

PERSPECTIVES 2018 LE PIRE CONTRE-ATTAQUE?

FABRIZIO QUIRIGHETTI, CIO

14 Décembre 2017



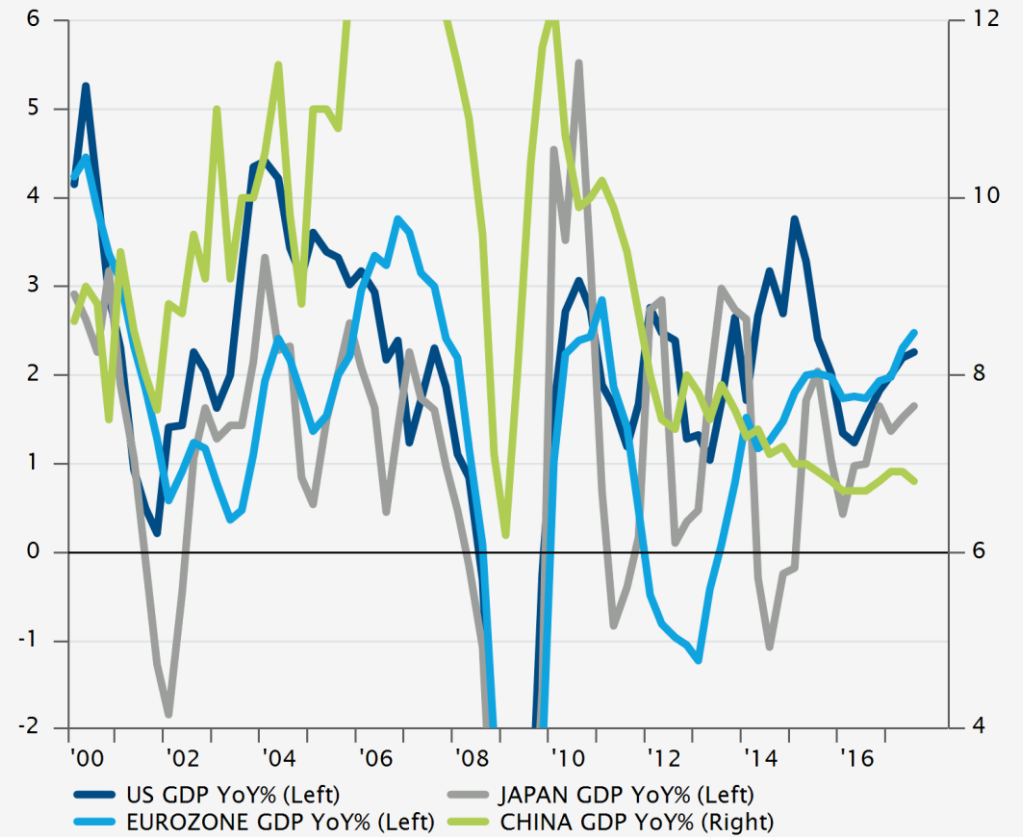
Economie
*Un environnement
extrêmement favorable*

2017, A SWEET SPOT FOR THE GLOBAL ECONOMY FOR ECONOMIC GROWTH...

PMI Manufacturing, World Trade and Industrial Production



Real GDP (Annual Change)

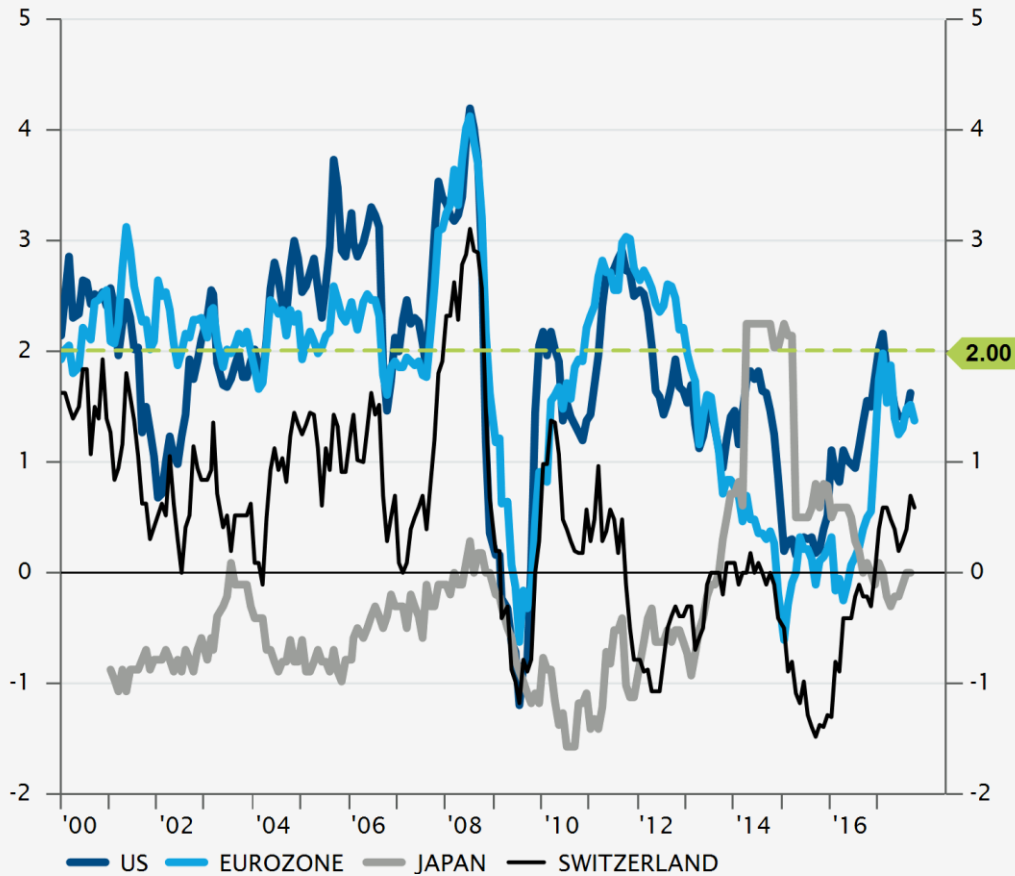


Sources: FactSet Research System, SYZ Asset Management, data as at 23.11.2017

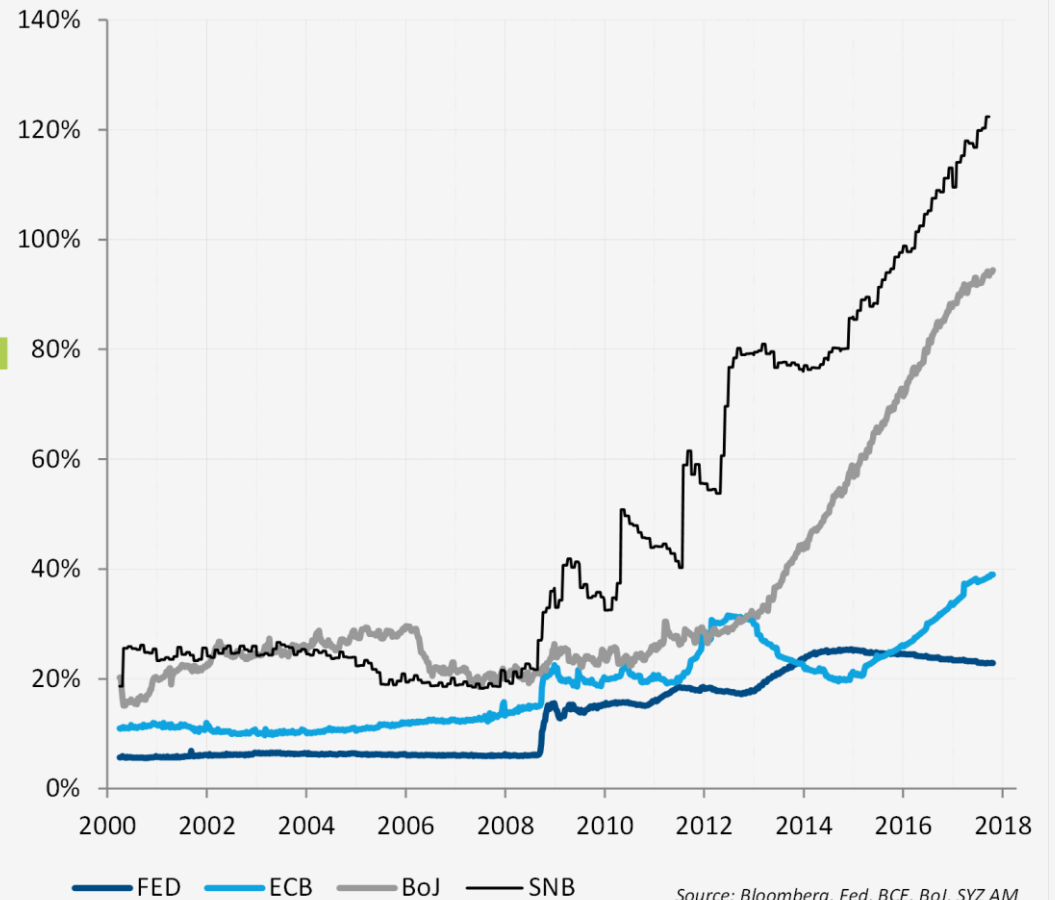
2017, A SWEET SPOT FOR THE GLOBAL ECONOMY

...AND FOR INFLATION & MONETARY POLICY

Annual inflation rate



Central Bank balance sheet (as % of National GDP)



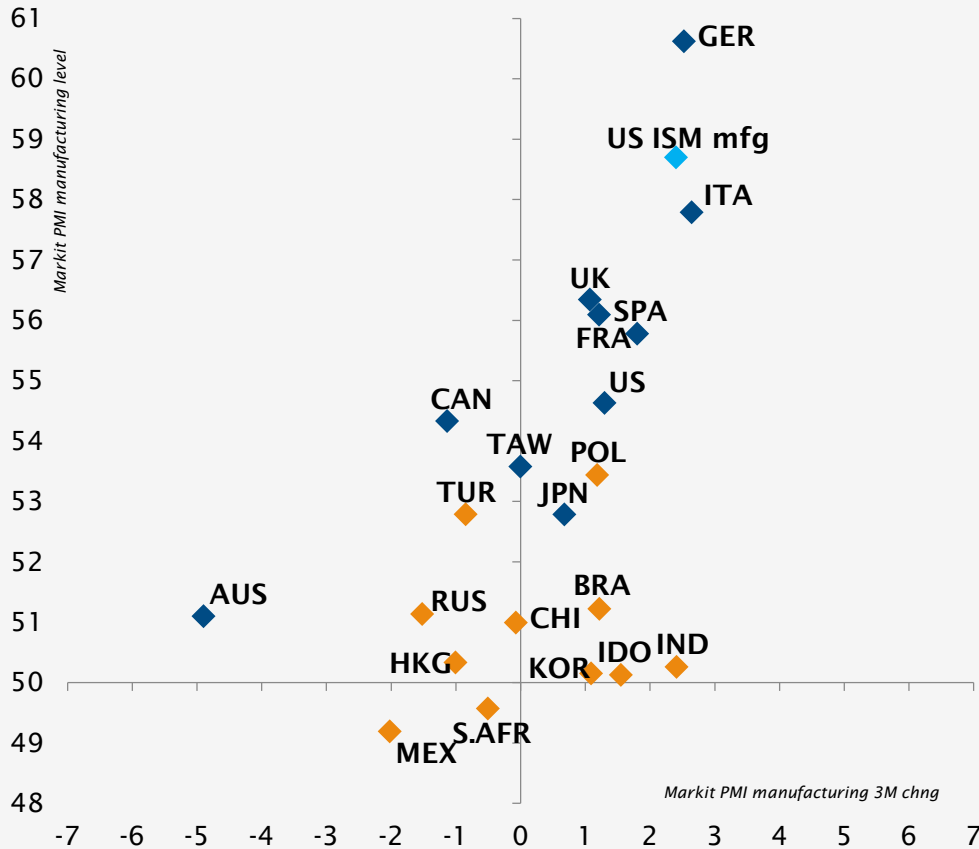
Source: Bloomberg, Fed, BCE, BoJ, SYZ AM

