

# Weekly Newsletter



## MARKET OVERVIEW

### EUROZONE

Consumer confidence in June reached an 8-month low -0.5, still well above the 10-year average of -13..

### UNITED KINGDOM

In the CBI Industrial Trends survey, total orders surprised on the upside rising from -3 to +13 in June after 5 months of decline. However, the recovery has more to do with domestic demand than exports.

### UNITED STATES

Industrial production slipped 0.1% in May after +0.9% the previous month. Capacity utilization was worse than expected at 77.9% after 78.1% in April.

### ASIA & EMERGING COUNTRIES

In Japan, exports climbed 8.1% YoY in May while imports rose 14%, widening the trade deficit to ¥578.3bn. The Bank of Japan left rates unchanged at -0.1%.

### THEME OF THE WEEK

Emerging markets and the dollar – Love & Hate

## SUMMARY

### INVESTMENT & MARKETS OVERVIEW

- Introduction / p. 2
- Market news and performance p. 3
- Overview of commodities and currencies p. 4

- Conviction list p. 5
- Structured products p. 6

### GLOSSARY

p. 9

## Emerging markets and the dollar – Love & Hate

The fates of emerging market (EM) economies and the US dollar have long been intertwined. Since the dollar replaced sterling as the world's dominant reserve currency, most pricing of raw materials and much invoicing of traded goods has been in US dollars. With many emerging economies largely dependent on exploiting their mineral wealth, it became common to link their currencies, more or less closely, to the dollar. This in turn encouraged governments to finance themselves in USD – interest rates were lower than in domestic markets – creating a structural mismatch between their tax take and liabilities.

It is no surprise therefore that fluctuations in the dollar against local currencies and variations in the cost of borrowing in USD have disproportionate influence on EM sovereign and corporate finances. The countries most at risk tend to be those which are most dependent on external funding, that is with the largest current account deficits. Crises in the EM complex have thus often been triggered by strength in the dollar or spiraling Fed Funds rates. Or both.

In recent years, many EM economies have made great strides in correcting macro imbalances and in reducing their dependence on dollar financing. And a growing asset class has developed in EM local-currency bonds. However, the dollar still holds sway. While economic development has reduced the relative importance of raw material exports, many companies have become increasingly integrated in global supply chains where the dollar dominates.

So, it should come as no surprise that the combination of this year's dollar rally (the Dollar Index against advanced world currencies is up 6.7% from its February low while the JPM index of EM currencies is very close to all-time lows) and the quickening pace of policy normalization by the US Federal Reserve has triggered a sell-off in EM. In addition, rising trade tensions between the US and the rest of the world have raised fears that the international trading system will be undermined – if so, EM have much to lose. According to IIF data, the recent Fed hike and the announcement by President Trump that an additional \$200bn of imports from China would face 10% tariffs triggered a bout of portfolio outflows from EM. Since the June Fed meeting, redemptions have reached some \$5.5bn, with the bulk coming out of EM equities, reversing recent inflows.

Will the dollar's "exorbitant privilege" continue? At present, there are no obvious replacements. The euro zone is still building its institutional framework (although this week's Meseberg agreement between Germany and France does mark a real breakthrough) and full internationalization of the Renminbi is still some way off. However, the US's increasingly isolationist and protectionist stance will hasten the search for alternatives.

Bottom line. Macro fundamentals have improved across EM economies – those with sharp current account deficits, such as Argentina and Turkey, look like the exception rather than the rule. EM currencies look cheap, down 7.2% year-to-date. Growth remains robust – our economists expect real GDP to rise 5% this year after 4.8% in 2017. Yields are relatively attractive, at 6.9% for the EM Investment Grade index, and while earnings growth has slowed, the consensus expects +15.9% for 2018. However, as long as US rates ratchet upwards, trade concerns swirl and outflows continue, EM's love/hate relationship with the strengthening dollar looks rocky. Stay cautious near term.

# Market News

## EUROZONE

Consumer confidence in June reached an 8-month low -0.5, still well above the 10-year average of -13.

In its first estimate, manufacturing confidence fell from 55.5 to 55 in June, while the index for services increased from 53.8 to 55 sending the PMI composite index up from 54.1 to 54.8.

