



SYZ ASSET
MANAGEMENT

PERSPECTIVES 2017 UN CYCLE SANS FIN

FABRIZIO QUIRIGHETTI, CIO

ASSOCIATION DES TRÉSORIERIS

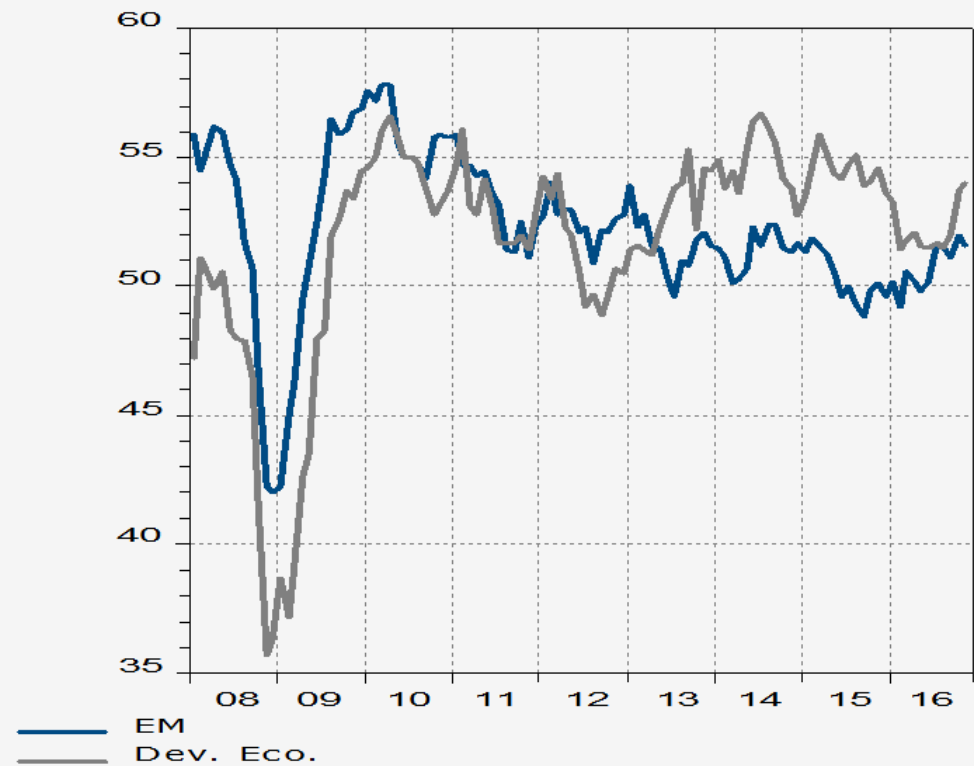
15 décembre 2016

LESS DIVERGENCE AND IMPROVING TREND

WORLD PMI
Manufacturing vs. Services



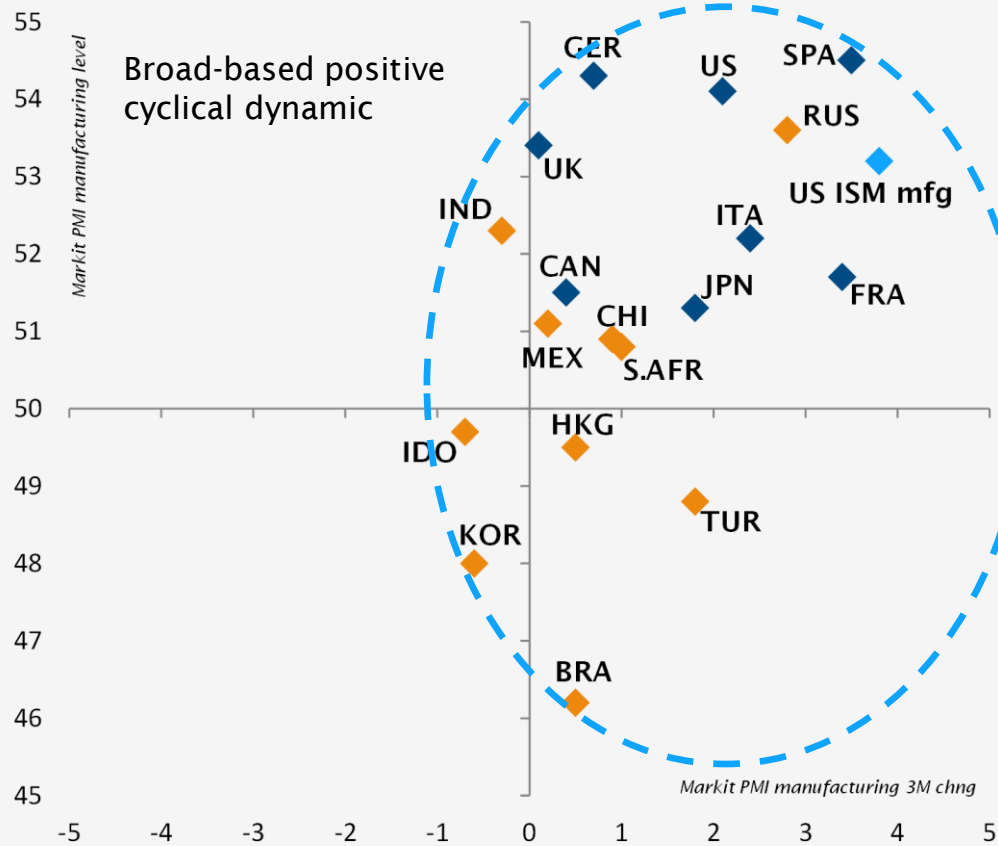
COMPOSITE PMI
Emerging vs. Developed Markets



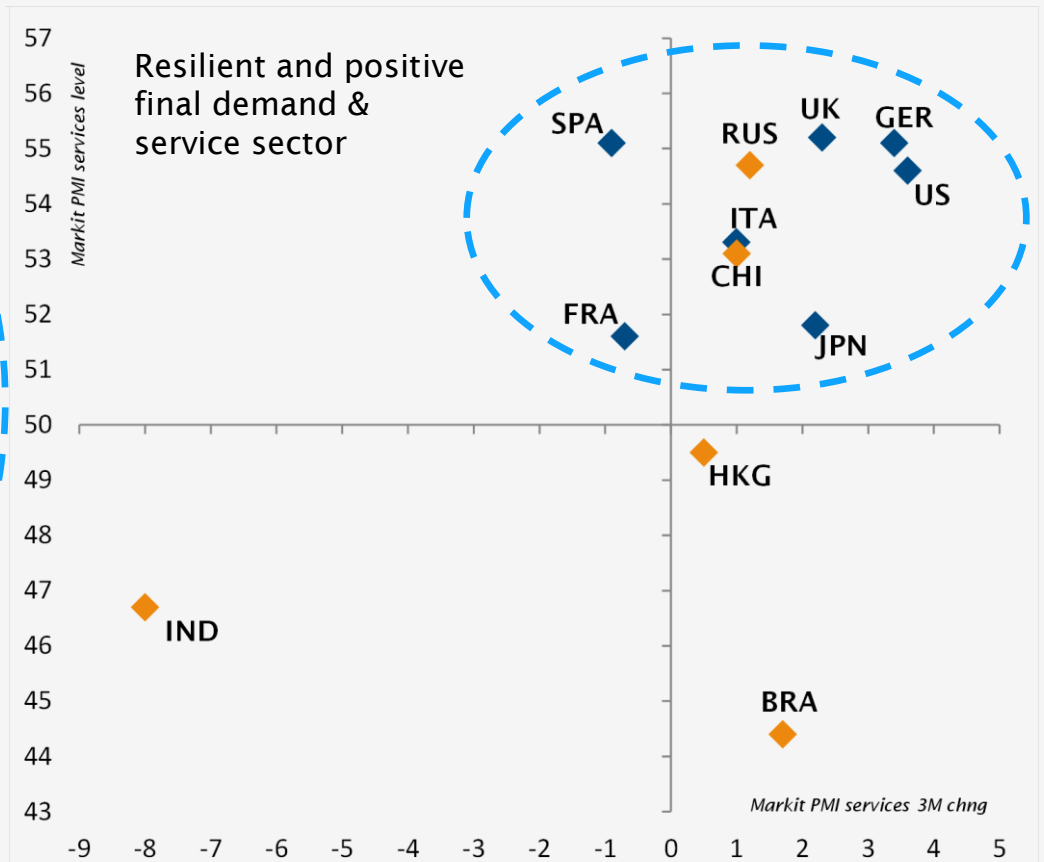
Source: Thomson Reuters Datastream, data as at 06.12.2016.

PMI LEVELS & TRENDS

PMI manufacturing



PMI services

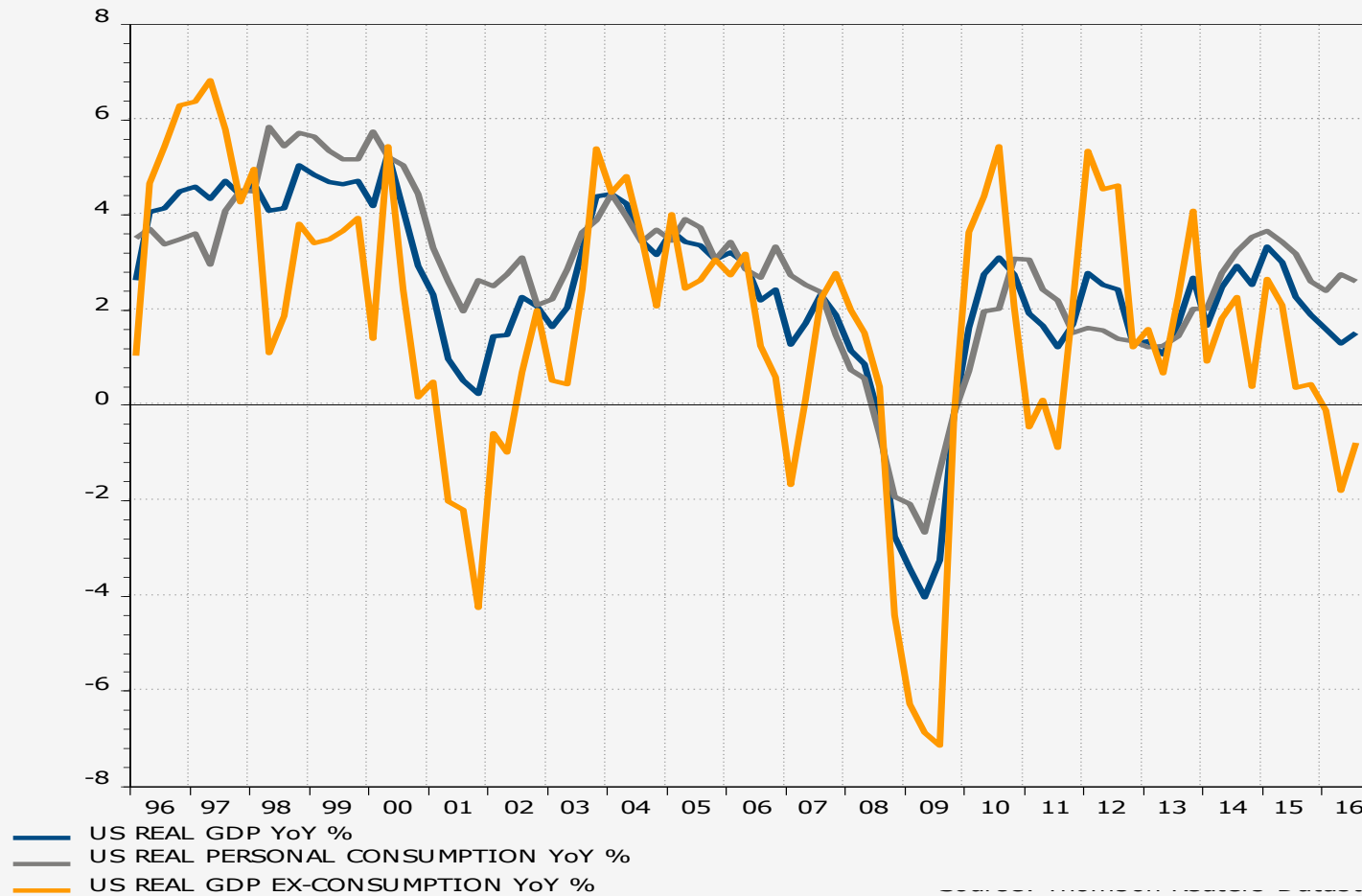


Source: Markit, Thomson Reuters Datastream, SYZ Asset Management
Data as at 12.2016

CONSUMERS ARE KEEPING THE US OUT OF A RECESSION

INVESTMENT RECOVERY IN 2017, FURTHER CONSUMPTION BOOST, OR BOTH?