Sources: FactSet Research System, SYZ Asset Management, data as at 23.11.2017

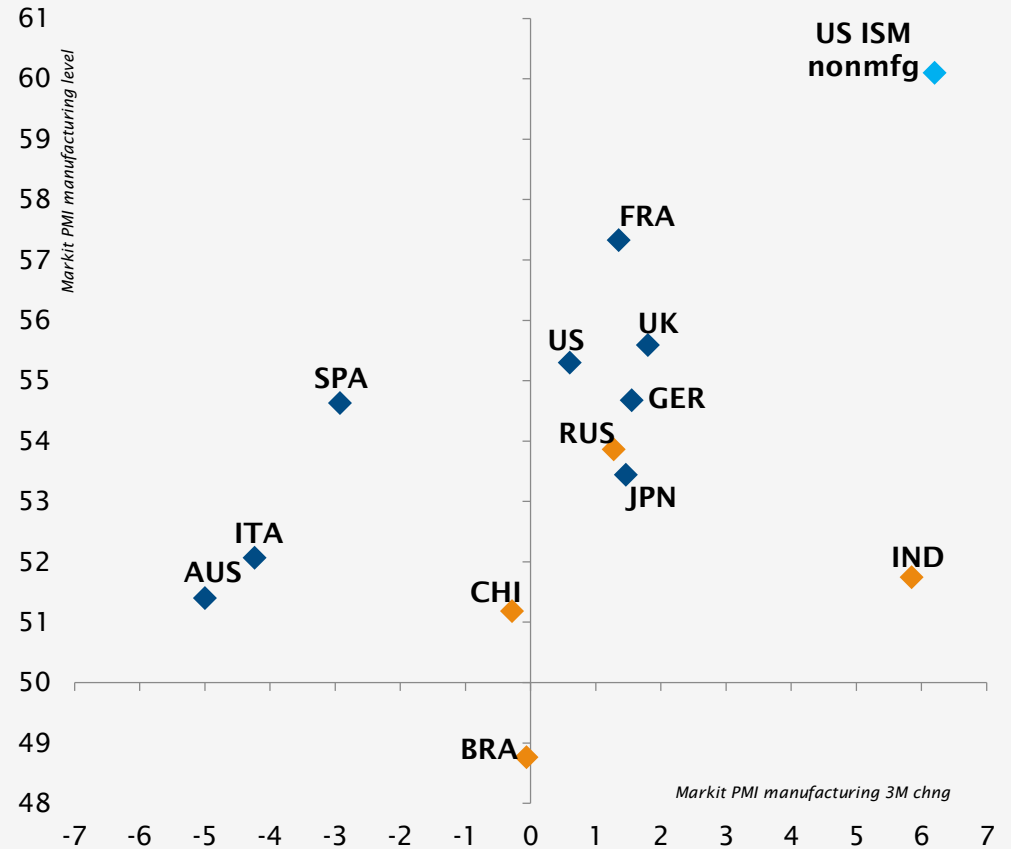
ECONOMIC CYCLE ANALYSIS

PMI MANUFACTURING AND SERVICES

PMI manufacturing



PMI services

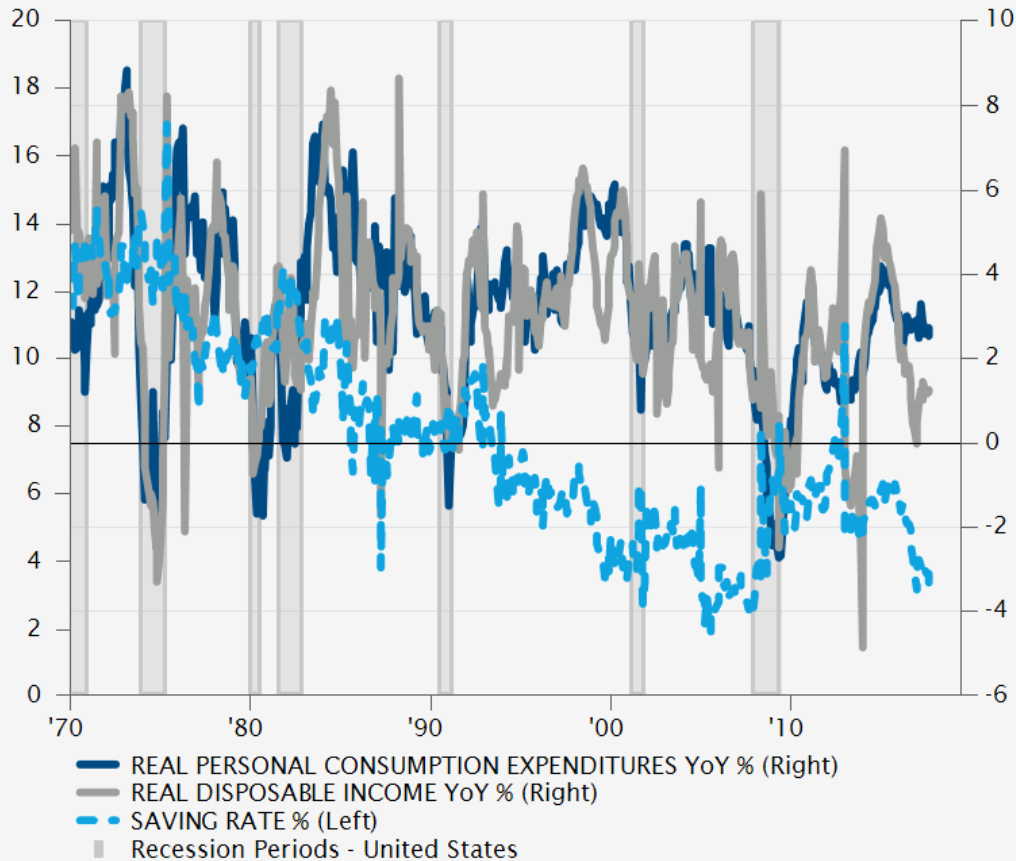


Positive growth (almost) everywhere and positive momentum in most economies

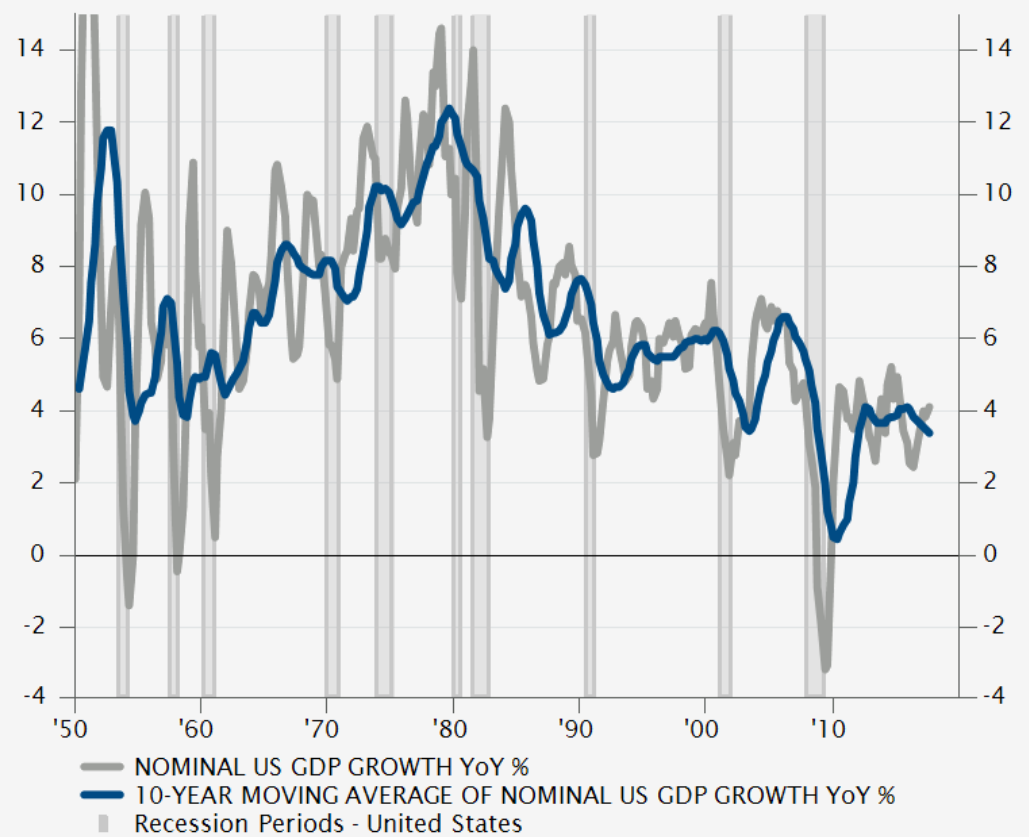
Sources: Markit, Datastream, SYZ Asset Management, latest data available as at 23.11.2017

U.S. GROWTH NEEDS FISCAL SUPPORT

U.S. Real Consumption Spending & Disposable Income and Saving Rate



U.S. Nominal GDP Growth (Yearly and 10-year Yearly Average)

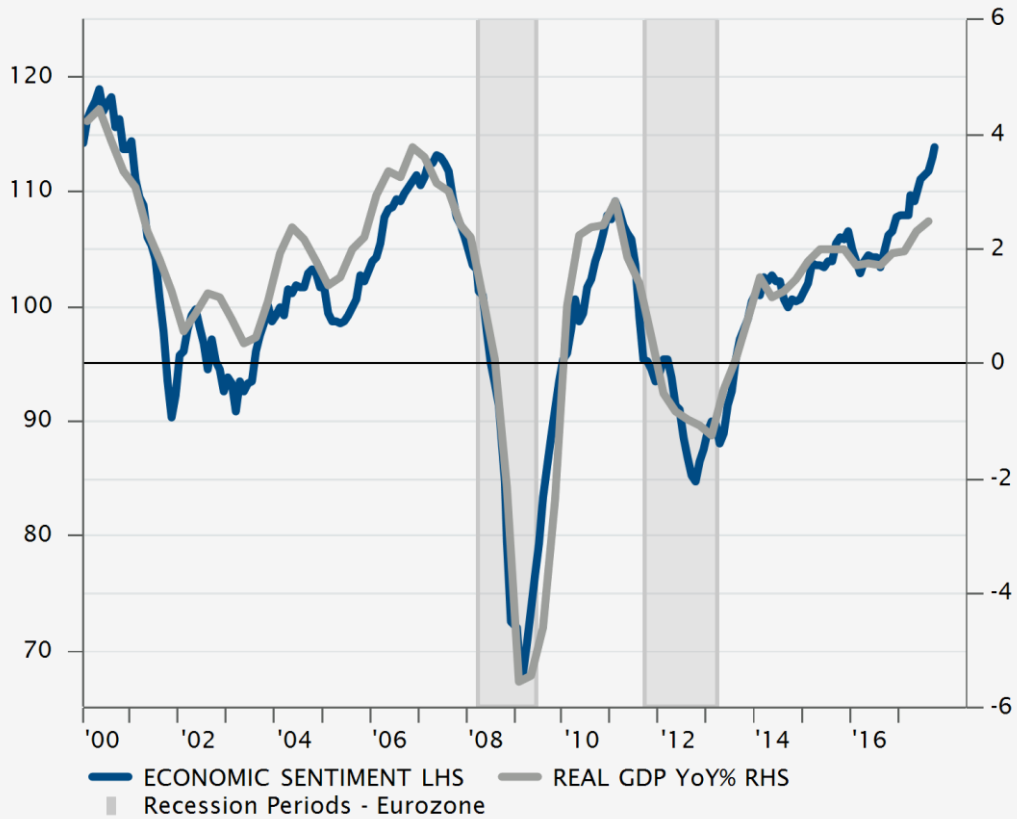


Household income needs support to sustain current (unimpressive) expansion

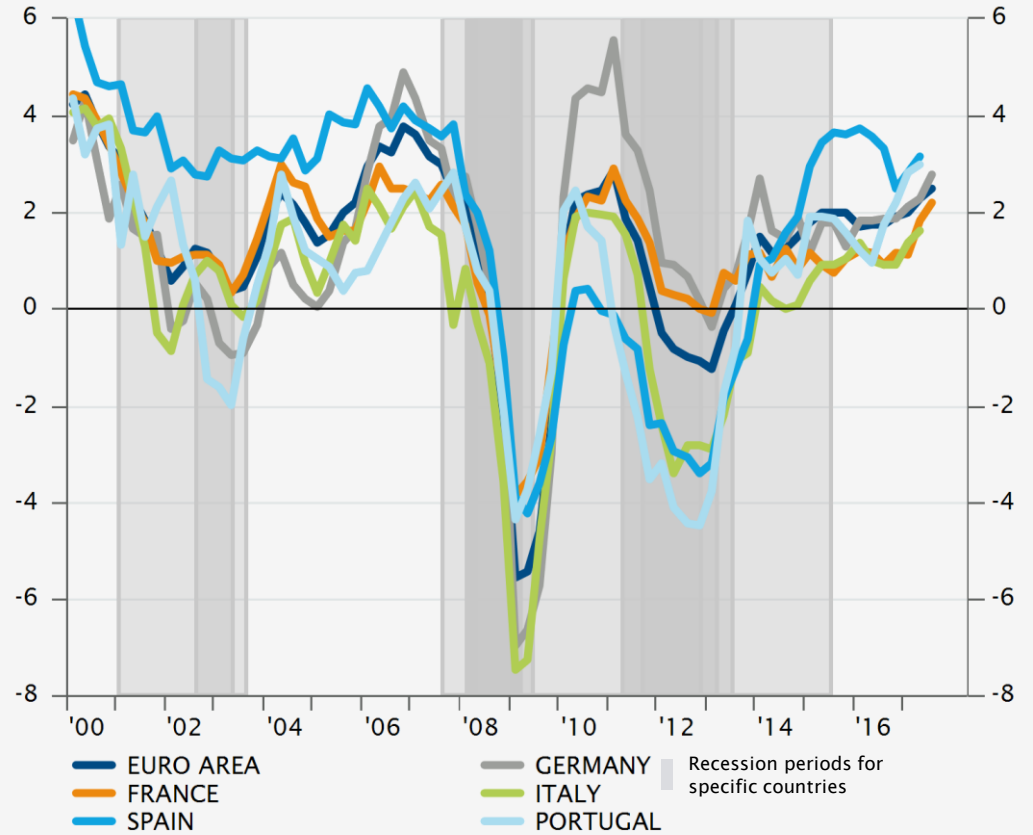
Sources: FactSet Research Systems, SYZ Asset Management, data as at 23.11.2017

EUROPE IS CATCHING UP, IN A RARE SYNCHRONIZED WAY

**Eurozone Economic Sentiment Index
and Real GDP (YoY %)**



Real GDP by country (YoY %)