The current account surplus narrowed from €32.8bn to €28.4bn in April but remains close to decade highs.



### This week's key events

	Period	Prev.	Cons.
28 Jun Business climate	Jun	1.45	--
28 Jun Economic sentiment	Jun	112.5	--

## UNITED KINGDOM

In the CBI Industrial Trends survey, total orders surprised on the upside rising from -3 to +13 in June after 5 months of decline. However, the recovery has more to do with domestic demand than exports.

The Bank of England stayed put in light of recent weak economic data, although one of the nine members switched his vote from no-change to hike. However, the BoE said it expected growth to recover soon, which could lead to a rate hike before year-end.



### This week's key events

	Period	Prev.	Cons.
28 Jun Nationwide house price index, YoY	Jun	2.4%	--
--	--	--	--

## UNITED STATES

Industrial production slipped 0.1% in May after +0.9% the previous month. Capacity utilization was worse than expected at 77.9% after 78.1% in April.

Housing starts increased from 1.29m to 1.35m units in May, or 5% MoM. Existing home sales fell -0.4% MoM from 5.45m to 5.43m in May.

Although slightly above expectations, the Q1 current account balance fell to \$-124.1bn, the most negative since the crisis.

Jobless claims were stable at 218k last week vs 221k the week before, showing the job market remains very strong.



### This week's key events

	Period	Prev.	Cons.
19 Jun Consumer confidence	Jun	128	128
21 Jun Durable goods	May	-1.6%	0.2%

## ASIA & EMERGING COUNTRIES

In Japan, exports climbed 8.1% YoY in May while imports rose 14%, widening the trade deficit to ¥-578.3bn. The Bank of Japan left rates unchanged at -0.1%.

In its first estimate, Japanese manufacturing confidence edged up from 52.8 to 53.1 in June. Headline consumer prices rose 0.7% YoY in May versus 0.6% in April.

Contrary to most central banks in the region, the Bank of Thailand kept rates unchanged at 1.5% but raised its GDP growth forecast for this year to 4.4%.