US GDP, US PERSONAL CONSUMPTION AND US GDP EXCL. PERS. CONSUMPTION

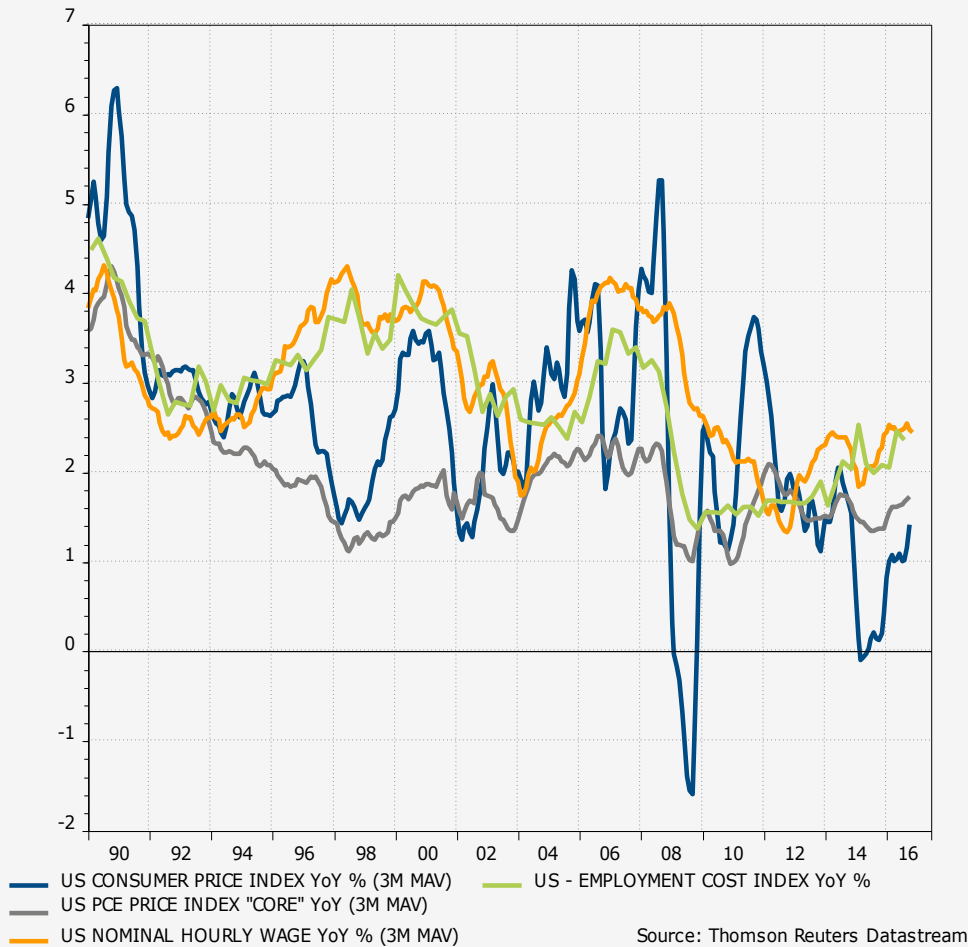


Source: Datastream, data as at 31.10.2016.

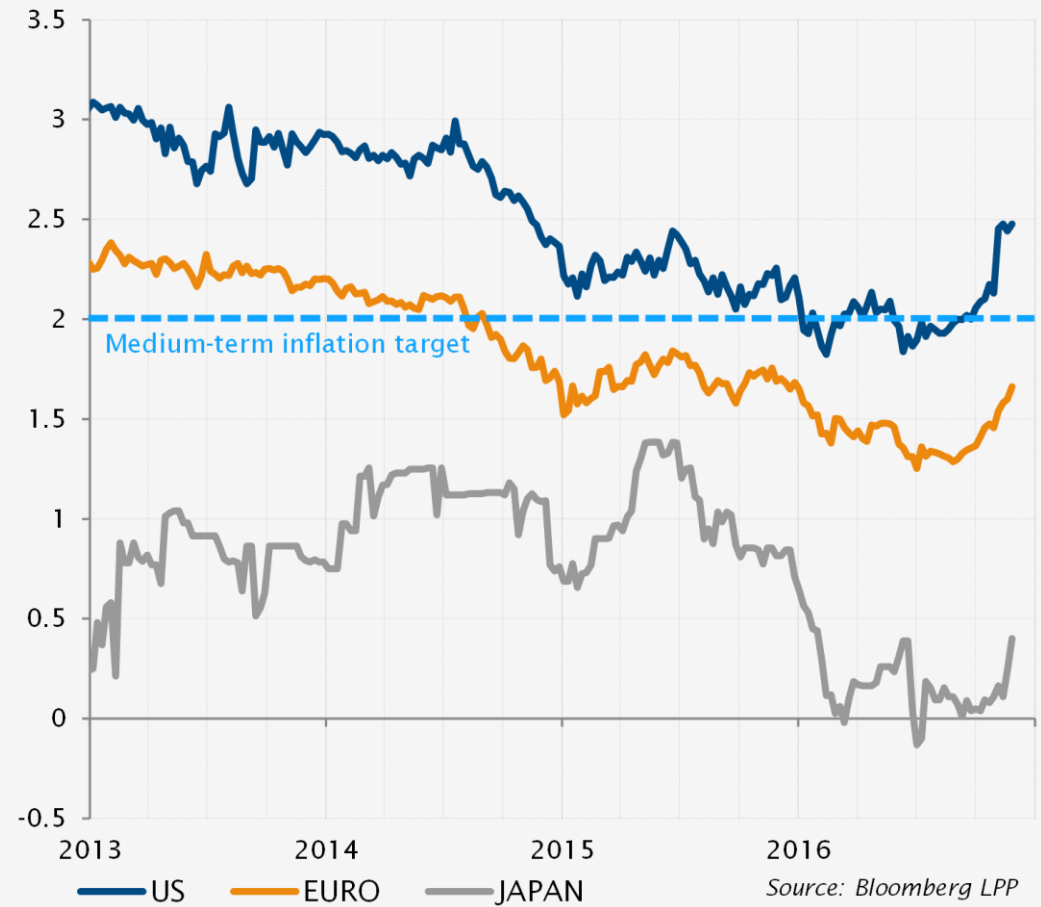
UPWARD DRIFT IN INFLATION TREND, BUT HOW FAR?

US selected inflation gauges

CPI, PCE deflator "core", Hourly wages, Employment Cost Index



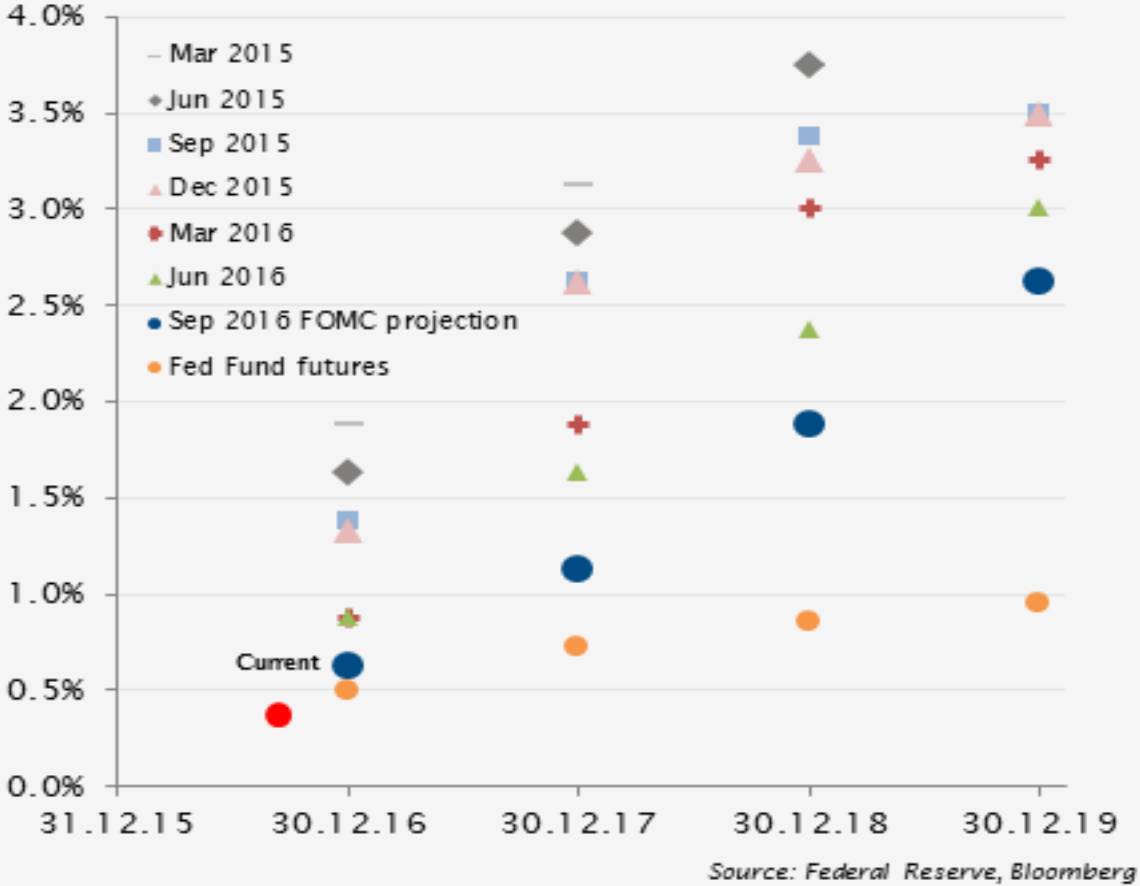
5y5y forward inflation breakeven rates



UNITED STATES

US MONETARY POLICY

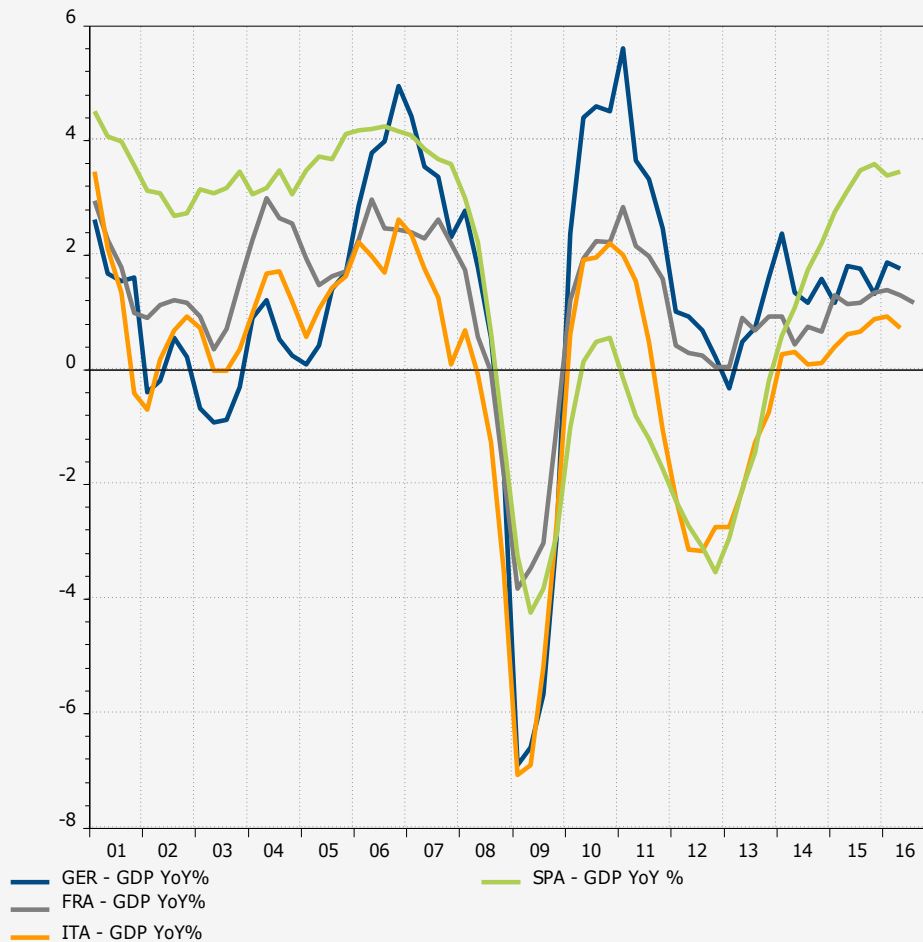
LOWER FOR LONGER?



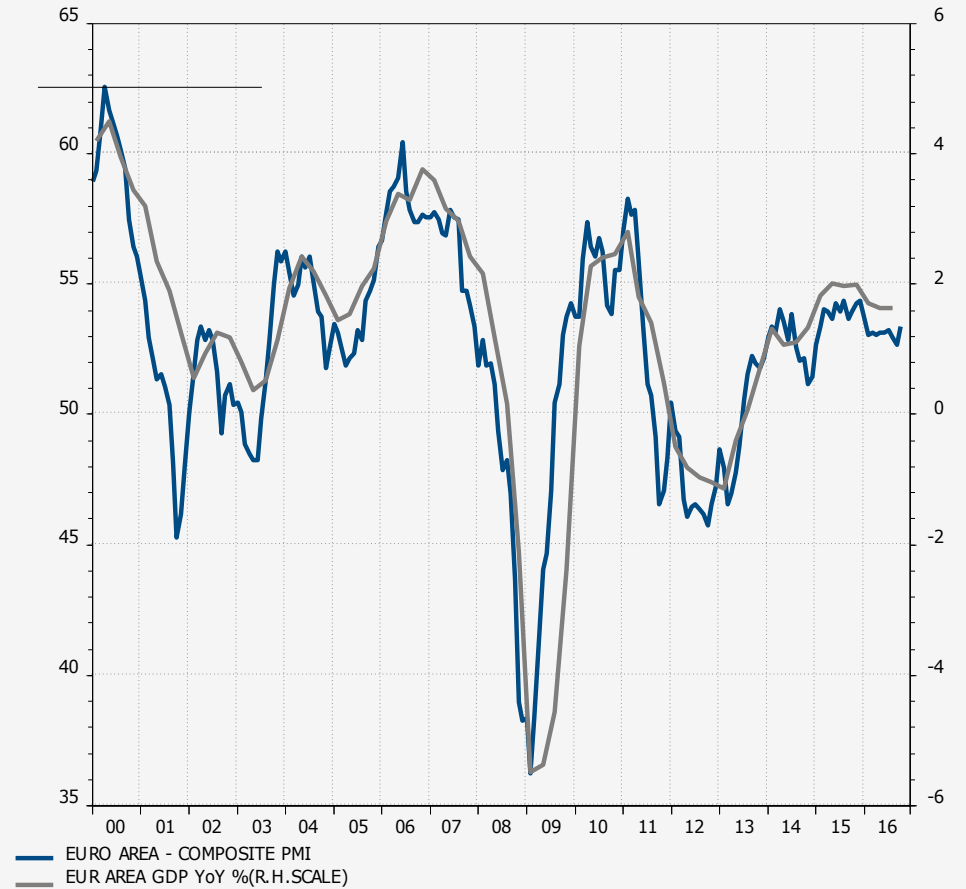
Source: Federal Reserve, Bloomberg, data as at 30.09.2016.

