

Weekly Newsletter



MARKET OVERVIEW

EUROZONE

- Investor sentiment reached a 4-year low, slipping from -1.5 to - 3.7 in February.

UNITED KINGDOM

- All nine voting members at the Bank of England's Monetary Policy Committee agreed to maintain the base rate unchanged at 0.75%.

UNITED STATES

- The trade deficit narrowed more than expected, from \$55.7bn in October to \$49.3bn in November due to a decline in imports.

ASIA & EMERGING COUNTRIES

- In Japan, confidence in services edged up from 51.0 to 51.6 in January supported by sustained domestic activity, while in China, confidence in services decreased slightly from 53.9 to 53.6.

THEME OF THE WEEK

Rainy days for eurozone banks

SUMMARY

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Observation date in next two weeks		
ISIN	TICKER	DATE
XS1864698011	18M EUR PHOENIX PLUS 80% TUI BKNG TRIP	18/02/2019
XS1511962331	3Y USD PHOENIX PLUS 80% HUI 7.60% P.S. 03032020	19/02/2019
XS1759355412	3 Y EUR PHOENIX PLUS 60% WO ISP UCG 1,95% p q	20/02/2019
XS1622385232	5Y EUR PHOENIX PLUS 70% BNP FP 2.18% P.Q. NC2Q 06062022	22/02/2019
XS1658366932	4Y EUR PHOENIX PL SD WO RWE EOAN ENGIE 1,375% P.Q.	25/02/2019
XS1797182869	18M EUR PHOENIX PLUS 80% VK MT	25/02/2019



Rainy days for eurozone banks

Given the significant underperformance of eurozone banks last year, the sector is now one of the most attractively valued with an average price-to-book ratio at 0.6, whereas US banks trade at 1.3 (source: MSCI, 8 February 2019). Although banks in both areas encountered numerous challenges in the wake of the global financial crisis, eurozone banks still face significant hurdles. Their underperformance is no surprise.

Regulatory environment. Bank profitability has been significantly dented by a much stricter regulatory environment. Preventing excessive risk taking and fostering a sound and transparent banking system made great sense after the crisis. But the rising tide of new regulations, lower leverage, higher capital ratios and more stringent funding rules have structurally lowered profitability.

Litigation. Financial penalties have been a persistent drag on profits for eurozone banks over the past decade. This risk may be receding, but investors remain sceptical for now.

Economic downturns. These tend to inflate the size of non-performing loans on balance sheets, as was seen after the 2008-2009 and 2012-2013 recessions. Across the eurozone, outstanding bad loans still stand at 4.2% of total loans, versus around 1% in the US. In the periphery, where banks were hit hardest (Spain's housing bubble, slow structural growth in Italy, depression in Greece), they are still struggling to fix their balance sheets. The European Central Bank's (ECB) Single Supervisory Mechanism recently set more stringent targets to improve the bad loan disposal process. But much remains to be done.

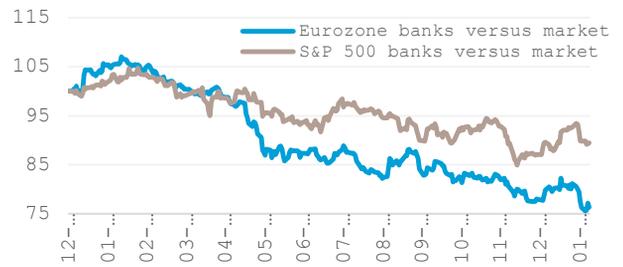
Low interest rates. The current rates environment is weighing on banks' profitability. The ECB's deposit rate has been in negative territory since June 2014 (-0.4% since March 2016). Banks are therefore suffering from a negative tax on their deposits at the ECB, with a knock-on impact on profitability. The Quantitative Easing (QE) programme has also lowered long-term yields significantly. Indeed, net interest margins for eurozone banks were only 1.5% in Q3 2018, less than half of the 3.5% in the US.

