

# Weekly Newsletter



## MARKET OVERVIEW

### EUROZONE

The eurozone's current account surplus narrowed from €24.4bn to €23.5bn in June but the 12-month cumulative surplus rose to 3.6% of GDP vs 3.2% a year ago.

### UNITED KINGDOM

The CBI industrial trends survey saw total orders fall from 11% to 7% in August, while expectations were for 8%.

### UNITED STATES

The University of Michigan sentiment index fell more than expected, reaching its lowest level since September 2017 at 95.3 in August.

### ASIA & EMERGING COUNTRIES

In Japan, manufacturing confidence picked up from 52.3 to 52.5 on first estimate although export orders failed to rise for a third straight month. The Tankan business survey among 400 major firms improved from 25 to 30 in August after a low at 21 in April.

### THEME OF THE WEEK

Italy – Not so Dolce

## SUMMARY

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### GLOSSARY

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### Observation date in next two weeks

ISIN	TICKER	DATE
XS1778577186	18M EUR PHOENIX PLUS 80% VK MT 5Y EUR PH+ WO 55% SX7E SXPP SXDP	29.8.2018
XS1778576535	0,33% P.M. 3Y USDQ PH+ STEP DOWN WO 70% 9201 JT CHL UN BP LN 2.60% P.Q.	29.8.2018
XS1596972668	16062020	4.9.2018
XS1667711961	2 Y EUR PHOENIX PLUS RNO 2,0% p.q.  5 Y EUR PHOENIX PLUS 60% ACA	5.9.2018
XS1667712852	1,75% p.q.	10.9.2018
XS1816572785	18M EUR PHOENIX PLUS 80% VK FTI	10.9.2018
XS1816572199	18M USD PHOENIX PLUS 80% VK MT 5Y EUR PH+ WO 75% SX7E SXPP SXDP	10.9.2018
XS1816573247	0,39% P.M.	10.9.2018

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## Italy – Not so Dolce

Ever since a coalition was cobbled together by the populists on opposite ends of the political spectrum, investors have worried that their eurosceptic posture and spending plans could end up pushing Italy out of the eurozone. The country's role as a founding member of the European Union and its sheer size – the third largest economy in the zone – mean that contagion of such problems to its neighbours could be swift.

While Italy has experienced a cyclical recovery in recent quarters, the country has lagged its peers since the introduction of the euro. Its sclerotic parliamentary system – both chambers have equal powers – and inability to implement structural reforms have seen growth stagnate and debt-to-GDP ratios remain double the limits set out in 1992's Maastricht treaty. This has forced the country to maintain fiscal austerity via a primary budget surplus (i.e. 2017 tax revenues exceeded government spending, before taking into account debt service, to the tune of 1.5% of GDP according to OECD data), ensuring its continued investment-grade rating, access to capital markets and support from the ECB's asset purchase programme.

This helps explain why the new government's spending plans have so worried markets. They combine key manifesto promises from both La Liga (e.g. flat tax rates for businesses and households) and Movimento 5 Stelle (universal basic income) and add up to around €120bn or 6.7% of GDP. Of course, the 2019 budget will be scrutinized by the European Commission. This will happen in two stages: the Finance Ministry must submit the annual update to its medium-term fiscal plans before September 27, and then the draft budget by October 15.

There are two conflicting approaches. The Finance Minister has outlined plans which would increase the overall 2019 budget deficit from 0.8% to 2.0% of GDP while the two deputy Prime Ministers – and heads of the coalition partners – are pushing for 3.0%, putting the country at risk of breaching the Maastricht threshold. Given the risk of a marked deterioration of public finances, it is no surprise that Italian government bond (BTP) yield spreads over Germany have widened since coalition talks began in the spring, from around 115bp to 265bp. At the same time, 5yr credit default swaps (which measure the cost of insuring against default) have shot up from below 100 to 250.

Italy's woes are also under scrutiny by debt-rating agencies, which have BTPs on negative watch. Moody's ranks BTPs at Baa2, just two notches above High Yield, a level below which they might no longer be eligible for ECB buying. Moody's next review, due by end August, has now been postponed until October so as to factor in the draft budget. However, nothing on the table today looks like preventing downward pressure on the rating.