FROM EARLY TO MID-CYCLE GROWTH TREND

GDP YEARLY CHANGE BY COUNTRY



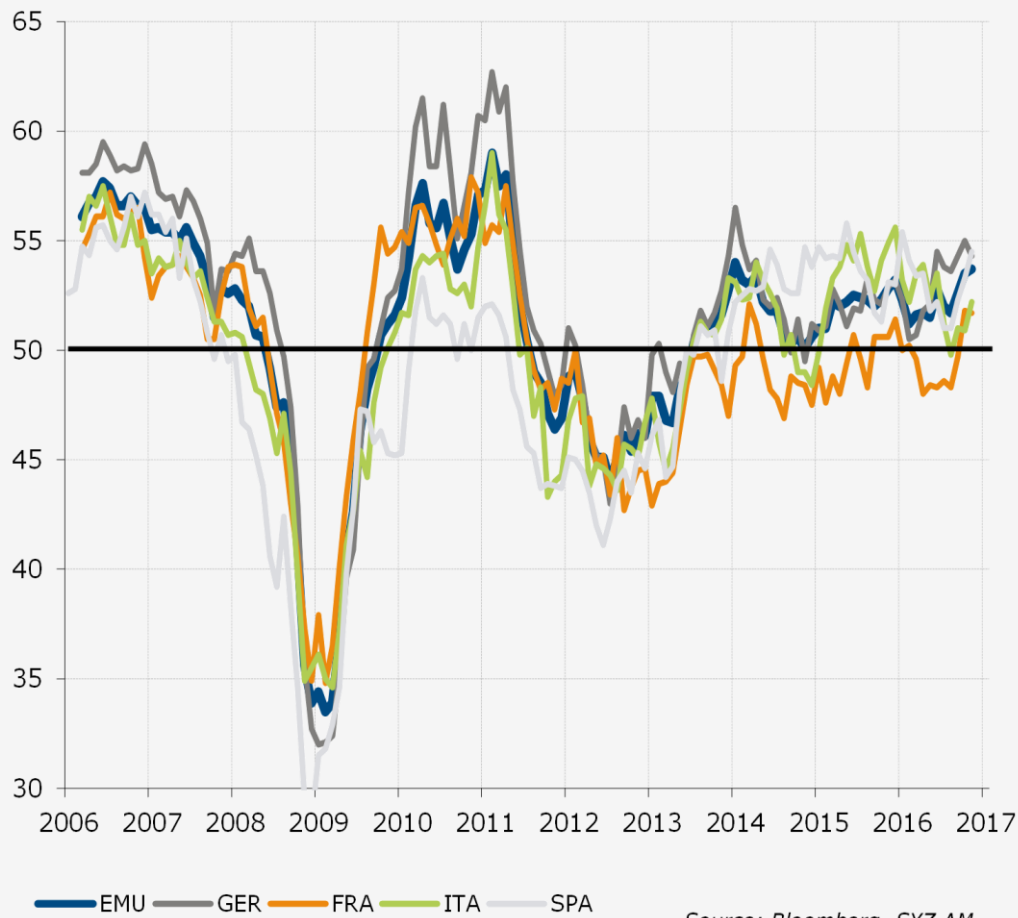
EURO AREA GDP YEARLY CHANGE AND PMI COMPOSITE (MANUFACTURING & SERVICES)



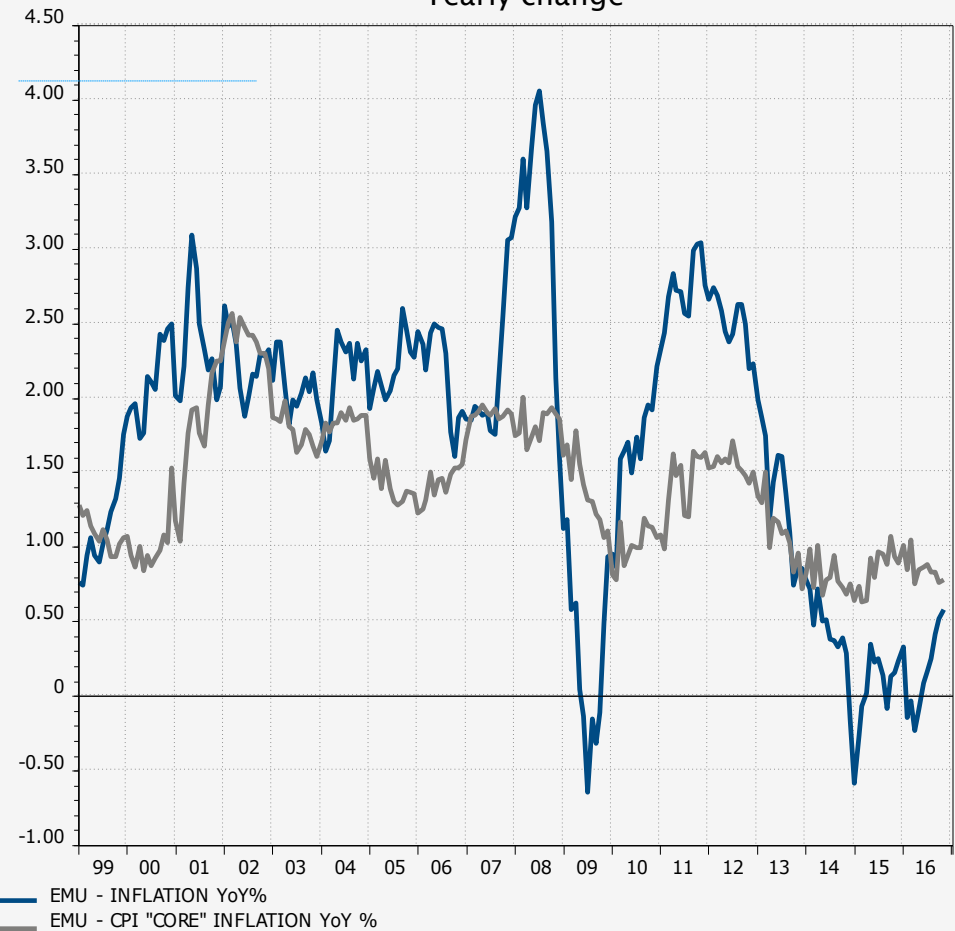
Source: Thomson Reuters Datastream, data as at 10.11.2016.

ECB: THE BALANCE BETWEEN MACRO DATA AND POLITICAL/FINANCIAL RISK

PMI manufacturing by country

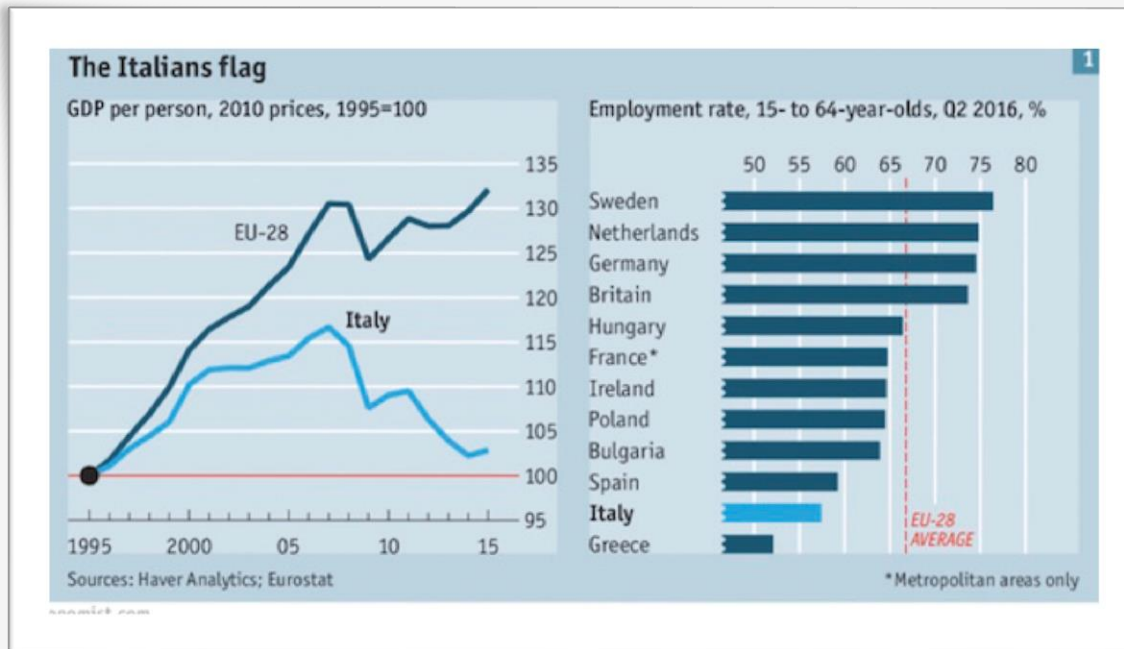


CPI inflation (headline and "core")
Yearly change

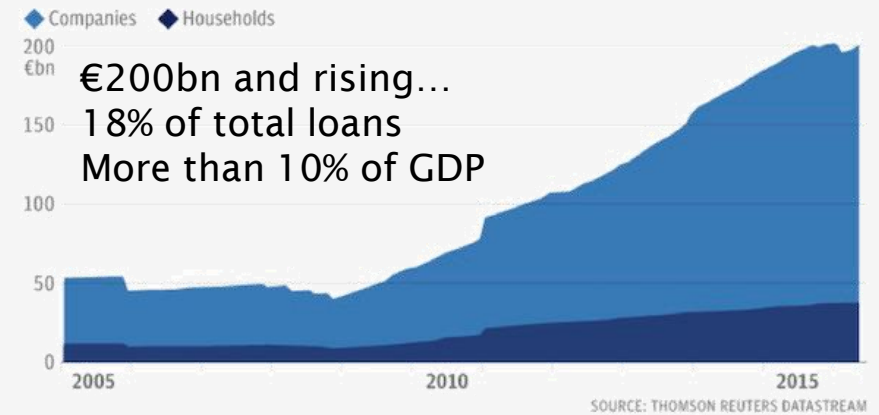


“SPAGHETTI PROBLEMS”

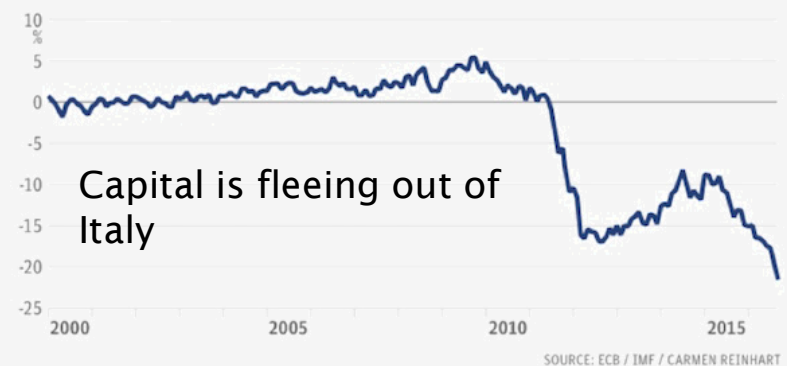
Desperately low nominal growth, high level of government debt, fragile banking system and it can not longer devalue its way out of the problems...



Italian banks' bad debt
Stock



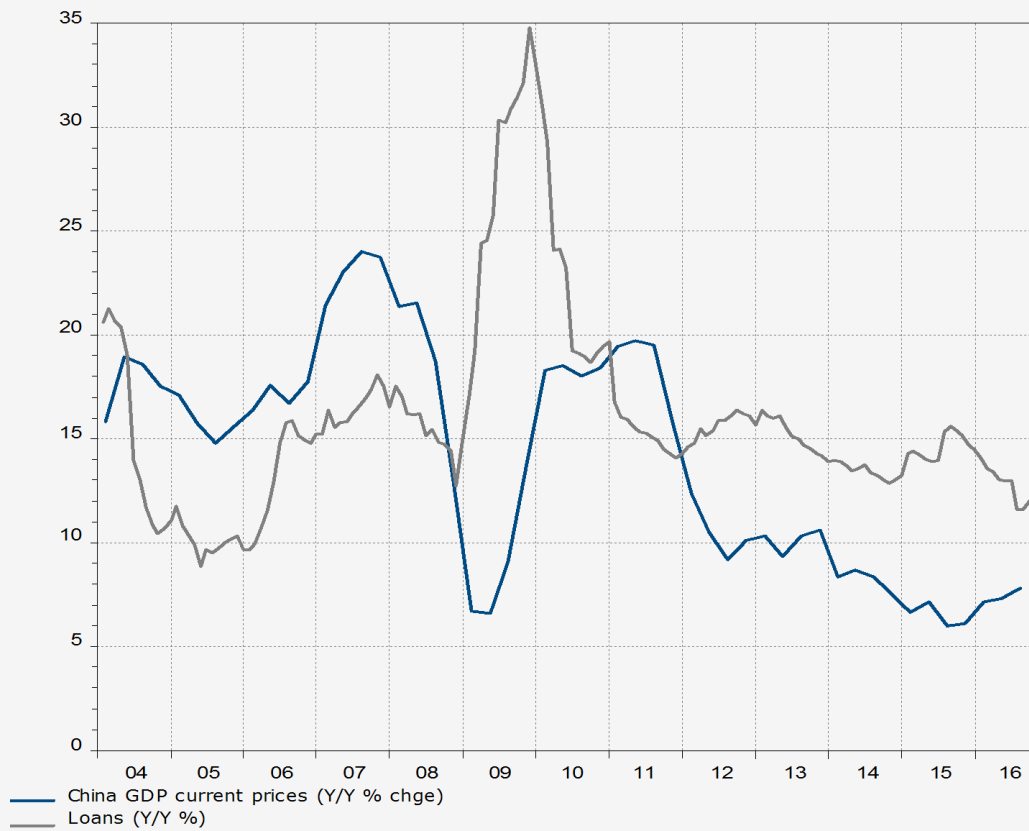
Italy's Target2 balance
As a share of GDP, Jan 2000 - Sep 2016



CHINA

MANAGING ECONOMIC GROWTH, CREDIT AND THE CURRENCY

CHINA GDP AND LOANS GROWTH (Y/Y % CHANGE)



Source: Thomson Reuters Datastream, data as at 14.11.2016.