Enhanced competition. The US banking sector has undergone rapid consolidation. In the eurozone, the sector is much more fragmented with myriad domestic competitors – regional banks in Germany, municipal banks in Italy, mutually-owned banks in France etc. And recent speculation that Germany's two largest listed banks might merge suggests that there is more appetite for domestic tie-ups rather than cross-border mergers at present.

Technological changes. The ongoing digitalisation of the banking sector is also a challenge. With the emergence of new internet competitors providing low-cost services, banks' margins are under pressure while they are forced to beef up IT spending to keep up.

Eurozone banks underperform their US peers

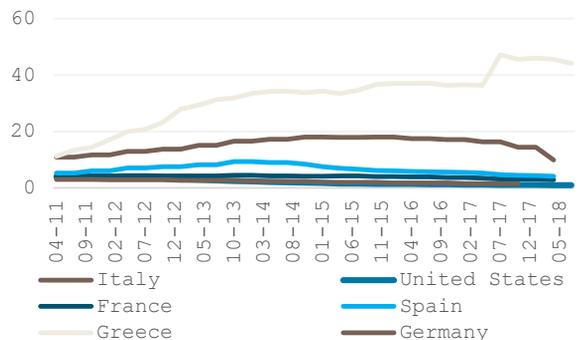
Banks vs EuroStoxx 50 and S&P500



Sources: SGPB, Macrobond, STOXX, S&P, 07/02/2019

Non-performing loans jump up

Non-performing loans to total gross loans (%)



Sources: SGPB, Macrobond, IMF, Q3 2018

Putting it all together

- Eurozone banks' current valuations seem rather attractive, but upside potential may be limited in the short term and we maintain a neutral stance.
- However, any indication of a shift upwards in interest rates or a further reshaping of business models could offer potential for a rebound.



EUROZONE

- Confidence in services increased unexpectedly to 51.2 in January from the first estimate of 50.8, boosting final Composite PMI to 51.0, above the consensus 50.7.
- Investor sentiment reached a 4-year low, slipping from -1.5 to -3.7 in February.
- As expected, December retail sales fell -1.6% MoM, versus +0.8% the previous month, pushing YoY change down to 0.8% from 1.8%. However, lower inflation and higher wages should support consumption in the near future.

UNITED STATES

- The ISM Non-Manufacturing confidence index missed expectations for the second consecutive month, at 56.7 in January after 58.0 in December.
- Factory orders fell -0.6% MoM in November, below expectations for a 0.3% rise but an improvement on October's -2.1%.
- The trade deficit narrowed more than expected, from \$55.7bn in October to \$49.3bn in November due to a decline in imports.

UNITED KINGDOM

- Contrary to market expectations, confidence declined in both construction and services, printing at 50.6 and 50.1 respectively, close to contraction territory.
- According to the British Retail Consortium, retail sales rebounded from -0.7% YoY to 1.8% in January.
- All nine voting members at the Bank of England's Monetary Policy Committee agreed to maintain the base rate unchanged at 0.75%.

ASIA & EMERGING MARKETS

- In Japan, confidence in services edged up from 51.0 to 51.6 in January supported by sustained domestic activity, while in China, confidence in services decreased slightly from 53.9 to 53.6.
- The Indonesian economy contracted 1.7% QoQ in Q4 but expanded 5.2% in 2018 (full-year figures) after 5.1% in 2017.
- In Brazil, December industrial output fell -3.6% YoY, the sharpest fall in six months and the second decline in a row (November: -1.0%).

