

# Weekly Newsletter



## MARKET OVERVIEW

### EUROZONE

Business climate edged up to 1.45 in May, nearing December's decade highs.

### UNITED KINGDOM

Consumer confidence improved slightly to -7 in May – a level last recorded in March.

### UNITED STATES

Q1 GDP was revised down from 2.3% to 2.2% in the second estimate.

### ASIA & EMERGING COUNTRIES

In China, manufacturing confidence surprised on the upside, rising from 51.4 to 51.9 in May, a 7-month high. Trade tensions with the US have had little impact on business activity so far.

## THEME OF THE WEEK

Emerging markets – headwinds but no crisis

## SUMMARY

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## Emerging markets – headwinds but no crisis

As highlighted last Friday, the last few months have seen the dollar rally, with the DXY index against other advanced world currencies up 4.5% since end March. With sizeable tax cuts boosting the US economy, the Federal Reserve has continued gradual normalization of its monetary policy, scaling back the reinvestment of maturing bonds in US Treasuries and preparing to hike rates at least two more times before end-2018. In previous cycles, the combination of dollar strength and rising US rates has been challenging for emerging markets (EM), as it has represented a marked tightening of financial conditions, both directly and indirectly. What is the outlook this time round?

Emerging market crises tend to show a number of common characteristics:

1. **Weakening currencies.** According to the JP Morgan EM Currency index, emerging currencies have weakened by around 4.9% year-to-date, rather more than the 2.0% decline in advanced economy currencies against the dollar. At current levels, EM look rather oversold and trade close to their lows since the turn of the century.
2. **Rising inflation.** Inflation in the developing world has converged with advanced economies over the past two decades and the International Monetary Fund (IMF) expects this to continue. This has enabled many EM central banks to ease monetary policy to support their domestic economies.
3. **Current account problems.** According the IMF's April 2018 World Economic Outlook, EM economies registered a modest 0.1% aggregate deficit compared to their GDP at end 2017, hardly a worrying imbalance. However, this masks sharp disparities between countries – China and Russia are in surplus while India and Brazil are in deficit.
4. **Breaks in the weakest links.** Recent weeks have seen turmoil in a number of troubled economies, most notably Venezuela, Argentina and Turkey. Each has experienced uncomfortably high inflation – indeed, hyperinflation in Venezuela's case, with prices up over 13'000% year-on-year in April. In Argentina and Turkey, the central banks have been forced to hike rates dramatically to bolster their tumbling currencies, down 44% and 35% respectively over the past two years.

In summary, while the environment has turned less supportive for emerging markets in recent months, we do not believe that the ingredients are in place for an EM crisis. Inflation is generally low, monetary policy supportive and macro fundamentals do not suggest many dangerous imbalances. The above-mentioned exceptions have suffered from economic mismanagement, but this does not appear to be wide-spread.

Bottom line. Emerging assets have underperformed modestly year-to-date, with the MSCI EM index down 3.3% versus -0.5% for the MSCI World, in large part due to currency weakness. While headwinds should continue to blow, earnings growth should be supportive (the IBES consensus for 2018 is +15.7% versus +14.8% for developed markets), valuations are not extreme (the forward P/E is 10.9x versus 14.1x for the MSCI World) and EM currencies are close to multi-decade lows. Our current House Views suggest a neutral stance, with a clear preference for Asia.

# Market News

## This week and next

### EUROZONE

Business climate edged up to 1.45 in May, nearing December's decade highs.

Economic sentiment fell to 125.5 in May but exceeded expectations.

The unemployment rate fell from 8.6% to 8.5% in April instead of the expected 8.4%. This is the lowest rate since December 2008.

In its first estimate, consumer price inflation ex food and energy edged up from 1.1 to 1.3 in May. This 5-year high is encouraging for the European Central Bank.



This week's key events		Period	Prev.	Cons.
05 Jun	Business confidence (final)	May	54.1	--
07 Jun	Revised GDP growth, YoY	Q1	2.5%	--

### UNITED KINGDOM

Consumer confidence improved slightly to -7 in May – a level last recorded in March.

House prices growth slowed to 2.4% YoY in May.

Manufacturing confidence rose to 54.4 in May 2018 from the previous month's 17-month low of 53.9, and well above market expectations of 53.5.