YUAN TRADE-WEIGHTED (CFETS INDEX) AND VS USD SINCE 2015



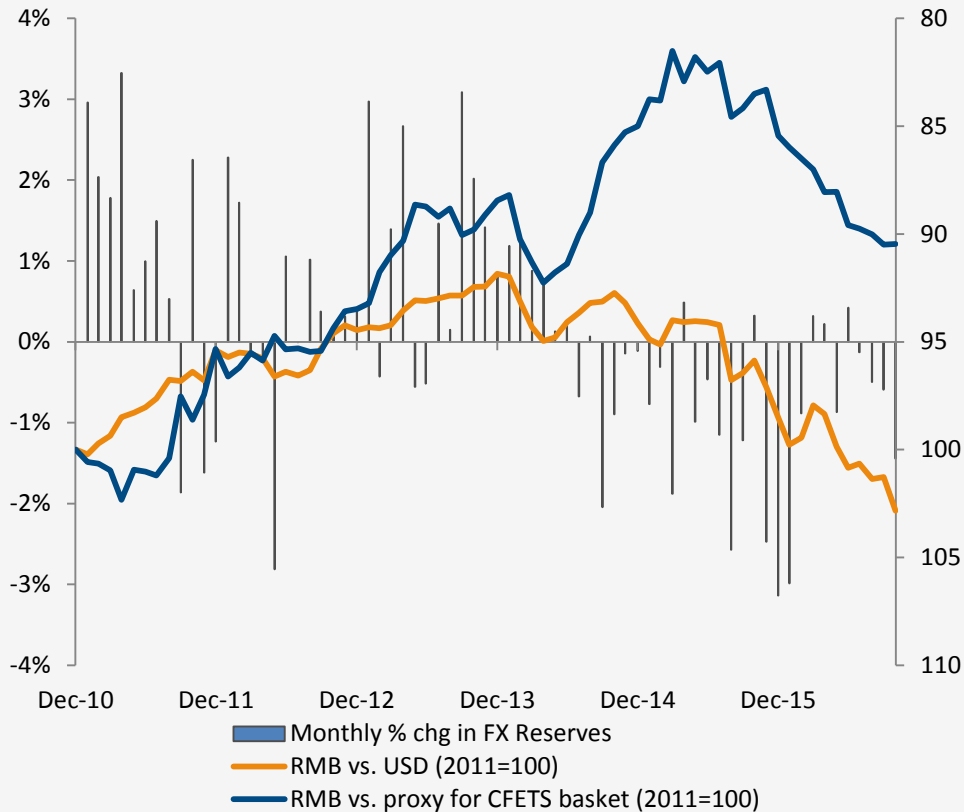
Source: Thomson Reuters Datastream, SYZ AM, data as at 14.11.2016.

CHINA

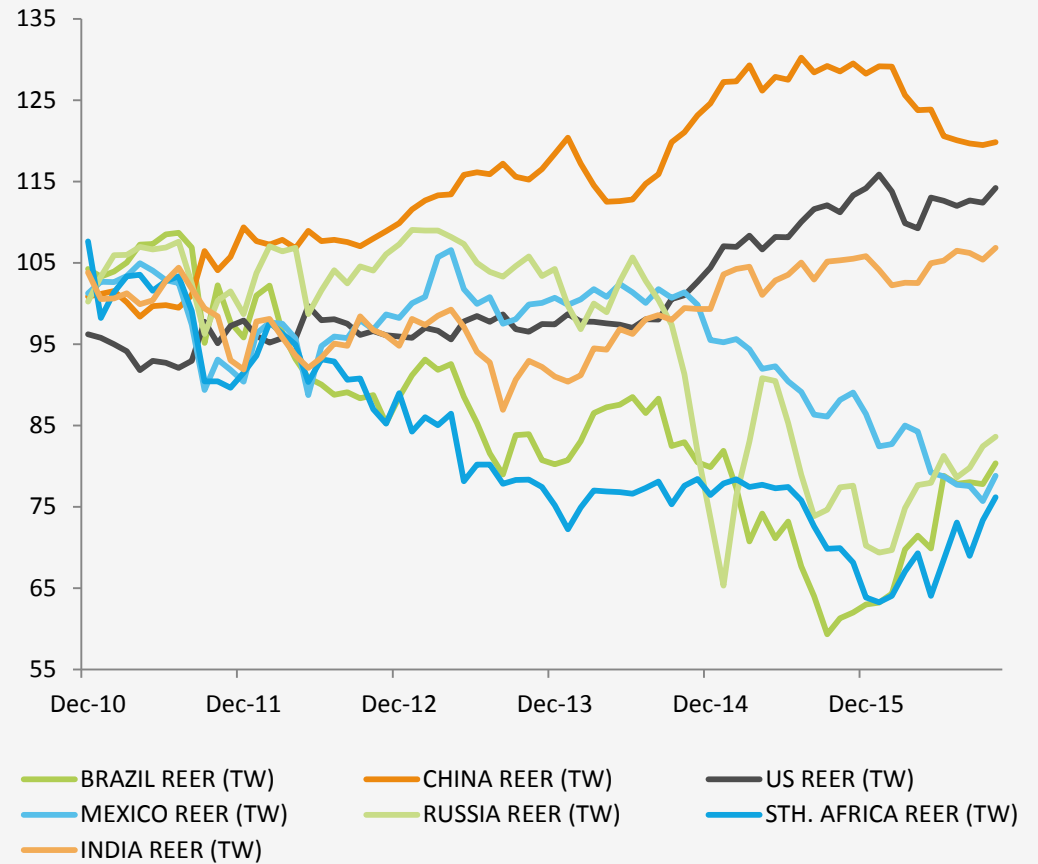
PRESSURE ON THE CURRENCY REMAINS

VALUATION WISE IT IS STILL VERY EXPENSIVE

RMB VS. USD AND CEFTS BASKET (PROXY)



REER FOR MAJOR EM CURRENCIES AND THE USD

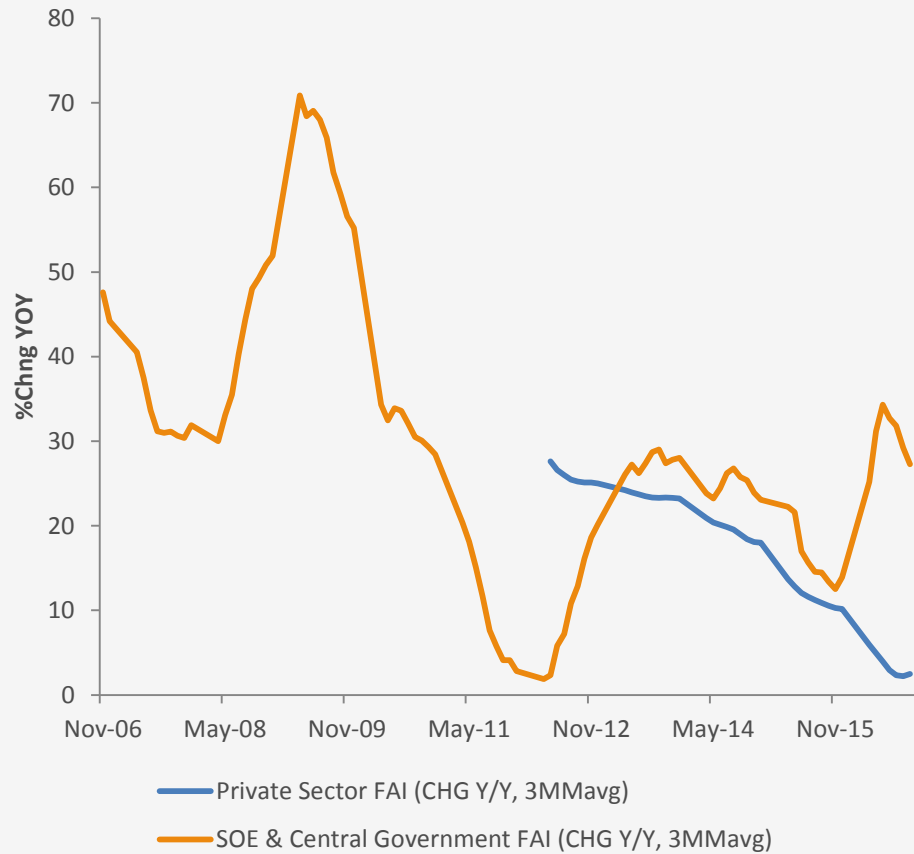


Source: Datastream

FADING IMPACTS OF THE FISCAL BLAST

HOW MUCH MORE STIMULUS CAN THEY UNDERTAKE?

PRIVATE VS. PUBLIC FIXED ASSET INVESTMENT



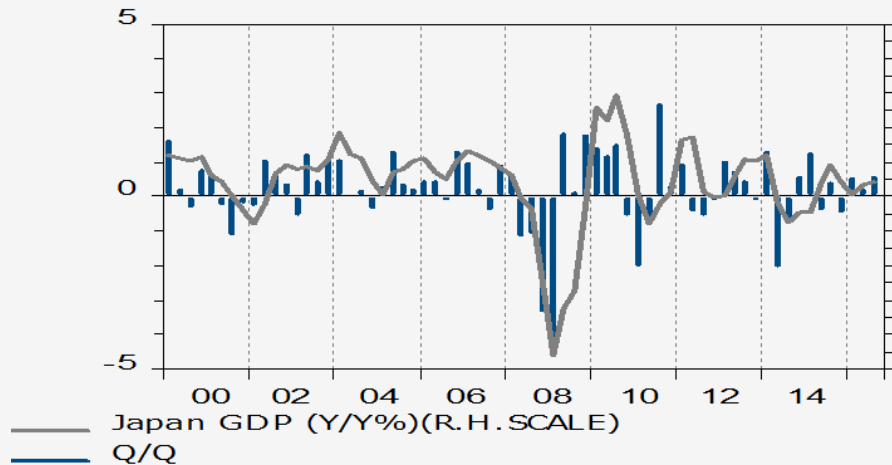
FIXED ASSET INVESTMENT GROWTH BY SEGMENT



Source: Thomson Reuters Datastream, data as at 15.09.2016.

15 YEARS LATER... AND AFTER ABENOMICS!

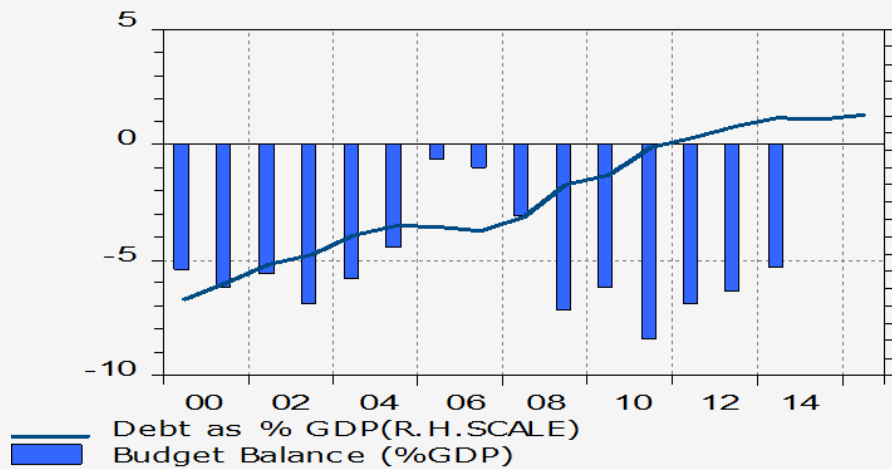
GDP Growth



Inflation



Government debt



Equities & FX



Source: Thomson Reuters Datastream, data as at 18.11.2016.

2017 MACRO FRAMEWORK

NOVEMBER 2016

ECONOMIC GROWTH

- Further extension of the current trend
- Resilient consumption in Dev. Markets (supported by employment growth) but lack of cyclical dynamic
- Growth stabilization in Emerging Markets

➤ Expected GDP growth

- US: +2%
- Euro area: +1.5%
- Japan: +0.5%
- China: +6%

+

INFLATION

- “Headline”: extension of the gradual upward trend in H1 but impact of base effects and oil prices to fade away in H2
- “Core”: only very modest upward trend if any

➤ Expected «core» inflation

- US: +2.0%
- Euro area: +1.0%
- Japan: 0.0%
- China: +2.0%

=

MONETARY POLICY

- No (meaningful) tightening in the US
- Status quo in Europe and Japan, with no room for reversal of existing programs
- BoE stuck by rising inflation
- No change in China

➤ End 2017

- Fed Fund rate @ 0.75%
- ECB and BoJ QE extended
- Upward risk on BoE policy
- PBOC 1y rate stable @ 4.35%

55%

15%

30%

Lower than expected growth

driven by US cycle losing steam, risk of US policy mistake and/or political uncertainties in Europe

→ Weaker “core” inflation and looser monetary policies

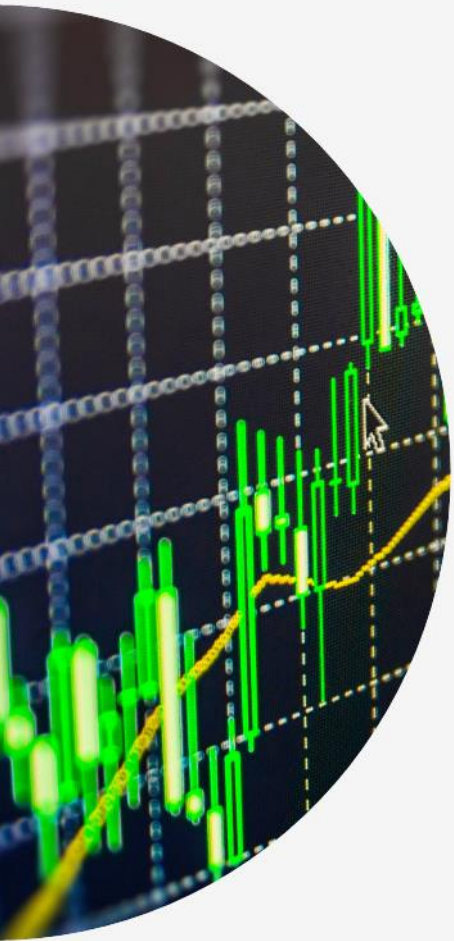
SCENARIO
PROBABILITY

Stronger growth

Dev. Markets domestic demand is supported by fiscal stimulus
→ Firmer inflation and less accommodative central banks