		Per.	Prev.	Cons.
EUROZONE				
13 Feb	Industrial production MoM	Dec	-1.7%	-0.2%
14 Feb	GDP growth YoY	Q4 (P)	1.2%	1.2%
14 Feb	Germany: GDP growth QoQ	Q4 (P)	-0.2%	0.2%
USA				
13 Feb	Headline inflation YoY	Jan	1.9%	1.5%
14 Feb	Initial jobless claims	4 Feb	234k	--
15 Feb	Univ. Michigan consumer sentiment	Feb (P)	91.2	94.0
UNITED KINGDOM				
11 Feb	GDP growth 3M/3M	Dec (P)	0.3%	0.3%
11 Feb	Manufacturing output YoY	Dec	-1.1%	-1.0%
13 Feb	Headline inflation YoY	Jan	2.1%	2.0%
ASIA & EMERGING MARKETS				
14 Feb	Japan: GDP growth QoQ	Q4	-0.6%	0.4%
14 Feb	China: Trade balance (\$bn)	Jan	57	32
15 Feb	China: Headline inflation YoY	Jan	1.9%	2.0%

Sources: DataStream, Bloomberg, 8 February 2019, Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month P = preliminary figure A = advanced figure F = final figure seasonally adjusted ECB = European Central Bank



Market performance

Interest rates	Last	1wk	3mth	YTD	12mth
EONIA (EUR)	-36 bp	-1 bp →	0 bp	-1 bp	0 bp
3mth Euribor (EUR)	-31 bp	0 bp →	1 bp	0 bp	2 bp
3mth Libor (USD)	270 bp	-4 bp ↓	10 bp	-11 bp	90 bp
3mth Libor (GBP)	90 bp	-2 bp ↓	4 bp	-2 bp	37 bp
10-year US Treasury bond	265 bp	2 bp ↑	-56 bp	-4 bp	-19 bp
10-year German bond	11 bp	-4 bp ↓	-33 bp	-13 bp	-62 bp
10-year French bond	55 bp	-1 bp →	-26 bp	-16 bp	-43 bp
10-year UK bond	118 bp	-4 bp ↓	-35 bp	-9 bp	-37 bp

Credit	1wk	3mth	YTD	12mth
BAML EURO Corp. IG	0.5% ↑	1.2 %	1.6 %	0.8 %
BAML EURO Corp HY	0.3% ↑	-0.4 %	2.6 %	-1.2 %
BAML GBP Corp IG	0.4% ↑	2.2 %	2.5 %	1.6 %
BAML US IG	0.3% ↑	3.7 %	2.4 %	1.9 %
BAML US HY	0.4% ↑	1.1 %	5.0 %	2.7 %
BAML Global EM Sov. External Plus	0.1% →	4.3 %	4.1 %	-0.9 %

Exchange rates	Last	1wk	3mth	YTD	12mth
EUR/USD	1.13	-0.9 % ↓	-0.7 %	-1.1 %	-7.5 %
EUR/CHF	1.14	-0.1 % →	-0.7 %	1.0 %	-1.7 %
GBP/USD	1.30	-1.1 % ↓	-1.3 %	1.5 %	-6.7 %
USD/JPY	110	0.9 % ↑	-3.3 %	0.2 %	0.4 %
USD/BRL	3.72	2.0 % ↑	-0.4 %	-4.2 %	13.6 %
USD/CNY	6.74	0.7 % ↑	-2.5 %	-1.9 %	7.6 %
USD/RUB	65.9	0.9 % ↑	-0.4 %	-5.4 %	13.9 %

Government bonds*	1wk	3mth	YTD	12mth
United States (3-7yr)	-0.1 % →	3.4 %	0.4 %	3.3 %
United Kingdom (3-7yr)	0.3 % ↑	1.5 %	0.4 %	2.3 %
Germany (3-7yr)	0.2 % ↑	1.0 %	0.3 %	2.3 %
Japan (3-7yr)	0.0 % →	0.3 %	0.0 %	0.3 %