This week's key events		Period	Prev.	Cons.
05 Jun	Services confidence (PMI)	May	52.8	--
07 Jun	Halifax House Prices, MoM	May	-3.1%	--

### UNITED STATES

Q1 GDP was revised down from 2.3% to 2.2% in the second estimate.

Consumer confidence. The Conference Board measure rose from 125.6 to 128 in May. However, the University of Michigan index edged down for the third month in a row, reaching 98 in May.

Durable goods orders fell -1.7% MoM in April versus +2.7% a month earlier.



No key event this week

### ASIA & EMERGING COUNTRIES

In China, manufacturing confidence surprised on the upside, rising from 51.4 to 51.9 in May, a 7-month high. Trade tensions with the US have had little impact on business activity so far.

In Japan, the jobless rate remained unchanged at 2.5% in April which should help wage growth increase. Retail sales growth rose from 1% to 1.6% YoY in April. Consumer price inflation excluding fresh food slowed for the third consecutive month, reaching 0.5% YoY in May vs 0.9% in February.



This week's key events		Period	Prev.	Cons.
05 Jun	Japan: services confidence (PMI)	May	52.5	--
08 Jun	China: trade balance (bn\$)	May	28.38	--

# Market Performance

## MARKETS AT A GLANCE

Interest rates						Government bonds*					
	Last	1wk	3mth	YTD	12mth		1wk	3mth	YTD	12mth	
EONIA (EUR)	-35 bp	1 bp	0 bp	-1 bp	-1 bp	United States (3-7yr)	0.7%	0.7%	-0.9%	-1.4%	
3mth Euribor (EUR)	-32 bp	0 bp	1 bp	1 bp	1 bp	United Kingdom (3-7yr)	0.7%	1.2%	0.0%	-0.8%	
3mth Libor (USD)	232 bp	0 bp	30 bp	63 bp	111 bp	Germany (3-7yr)	0.6%	1.4%	0.7%	-0.1%	
3mth Libor (GBP)	61 bp	0 bp	3 bp	9 bp	32 bp	Japan (3-7yr)	0.0%	0.0%	0.0%	0.0%	
10-year US Treasury bond	286 bp	-12 bp	-1 bp	45 bp	66 bp						
10-year German bond	34 bp	-13 bp	-27 bp	-8 bp	4 bp	Equities**					
10-year French bond	68 bp	-8 bp	-13 bp	1 bp	-4 bp		Last	1wk	3mth	YTD	12mth
10-year UK bond	128 bp	-16 bp	-25 bp	5 bp	31 bp	MSCI AC World	509	-1.1%	-0.9%	0.4%	12.4%
						Eurostoxx 50	3 407	-2.8%	1.5%	-0.1%	-0.7%
						DAX	12 605	-2.0%	1.4%	-2.4%	-0.1%
						CAC 40	5 398	-2.1%	3.8%	4.0%	5.5%
						S&P 500	2 705	-0.8%	0.2%	2.0%	14.4%
						FTSE 100	7 678	-0.4%	7.6%	1.9%	6.3%
						SMI	8 457	-3.6%	-1.9%	-6.8%	-3.0%
						Topix	1 747	-1.6%	-0.3%	-2.9%	13.8%
						IBOV Brazil	76 754	-4.2%	-10.1%	0.5%	22.4%
						MICEX Russia ***	2 303	0.4%	0.3%	9.2%	21.2%
						MSCI EM	1 121	-1.2%	-5.7%	-2.4%	14.4%
						SENSEX 30 India	35 322	2.2%	3.7%	4.9%	15.1%
						Hang Seng (H-K)	30 469	-0.8%	-0.3%	3.0%	23.5%
						Shanghai Composite	3 095	-1.9%	-5.0%	-6.4%	-0.7%
Credit						Commodities					
		1wk	3mth	YTD	12mth		Last	1wk	3mth	YTD	12mth
BAML EURO Corp. IG		0.02%	-0.3%	-0.5%	0.7%	Brent	\$77	-2.5%	17.3%	15.7%	54.2%
BAML EURO Corp HY		-0.69%	-0.9%	-1.2%	1.7%	Gold	\$1 304	-0.1%	-1.2%	0.0%	2.9%
BAML GBP Corp IG		0.63%	0.6%	-1.3%	-0.2%	Silver	\$17	-0.8%	0.5%	-2.9%	-4.8%
BAML US IG		0.66%	-0.2%	-2.6%	0.1%						
BAML US HY		-0.04%	0.0%	-0.3%	2.3%						
JPM Global EM Sov. Plus		-0.4%	-3.1%	-4.8%	-0.7%						
Exchange rates											
	Last	1wk	3mth	YTD	12mth						
EUR/USD	1.17	-0.2%	-4.1%	-2.6%	4.0%						
EUR/CHF	1.15	-0.8%	0.1%	-1.5%	5.9%						
GBP/USD	1.33	-0.6%	-3.3%	-1.5%	3.2%						
USD/JPY	108.82	-0.4%	2.0%	-3.4%	-1.8%						
USD/BRL	3.72	2.0%	14.7%	12.4%	15.4%						
USD/CNY	6.41	0.5%	1.3%	-1.5%	-5.9%						
USD/RUB	62.36	1.3%	10.7%	8.1%	10.1%						