KEY TAKEAWAYS

- Ongoing positive global dynamic and a more balanced growth picture
- The eventuality of fiscal support in the US currently fuels optimism for 2017 but...
- ...Slightly less accommodative monetary policies in DM as a potential result
- Political risk is high with a heavy election agenda in Europe, *Brexit* negotiations and uncertainty about *Trumpenomics*
- Resulting in high uncertainty around the macroeconomic outlook for 2017

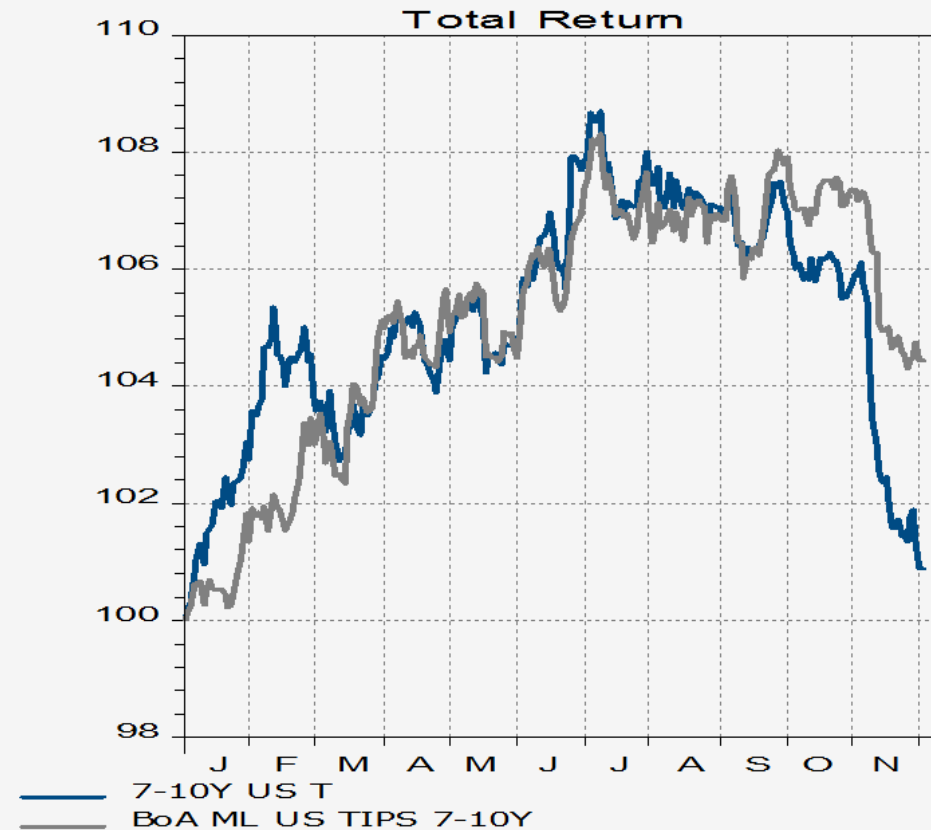




Perspectives de
marchés
&
Allocation
d'actifs

BONDS

INFLATIONS EXPECTATIONS ON THE RISE... MYOPIC INVESTORS ARE NOW LONG HOPE



Source: Thomson Reuters Datastream, data as at 01.12.2016.

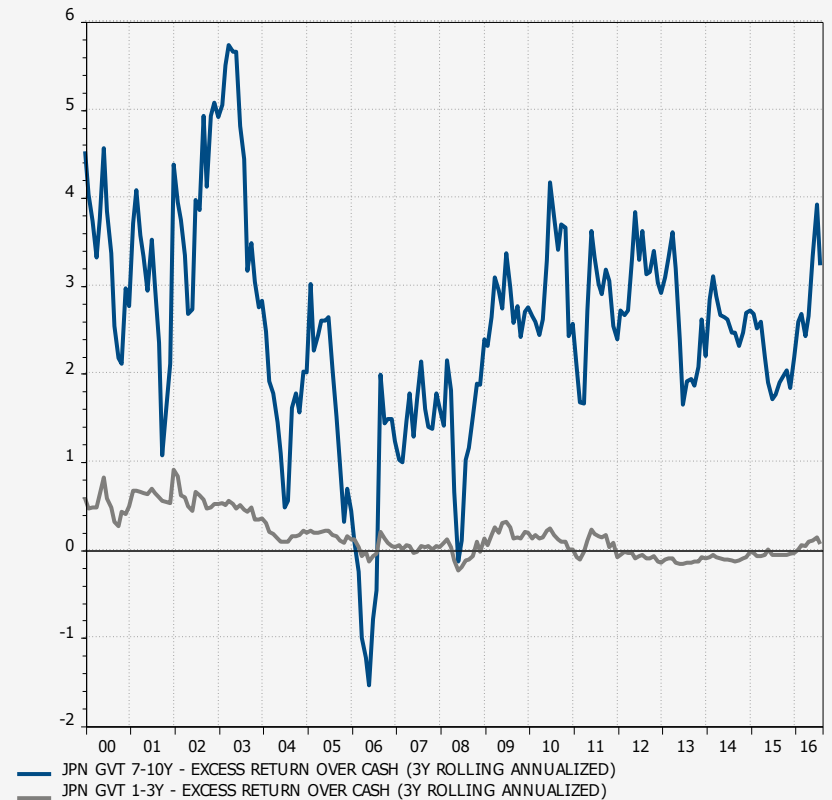
WHAT CAN WE LEARN FROM JAPAN'S EXPERIENCE?

- Cash/short duration generates no return!
- The total return on long-term bonds is markedly higher than their yield

Extra return of short and long-term bonds over cash bonds

| | 1 year | 3 years | 5 years | 10 years | 15 years | |
|-------------------|-----------|---------|---------|----------|----------|-------|
| Annualized return | JGB 7-10y | 5.04% | 3.36% | 2.96% | 3.37% | 2.59% |
| | JGB 1-3y | 0.32% | 0.22% | 0.17% | 0.52% | 0.39% |
| | JPY cash | 0.10% | 0.15% | 0.20% | 0.47% | 0.35% |
| Average yield | JGB 7-10y | 0.02% | 0.29% | 0.45% | 0.84% | 0.95% |
| | JGB 1-3y | -0.12% | 0.00% | 0.05% | 0.27% | 0.23% |
| | JPY cash | 0.03% | 0.09% | 0.13% | 0.34% | 0.25% |

Source: SYZ Asset Management, Datastream
Data as at 31.08.2016

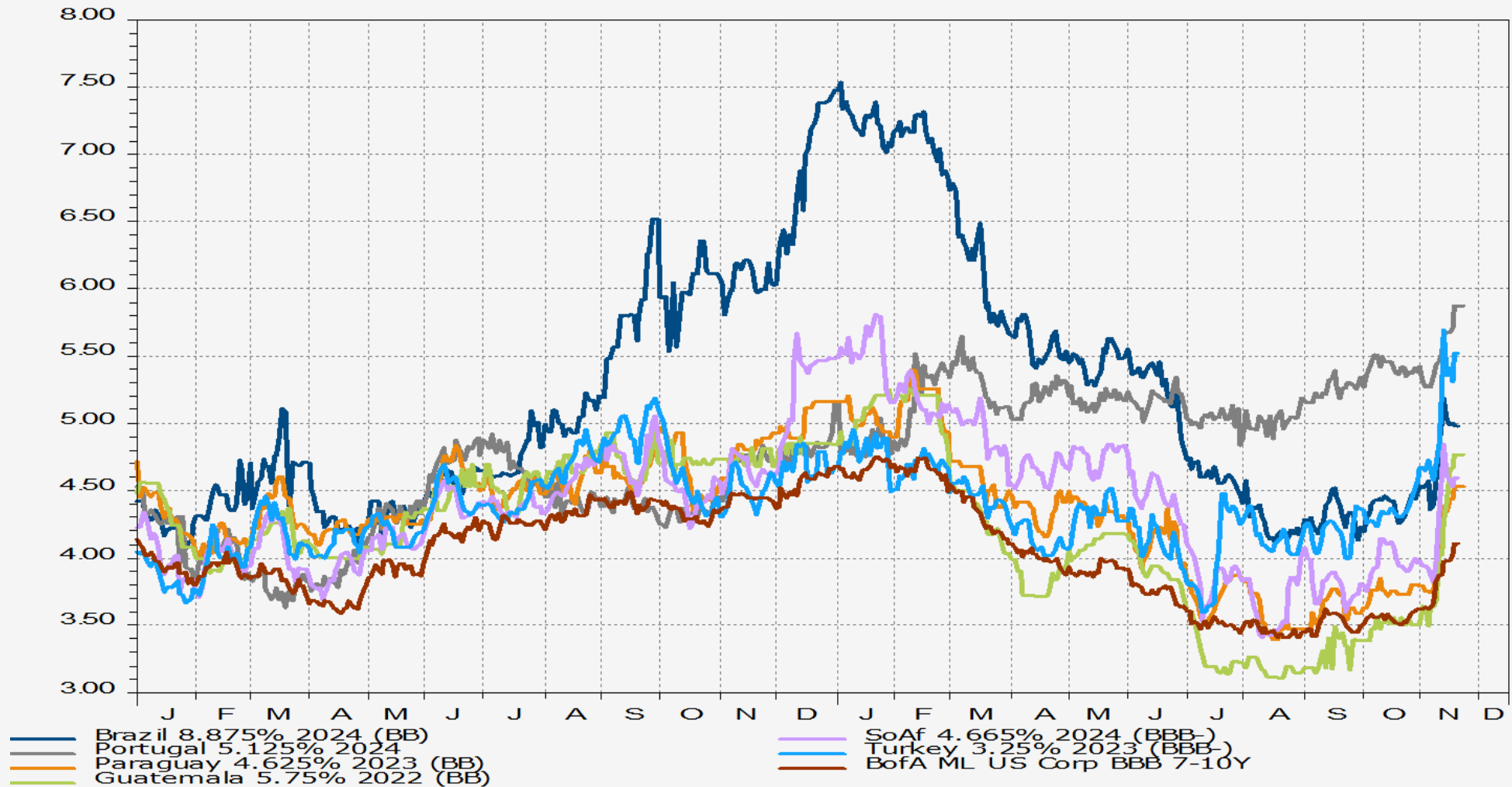


Source: Thomson Reuters Datastream, data as at 31.08.2016.

BONDS

FLAWS DROWN VALUATION

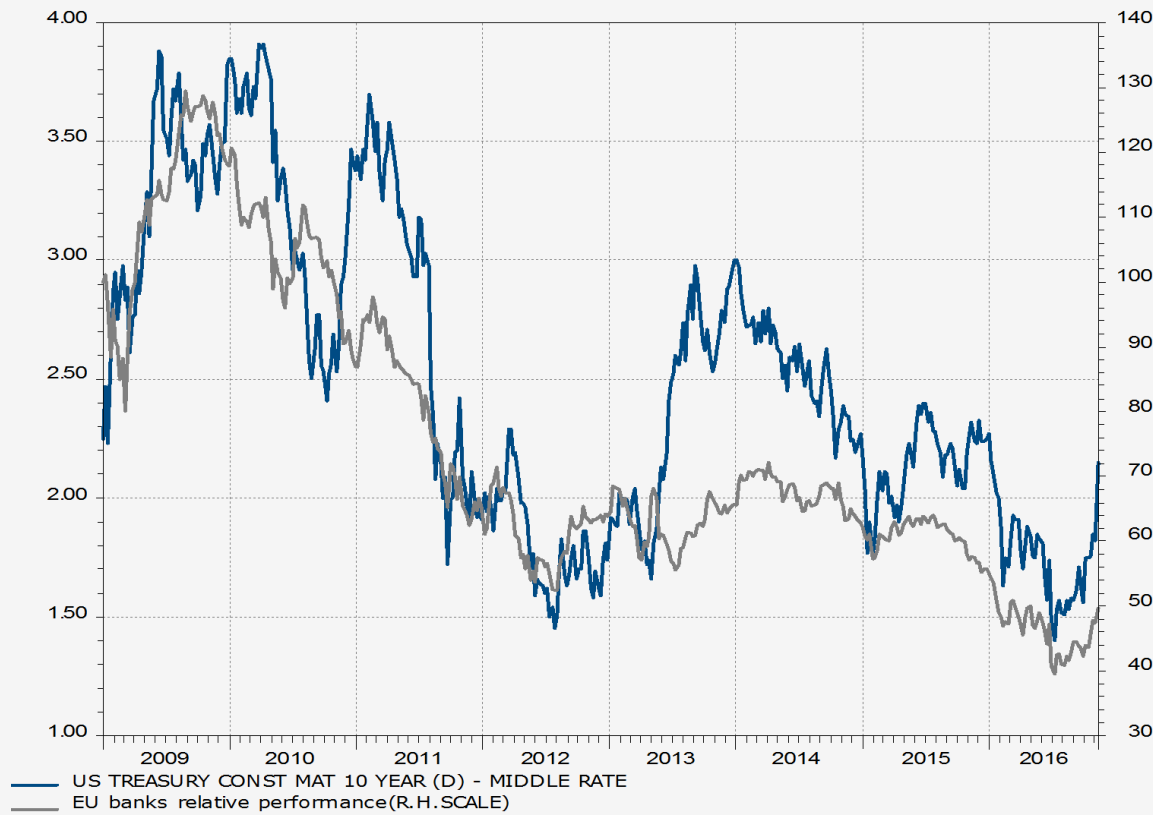
SELECTED 7-10Y EM BONDS IN USD YTM



Source: Thomson Reuters Datastream, data as at 21.11.2016.