### This week's key events

	Period	Prev.	Cons.
22 Jun Japan: Retail sales, YoY	May	1.5	--

# Market Performance

## MARKETS AT A GLANCE

Interest rates						Government bonds*						
	Last	1wk	3mth	YTD	12mth		1wk	3mth	YTD	12mth		
EONIA (EUR)	-37 bp	0 bp →	0 bp	-2 bp	0 bp	United States (3-7yr)	0.3%	↑	0.4%	-1.2%	-1.7%	
3mth Euribor (EUR)	-32 bp	0 bp →	1 bp	1 bp	1 bp	United Kingdom (3-7yr)	0.1%	↑	1.2%	-0.3%	-1.0%	
3mth Libor (USD)	234 bp	0 bp →	6 bp	64 bp	105 bp	Germany (3-7yr)	0.4%	↑	1.2%	0.8%	0.2%	
3mth Libor (GBP)	64 bp	1 bp →	0 bp	11 bp	35 bp	Japan (3-7yr)	0.0%	→	0.0%	0.0%	0.1%	
10-year US Treasury bond	290 bp	-5 bp ↓	-1 bp	48 bp	74 bp							
10-year German bond	33 bp	-10 bp ↓	-26 bp	-9 bp	6 bp	Equities**						
10-year French bond	63 bp	-8 bp ↓	-9 bp	-4 bp	2 bp		Last	1wk	3mth	YTD	12mth	
10-year UK bond	133 bp	-6 bp ↓	-24 bp	10 bp	37 bp	MSCI AC World	509	-1.9%	↓	-0.6%	0.6%	12.1%
						Eurostoxx 50	3 404	-3.5%	↓	2.6%	0.0%	-0.8%
						DAX	12 512	-4.5%	↓	1.7%	-3.1%	-2.1%
						CAC 40	5 316	-3.8%	↓	4.1%	2.8%	4.1%
						S&P 500	2 750	-1.2%	↓	1.9%	3.8%	15.1%
						FTSE 100	7 556	-2.7%	↓	8.8%	0.5%	5.6%
						SMI	8 460	-2.7%	↓	-1.8%	-6.8%	-2.6%
						Topix	1 751	-1.9%	↓	3.0%	-2.7%	10.9%
						IBOV Brazil	70 075	-1.9%	↓	-17.5%	-8.3%	15.3%
						MICEX Russia ***	2 246	-0.3%	↓	-2.8%	6.5%	21.4%
						MSCI EM	1 080	-4.0%	↓	-10.1%	-5.8%	10.2%
						SENSEX 30 India	35 432	-0.5%	↓	7.4%	5.4%	14.7%
						Hang Seng (H-K)	29 296	-3.7%	↓	-5.6%	-0.6%	18.6%
						Shanghai Composite	2 876	-5.5%	↓	-12.3%	-13.0%	-8.9%
Credit						Commodities						
		1wk	3mth	YTD	12mth		Last	1wk	3mth	YTD	12mth	
BAML EURO Corp. IG		0.36%	↑	0.3%	-0.2%	Brent	\$74	-3.1%	↓	6.3%	10.6%	60.7%
BAML EURO Corp HY		-0.13%	↓	-0.5%	-0.8%	Gold	\$1 268	-2.9%	↓	-4.3%	-2.7%	1.8%
BAML GBP Corp IG		0.13%	↑	1.0%	-1.2%	Silver	\$16	-5.3%	↓	-1.0%	-4.1%	-0.5%
BAML US IG		-0.17%	↓	-0.4%	-3.4%							
BAML US HY		-0.05%	→	1.4%	0.6%							
JPM Global EM Sov. Plus		-0.37%	↓	-4.2%	-6.3%							
Exchange rates												
	Last	1wk	3mth	YTD	12mth							
EUR/USD	1.16	0.3%	↑	-6.0%	-3.4%							
EUR/CHF	1.15	-0.2%	↓	-1.8%	-1.7%							
GBP/USD	1.33	-0.1%	→	-6.3%	-1.9%							
USD/JPY	110.00	-0.6%	↓	3.7%	-2.4%							
USD/BRL	3.77	-1.0%	↓	15.2%	13.8%							
USD/CNY	6.49	1.4%	↑	2.7%	-0.2%							
USD/RUB	63.64	1.7%	↑	11.9%	10.4%							

Performance should not be seen as a guarantee of future returns. Source: Datastream, 21 June 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	1.16
GBP/USD	1.33
EUR/CHF	1.15
USD/JPY	111
Brent	\$76.1
Gold	\$1,306

Source: Datastream. On 21 June 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 22.06.2018.)

	ISIN	NAME	UNDERLYING	CURRENCY	BONUS	MATURITY	PRICE
1	XS1119148853	5Y EUR DEPOSIT LINKED NOTE	Košarica valuta	EUR	9% p.a.	10/12/2019	92,92%
2	XS1212271008	5Y EUR TWINWIN 65 SX5E100 CAP	Eurostoxx 50	EUR	sudjelujući	12/06/2020	104,08%
3	XS1265964210	5Y EUR DEPOSIT LINKED NOTE	WO Total, Repsol, Statoil	EUR	5,70% p.a.	16/10/2020	99,88%
4	XS1314889129	USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,70% p.a.	17/03/2021	96,24%
5	XS1334783617	AUD CAPPED & FLOORED FLOATER NOTE	AUD-BBR-BBSW	AUD	2,10% p.a.	29/04/2019	99,03%
6	XS1367217558	USD FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,50% p.a.	01/07/2021	97,63%
7	XS1416369285	3Y EUR PHOENIX PLUS WO	ENGIE, E.ON, Enel	EUR	3,0% p.s.	08/08/2019	102,55%
8	XS1417403265	3 Y USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,0% p.a.	12/10/2019	98,82%
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	74,98%
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	100,38%
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	87,93%
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	86,50%
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	97,34%
14	XS1778577186	18M EUR PHOENIX PLUS 80% VK	WO Vallorec, Arcelormittal	EUR	1,75% p.m.	07/10/2019	102,89%
15	XS1778576535	5Y EUR PH+ WO 55% SX7E SXPP SXDP	WO 55% SX7E SXPP SXDP	EUR	0,33% p.m.	05/04/2023	94,35%
16	XS1778423894	5 Y USD PHOENIX PLUS SX7E 60% 1,415% p.q	Eurostoxx Banks	USD	1,415% p.q.	20/04/2023	90,27%
17	XS1778379898	5 Y USD PHOENIX PLUS SX7E 60% 1,30% p.q	Eurostoxx Banks	USD	1,30% p.q.	27/04/2023	87,90%
18	XS1797182869	18M EUR PHOENIX PLUS 80% VK	WO Vallorec, Arcelormittal	EUR	1,45% p.m.	31/10/2019	96,29%