Performance should not be seen as a guarantee of future returns. Source: Datastream, 31 May 2018.

\*Government bonds = 3-7 year returns. \*\*Equities; total return in local currency. \*\*\*Price return for MICEX equity index.

1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets.

## CURRENCIES & COMMODITIES

	Thursday close
EUR/USD	1.17
GBP/USD	1.33
EUR/CHF	1.15
USD/JPY	109
Brent	\$77.1
Gold	\$1,304

Source: Datastream. On 31 May 2018, . Projections of future performance rely on internal calculations and the opinions of Societe Generale Private Banking can change anytime. Performance should not be seen as a guarantee of future returns.

\*\* Starting from the publication day of the Letter.

## Splitska banka structured products (pricing as of 01.06.2018.)

	ISIN	NAME	UNDERLYING	CURRENCY	BONUS	MATURITY	PRICE
1	XS1119148853	5Y EUR DEPOSIT LINKED NOTE	Košarica valuta	EUR	9% p.a.	10/12/2019	92,79%
2	XS1212271008	5Y EUR TWINWIN 65 SX5E100 CAP	Eurostoxx 50	EUR	sudjelujući	12/06/2020	104,60%
3	XS1265964210	5Y EUR DEPOSIT LINKED NOTE	WO Total, Repsol, Statoil	EUR	5,70% p.a.	16/10/2020	99,80%
4	XS1314889129	USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,70% p.a.	17/03/2021	96,72%
5	XS1334783617	AUD CAPPED & FLOORED FLOATER NOTE	AUD-BBR-BBSW	AUD	2,10% p.a.	29/04/2019	99,06%
6	XS1367217558	USD FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,50% p.a.	01/07/2021	97,36%
7	XS1416369285	3Y EUR PHOENIX PLUS WO	ENGIE, E.ON, Enel	EUR	3,0% p.s.	08/08/2019	102,15%
8	XS1417403265	3 Y USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,0% p.a.	12/10/2019	98,83%
9	XS1574509565	3Y EUR PH+ SECURITY WORST OF 70% CA FP MEO GY BN FP 1.50% PQ 22042020	WO Carrefour, Metro, Danone	EUR	1,50% p.q.	22/04/2020	79,21%
10	XS1574472384	3Y EURQ PH + WO 50% HUI SX5E 1.10% PQ 21042020	WO Eurostoxx 50, HUI	EUR	1,10% p.q.	21/04/2020	99,95%
11	XS1706791214	3Y EUR PHOENIX PLUS 60% WO EDF BNP CO 1,91%	WO EDF BNP CO	EUR	1,91% p.q.	04/12/2020	91,54%
12	XS1759355412	3Y EUR PHOENIX PLUS 60% WO ISP UCG 1,95% p q	WO ISP UCG	EUR	1,95% p.q.	01/03/2021	87,86%
13	XS1778765930	4Y EUR PH+ WO SPX,SX5E, CAC 1,0% P.Q.	WO SPX,SX5E, CAC	EUR	1,0% p.q.	28/03/2022	97,92%
14	XS1778577186	18M EUR PHOENIX PLUS 80% VK	WO Vallorec, Arcelormittal	EUR	1,75% p.m	07/10/2019	101,92%
15	XS1778576535	5Y EUR PH+ WO 55% SX7E SXPP SXDP	WO 55% SX7E SXPP SXDP	EUR	0,33% p.m	05/04/2023	95,59%
16	XS1778423894	5 Y USD PHOENIX PLUS SX7E 60% 1,415% p.q	Eurostoxx Banks	USD	1,415% p.q.	20/04/2023	90,83%
17	XS1778379898	5 Y USD PHOENIX PLUS SX7E 60% 1,30% p.q	Eurostoxx Banks	USD	1,30% p.q.	27/04/2023	88,56%
18	XS1797182869	18M EUR PHOENIX PLUS 80% VK	WO Vallorec, Arcelormittal	EUR	1,45% p.m	31/10/2019	96,13%