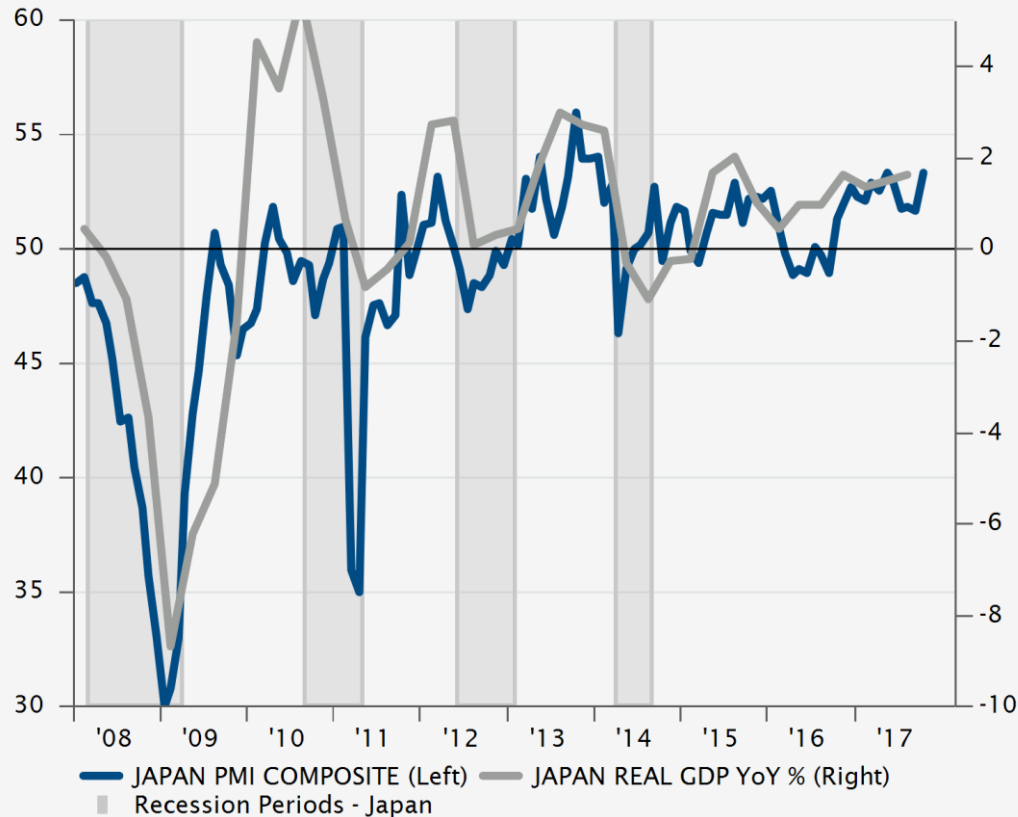


Sentiment at a 16-year high, growth is positive and improving everywhere

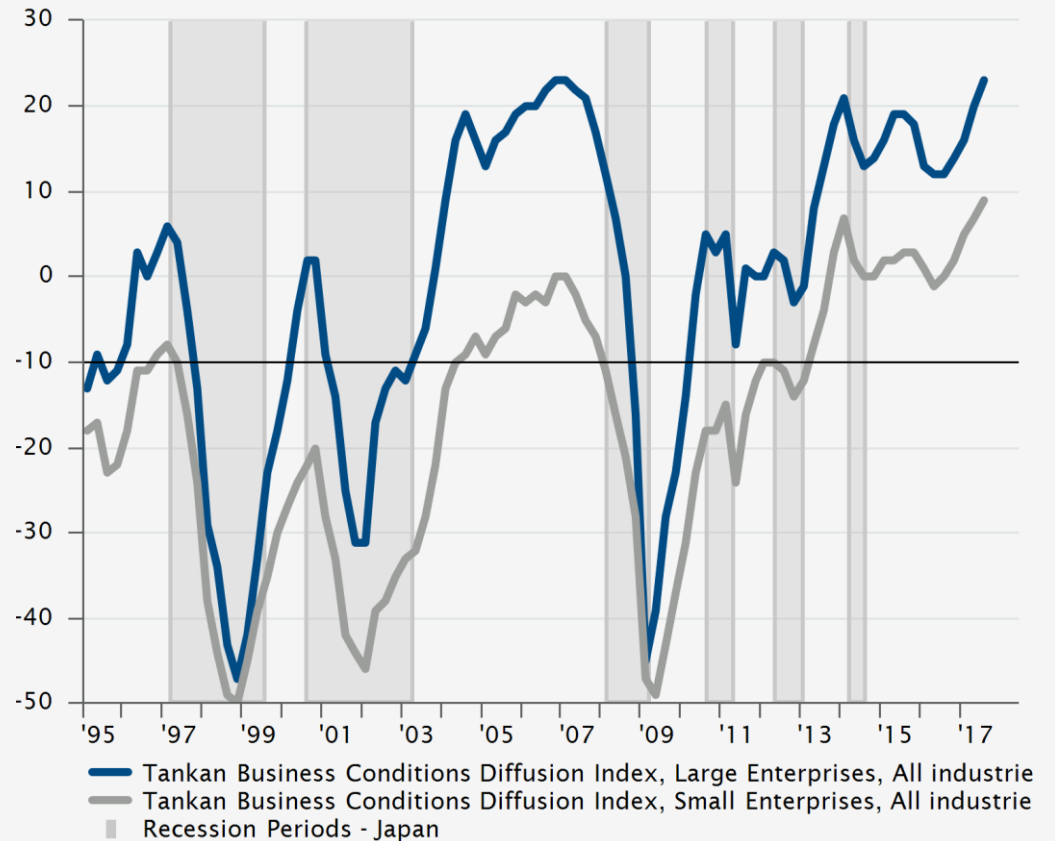
Sources: FactSet Research Systems, SYZ Asset Management, data as at 23.11.2017

JAPAN READY TO ENJOY MORE OF ABENOMICS

Real GDP and PMI Composite Activity Index (YoY %)



Tankan Quarterly Survey of business conditions for large and small enterprises

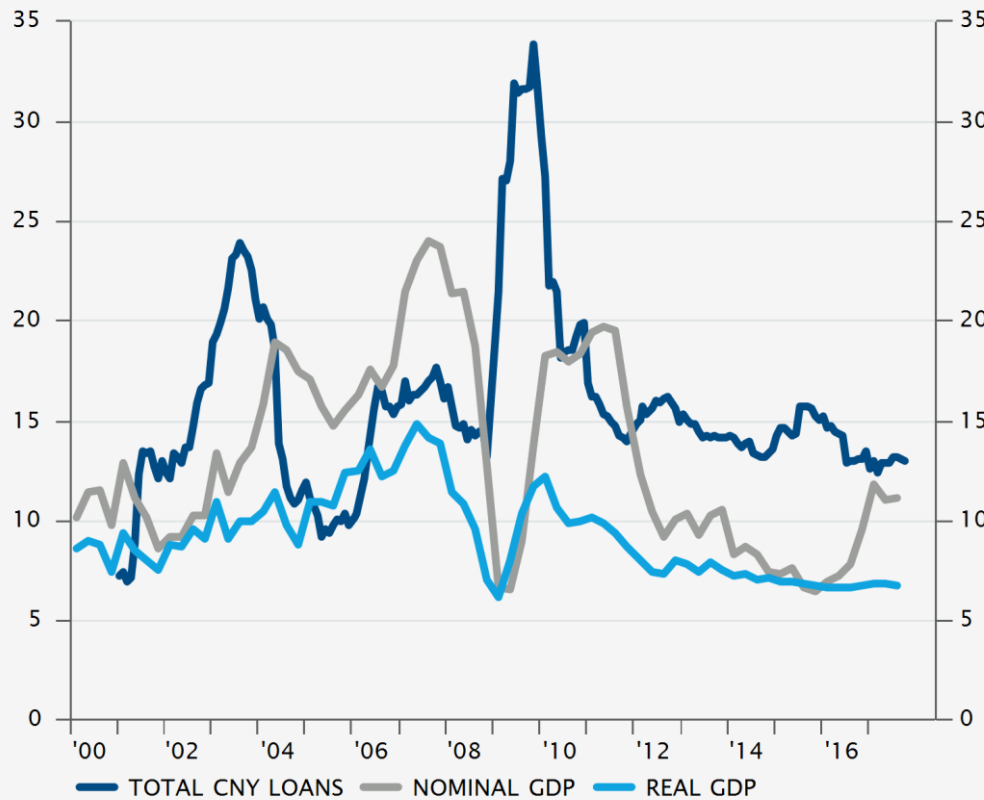


Japan growing above potential, supported by Abenomics and external demand

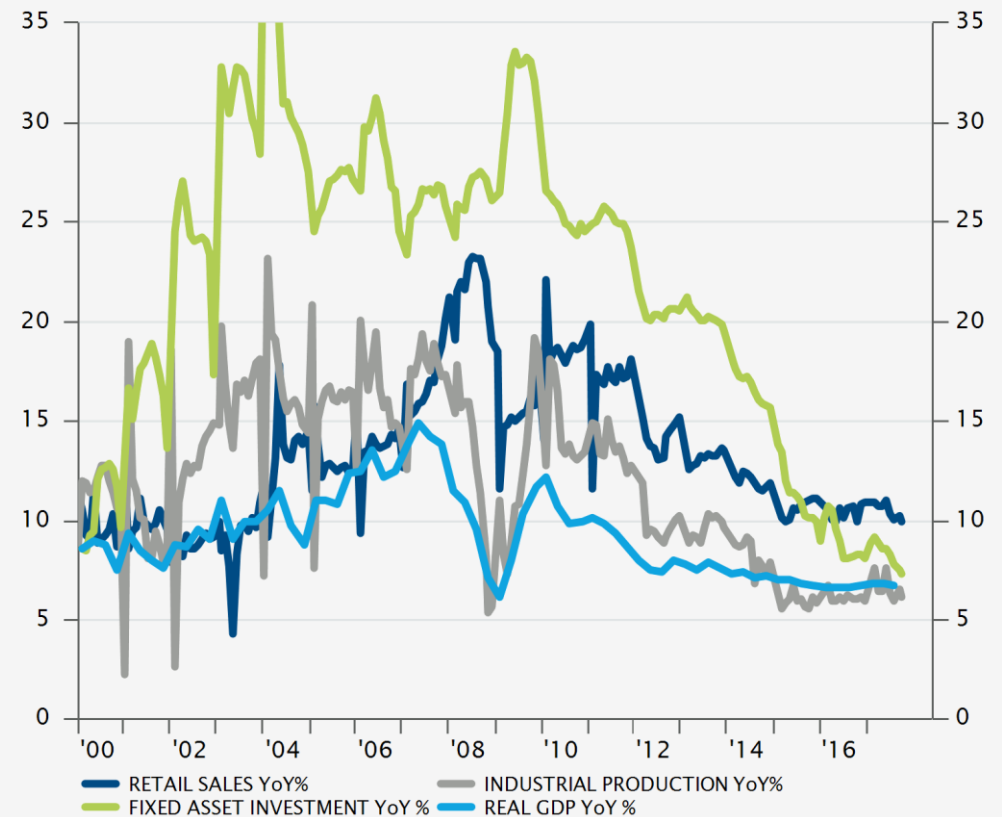
Sources: FactSet Research Systems, SYZ Asset Management, data as at 23.11.2017

CHINA IS STILL IMBALANCED, BUT LESS WORRYING THAN TWO YEARS AGO

Total Yuan Loans growth and Real & Nominal GDP
(YoY % Growth)



Nominal Retail Sales, Industrial Production and Fixed Asset Investment
(YoY %)

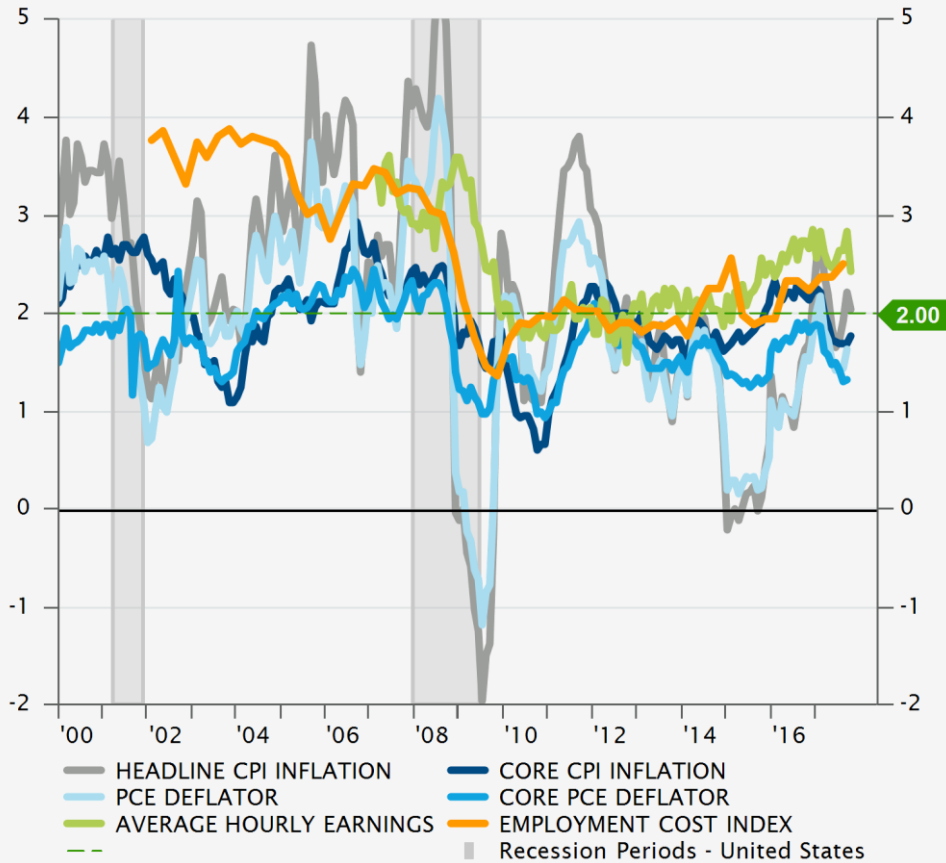


Still “credit and investment-dependent”, but stabilization under way

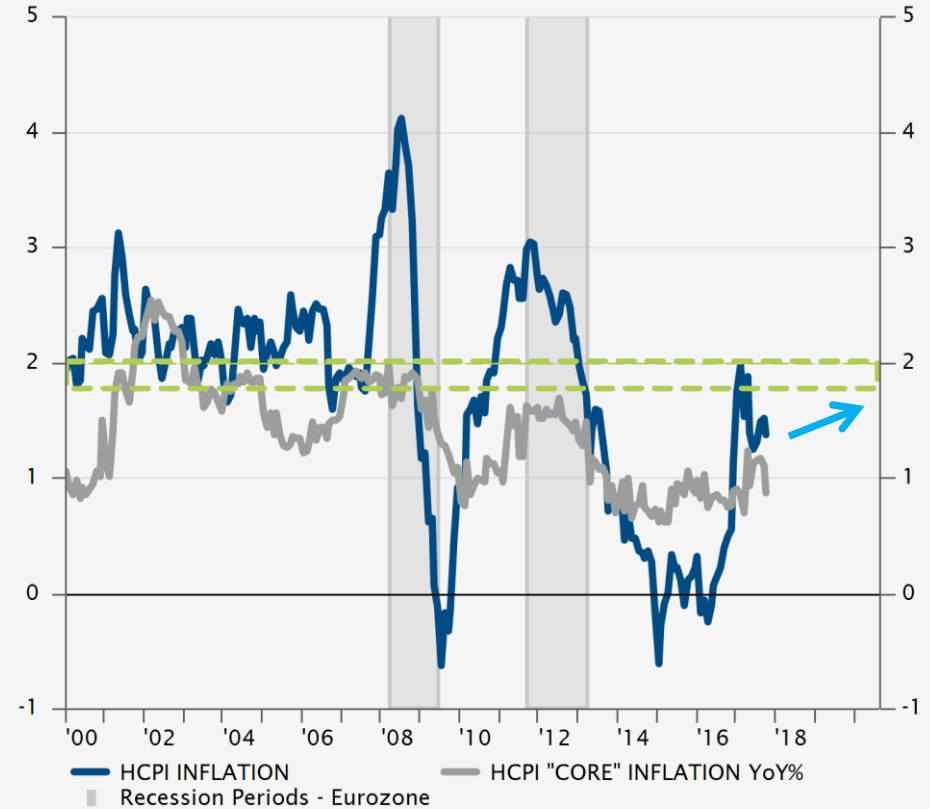
Sources: FactSet Research Systems, SYZ Asset Management, data as at 23.11.2017