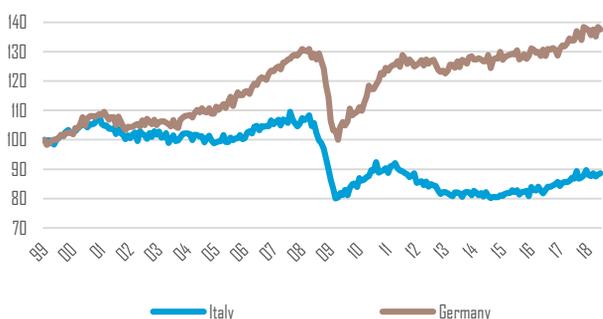
This puts pressure on Italy's banks, which hold some €350bn in BTPs. According to Reuters, the ratio of Common Equity Tier 1 capital of Italy's 10 largest banks to their risk-weighted assets would fall by 40bp for every 100bp rise in BTP spreads vs Bunds. This negative spiral would do much to undo the benefit that Italy's banking system has gained by reducing the drag from non-performing loans, still the largest in the eurozone but well down from 2015's highs.

Bottom line. If Italy's budget is rejected by parliament or by the Commission, the viability of the coalition would be called into question, possibly opening the door to new elections next spring. Moreover, the negative feedback loop – higher deficits bring higher spreads, meaning weaker banks and slower growth – could create a snowballing of government debt. In this context, we would expect BTPs to continue to underperform Spanish bonds.

Source: Societe Generale Private Banking, Strategy, 27/08/2018

### Italian industrial production is not even back to pre-crisis levels

Industrial production ex construction, seasonally-adjusted, 100 = 01/01/1999



Source: Datastream, latest data = June 2018

### Political tensions have erased three years of gains on Italian bonds

10-year government bond yield spread (%)



Source: Datastream, 22/08/2018

# Market News

## This week and next

### EUROZONE

The eurozone's current account surplus narrowed from €24.4bn to €23.5bn in June but the 12-month cumulative surplus rose to 3.6% of GDP vs 3.2% a year ago.

Headline inflation was confirmed at 2.1% YoY in July, its highest level since January 2013, while the index excluding volatile items edged up from 0.9% to 1.1% YoY in July.

The flash estimate for eurozone manufacturing confidence fell from 55.1 to 54.6 in August – a 21-month low – while services confidence rose from 54.2 to a 2-month record of 54.4 sending the composite index to 54.4, a 2-month high.

Consumer confidence for August (advanced figures) declined further and posted its lowest level in a year at -1.9 in August, well below expectations (-0.7).



This week's key events	Period	Prev.	Cons.
30 Aug Economic sentiment	Aug	112.1	111.9
31 Aug Unemployment rate	Jul	8.3%	8.2%
31 Aug Core CPI	Aug A	1.1%	1.1%

### UNITED KINGDOM

The CBI industrial trends survey saw total orders fall from 11% to 7% in August, while expectations were for 8%.

Public sector net borrowing (ex. banks) dropped from £4.2bn to £-2bn in July, its lowest level since 2002.



This week's key events	Period	Prev.	Cons.
30 Aug Consumer credit (£bn)	Jul	1.57	1.60
31 Aug GfK consumer confidence	Aug	-10	-11

### UNITED STATES

The University of Michigan sentiment index fell more than expected, reaching its lowest level since September 2017 at 95.3 in August.

On first estimate, US manufacturing confidence hit a 9-month low at 54.5 in August (after 55.3) while expectations were for 55.0. The services business activity index was down from 56.0 to 55.2, a 4-month low. The composite index decreased to a 4-month low of 55.0 from 55.7 in July.

Existing home sales narrowed for the fourth straight month in July to 5.34m while new homes sales recorded a 9-month low.



This week's key events	Period	Prev.	Cons.
28 Aug Consumer conf. (conf. board)	Aug	127.4	126.2
29 Aug GDP growth, % YoY	Q2 A	2.2%	4.0%

### ASIA & EMERGING COUNTRIES

Japan, manufacturing confidence picked up from 52.3 to 52.5 on first estimate although export orders failed to rise for a third straight month. The Tankan business survey among 400 major firms improved from 25 to 30 in August after a low at 21 in April.

Japanese core inflation remained unchanged at 0.8% YoY in July, just below expectations (0.9%).

In China, M2 money supply beat expectations and rebounded from its June all-time low (8% YoY) to 8.5% in July. Loan growth returned to its January levels (13.2% YoY in July), beating expectations.

Malaysian GDP growth declined from 5.4% to 4.5% YoY in Q2 and the growth forecast for this year was revised down to 5%.



