in around thirty cities, as well as permanently reducing annual production capacity by around 4 million MT, which will have an even greater influence on propping up prices in the long-term. The effects of Chinese reform will be more apparent in the second half of 2018 in terms of bolstering the aluminium market, which could completely turn investors' current prospects on their heads.

For the time being, perception of surplus supply is still weighing heavily on aluminium prices, but the considerable under-performance of metal at the beginning of the year is certainly more due to President Trump's announcements on taxing Chinese imports than the perception of long-term over-capacity.

S&P GS Industrial metals Index,
aluminium, copper, nickel & zinc

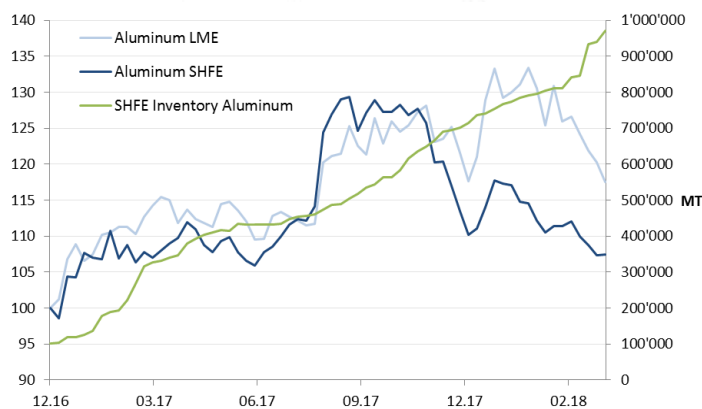


Graph sources: Bloomberg/BBGI Group

The risk of a trade war between the United States and China was of particular concern to investors, and has been affecting industrial metal prices for a few weeks. To start with, this was concentrated on aluminium and steel, but gradually spread to other industrial metals. We believe that this is excessive and that it is affecting industrial metals temporarily as a knee-jerk reaction. United States' aluminium production has fallen from 17% to 2% of the global market over the past few years. It is therefore marginal and not very competitive internationally. Imposing new duties will not enable the United States to recover market share; the best-case-scenario is that it will protect the last producers operating in the country. We therefore believe that this decision will mainly have an indirect impact, increasing production costs for the American automobile and construction sectors, because of the bonus indirectly given to American production. At current global prices, these factors seem to be broadly expected. In reality, Chinese demand will remain strong in 2018, particularly in sectors linked to infrastructure and the development of the electric network.

As such, the global aluminium market should be balanced, and prospects for industrial metal prices therefore once again seem to us to be positive for the second half of the year. We believe that prices have a good chance of recovering to US \$2,300/MT by the end of the year.

Aluminium : Performance & Inventories



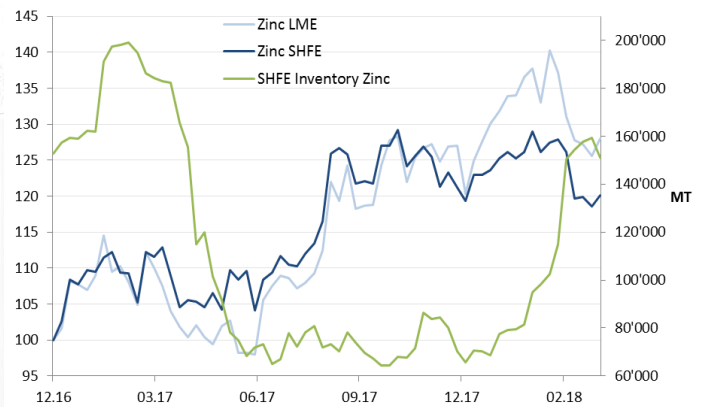
Zinc - supply and inventories are falling

Zinc was the best performer on the LME, with more than +60% growth in 2016. In 2017, it continued to enjoy an upward trend, pushing it past its ten-year high, whilst considerable concerns remained regarding a drop in production capacity, along with very high Chinese demand. The decrease in stocks and the closure of mines were positive for price developments in 2017. In 2018, after a new US \$3,600 peak in January, zinc corrected -15%, as did other commodities, when risks of trade war emerged, before stabilising above US \$3,200. Zinc production should dip slightly by -2% still in 2018 to around 13 million tonnes. It should then bounce back by +3% - +4% in 2019 to around 14 million tonnes, due to new mines starting to operate. Despite the expected increase in global production, stocks should nonetheless contract in 2018 before stabilising. We do not expect Chinese demand, which still plays an important role in price developments, to fall, despite the rise in prices. The market will remain in deficit in 2018, despite surplus likely dropping from 750,000 tonnes to 200,000 tonnes year on year within the next twelve months. In the shorter term, the real strength of the slowdown in Chinese production over the winter will have a clear impact on the market.

We believe that lower production levels will have a positive impact on prices over the coming quarters.

Zinc prices could hit US \$3,600/MT this year in a context of ongoing drops in inventories, providing Glencore does not reactivate the 500,000 MT production capacity that had been removed from the market.