INFLATION POSSIBLY HEADING TOWARDS CENTRAL BANK TARGETS... HARDLY MORE THAN THAT

Selected gauges of US Inflation



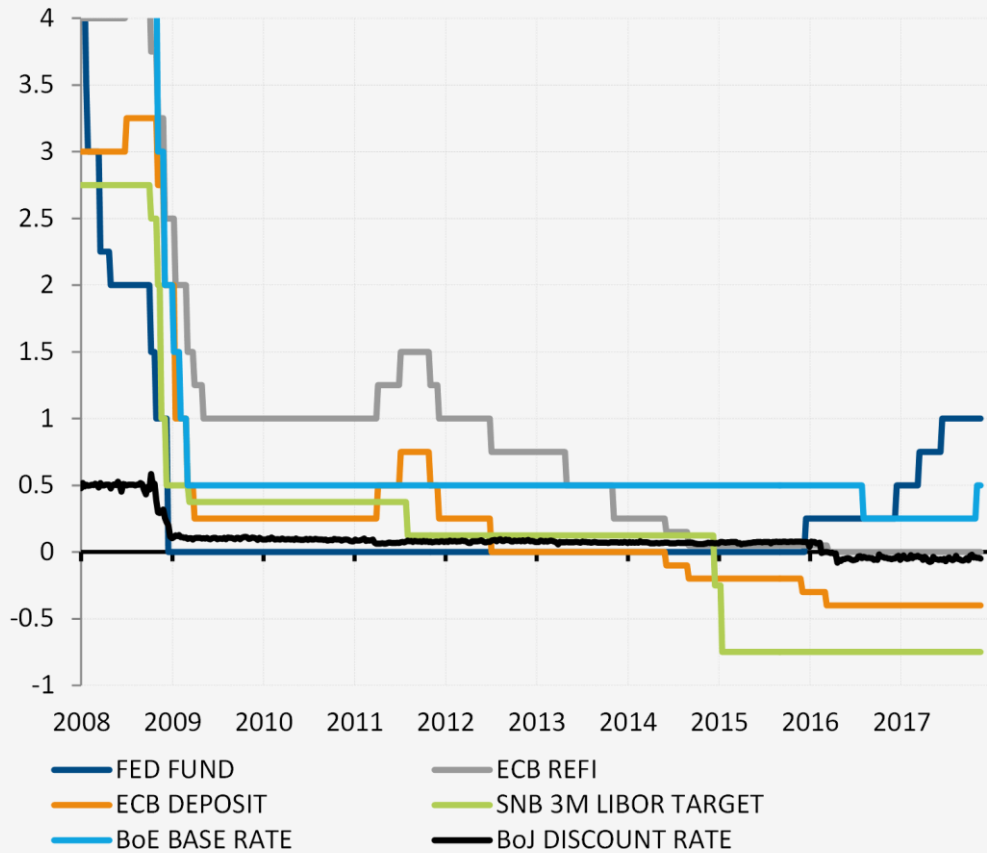
Eurozone CPI Inflation



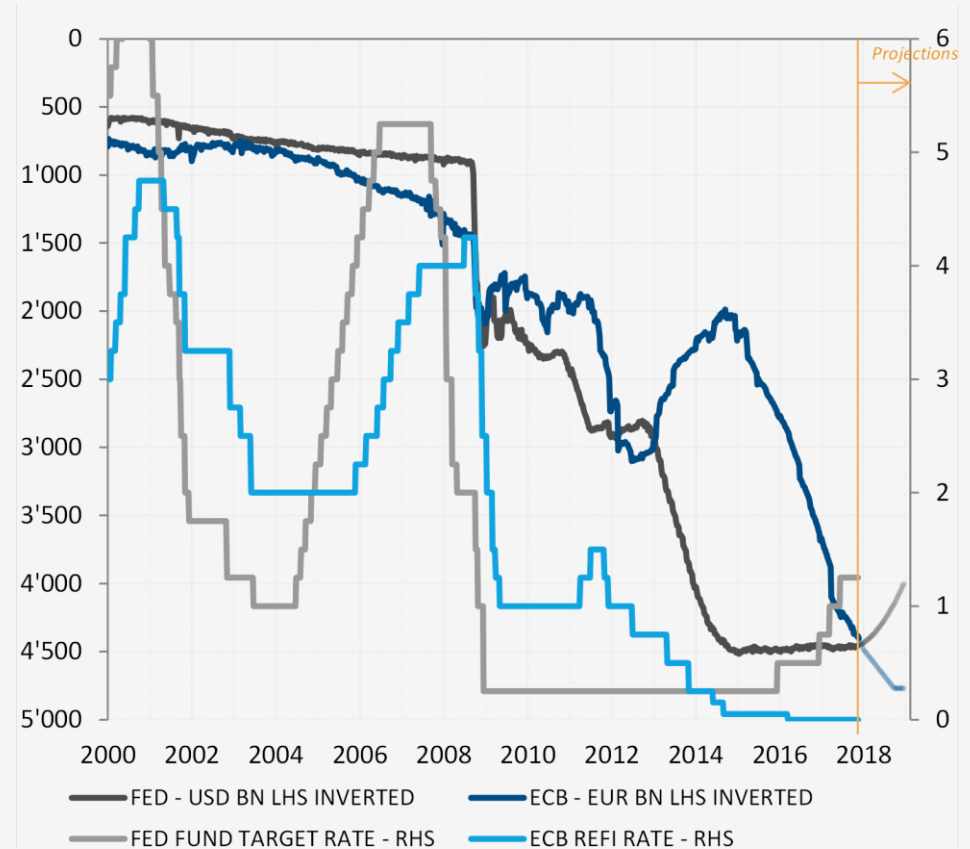
Sources: FactSet Research Systems, SYZ Asset Management, data as at 23.11.2017

MONETARY POLICY: STILL VERY ACCOMMODATIVE, EVEN AFTER RECENT FED ATTEMPT TO NORMALIZE

Main developed Central Bank rates



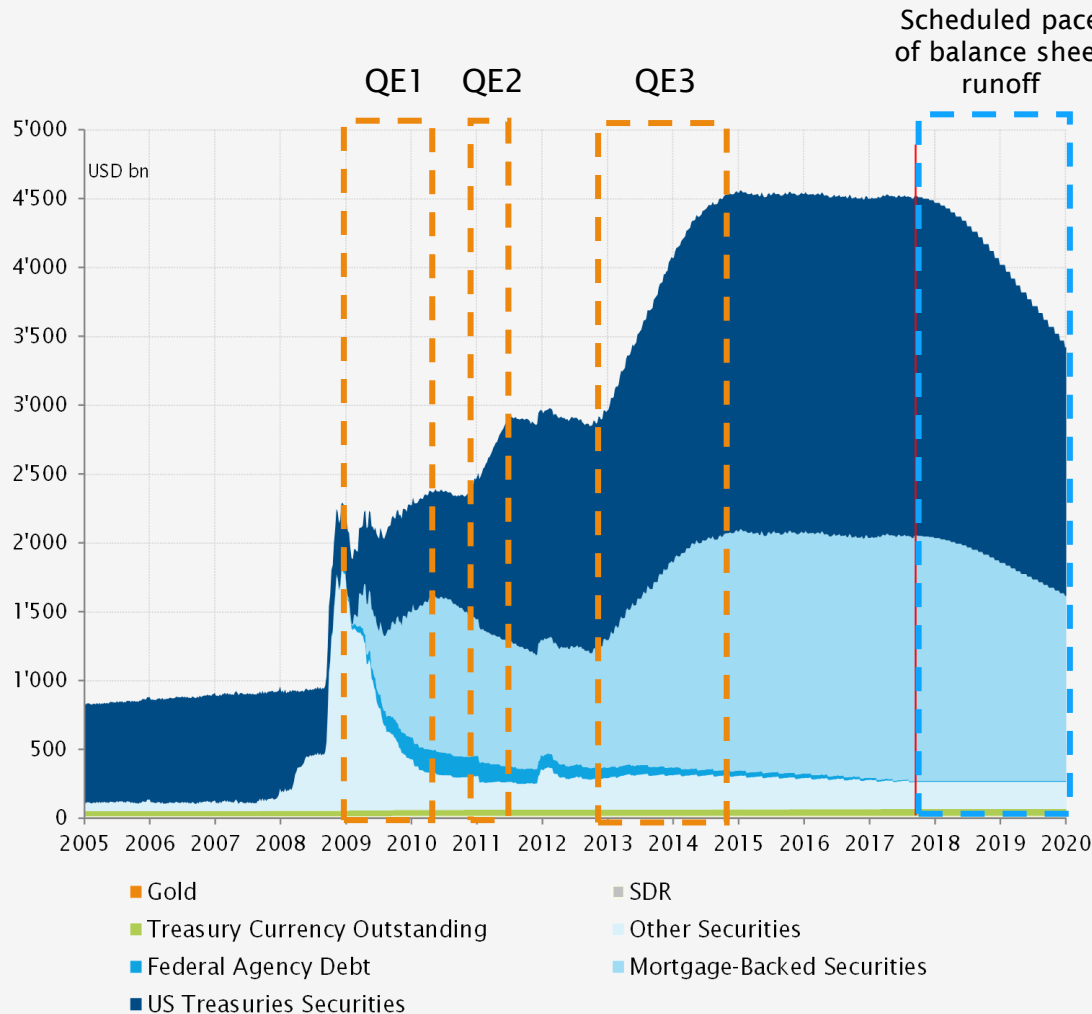
ECB & Fed Respective Rate and Balance Sheet trends



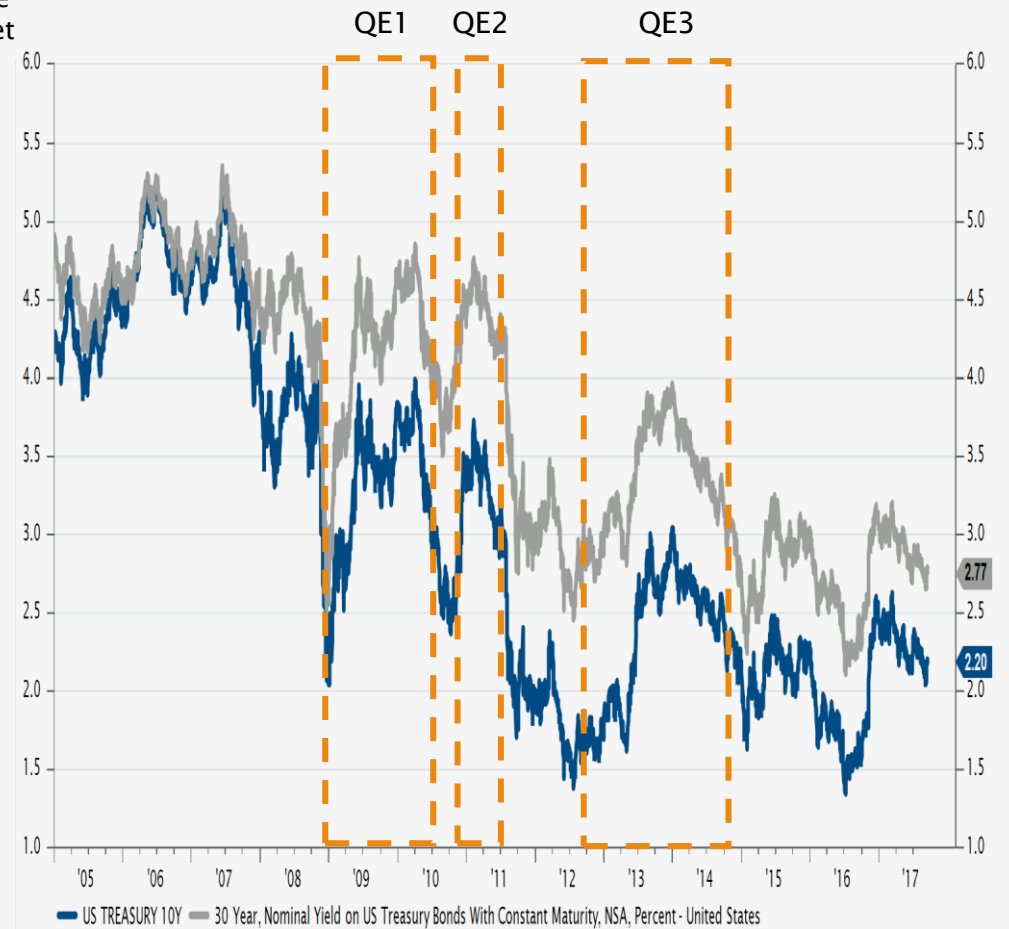
Sources: SYZ Asset Management, Bloomberg, Fed, BCE, data as at 23.11.2017

ENTERING THE POST-QE PERIOD: WHAT IMPACT ON RATES?