This week's key events	Period	Prev.	Cons.
30 Aug Japan: retail sales, % YoY	Jul	1.7%	1.2%
31 Aug Japan: unemployment rate	Jul	2.4%	2.4%

# Market Performance

## MARKETS AT A GLANCE

### Interest rates

	Last	1w k	3mth	YTD	12mth
EONIA (EUR)	-36 bp	0 bp →	0 bp	-2 bp	-1 bp
3mth Euribor (EUR)	-32 bp	0 bp →	0 bp	1 bp	1 bp
3mth Libor (USD)	231 bp	-1 bp ↓	-2 bp	62 bp	99 bp
3mth Libor (GBP)	81 bp	0 bp →	19 bp	28 bp	53 bp
10-year US Treasury bond	283 bp	-5 bp ↓	-19 bp	42 bp	66 bp
10-year German bond	34 bp	3 bp ↑	-16 bp	-8 bp	4 bp
10-year French bond	62 bp	2 bp ↑	-18 bp	-4 bp	-6 bp
10-year UK bond	132 bp	4 bp ↑	-16 bp	9 bp	22 bp

### Credit

	1w k	3mth	YTD	12mth
BAML EURO Corp. IG	-0,2% ↓	0,6 %	-0,1 %	0,3 %
BAML EURO Corp HY	0,2% ↑	0,5 %	-0,1 %	1,4 %
BAML GBP Corp IG	-0,3% ↓	1,3 %	-0,8 %	-0,5 %
BAML US IG	0,3% ↑	1,9 %	-1,6 %	-0,5 %
BAML US HY	0,3% ↑	2,1 %	1,8 %	3,7 %
JPM Global EM Sov. Plus	0,8% ↑	-0,5 %	-5,3 %	-3,3 %

### Exchange rates

	Last	1w k	3mth	YTD	12mth
EUR/USD	1,15	1,4 % ↑	-1,4 %	-3,9 %	-2,3%
EUR/CHF	1,14	0,3 % ↑	-2,3 %	-2,8 %	-0,2%
GBP/USD	1,28	0,7 % ↑	-4,0 %	-5,1 %	0,1%
USD/JPY	111	0,4 % ↑	1,1 %	-1,2 %	2,1%
USD/BRL	4,12	5,3 % ↑	13,4 %	24,2 %	31,0%
USD/CNY	6,88	-0,1 % →	7,7 %	5,7 %	3,3%
USD/RUB	68,2	2,1 % ↑	11,3 %	18,3 %	15,5%

### Government bonds\*

	1w k	3mth	YTD	12mth
United States (3-7yr)	0,2 % ↑	1,2 %	-0,5 %	-1,6 %
United Kingdom (3-7yr)	-0,1 % ↓	0,7 %	-0,2 %	-1,0 %
Germany (3-7yr)	-0,2 % ↓	0,6 %	0,7 %	0,0 %
Japan (3-7yr)	0,0 % →	-0,1 %	-0,1 %	-0,1 %

### Equities\*

	Last	1w k	3mth	YTD	12mth
MSCI AC World	517	1,1 % ↑	0,8 %	2,5 %	11,7 %
Eurostoxx 50	3 419	1,2 % ↑	-2,7 %	0,6 %	3,0 %
DAX	12 366	1,1 % ↑	-4,7 %	-4,3 %	1,6 %
CAC 40	5 419	1,3 % ↑	-1,6 %	4,9 %	9,4 %
S&P 500	2 857	0,6 % ↑	5,0 %	8,2 %	19,2 %
FTSE 100	7 563	0,2 % ↑	-1,6 %	1,6 %	6,7 %
SMI	9 050	0,6 % ↑	2,9 %	-0,3 %	4,5 %
Topix	1 698	0,7 % ↑	-5,3 %	-5,5 %	8,4 %
IBOV Brazil	75 634	-1,5 % ↓	-6,5 %	-1,0 %	7,3 %
MICEX Russia *	2 260	0,0 % →	-1,6 %	7,1 %	15,4 %
MSCI EM	1 048	2,7 % ↑	-6,2 %	-7,6 %	0,1 %
SENSEX 30 India	38 337	1,8 % ↑	12,4 %	14,4 %	22,9 %
Hang Seng (H-K)	27 790	2,6 % ↑	-7,8 %	-4,6 %	5,1 %
Shanghai Composite	2 725	0,7 % ↑	-14,0 %	-17,6 %	-17,1 %

### Commodities

	Last	1w k	3mth	YTD	12mth
Brent	\$75	4,9 % ↑	-5,5 %	12,2 %	42,6 %
Gold	\$1 190	0,7 % ↑	-8,1 %	-8,7 %	-7,7 %
Silver	\$14,6	-1,3 % ↓	-11,0 %	-14,2 %	-14,2 %

Performance should not be seen as a guarantee of future returns. Source: Datastream. 23 August 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	1.15
GBP/USD	1.28
EUR/CHF	1.14
USD/JPY	111
Brent	\$74.7
Gold	\$1190

Source: Datastream. On 23 August 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 24.08.2018.)