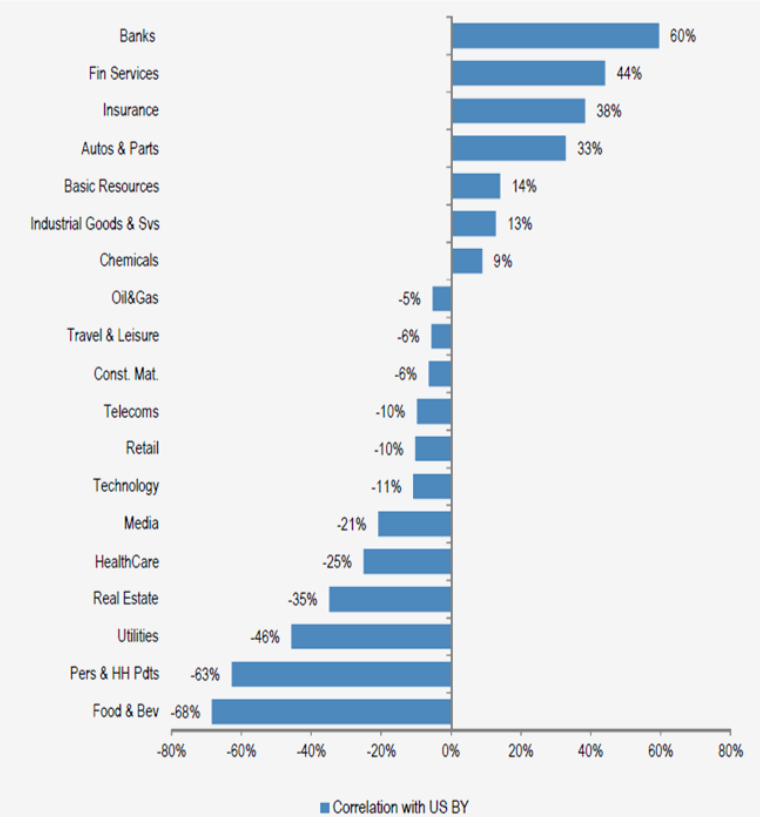
WHAT IF US LONG TERM RATES JUMP?

US 10Y Treasury's yield and Euro Zone banks relative performance



Source: Thomson Reuters Datastream, data as at 14.11.2016.

US European sectors correlation to US bond yields

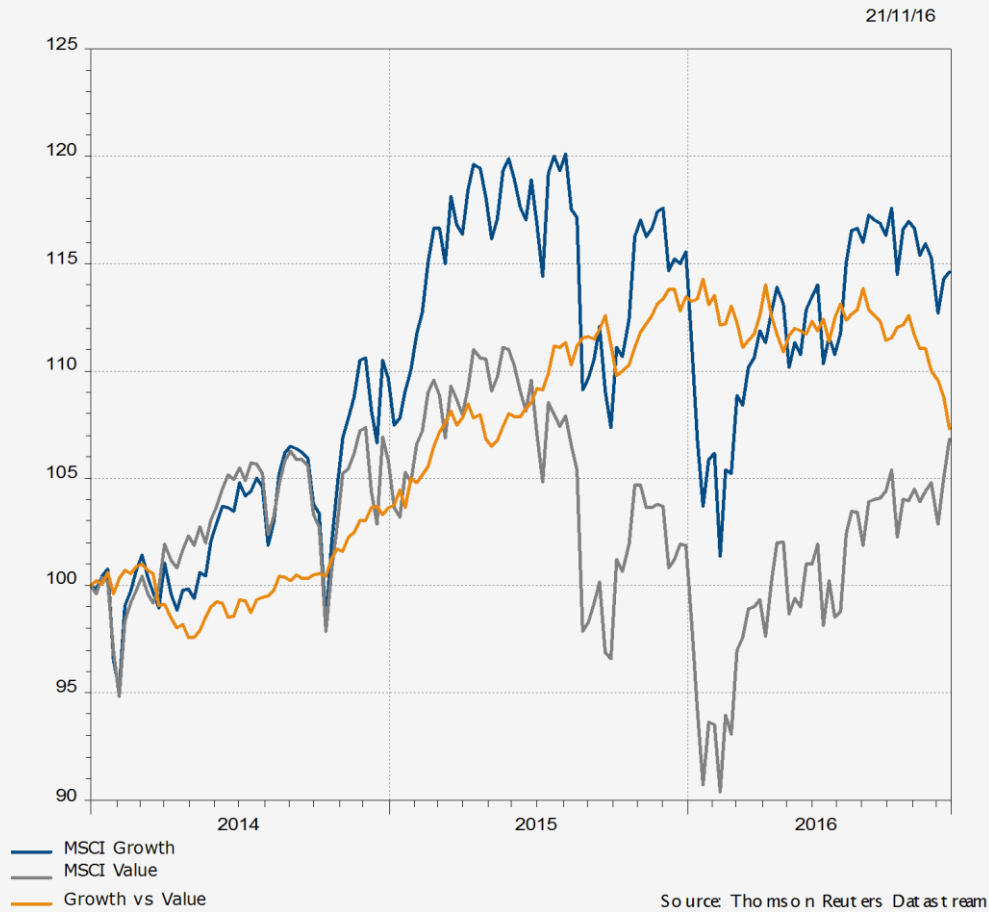


Source: Bloomberg, *correlation of weekly changes in BY and sectors performance relative YTD

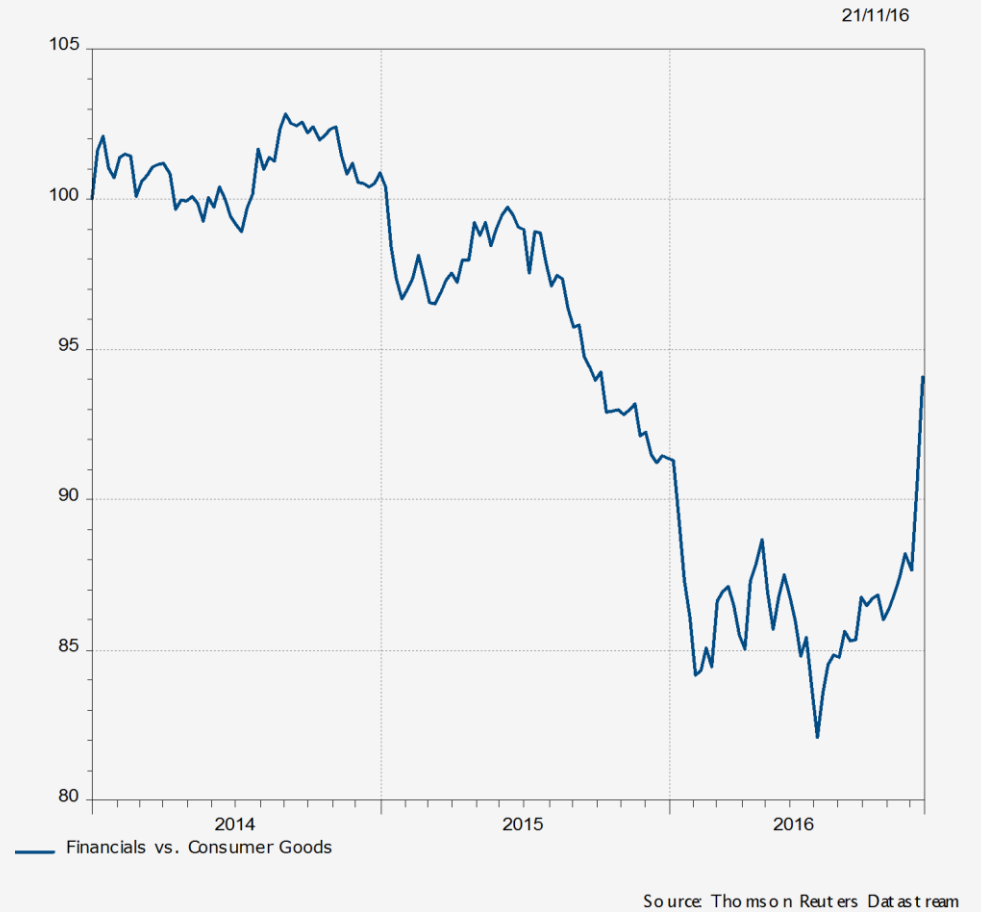
Source: JP Morgan Cazenove

THE REVENGE OF BEATEN STOCKS AND SECTORS

MSCI Growth vs. Value



Financials vs. Consumers Goods



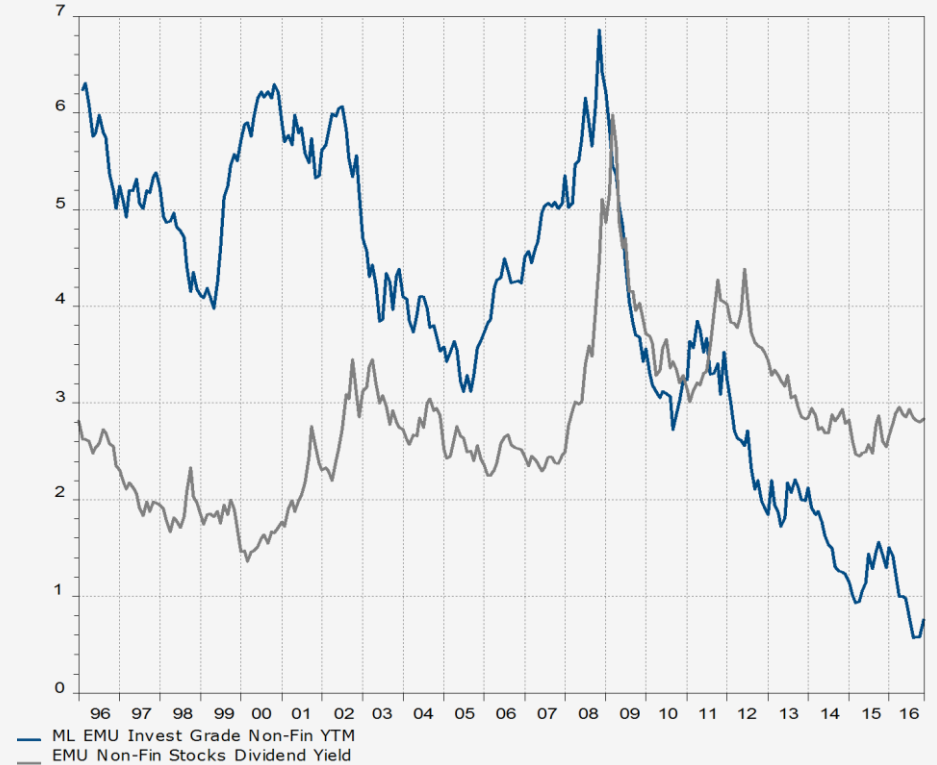
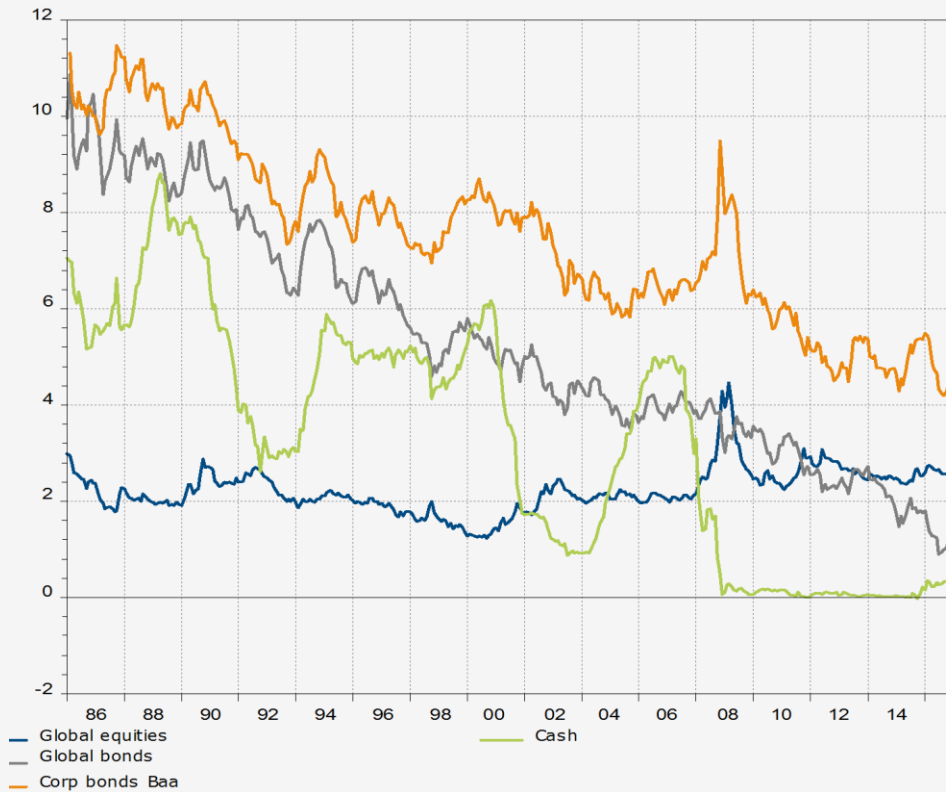
EQUITIES VS. BONDS