Equities**	Last	1wk	3mth	YTD	12mth
MSCI AC World	490	-0.1 % ↓	-1.5 %	7.8 %	-2.0 %
Eurostoxx 50	3 151	-0.3 % ↓	-2.4 %	5.3 %	-5.4 %
DAX	11 022	-1.4 % ↓	-4.8 %	4.4 %	-12.5 %
CAC 40	4 986	-0.1 % ↓	-2.6 %	5.4 %	-2.0 %
S&P 500	2 706	0.1 % ↑	-3.3 %	8.1 %	2.9 %
FTSE 100	7 094	1.8 % ↑	0.3 %	5.5 %	1.6 %
SMI	9 036	0.7 % ↑	-0.2 %	7.2 %	4.2 %
Topix	1 569	0.1 % →	-4.8 %	5.0 %	-8.4 %
IBOV Brazil	94 406	-3.1 % ↓	7.6 %	7.4 %	14.1 %
MICEX Russia ***	2 510	-0.4 % ↓	2.6 %	6.4 %	11.3 %
MSCI EM	1 042	-0.7 % ↓	4.9 %	8.0 %	-8.7 %
SENSEX 30 India	36 971	2.0 % ↑	5.7 %	2.6 %	9.8 %
Hang Seng (H-K)	27 990	0.2 % ↑	7.2 %	8.3 %	-4.4 %
Shanghai Composite	2 618	1.3 % ↑	-0.9 %	5.0 %	-20.9 %

Commodities	Last	1wk	3mth	YTD	12mth
Brent	\$61.4	-1.5 % ↓	-14.3 %	15.5 %	-7.0 %
Gold	\$1 310	-0.9 % ↓	6.8 %	2.3 %	-0.9 %
Copper	\$6 228	1.3 % ↑	0.9 %	4.7 %	-8.9 %

Thursday close

EUR/USD	1.13
GBP/USD	1.30
EUR/CHF	1.14
USD/JPY	110
Brent(barrel)	\$61.4
Gold (ounce)	\$1310

Performance should not be seen as a guarantee of future returns. Source: Datastream februar the 8th 2019. *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.

OTP banka structured products (pricing as of 11.2.2019.)

	ISIN	NAME	UNDERLYING	CURRENCY	BONUS	MATURITY	PRICE
1	XS1119148853	5Y EUR DEPOSIT LINKED NOTE	Košarica valuta	EUR	9% p.a.	10/12/2019	94,44%
2	XS1212271008	5Y EUR TWINWIN 65 SX5E100 CAP	Eurostoxx 50	EUR	sudjelujući	12/06/2020	104,63%
3	XS1265964210	5Y EUR DEPOSIT LINKED NOTE	WO Total, Repsol, Statoil	EUR	5,70% p.a.	16/10/2020	96,74%
4	XS1314889129	USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,70% p.a.	17/03/2021	97,02%
5	XS1334783617	AUD CAPPED & FLOORED FLOATER NOTE	AUD-BBR-BBSW	AUD	2,10% p.a.	29/04/2019	99,72%
6	XS1367217558	USD FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,50% p.a.	01/07/2021	98,42%
7	XS1416369285	3Y EUR PHOENIX PLUS WO	ENGIE, E.ON, Enel	EUR	3,0% p.s.	08/08/2019	100,71%
8	XS1417403265	3 Y USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,0% p.a.	12/10/2019	99,53%
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	84,85%
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	98,80%
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	82,67%
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	65,20%
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	93,14%
14	XS1778576535	5Y EUR PH+ WO 55% SX7E SXPP SXDP	WO SX7E SXPP SXDP	EUR	0,33% p.m	05/04/2023	79,62%
15	XS1778423894	5 Y USD PHOENIX PLUS SX7E 60% 1,415% p.q	Eurostoxx Banks	USD	1,415% p.q.	20/04/2023	70,64%
16	XS1778379898	5 Y USD PHOENIX PLUS SX7E 60% 1,30% p.q	Eurostoxx Banks	USD	1,30% p.q.	27/04/2023	68,15%
17	XS1797182869	18M EUR PHOENIX PLUS 80% VK	WO Vallorec, Arcelormittal	EUR	1,45% p.m	31/10/2019	25,51%
18	XS1816572785	18M EUR PHOENIX PLUS 80% VK FTI	WO Vallorec, Technip	EUR	1,75% p.m	16/12/2019	23,46%
19	XS1816572199	18M USD PHOENIX PLUS 80% VK MT.- SG CIB	WO Vallorec, Arcelormittal	USD	1,91% p.m	16/12/2019	23,07%
20	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	82,75%
21	XS1842908557	4Y USD TWIN WIN CL1	CL1	USD	sudjelujući	08/08/2022	97,43%
22	XS1864698011	18M EUR PHOENIX PLUS 80% TUI BKNG TRIP CIB	WO TUI, BKNG, TRIP	EUR	0,95% p.m.	24/10/2020	77,69%
23	XS1864726242	4Y USD CAPPED AND FLOORED FLOATER	USD LIBOR 3M	USD	2,0% p.a.	26/10/2022	97,47%
24	XS1864647612	3 Y USD PHOENIX PLUS WO FP RDS PUT LEVERAGE 70% SG CIB	Total, RDS	USD	1,60% p.q.	01/11/2021	96,37%
25	XS1864640286	3 Y USD PHOENIX PLUS WO FP RDS PUT LEVERAGE 60% SGCIB	Total, RDS	USD	1,80% p.q.	01/11/2021	96,33%
26	XS1864598906	5 Y EUR PHOENIX PLUS ON SX7E SGCIB	Eurostoxx Banks	EUR	1,31% p.q.	13/11/2023	88,50%