	ISIN	NAME	UNDERLYING	CURRENCY	BONUS	MATURITY	PRICE
1	XS1119148853	5Y EUR DEPOSIT LINKED NOTE	Košarica valuta	EUR	9% p.a.	10/12/2019	93,33%
2	XS1212271008	5Y EUR TWINWIN 65 SX5E100 CAP	Eurostoxx 50	EUR	sudjelujući	12/06/2020	104,84%
3	XS1265964210	5Y EUR DEPOSIT LINKED NOTE	WO Total, Repsol, Statoil	EUR	5,70% p.a.	16/10/2020	102,43%
4	XS1314889129	USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,70% p.a.	17/03/2021	97,05%
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	98,20%
7	XS1416369285	3Y EUR PHOENIX PLUS WO	ENGIE, E.ON, Enel	EUR	3,0% p.s.	08/08/2019	100,57%
8	XS1417403265	3 Y USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,0% p.a.	12/10/2019	99,08%
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	81,01%
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	97,30%
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	81,13%
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	76,31%
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	97,36%
14	XS1778577186	18M EUR PHOENIX PLUS 80% VK	WO Vallorec, Arcelormittal	EUR	1,75% p.m.	07/10/2019	101,42%
15	XS1778576535	5Y EUR PH+ WO 55% SX7E SXPP SXDP	WO SX7E SXPP SXDP	EUR	0,33% p.m.	05/04/2023	90,79%
16	XS1778423894	5 Y USD PHOENIX PLUS SX7E 60% 1,415% p.q	Eurostoxx Banks	USD	1,415% p.q.	20/04/2023	86,24%
17	XS1778379898	5 Y USD PHOENIX PLUS SX7E 60% 1,30% p.q	Eurostoxx Banks	USD	1,30% p.q.	27/04/2023	83,79%
18	XS1797182869	18M EUR PHOENIX PLUS 80% VK	WO Vallorec, Arcelormittal	EUR	1,45% p.m.	31/10/2019	94,33%
19	XS1816572785	18M EUR PHOENIX PLUS 80% VK FTI	WO Vallorec, Technip	EUR	1,75% p.m.	16/12/2019	92,56%
20	XS1816572199	18M USD PHOENIX PLUS 80% VK MT.- SG CIB	WO Vallorec, Arcelormittal	USD	1,91% p.m.	16/12/2019	92,19%
21	XS1816573247	5Y EUR PH+ WO 75% SX7E SXPP SXDP 0,33% P.M-SG CIB	WO SX7E SXPP SXDP	EUR	0,39% p.m.	15/06/2023	91,43%
22	XS1842908557	4Y USD TWIN WIN CL1	CL1	USD	sudjelujući	08/08/2022	97,76%

**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 24.08.2018.)

	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	102,84%
2	XS1456533634	5Y USD PHOENIX PLUS SECURITY 50% HUI 1.68% P.Q. 19102021	HUI	USD	1,68% p.q.	19/10/2021	100,46%
3	XS1471994811	3Y USDQ PHOENIX PLUS 70% DAI GY 2.40% P.Q. NC2Q 06012020	Daimler	USD	2,40% p.q.	06/01/2020	90,18%
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	97,02%
5	XS1533380355	5Y EUR PHOENIX PLUS 50% CO FP 1,81% P.Q. NC2Q 12052022	Casino Guichard	EUR	1,81% p.q.	12/05/2022	65,31%
6	XS1574623341	3Y CHF PHOENIX PLUS 60% 70% LH	Lafarge Holcim	CHF	3,0% p.s.	22/04/2020	98,28%
7	XS1555608782	5Y USDQ PHOENIX PLUS STEP DOWN 50% CO FP 2,20% P.Q.	Casino Guichard	USD	2,20% p.q.	16/05/2022	63,19%
8	XS1511962331	3Y USD PHOENIX PLUS 80% HUI 7.60% P.S.	HUI	USD	7,60% p.s.	03/03/2020	73,44%
9	XS1622385232	5Y EUR PHOENIX PLUS 70% BNP FP 2.18% P.Q. NC2Q 06062022	BNP	EUR	2,18% p.q.	06/06/2022	89,36%
10	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	97,09%
11	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	97,19%
12	XS1583545865	5Y EUR PHOENIX PLUS 60% CO FP 2% P.Q.	Casino Guichard	EUR	2,0% p.q.	08/08/2022	59,14%
13	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	75,73%
14	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	98,88%
15	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	83,51%
16	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	76,55%
17	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	98,99%
18	XS1669454537	1Y EUR PH+ 75% STM FP 4,80% P.S.	ST Microelectronics	EUR	4,80% p.s.	20/11/2018	95,12%
19	XS1667712852	5Y EUR PH+ 60% ACA FP 1,75%	Credit Agricole	EUR	1,75% p.q.	22/12/2022	90,97%
20	XS1667711961	2Y EUR PH+ 70% RNO FP 2%	Renault	EUR	2,0% p.q.	08/01/2020	95,93%
21	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	92,42%
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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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