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ONCOMING OBSERVATIONS IN NEXT 15 DAYS		
ISIN	TICKER	DATE
XS1596972668	3Y USDQ PH+ STEP DOWN WO 70% 9201 JT CHL UN BP LN 2.60%	04.06.2018
XS1667711961	2 Y EUR PHOENIX PLUS RNO 2,0% p.q.	05.06.2018
XS1562505542	3Y USDQ PH+ STEP DOWN WO 70% BAYN GY PFE UN 2.26% P.Q.	06.06.2018
XS1667712852	5 Y EUR PHOENIX PLUS 60% ACA 1,75% p.q.	08.06.2018
XS1314889129	5Y USD FLOORED CAPPED FLOAT 100%KG	14.06.2018

**Important:** There is limited availability of structured products on secondary market so availability should be checked before every transaction.

## Structured products bought on secondary market (pricing as of 01.06.2018.)

	ISIN	NAME	UNDERLYING	CURRENCY	BONUS	MATURITY	PRICE
1	XS1245190555	3Y EUR PHOENIX PLUS 75% SX5E 2,84% P.S. 03092018	EURO STOXX 50	EUR	2.84% p.s.	03/09/2018	102,11%
2	XS1456533634	5Y USD PHOENIX PLUS SECURITY 50% HUI 1.68% P.Q. 19102021	HUI	USD	1,68% p.q.	19/10/2021	102,02%
3	XS1471994811	3Y USDQ PHOENIX PLUS 70% DAI GY 2.40% P.Q. NC2Q 06012020	Daimler	USD	2,40% p.q.	06/01/2020	98,10%
4	XS1472027330	2Y USDQ PH+ WO 70% BMW GY DAI GY VOW3 GY 3.24% P.Q. NC2Q 140119	BMW, DAIMLER, VOLKSWAGEN	USD	3,24% p.q.	14/01/2019	102,76%
5	XS1457486402	5Y USDQ PHOENIX PLUS 60% WO RDS FP 2,25% P.Q.	WO Total Royal Dutch Shell	USD	2,25% p.q.	12/01/2022	100,46%
6	XS1562505542	3Y USD PHOENIX PLUS 70% WO RDS FP 2,26% P.Q.	WO BAYER PFIZER	USD	2,26% p.q.	20/03/2020	101,11%
7	XS1533380355	5Y EUR PHOENIX PLUS 50% CO FP 1,81% P.Q. NC2Q 12052022	Casino Guichard	EUR	1,81% p.q.	12/05/2022	83,38%
8	XS1574623341	3Y CHF PHOENIX PLUS 60% 70% LH	Lafarge Holcim	CHF	3,0% p.s.	22/04/2020	97,95%
9	XS1555608782	5Y USDQ PHOENIX PLUS STEP DOWN 50% CO FP 2,20% P.Q.	Casino Guichard	USD	2,20% p.q.	16/05/2022	79,54%
10	XS1555620720	3Y USDQ PH+ STEP DOWN SEC WO 75% SLB XOM RDSA 2.36% P.Q.	WO Schlumberger, Exxon, Royal Dutch Shell	USD	2,36% p.q.	26/05/2020	99,19%
11	XS1511962331	3Y USD PHOENIX PLUS 80% HUI 7.60% P.S.	HUI	USD	7,60% p.s.	03/03/2020	90,45%
12	XS1622385232	5Y EUR PHOENIX PLUS 70% BNP FP 2.18% P.Q. NC2Q 06062022	BNP	EUR	2,18% p.q.	06/06/2022	91,09%
13	XS1596972668	3Y USDQ PH+ STEP DOWN WO 70% 9201 JT CHL UN BP LN 2.60% P.Q. 16062020	JT, CHL, BP	USD	2,60% p.q.	16/06/2020	95,84%
14	XS1570747094	5Y EURQ PH+ SD SC 75% NOVN SAN PFE ROG 2.12% PQ NC2Q 270622	WO Novartis, Sanofi, Pfizer, Roche	EUR	2,12% p.q.	27/06/2022	87,87%
15	XS1583545865	5Y EUR PHOENIX PLUS 60% CO FP 2% P.Q.	Casino Guichard	EUR	2,0% p.q.	08/08/2022	77,49%
16	XS1622812326	2Y EUR PHOENIX PLUS WO 80% CS FP BNP FP INGA NA 7.62% P.S. 21082019	WO AXA, BNP, ING	EUR	7,62% p.s.	21/08/2019	80,98%
17	XS1242978770	3Y EUR PHOENIX PLUS WORST OF 60% FR FP ML FP VOW3 GY 2% P.Q. 12062018	WO Volkswagen, Valeo, Michelin	EUR	2,0% p.q.	12/06/2018	102,00%
18	XS1620557394	5Y EURQ PH+ SECURITY WO 75% SX5E CAC SMI 1.02% P.Q. NC4Q 29092022	WO SX5E, CAC, SMI	EUR	1,02% p.q.	29/09/2022	98,19%
19	XS1513289469	2Y USDQ PH+ STEP DOWN WO 60% GG NEM ABX 2.40% P.Q. 17052019	WO Goldcorp, Newmont mining, Barrick gold	USD	2,40% p.q.	17/05/2019	97,74%
20	XS1669740976	3Y USDQ PH+ SD WO 70% 2914 JT DAI GY VOW3 GY 2.95% P.Q. 30102020	WO Volkswagen, Daimler, JT	USD	2,95% p.q.	31/10/2020	78,84%
21	XS1658366932	4Y EUR PH+ SD SEC WO 57% RWE EOAN ENGI 1,375% P.Q.	WO EOAN, ENGIE RWE	EUR	1,375% p.q.	07/12/2021	98,64%
22	XS1669454537	1Y EUR PH+ 75% STM FP 4,80% P.S.	ST Microelectronics	EUR	4,80% p.s.	20/11/2018	97,46%
23	XS1667712852	5Y EUR PH+ 60% ACA FP 1,75%	Credit Agricole	EUR	1,75% p.q.	22/12/2022	92,02%
24	XS1667711961	2Y EUR PH+ 70% RNO FP 2%	Renault	EUR	2,0% p.q.	08/01/2020	100,00%
25	XS1706665269	2Y EUR PHOENIX PLUS WO 80% CS FP RNO FP 16.35% P.A. 20122019	Renault, AXA	EUR	16,35% p.a.	20/12/2019	95,72%
26							
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## GLOSSARY