Fed's Balance Sheet



US 10-year and 30-year Treasury Rates



Sources: SYZ Asset Management, FactSet Research Systems, Bloomberg, data as at 30.10.2017

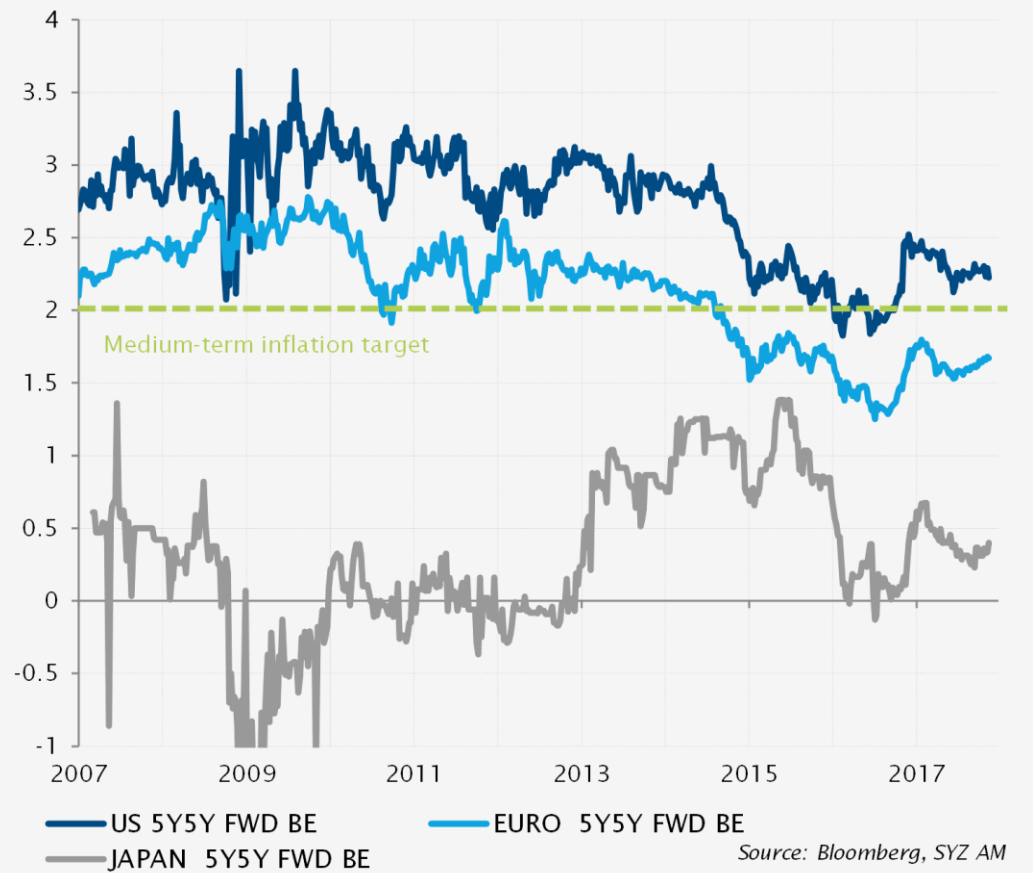
WITHOUT INFLATION AND NOMINAL GROWTH, UNLIKELY TO SEE STRONG RATE INCREASES

US CPI Inflation Headline and Core (YoY %)



SYZ AM, ©FactSet Research Systems

Medium-term Inflation Expectations



Source: Bloomberg, SYZ AM

Sources: SYZ Asset Management, FactSet Research Systems, Bloomberg, data as at 23.11.2017

ECONOMIC CYCLE ANALYSIS

KEY TAKEAWAYS

Economic backdrop remains supportive

Synchronized global growth, with limited potential from further improvement



➤ Business Cycle

- **Synchronized global growth**, most favourable global macroeconomic backdrop since 2009 recession. **Unspectacular but steady**
- Broad-based growth is still on and can hardly accelerate (tax cuts in the US?)
- EM economies benefit from positive domestic and global growth dynamics



➤ Inflation

- **Mildly inflationary without much direction and trend**
- Inflation remains positive but low, mostly below central banks' target, contrary to what central bankers expect in such growth environment
- Structural factors hamper medium/long term inflationary pressures but short term risks appear biased to the upside



➤ Monetary Policy

- **Overall still very accommodative**
- Monetary policy to become less accommodative only very gradually in DM (Fed, BoE, BoC cautious rate hikes, ECB QE progressive tapering)
- EM central banks erring on the restrictive side in order to keep inflation in check

The above commentaries are the views of the SYZ AM Economic Cycle Analysis, as at 23.11.2017

OUR NEXT 6 MONTH ECONOMIC BACKDROP

ECONOMIC GROWTH

- Further extension of the current trend
- Resilient consumption in Dev. Markets, with Europe leading, but less Global cyclical dynamic
- Growth stabilization in Emerging Markets

Expected 2018 GDP growth

- U.S.: +2%
- Euro area: +2%
- Japan: +1.5%
- China: +6.5%



INFLATION

- "Headline": no more significant upside potential now that base effects related to oil prices are behind
- "Core": only very modest upward trend due to gradual resorption of slacks on labor markets

Expected «core» inflation

- U.S.: +2%
- Euro area: +1%
- Japan: 0%
- China: +2%



MONETARY POLICY

- Gradual tightening in the U.S.
- Tentative attempts of withdrawing ultra-loose policies in Europe (and in Japan?)
- BoE stuck between inflationary pressures and Brexit
- Fine tuning in China, overall restrictive stance in EM

By Mid 2018

- Fed Fund rate @ 1.75%
- Taper tantrum risk on ECB, but QE still in place
- Risk of BoE rate hike
- PBOC 1y lending rate stable @ 4.35%, SHIBOR 3M @ 4.5%

80%

10%

10%

Lower than expected growth

driven by U.S. cycle softness & lack of fiscal support, and impact of tighter credit conditions in the U.S. or in China

→ Less monetary policy normalization than expected in DM

SCENARIO
PROBABILITY

Stronger growth

Dev. Markets domestic demand is supported by fiscal stimulus

→ Firmer inflation and less accommodative central banks

Source: SYZ Asset Management, data as at 23.11.2017



Perspectives de marché

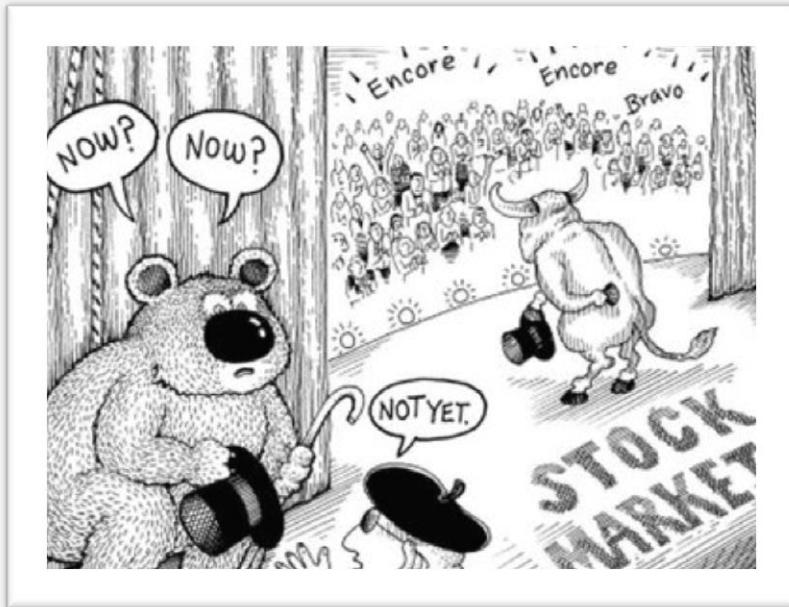
*Exubérance rationnelle:
Jusqu'ici tout va bien...*

HOW WILL THIS BULL MARKET END?



- Neither **longevity**, nor **high stock prices**, nor **political turmoil** usually are enough to cause a bear market

- The culprit in nearly every case is **RECESSION**
- The mystery is **what will cause the next one...**



Source: Wall Street Survivor Blog

Fed mistake – end of QE

China

Inflation

Antitrust (targeting tech companies)

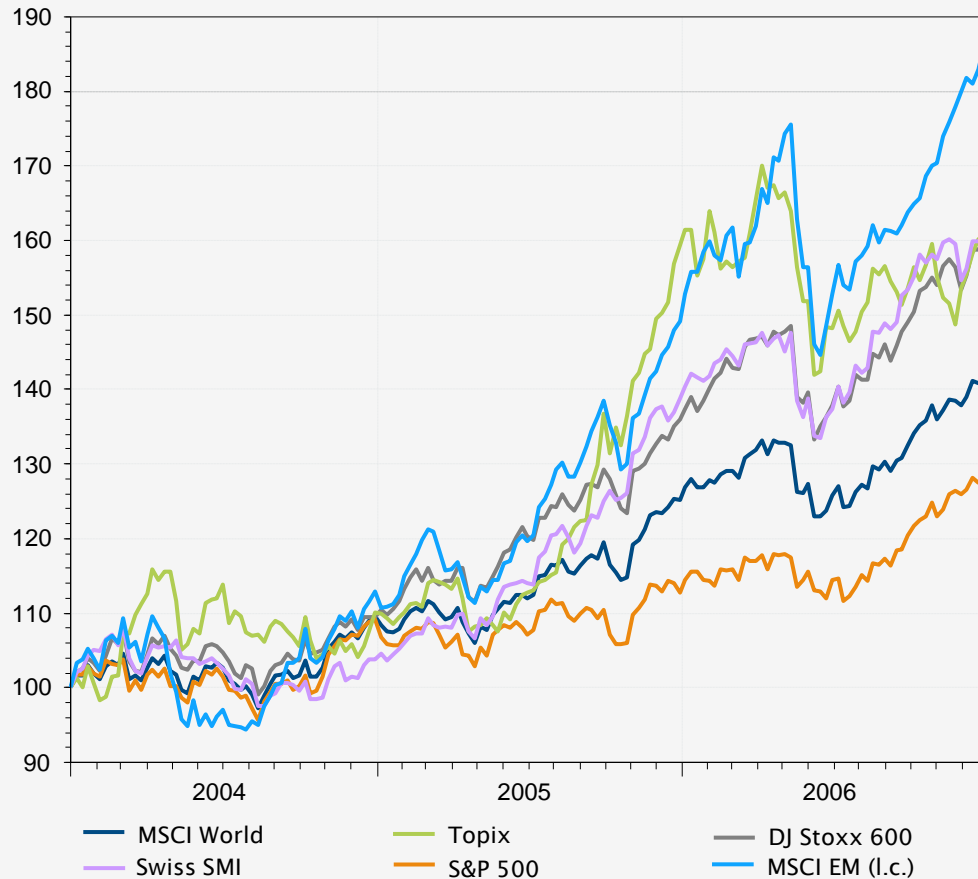
Geopolitics – Local politics

?

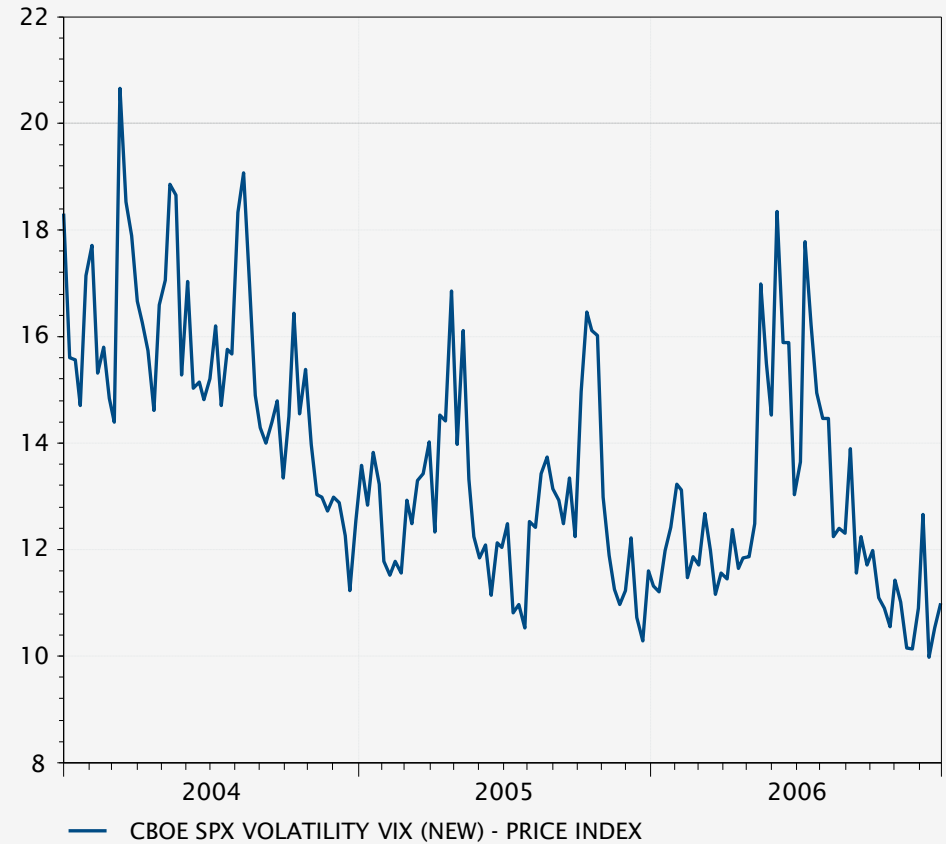
DO YOU REMEMBER 2004-2006?