ONCOMING OBSERVATIONS IN NEXT 15 DAYS		
ISIN	TICKER	DATE
XS1457486402	5Y USDQ PH+ WO 60% RDSA NA FP FP 2.25% P.Q. NC2Q 12012022	29.06.2018
XS1367217558	5Y USD FLOORED FLOATER NOTE	29.06.2018
XS1472027330	2Y USDQ PH+ WO 70% BMW GY DAI GY VOW3 GY 3.24% P.Q.	29.06.2018
XS1778577186	18M EUR PHOENIX PLUS 80% VK MT	29.06.2018
XS1778576535	5Y EUR PH+ WO 55% SX7E SXPP SXDP 0,33% P.M.	29.06.2018
XS1574509565	3Y EUR PH+ SECURITY WORST OF 70% CA FP MEO GY BN FP 1.50%	04.07.2018
XS1456533634	5Y USD PHOENIX PLUS SECURITY 50% HUI 1,68% P.Q. 19102021	05.07.2018
XS1816572785	18M EUR PHOENIX PLUS 80% VK FTI	09.07.2018
XS1816572199	18M USD PHOENIX PLUS 80% VK MT	09.07.2018
XS1816573247	5Y EUR PH+ WO 75% SX7E SXPP SXDP 0,39% P.M.	09.07.2018
XS1574472384	3Y EURQ PHOENIX PLUS WORST OF 50% HUI SX5E 1.10% P.Q.	11.07.2018

**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 22.06.2018.)

	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	102,14%
2	XS1456533634	5Y USD PHOENIX PLUS SECURITY 50% HUI 1.68% P.Q. 19102021	HUI	USD	1,68% p.q.	19/10/2021	102,32%
3	XS1471994811	3Y USDQ PHOENIX PLUS 70% DAI GY 2.40% P.Q. NC2Q 06012020	Daimler	USD	2,40% p.q.	06/01/2020	91,78%
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	100,23%
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	101,02%
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	102,26%
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	72,54%
8	XS1574623341	3Y CHF PHOENIX PLUS 60% 70% LH	Lafarge Holcim	CHF	3,0% p.s.	22/04/2020	96,91%
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	70,22%
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	99,52%
11	XS1511962331	3Y USD PHOENIX PLUS 80% HUI 7.60% P.S.	HUI	USD	7,60% p.s.	03/03/2020	89,63%
12	XS1622385232	5Y EUR PHOENIX PLUS 70% BNP FP 2.18% P.Q. NC2Q 06062022	BNP	EUR	2,18% p.q.	06/06/2022	91,27%
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	92,45%
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	90,67%
15	XS1583545865	5Y EUR PHOENIX PLUS 60% CO FP 2% P.Q.	Casino Guichard	EUR	2,0% p.q.	08/08/2022	67,09%
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	80,07%
17	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	98,02%
18	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	98,88%
19	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	82,85%
20	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	97,30%
21	XS1669454537	1Y EUR PH+ 75% STM FP 4,80% P.S.	ST Microelectronics	EUR	4,80% p.s.	20/11/2018	97,97%
22	XS1667712852	5Y EUR PH+ 60% ACA FP 1,75%	Credit Agricole	EUR	1,75% p.q.	22/12/2022	88,82%
23	XS1667711961	2Y EUR PH+ 70% RNO FP 2%	Renault	EUR	2,0% p.q.	08/01/2020	98,59%
24	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	92,91%
25							
26							
27							
28							
29							
30							

## 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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