**Accommodative Monetary Policy:** when a central bank attempts to expand the overall money supply to boost the economy when growth is slowing by lowering the interest rate or by purchasing Treasury bonds.

**Basis Points:** A unit that is equal to 1/ 100<sup>th</sup> of 1% and used to denote the change in a financial instrument.

**Bear:** an investor who believes, for any technical or fundamental reason, that a security or the broader market will decline significantly. A bear takes the appropriate steps to limit losses during the period that they believe that the security will decline.

**Ibovespa Index:** The Ibovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange.

**BoC:** Central Bank of Canada

**BoE:** Central Bank of England

**BoJ:** Central Bank of Japan

**CPI (Consumer Price Index):** measures changes in the price level of a market basket of consumer goods and services purchased by households.

**Credit risk:** credit risk is the chance that a bond issuer will not make the coupon payments or principal repayment to its bondholders. In other words, it is the chance the issuer will default.

**Deflation:** a general decline in prices, often caused by a reduction in the supply of money or credit. Deflation can be caused also by a decrease in government, personal or investment spending.

**EPS (Earnings Per Share):** the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

**ECB (European Central Bank):** created in 1998, the European Central Bank determines the monetary policy to be adopted within the Eurozone. To do so, it has various means, in particular the key interest rates. The ECB is responsible for the single currency. Its main mission consists of maintaining price stability within the Euro zone.

**EM/ EC (Emerging markets/ countries):** markets/ countries in the process of rapid growth and industrialization.

**Equity Risk Premium:** The excess return that an individual stock or the overall stock market provides over a risk-free rate.

**Eurostoxx50:** A market capitalization-weighted stock index of 50 large, blue-chip European companies operating within eurozone nations.

**Fed (Federal Reserve):** central bank of the United States and controls the money supply.

**FOMC (Federal Open Market Committee):** The branch of the Federal Reserve Board that determines the direction of monetary policy.