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 11.2.2019.)

ISIN	NAME	UNDERLYING	CURRENCY	BONUS	MATURITY	PRICE	
1	XS1456533634	5Y USD PHOENIX PLUS SECURITY 50% HUI 1.68% P.Q. 19102021	HUI	USD	1,68% p.q.	19/10/2021	100,60%
2	XS1471994811	3Y USDQ PHOENIX PLUS 70% DAI GY 2.40% P.Q. NC2Q.06012020	Daimler	USD	2,40% p.q.	06/01/2020	73,12%
3	XS1533380355	5Y EUR PHOENIX PLUS 50% CO FP 1,81% P.Q. NC2Q.12052022	Casino Guichard	EUR	1,81% p.q.	12/05/2022	82,27%
4	XS1574623341	3Y CHF PHOENIX PLUS 60% 70% LH	Lafarge Holcim	CHF	3,0% p.s.	22/04/2020	93,93%
5	XS1555608782	5Y USDQ PHOENIX PLUS STEP DOWN 50% CO FP 2,20% P.Q.	Casino Guichard	USD	2,20% p.q.	16/05/2022	82,53%
6	XS1511962331	3Y USD PHOENIX PLUS 80% HUI 7.60% P.S.	HUI	USD	7,60% p.s.	03/03/2020	86,89%
7	XS1622385232	5Y EUR PHOENIX PLUS 70% BNP FP 2.18% P.Q. NC2Q.06062022	BNP	EUR	2,18% p.q.	06/06/2022	60,47%
8	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	97,86%
9	XS1583545865	5Y EUR PHOENIX PLUS 60% CO FP 2% P.Q.	Casino Guichard	EUR	2,0% p.q.	08/08/2022	82,55%
10	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	52,96%
11	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	95,88%
12	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	99,58%
13	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	61,00%
14	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	99,93%
15	XS1667712852	5Y EUR PH+ 60% ACA FP 1,75%	Credit Agricole	EUR	1,75% p.q.	22/12/2022	68,36%
16	XS1667711961	2Y EUR PH+ 70% RNO FP 2%	Renault	EUR	2,0% p.q.	08/01/2020	71,41%
17	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	64,23%
18							
19							
20							
21							

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/ 100th 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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In order to draw our clients' attention to the risk associated with each investment solution, each product is classified according to its specific risk level, on a risk scale ranging from the lowest level of risk to the highest level of risk as shown in table on previous page.