EQUITIES WERE GOING UP AND VIX WAS LOW

A selection of major equity indices
2004-2006



VIX
2004-2006

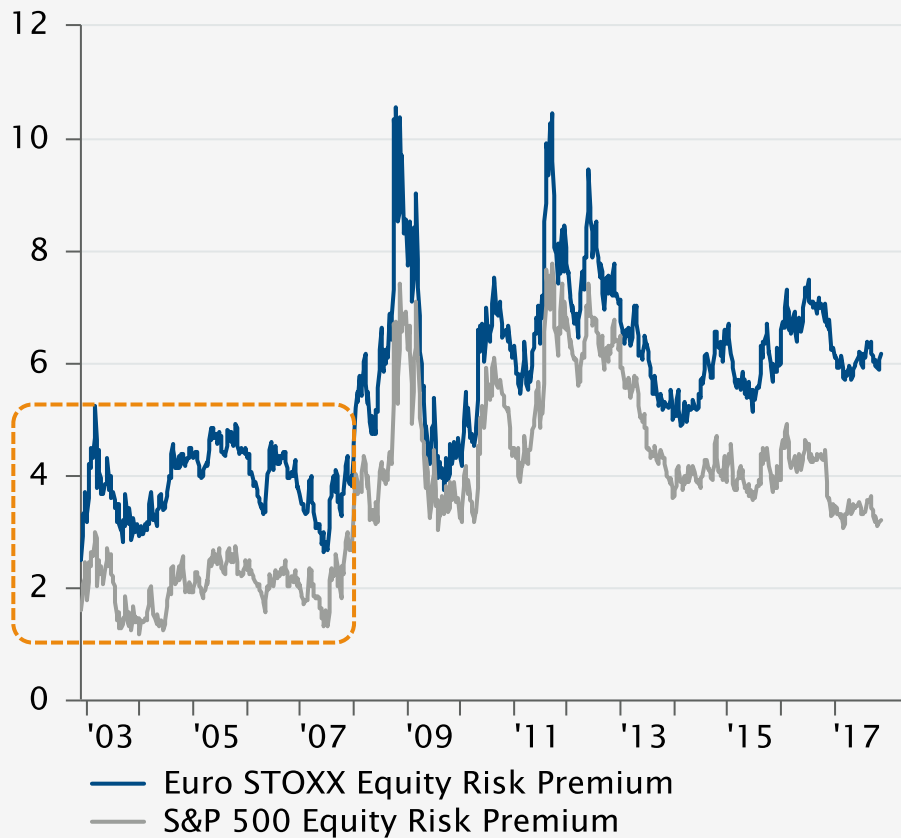


Source: Thomson Reuters Datastream, data from 31.12.2003 to 31.12.2006

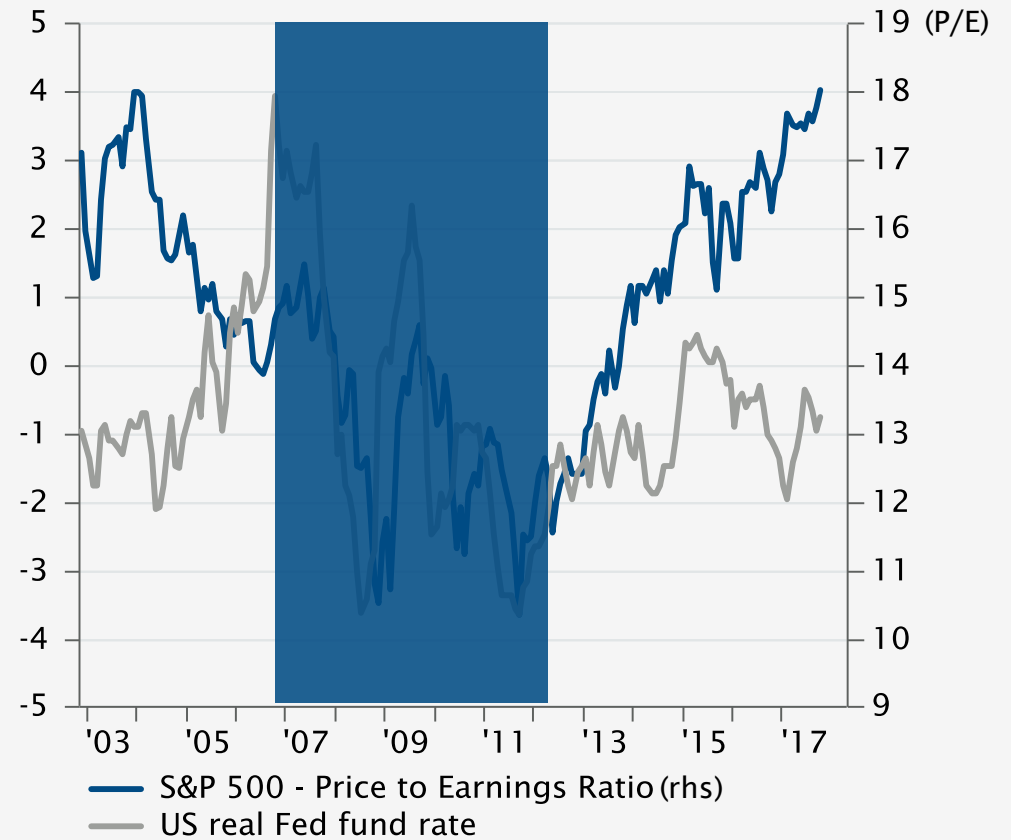
DO YOU REMEMBER 2004-2006?

EQUITIES RELATIVE VALUATIONS WERE EVEN MORE EXPENSIVE

U.S. and Eurozone equity risk premium
Since 2003



U.S. P/E and Real Fed Fund Rate
Since 2003

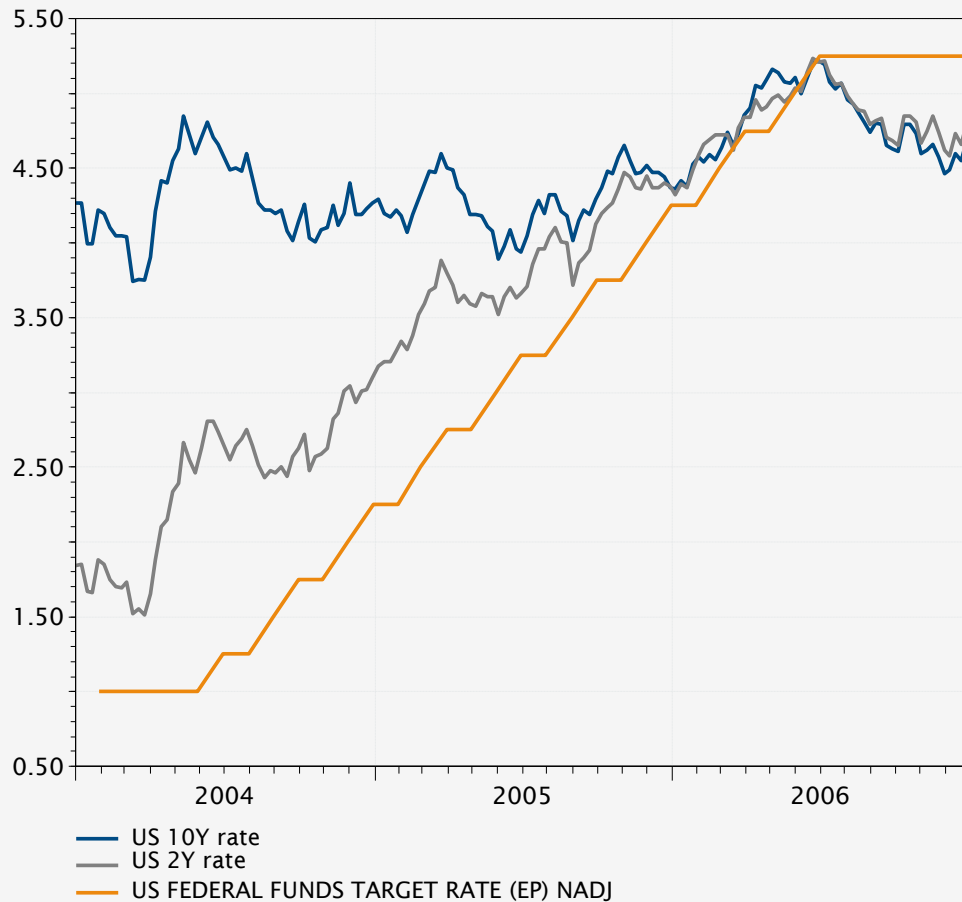


Source: Thomson Reuters Datastream, data as at 26.05.2017

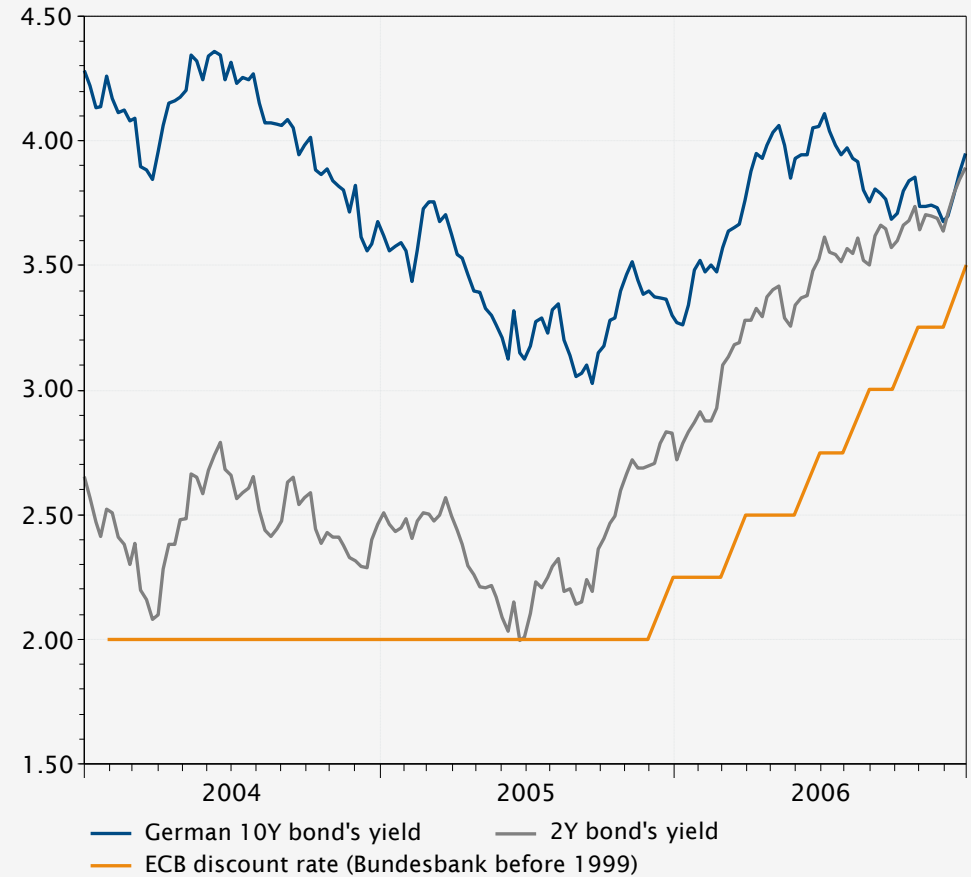
DO YOU REMEMBER 2004-2006?

LONG TERM INTEREST RATES WERE RANGE BOUND

US 10Y and 2Y bond's yield
2004-2006



Germany 10Y and 2Y bond's yield
2004-2006



Source: Thomson Reuters Datastream, data from 31.12.2003 to 31.12.2006

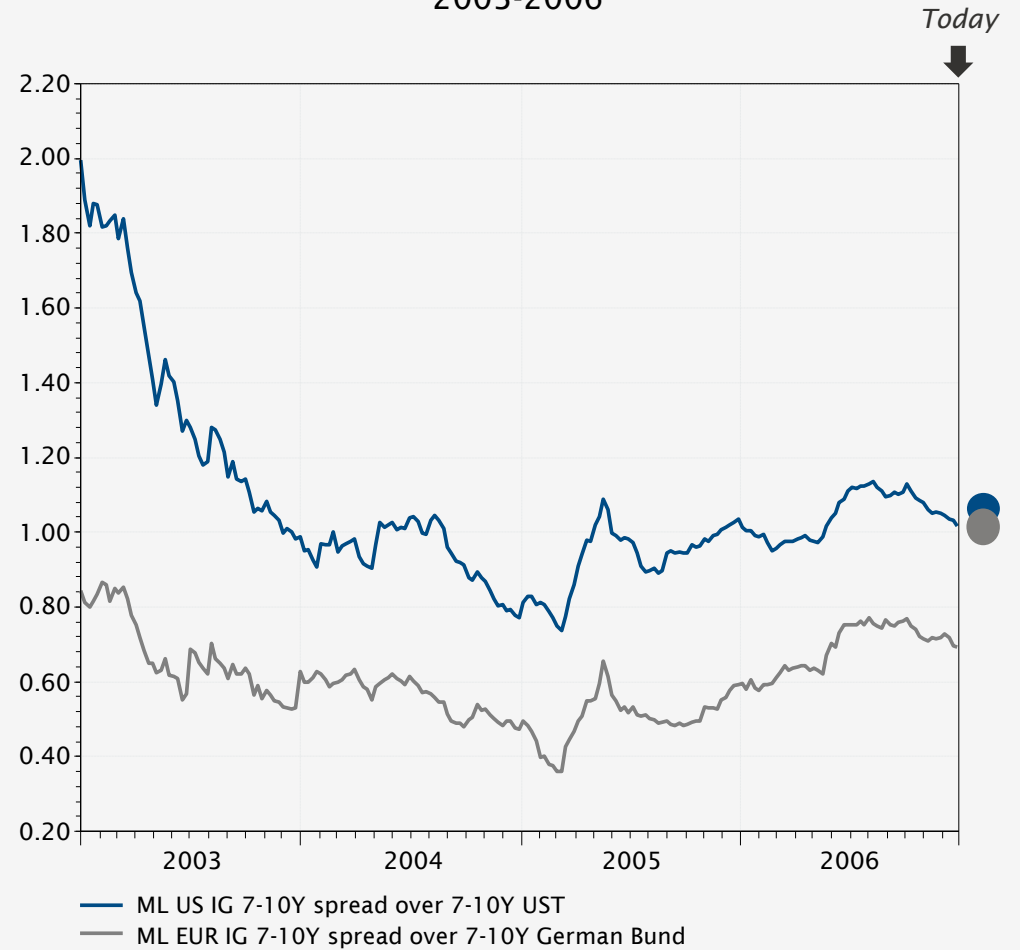
DO YOU REMEMBER 2004-2006?