IN SEARCH OF YIELD....TINA*

*THERE IS NO ALTERNATIVE

LOWER YIELD? EVAPORATING INCOME?
HIGH INTEREST ON EQUITIES

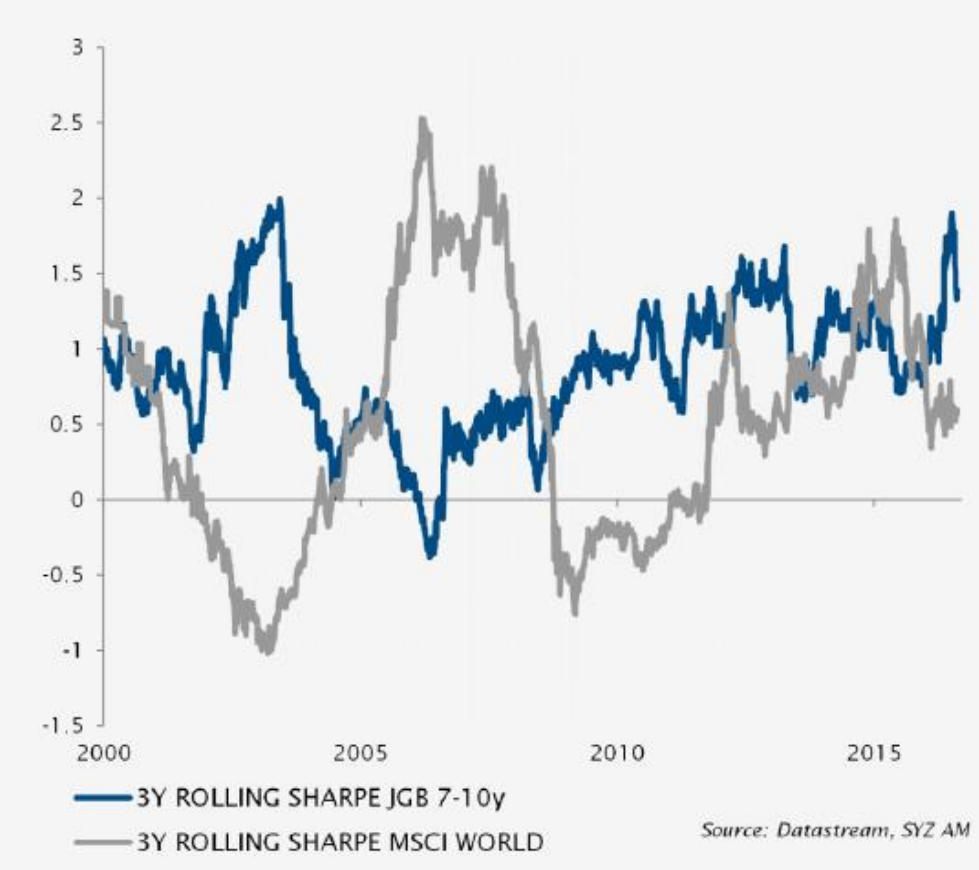
EURO ZONE: DY (EXCL. FINANCIALS) VS CORPORATE
BOND'S YTM (EXCL. FINANCIALS)



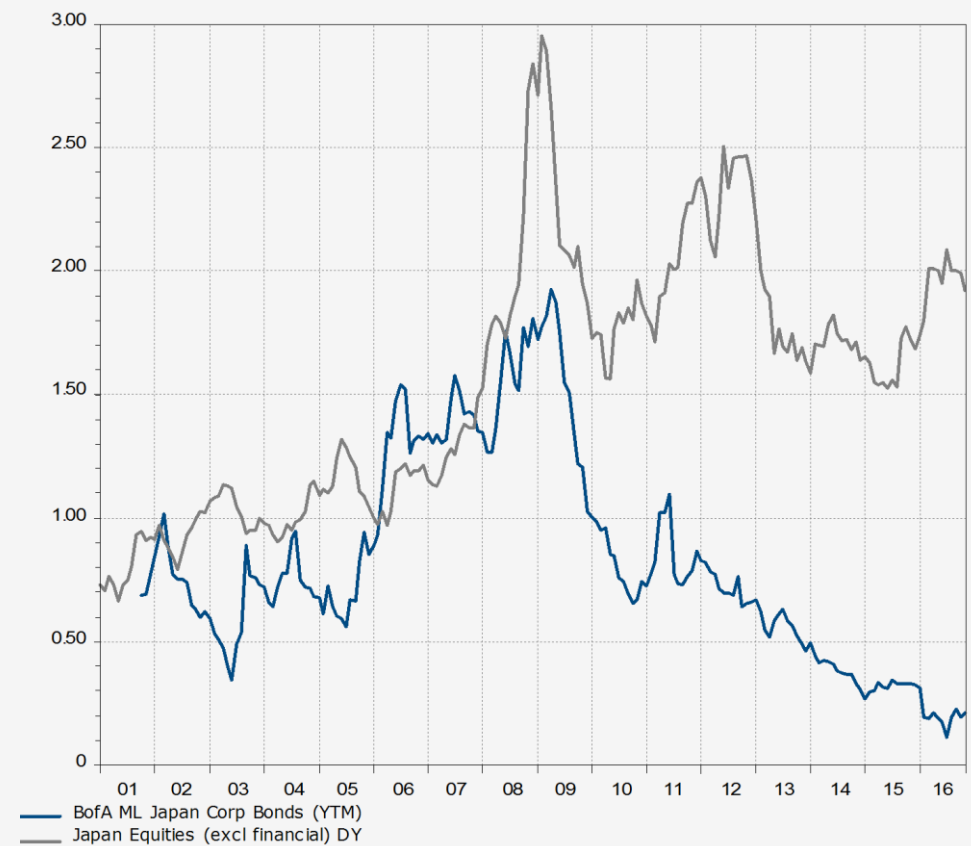
Source: Thomson Reuters Datastream, data as at 15.09.2016.

WHAT'S ABOUT (RISK-ADJUSTED) RETURNS?

ROLLING 3Y SHARPE RATIO OF
7-10Y JGBS AND GLOBAL EQUITIES



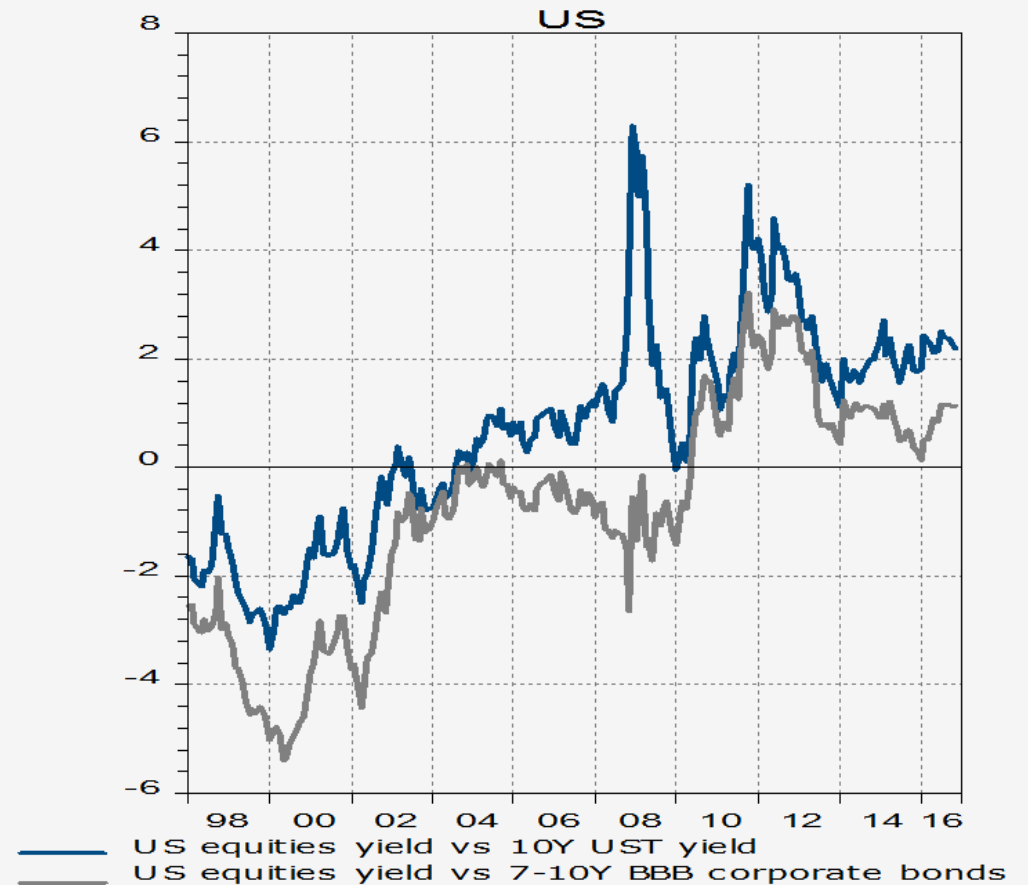
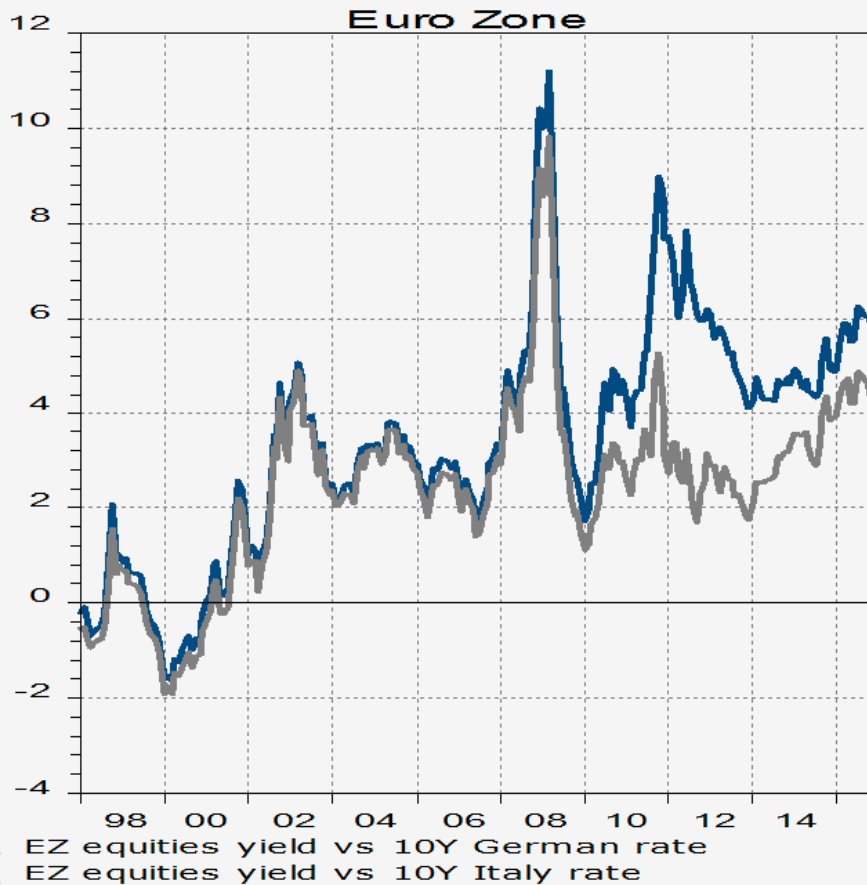
JAPAN:
DY (EXCLUDING FINANCIALS) VS CORPORATE BOND'S



Source: Thomson Reuters Datastream, data as at 07.11.2016.

EQUITIES EARNINGS YIELD VS. BONDS YIELD

THE UNCERTAINTIES OF POTENTIAL RETURNS VS. THE VERY HIGH PRICE OF SAFETY

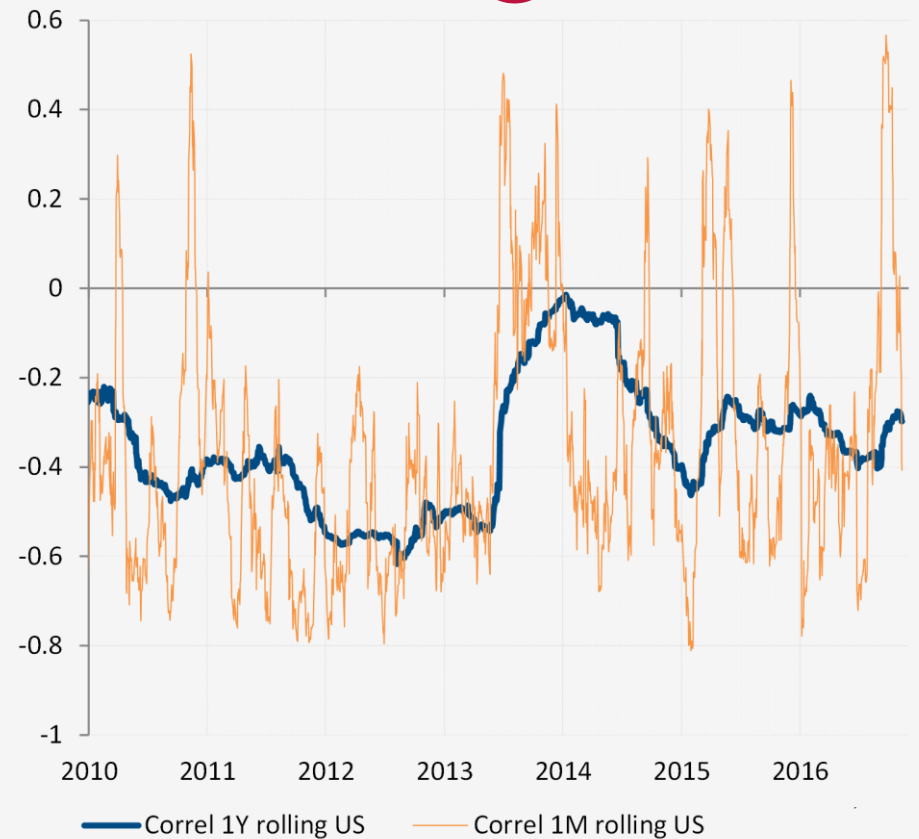
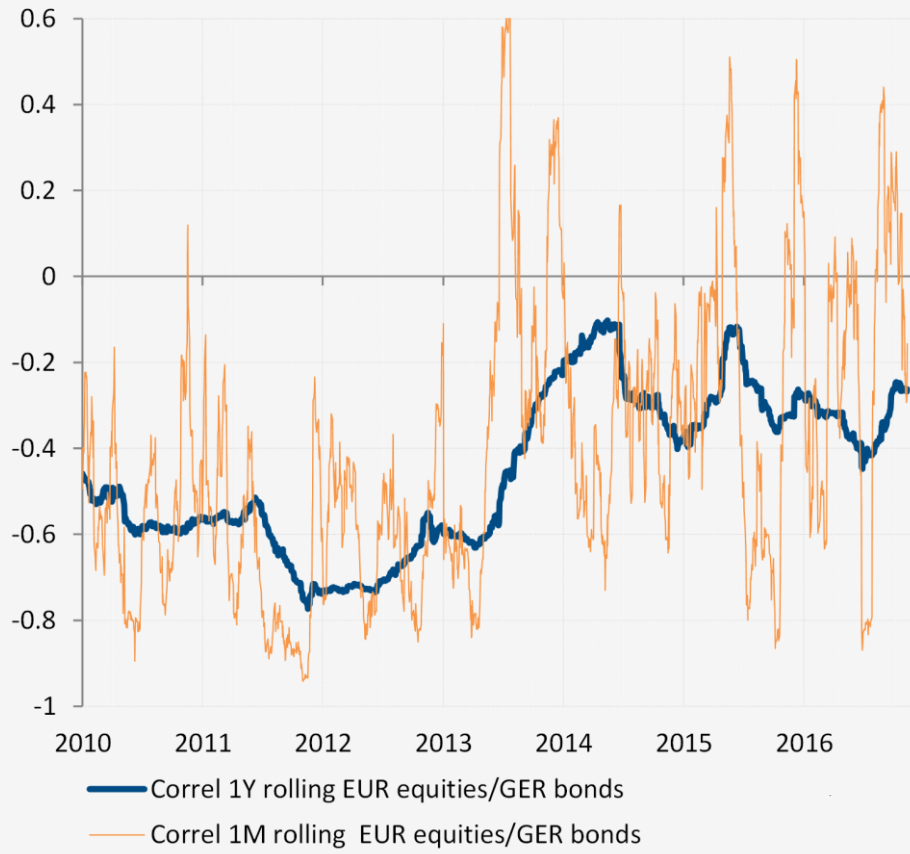


Source: Thomson Reuters Datastream, data as at 21.11.2016.