Zinc : Performance & Inventories



Nickel - net deficit on the market

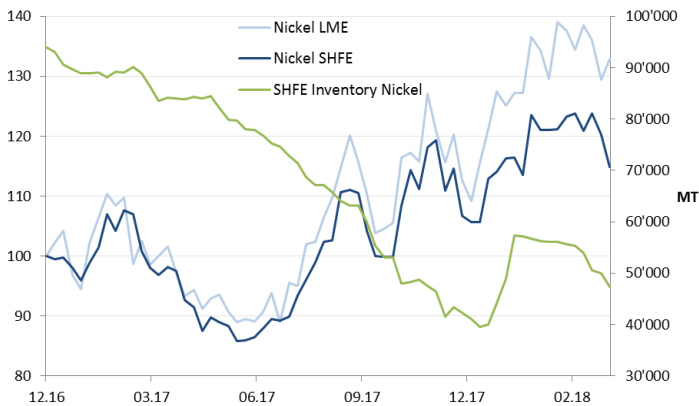
The nickel market will also be influenced by Chinese demand on the one hand, and developments in supply in Indonesia on the other. In 2018, Indonesia will certainly be responsible for nearly 25% of global production, a growing proportion of which will be processed in the country, in line with their strategy of aiming to export fewer raw minerals and more processed minerals. In the future, Indonesia will be increasingly able to compete with processing zones in developed countries. Indonesia's efforts and its strategies to improve the added value of the minerals it exports will be at the heart of concerns in 2018 in terms of predicting what is really at stake and the risks of it causing an imbalance in the market. As regards global supply, a further rise in production is forecast for 2018, created almost entirely by two countries-Indonesia (+50%) and the Philippines (+10%)- whose supply will increase significantly. Elsewhere we are rather seeing production capacity reductions and pressures to close operating areas, particularly open cast mines. For the time being, the nickel market is in deficit, but growth in supply will affect the future market balance, and could in the end exceed growth in demand for the development of the electric batteries market.

That said, in the meantime, it still seems likely that stocks will continue to shrink, which should foster a price rise. The strong trend for developing the electric vehicles market is bolstering the upward prospects for nickel demand. According to the International Nickel Study Group (INSG), current need in this absolutely booming industry only represents 3% of demand for nickel in 2017. The demand to meet the needs of the production industry in terms of stainless steel is still very much dominating the market and represents nearly 70% of global nickel demand. The expansion in demand for the production of lithium-ion batteries will cause a huge rise in demand for nickel. It is estimated that future demand for nickel for this market will stand at 600,000 tonnes per year over the next five years. This corresponds to 25% of the 2 million tonnes of current production. However, only 50% of this global production is in fact of high enough quality for the battery market. We should therefore specifically see very strong growth in demand for this particular top-quality nickel segment, which could hit 3 million tonnes in 2030.

Rare metals are increasingly being swapped for nickel, which will have a lasting, positive effect on prices. As such, the rise in prices is necessary in order to allow new mines, which are essential for the development of a booming market, to be opened in the long-term.

We believe that nickel prices will rise considerably again in 2018. In the longer term, a price increase to US \$20,000/MT is possible.

Nickel : Performance & Inventories



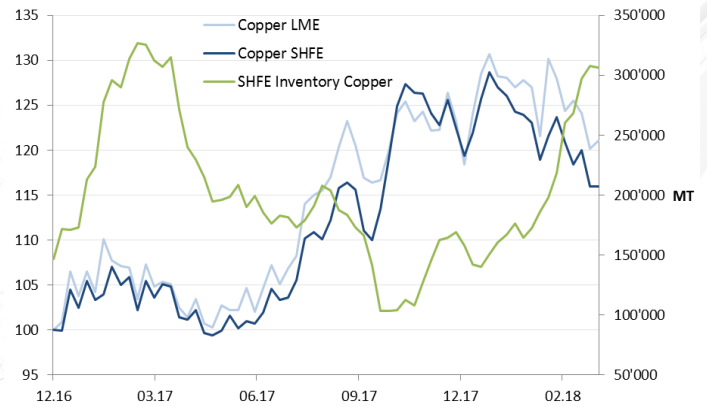
Copper - limited supply but growing demand

Copper stocks have recently leapt to record levels in Asia, Europe and the United States. During this period of weak global demand, LME (London Metal Exchange) inventories have hit a four-year high. However, we must be careful not to jump to the conclusion that this sudden rise in stocks on the Comex (New York Commodity Exchange) and the Shanghai Future Exchange is a sign of a major and lasting imbalance on the market too quickly. Although it is true that demand is temporarily weak, it should pick back up over the coming months. It is not unusual to see this phenomenon at this time of the year; it is the scale of the rise over the last few months that is worrying. The long period of celebration for Chinese New Year may have contributed to stocks swelling. However, they should shrink as industrial activity recovers in the second quarter. The contango situation is one of the most extreme, with a nearly 50-dollar discount on spot prices for three-month futures. This situation should gradually turn around, with a recovery in demand, particularly in Asia. Nonetheless, prices on the Comex and the LME could still trail prices in Shanghai, which is the closest representation of copper stock to Chinese demand, and ready to be delivered in China should demand recover. In the United States, more than half of Comex stocks are stored in Salt Lake City and are therefore less readily available due to the high transport costs of moving stock to areas where it is used.

Chinese demand will still be essential in shaping investors' perceptions in 2018. The strength of demand for electric vehicles over the next few years will prop up demand for copper; on average, electric vehicles use three times more copper than conventional vehicles. The rise in copper prices in 2017 has been followed by a period of consolidation at the start of 2018. Nevertheless, we believe that this recent correction offers a new investment opportunity to become involved in the positive developments expected for copper prices, in a context of consumption and demand, particularly from China, recovering.

In the medium-term, fundamentals favour an ongoing imbalance between limited supply and growing demand. We therefore predict that copper prices could hit US \$8,000/MT.

Copper : Performance & Inventories



Conclusion

The temporary drop in industrial metals represents a new investment opportunity in 2018.

We believe that short-term uncertainty will gradually fade away in the face of positive economic news, which will bolster a recovery in the price of basic metals.



Graph sources: Bloomberg/BBGI Group







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