**Guaranteed capital:** on maturity, a capital-guaranteed structured product repays a minimum 100% of the capital invested on expiry. However, the investor bears the risk associated with the issuer of a structured product. If the issuer defaults, there is a risk of loss of capital.

**Hang Seng index (Hong-Kong Index):** A market capitalization-weighted index of 40 of the largest companies that trade on the Hong Kong Exchange. The index aims to capture the leadership of the Hong Kong exchange, and covers approximately 65% of its total market capitalization.

**Investment-grade bonds:** a rating that indicates that a municipal or corporate bond has a relatively low risk of default.

**ISM Manufacturing Index:** monitors employment, production inventories, new orders and supplier deliveries.

**Issuer:** in the case of a structured product, an issuer is an entity that issues and distributes investment products. An issuer may be a bank or a company created specifically for this purpose. In the case of a bond, an issuer is an entity (government, company, government agency etc.) that issues bonds and borrows the amounts required for its financing.

**Long/ Short Strategy:** An investing strategy of taking long positions in stocks that are expected to appreciate and short positions in stocks that are expected to decline.

**Maturity date:** in finance, maturity or maturity date refers to the final payment date of a loan or other financial instrument, at which point the principal (and all remaining interest) is due to be paid. The term fixed maturity is applicable to any form of financial instrument under which the loan is due to be repaid on a fixed date.

**MSCI World Index:** index designed to provide a broad measure of equity-market performance throughout the world. The Index is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

**Overweight:** An analyst's opinion regarding the future performance of a security. Overweight will usually signify that the security is expected to outperform either its industry, sector or, even, the market altogether.

**P/B Value (Price/ Book value):** a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

**P/E ratio (Price/Earning ratio):** the ratio [Share price/earnings per share] reflects the trading price of a share in relation to the expected earnings. As such, the higher this ratio, the more expensive the stock, and vice versa. Note: the P/E ratio also depends on profit growth; companies with high profit growth tend to have a higher P/E.

**PMI composite :** composite of five of the survey indices. These are New orders, Output, Employment, Suppliers' delivery times (inverted) and Stocks of purchases

**PMI (Purchasing Managers Index):** Economic indicator of the manufacturing sector.

**Protected capital:** a product with protected capital does not guarantee the repayment of all the capital invested on maturity. The main risk associated with this type of product is a risk of capital loss, linked to fluctuations in the capital markets. There is a risk part or all of the capital may not be returned, depending on the type of protection.

**QE (Quantative Easing):** An unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply.

**Quarterly Earnings Report:** A quarterly filing made by public companies to report their performance. Included in earnings reports are items such as net income, earnings per share, earnings from continuing operations and net sales. These reports follow the end of each quarter. Most companies file in January, April, July and October.

**S&P500 (SPX Index):** An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

**Structured product:** structured products are investment solutions comprised of a number of financial instruments. They combine one or more financial assets such as equities, currencies, interest rates etc. with a more sophisticated options component.

**Topix stock index:** an index that measures stock prices on the Tokyo Stock Exchange (TSE).

**Underweight:** An analyst's opinion regarding the future performance of a security. Underweight will usually mean that the security is expected to underperform either its industry, sector, or even the market altogether.

**US Dollar Index (DXY):** A measure of the value of the U.S. dollar relative to majority of its most significant trading partners.

**Valuation:** the process of determining the current worth of an asset or company.

**Valuation metric:** assessment method to determine the valuation of an asset such as the P/E for equities.

**Volatility:** volatility is a measure for variation of price of a financial instrument over time.

## EXPLANATION OF RISK LEVELS

For example, risk level R1 corresponds to a defensive risk profile. These indicators are based on the 1-year 95% Value at Risk (VaR). VaR is a measurement of the maximum amount a portfolio could lose under normal market conditions over a given period with a given probability. If the 1-year 95% VaR amounts to x%, this means that there is a 95% probability that the portfolio will not lose more than x% of its value in one year.

Risk classification	0 Lowest Risk	1 Low Risk	2 Medium Risk	3 High Risk	4 - Highest Risk
Loss	There is a 95% probability that the product will not depreciate in value in one year.	There is a 95% probability that the product will not lose more than 5% of its value in one year.	There is a 95% probability that the product will not lose more than 15% of its value in one year.	There is a 95% probability that the product will not lose more than 30% of its value in one year.	There is a minimum of 5% probability that the product will lose more than 30% of its value in one year.

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Risk level

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