CREDIT WAS ALSO EXPENSIVE

HY and EM debt spread over 7-10 UST
2003-2006

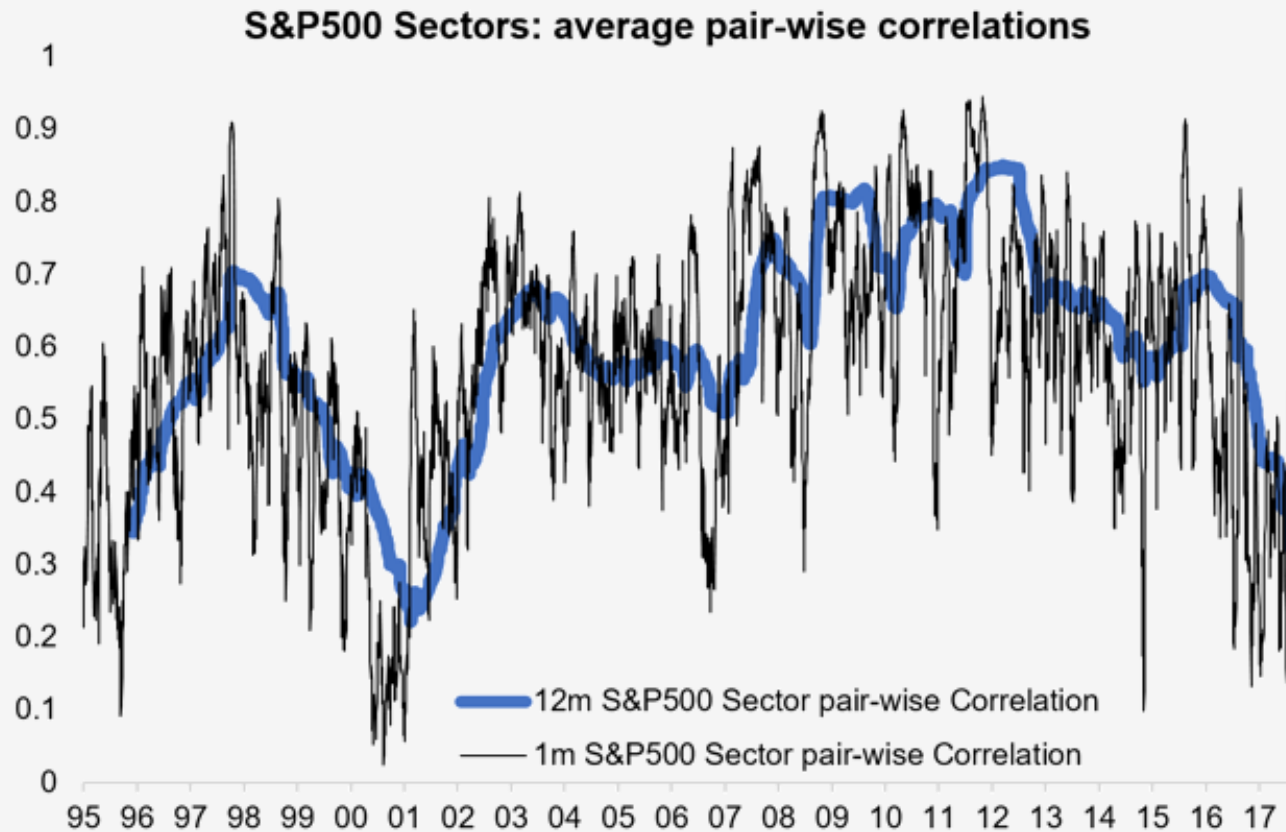


European and US IG spread
2003-2006



Source: Thomson Reuters Datastream, data from 31.12.2002 to 31.12.2006

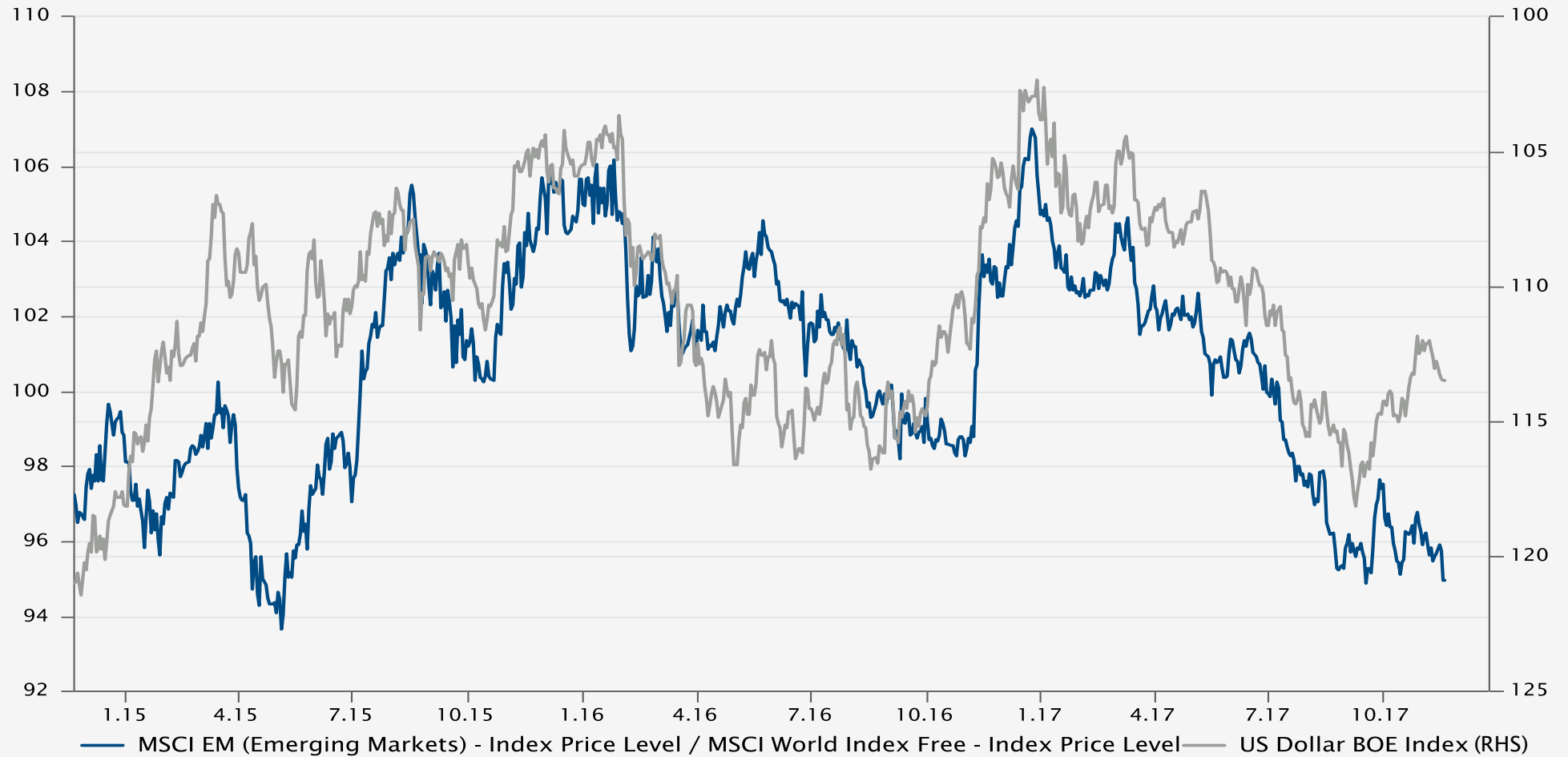
LOW VOLATILITY BUT HIGH DISPERSION



Average correlations between S&P 500 sectors are at a 17-year lows

Sources: Topdown Charts, CBOE, Thomson Reuters, data as at 29.09.2017

USD BOTTOMING = EM UNDERPERFORMING



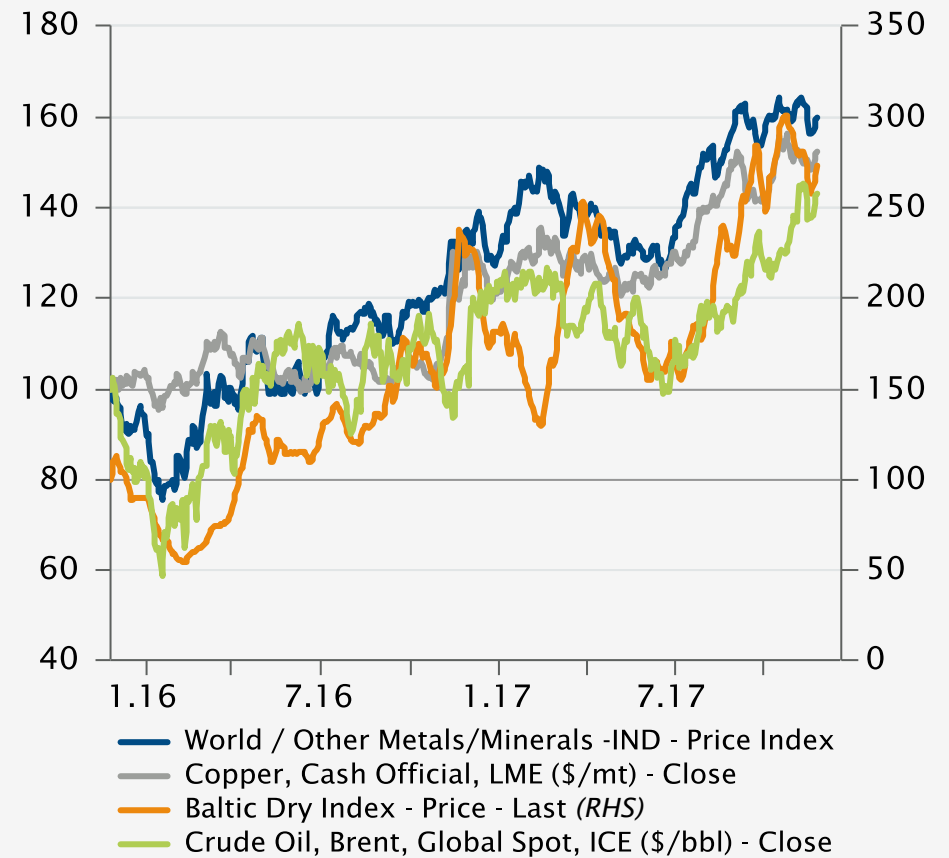
Source: SYZ Asset Management, FactSet Research Systems

LOOKING FOR DIVERSIFICATION TRADES VS. RATES

Japan Post Bank and JGB 7-10Y Total Return



Materials performance and Oil, Copper and Baltic Dry Index price indices



Source: FactSet Research Systems

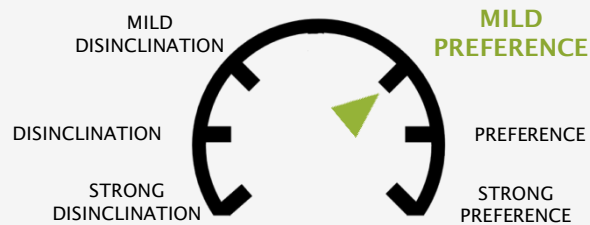


Allocation d'actifs

Nos vues et convictions

“SANTA CLAUS RALLY” IS NOW ON THE CARDS

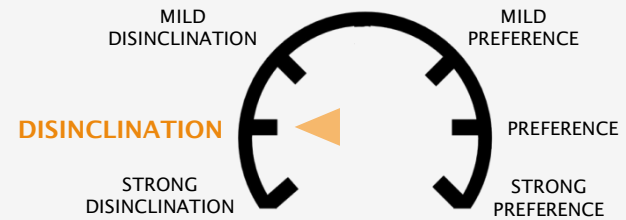
INVESTMENT STRATEGY GROUP (‘ISG’) - GLOBAL RISK & DURATION STANCE



GLOBAL RISK

Global risk assessment upgraded a notch to **mild preference**

- **EPS growth, sentiment and economic context** remain **clearly supportive**
- Concerns about October uncertainties surrounding Fed new President, ECB meeting, North Korea with Trump’s visit in Asia and a pick-up in inflation have not materialized. **Music continues** to play and rational exuberance can thus extend further
- Meanwhile, **most valuations** are on the **expensive side** + overbought conditions on U.S. markets, fully pricing the **current perfect goldilocks** scenario that will **start to deteriorate... at some point in 2018**



DURATION

Upside risk on rates in the short term

- Kept it in **disinclination** as the path of least resistance for rates remains on an uptrend
- **Inflation is bottoming out**, CB normalization is now expected down on the road and Trump fiscal reforms are back on the table
- **A spike in rates** due to exaggerated concerns about inflation or clumsy CB normalization remains **our biggest concern**

The above commentaries are the views of the SYZ AM Investment Strategy Group as at 22.11.2017

MONTHLY INVESTMENT PREFERENCES

NOVEMBER TO DECEMBER

STRONG DISINCLINATION	DISINCLINATION	MILD DISINCLINATION	MILD PREFERENCE	PREFERENCE	STRONG PREFERENCE
--------------------------	----------------	------------------------	--------------------	------------	----------------------

EQUITIES

			→ United States		
		Canada	Germany		
		United Kingdom	France		
		Sweden	Italy		
		Norway	Spain		
		Australia	Switzerland		
		EM Latin America	Japan		
		E.E.M.E			
		EM Asia			

FIXED INCOME

	Nominal Govies	Real Govies			
	IG Credit	EM (Hard currency)			
	HY Credit	EM Local			