SUBDUED GROWTH & TIGHTER MONETARY POLICIES

NEGATIVE FOR BONDS & EQUITIES

1-YEAR AND 1-MONTH CORRELATION BETWEEN EQUITIES AND BONDS

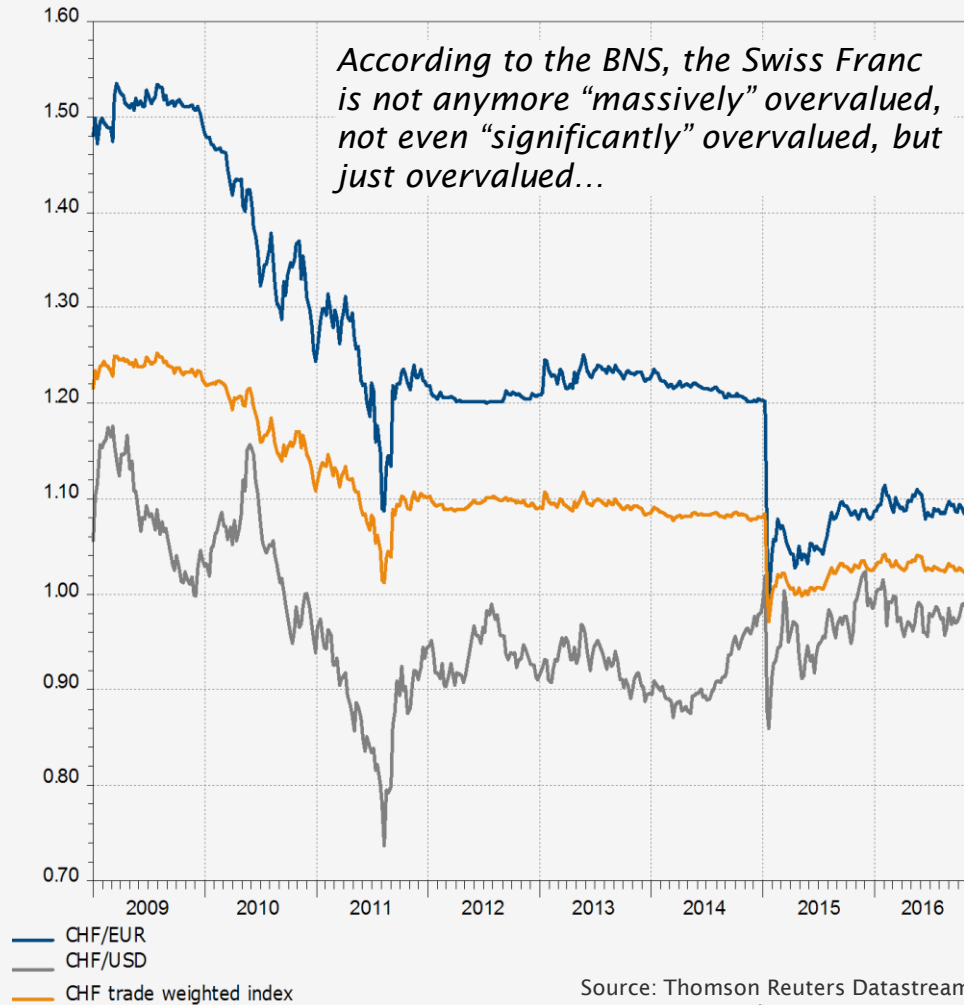


Source: Thomson Reuters Datastream, SYZ Asset Management, data as at 15.09.2016.

THE SNB MAY TOLERATE A STRONGER CHF

CHF vs. EUR and USD

14/11/16



Source: Thomson Reuters Datastream,, 1
 data as at 14.11.2016.

Swiss trade balance with US (sum over 12M)



Last data point: September 2016. Source: Swiss Federal Customs' Administration, Credit Suisse

Switzerland “has been added on the US Treasury’s “monitoring list”...

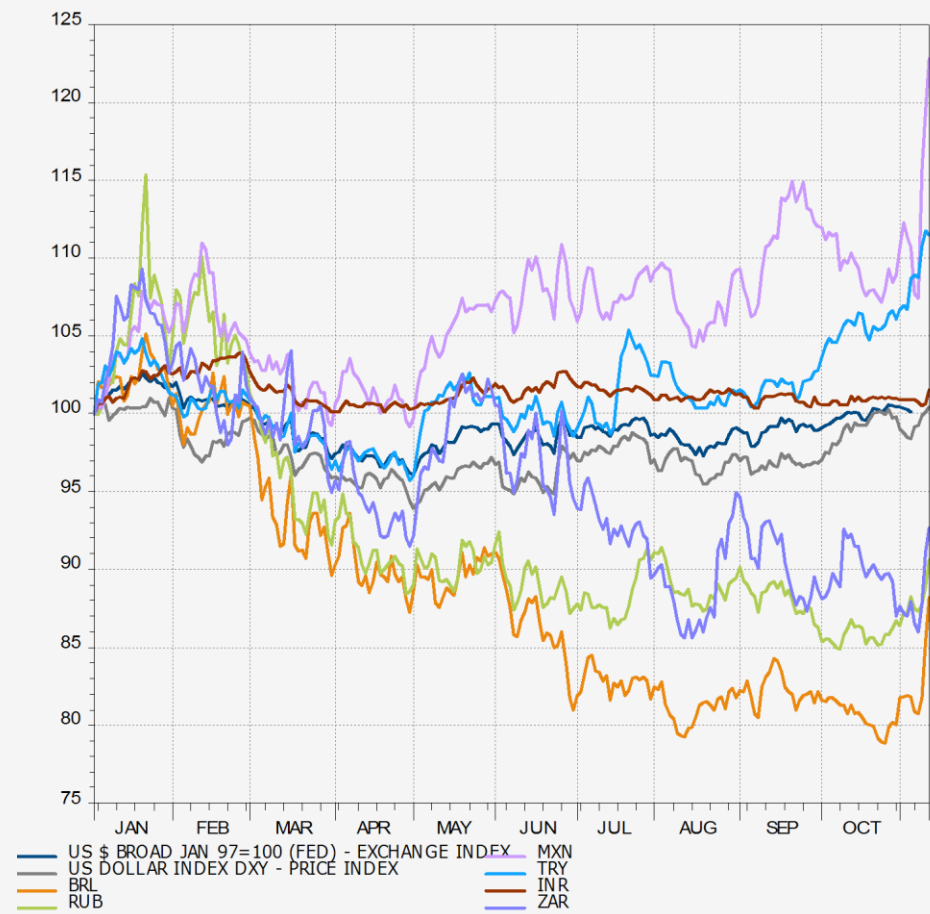
FOREX

VALUE FOR OPPORTUNISTIC INVESTORS IN EM CURRENCIES

USD vs low yielding currencies



USD vs high yielding currencies



Source: Thomson Reuters Datastream, SYZ Asset Management, data as at 14.11.2016.

KEY CONVICTIONS (1 / 2)

FIXED INCOME

- Some **temporary upward pressures** on the **long end of the curve** may persist till H1-2017
- But, we expect both **short and long term rates to remain historically low** over the medium and long term
- **Positive yield curve slope** and credit spreads maintain some attractiveness for Fixed Income markets. We expect positive returns from Govies in 2017
- **EM debt** hard currency back to attractive levels
- **European peripheral spreads** will not widen but are subject to volatility caused by political risk

➤ Main risks in our views: exaggerated fears or overdone concerns about inflation

EQUITIES

- Higher risk of correction due to stretched valuations and weak EPS growth context
- **DM equities** at risk of higher rates and/or lower EPS growth. Catch-up potential from European equities once political risks are cleared
- **EM equities** benefitting from easing EM monetary policies and/or better EPS growth environment but at risk of protectionism and China hard landing
- Favouring **Financials, Industrials & Energy** sectors. US domestic plays such as regional banks and small and mid caps
- **Underweight bonds proxy** till the end of Q1-2017. Remain invested in **Healthcare** and **Technologies**

➤ Main risk to our views: China hard landing + spike in rates due to inflation concerns

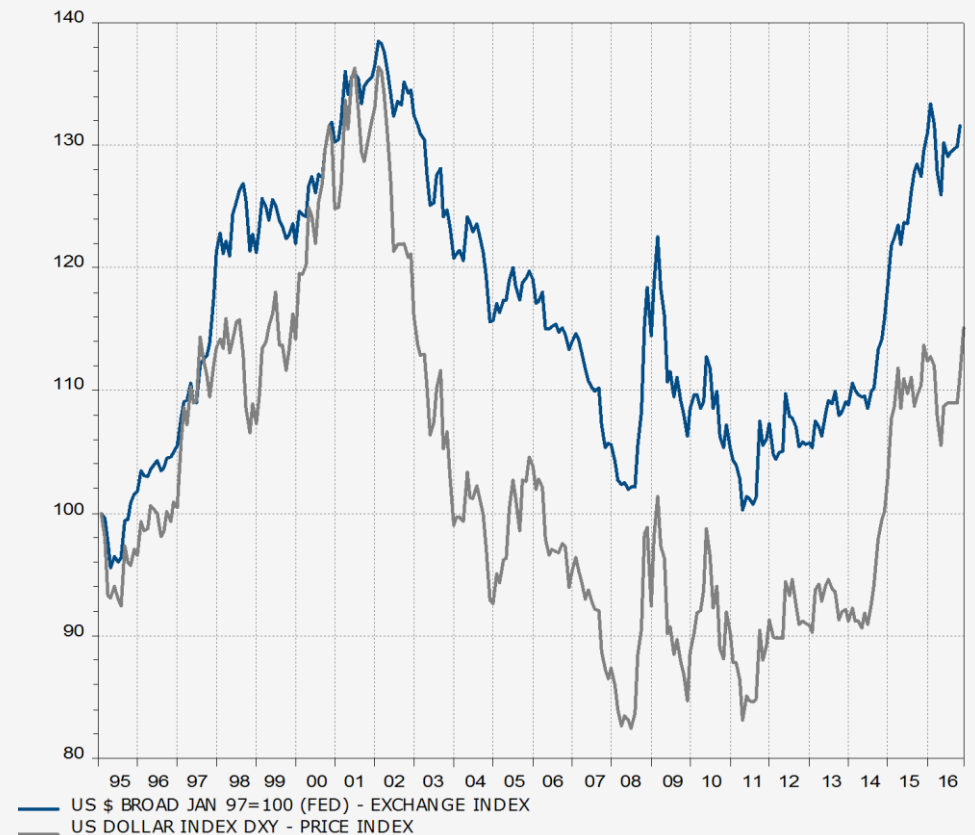
KEY CONVICTIONS (2/2)

FOREX

- USD strength has its own limits... we don't believe in a (much) stronger dollar moving forward
- EUR may surprise on the upside due to current positioning and extreme negative sentiment
- CHF to remain (structurally) overvalued and strong. SNB is ready to tolerate a stronger CHF. Best "asymmetrical" hedge against a EU breakdown
- GBP: limited downside as valuation is now cheap and many bad news are priced in. Possible rally relief in case of "soft" Brexit and/or a less dovish stance from BoE
- Long USD/short CNH
- Long RUB: undervalued, neutral to positive on oil, high real interest rate
- Long MXN: completely undervalued
- Long INR: somewhat insulated from USD or US rates movement, favourable economic backdrop

USD strength has its own limits

5/12/16



Source: Thomson Reuters Datastream

ASSET ALLOCATION FRAMEWORK

INVESTMENT PREFERENCES (NOVEMBER 2016)

| +++ Strong Preference | ++ Preference | + Mild Preference | - Mild Disinclination | -- Disinclination | --- Strong Disinclination |
|--------------------------------|------------------|----------------------|------------------------------|--------------------------|------------------------------|
| Portfolio Risk Score | | | | | |
| | | | Risk ← | | |
| | | | Duration | | |
| Equities | | | | | |
| | | United States ← → | United Kingdom → | EM Asia | |
| | | Canada ← | Sweden | | |
| | | Germany | Japan | | |
| | | France | EM Latin America | | |
| | | Italy | Eastern Europe & Middle East | | |
| | | Spain | | | |
| | | Switzerland | | | |
| | | Norway | | | |
| | | Australia | | | |
| Bond Asset Allocation | | | | | |
| | | EM (Hard currency) ← | Nominal Govies HY Credit | Real Govies IG Credit | |
| Currency | | | | | |
| | | GBP ← | EUR | CHF | |
| | | | JPY | AUD | |
| | | | CAD | | |
| Alternative Investments | | | | | |
| | | Property | | | Gold |

← Change from last month →

Source: Investment Strategy Group, SYZ Asset Management, November 2016.

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