CURRENCY VS. USD

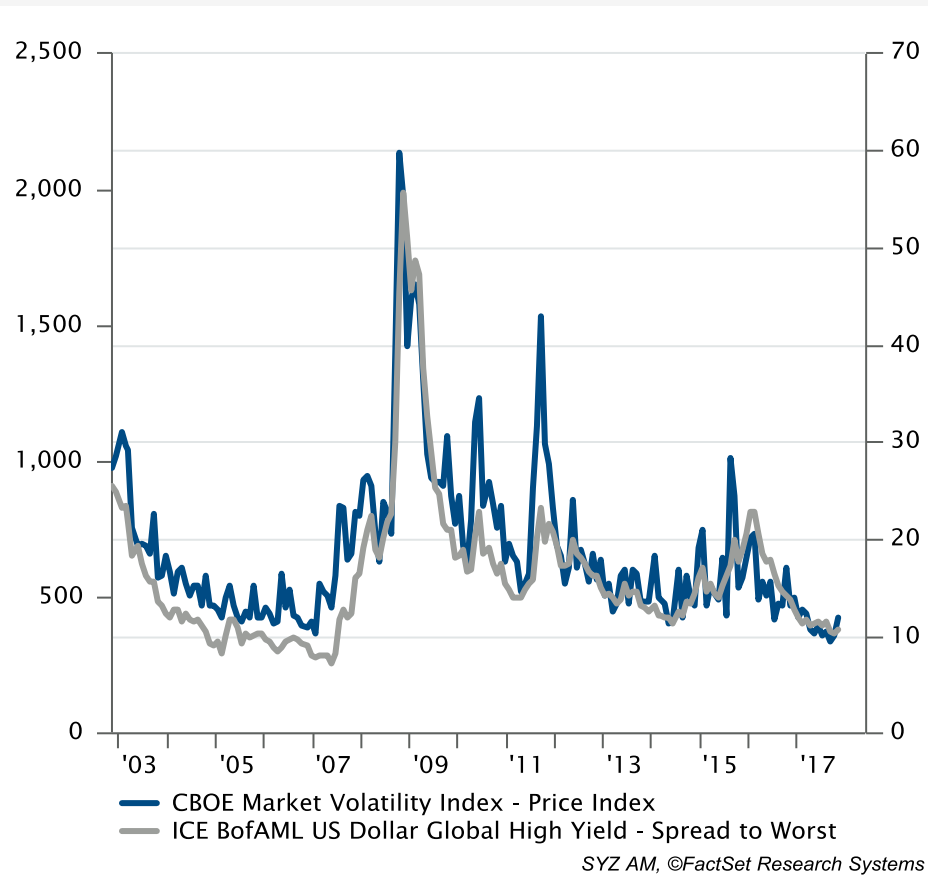
	CHF	EUR			
		GBP			
		JPY			
		CAD			
	Gold	AUD			

◀ Change from last month ▶

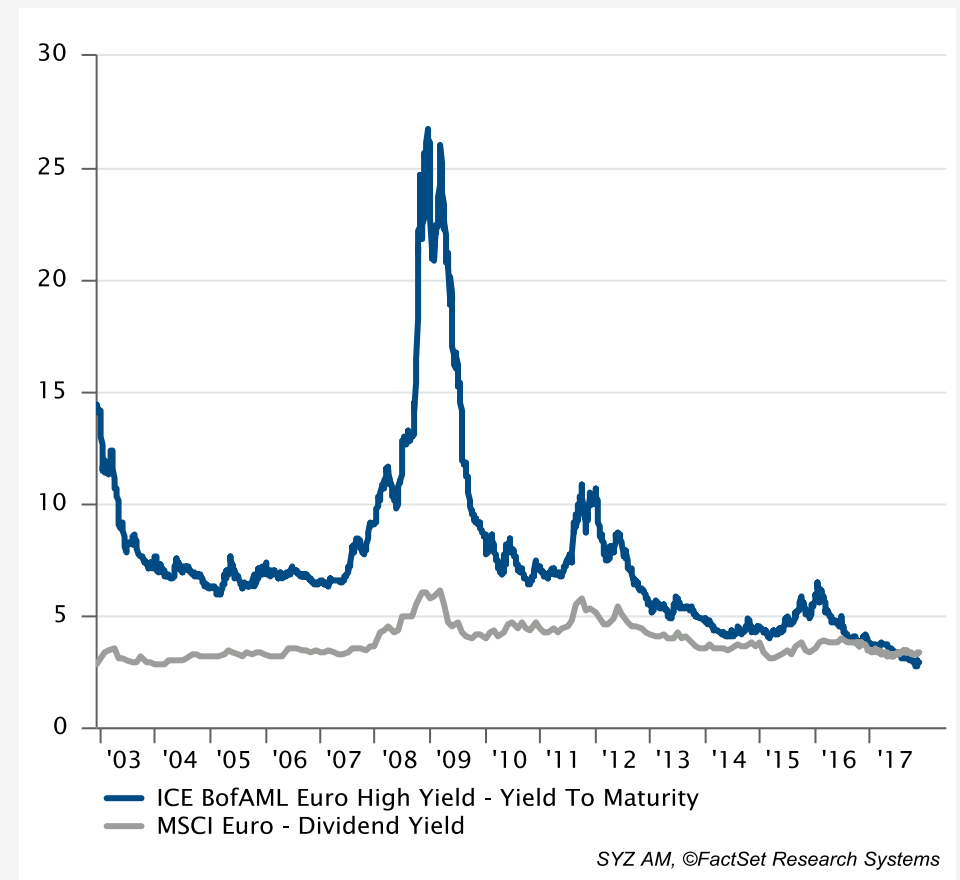
Sources: Investment Strategy Group, SYZ Asset Management, 22.11.2017

WE NOW CLEARLY PREFER EQUITIES OVER HY

US High Yield Spread and VIX exhibits same pattern



European HY doesn't offer anymore a higher yield than European equities!



EQUITIES

SELECT AND CALIBRATE YOUR RISK

‘ISG’ Monthly preferences

- Favour Eurozone and Japan
 - USD stabilization /slight appreciation is unlocking the relative cheapness and overall better macro environment visibility
- EM underperformance:
 - Should continue after the strong rally and without any additional tailwind
- Sectors:
 - Technology is the most at risk of a nominal growth-rates repricing/central banks normalisation going forward
- Pockets of undervaluation/decorrelation/high yielding ideas:
 - Financials (improving fundamentals, decorrelation with long term rates)
 - U.S. small caps
 - Global cyclical stocks (global recovery becomes more and more obvious)
 - Energy (low valuations, catch-up potential with commodities)

2018 Key convictions



- Overall positive performance
 - Especially in H1
 - Higher volatility to expect in H2
- Europe & Japan outperforming
 - Catch-up potential remains intact
 - Low uncertainties surrounding political, economic and monetary policy backdrop
- No big sectorial tilt
 - Financials, Industrials, Materials + Energy sector for valuation purposes
- Risk of correction due to stretched valuations
 - Equities at risk of higher rates and/or lower EPS growth
 - We expect this environment to persist till the next unknown accident

These are the views of the Portfolio Manager at the time of the publication

FIXED INCOME

COULD GET WORSE ON RATES BEFORE IT GETS BETTER

‘ISG’ Monthly preferences

- Some encouraging, but not sufficient improvement on nominal government bonds valuations
- Due to very stretched HY and IG valuations, EM hard and local currency remains the least bad choices... especially if a lower for longer rates environment and a stable-to-weak USD persist
- Slight preference for inflation linked over nominal Govies was kept on the back of valuations and latent inflation concerns
- U.S. and Australia are our top picks in terms of duration

2018 Key convictions



- Some **temporary upward pressures** on rates may resume on the back of **hawkish stance from other central banks (ECB, BoJ)**
- **Short and long term rates** to remain historically **low**
- Flattening yield curve, **adopt a barbell strategy and reduce the belly of the curve**
- Some EM debt remain at relative **attractive levels** (Turkey, Mexico)
- **IG credit** and **HY valuations** have reached expensive levels. Subordinated debt offer relative value, as well as the real estate sector in euros
- European peripheral spreads will not widen much but are subject to **volatility** (political risk)

These are the views of the Portfolio Manager at the time of the publication

FOREX

READING ON CENTRAL BANKERS' LIPS

'ISG' Monthly preferences

- USD weakness should pause but no strong reversion expected

2018 Key convictions



- **USD will weaken**
- **EUR will strengthen against the USD and CHF**
- **GBP stabilizes** (buying opportunity if weakening)
- **Carry trade to resume:**
 - Still strong convictions on MXN
 - TRY, **favourable views** on RUB, ZAR, ARS.
- **Main risk to our views: risk-off environment**

These are the views of the Portfolio Manager at the time of the publication

PREPARE FOR GOLDBLOCKS TAPERING

2018 KEY TAKEAWAYS

Markets adjust to new nominal growth equilibrium and less accommodative central banks monetary policies

EQUITIES

Delivering positive but more volatile returns with limited sectorial dispersion

FIXED INCOME

EUR short-to-medium term bonds at risk. Long term bonds will suffer first before recovering

Credit/High Yield: uncomfortable asymmetry

FOREX

USD weakening
Attractive carry on a handful EM currencies

These are the views of the Portfolio Manager at the time of the publication



A propos de nous

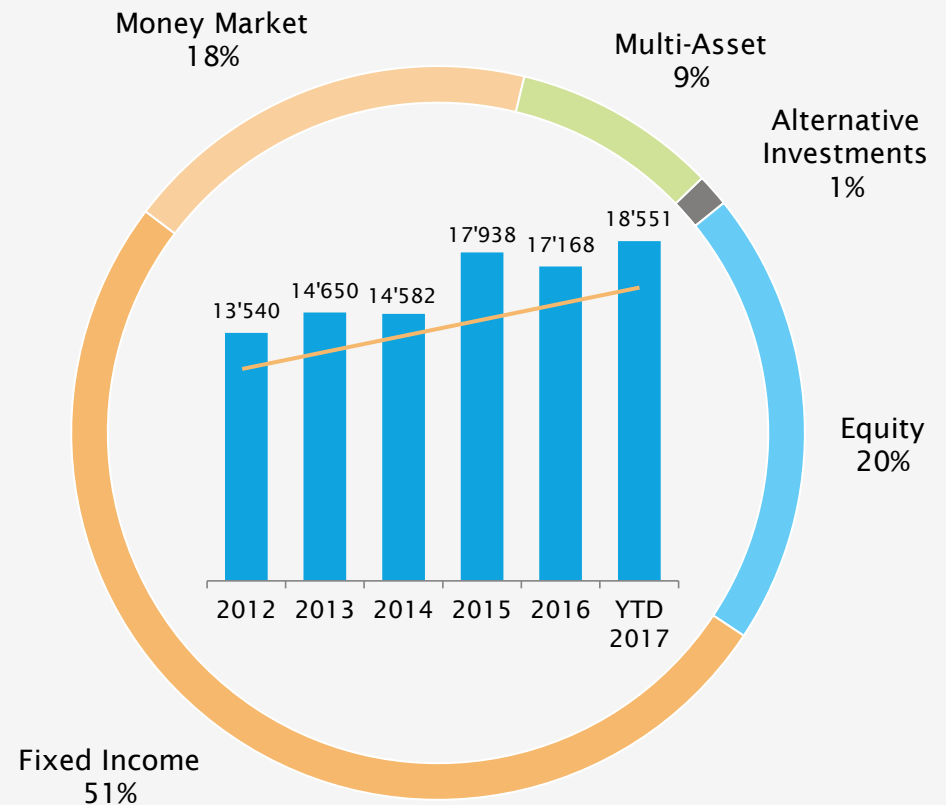
ABOUT US

SYZ ASSET MANAGEMENT

THE HOME OF OYSTER FUNDS

- A leading Institutional Swiss Asset Management Company created in 1996
- CHF 18.5 Bn assets under management
- A conviction based management approach allied with an embedded robust risk monitoring process
- 38 investment professionals out of >100 people

AUM evolution (CHF Mn) & breakdown by asset class as at 31.10.2017



¹Source : SYZ Asset Management as at 31.10.2017



Awarded “Best Swiss Asset Management Company” in the category “26 to 40 rated funds” at the European Fund Trophy 2016




WINNER OF THE 2017
**THOMSON REUTERS
LIPPER FUND AWARDS**
SWITZERLAND

SYZ Asset Management
BEST GROUP OVER 3 YEARS
OVERALL SMALL COMPANY

SYZ GROUP: 20 YEARS OF EXPERTISE

- Founded in 1996 in Geneva, Switzerland, by Eric SYZ, main shareholder
- Total assets under management: CHF 36.3 Bn¹
- 470 employees working in 18 offices worldwide²
- PRI signatory « Principles for Responsible Investment » since 2014

2015
SYZ Group acquired
Royal Bank of Canada
(Suisse) SA



2016
SYZ Bank voted “**Best
Private Banking Boutique**”
for the 3rd consecutive year



2 complementary activities,
same objective:
CREATING PERFORMANCE



¹Figures at 31.12.2016. ²Figures at 31.03.2017

SYZ ASSET MANAGEMENT

CONTACTS

SWITZERLAND

Geneva – Head Office

SYZ Asset Management (Suisse) SA
Rue du Rhône 30
Case Postale 5015
CH – 1211 Genève 11
Tel: +41 (0)58 799 15 00
Fax: +41 (0)58 799 20 00
www.syzassetmanagement.com

Zurich – Representative office

SYZ Asset Management (Schweiz) AG
Dreikönigstrasse 12
CH – 8027 Zürich
Tel: +41 (0)58 799 77 37
Fax: +41 (0)58 799 22 00

LUXEMBOURG

Luxembourg

SYZ Asset Management (Luxembourg) SA
54 rue Charles Martel
L – 2134 Luxembourg
Tel: +352 26 27 36-1

BELGIUM

Brussels Branch

SYZ Asset Management (Luxembourg) SA
38/40 Square de Meeûs
B - 1000 Bruxelles
Tel: +32 (2) 401 61 21

UNITED KINGDOM

London

SYZ Asset Management (Europe) Ltd
Authorised and Regulated by the FCA
Southwest House
11a Regent Street
London SW1Y 4LR
Tel: +44 (0) 20 30 400 500

Edinburgh

SYZ Asset Management (Europe) Ltd
Authorised and Regulated by the FCA
Charlotte Square 31
Edinburgh EH2 4ET
Tel: + 44 (0) 20 30 400 500

ITALY

Milan Branch

SYZ Asset Management (Europe) Ltd
Milan branch
Via Borgonuovo, 16
I-20121 Milano
Tél: (+39) 02 30 30 61

GERMANY

Munich Branch

SYZ Asset Management (Europe) Ltd
Josephspitalstrasse 15, 4th Floor
80331 Munich, Germany
Tel: +49 (0) 89 207040 148

SPAIN

Sucursal en España

SYZ Asset Management (Europe) Ltd
Padilla 17
28006 Madrid
Tel: +34 91 745 84 34

FRANCE

SYZ (France) SASU

Financial investment advisor registered
with ANACOFI under number E002383
8 Place Vendôme
F-75001 Paris
Tél.: +33 1 55 35 98 80
info@syzgroup.com



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