

# Q4-2015 OUTLOOK

## ZONE OF TURBULENCE

### Investment Strategy



**Eric Verleyen**  
Global Chief Investment Officer  
London

**John Birdwood**  
Group Head of Discretionary Portfolio  
Management  
London

**Susie Jackson**  
Investment Advisor  
Gibraltar

## INVESTMENT OUTLOOK

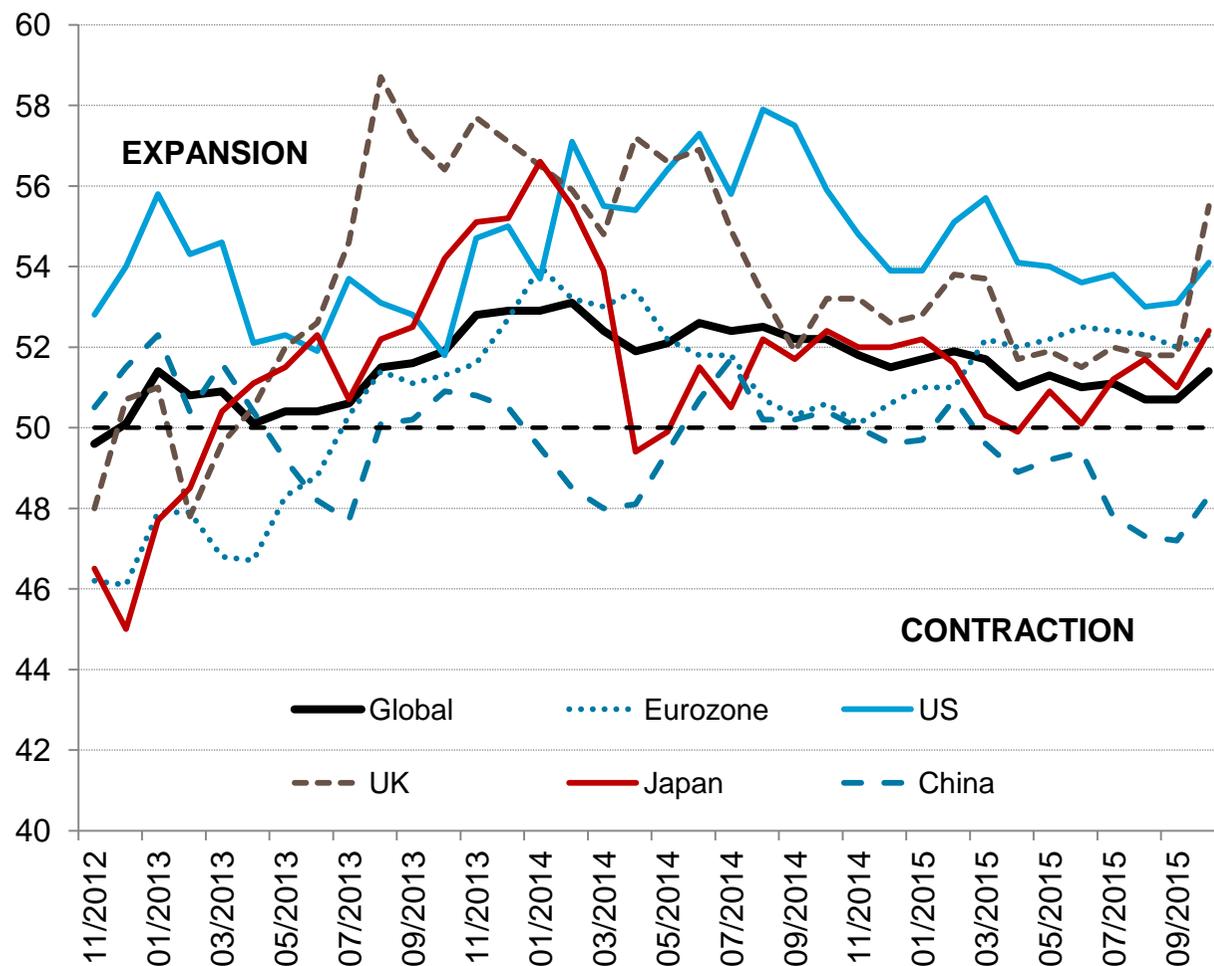
Eric Verleyen

## GLOBAL OUTLOOK

### THE OUTLOOK FOR THE GLOBAL ECONOMY REMAINS MIXED

#### Global recovery momentum has faded *Manufacturing PMI*

- The US will remain the strongest of the developed economies, also lifting those countries most exposed to strong American momentum.
- Low commodity prices should continue to weigh on inflation and central bank monetary policy should remain accommodative overall.
- Commodity importer countries will still benefit from lower bills, while commodity exporters will continue to suffer.



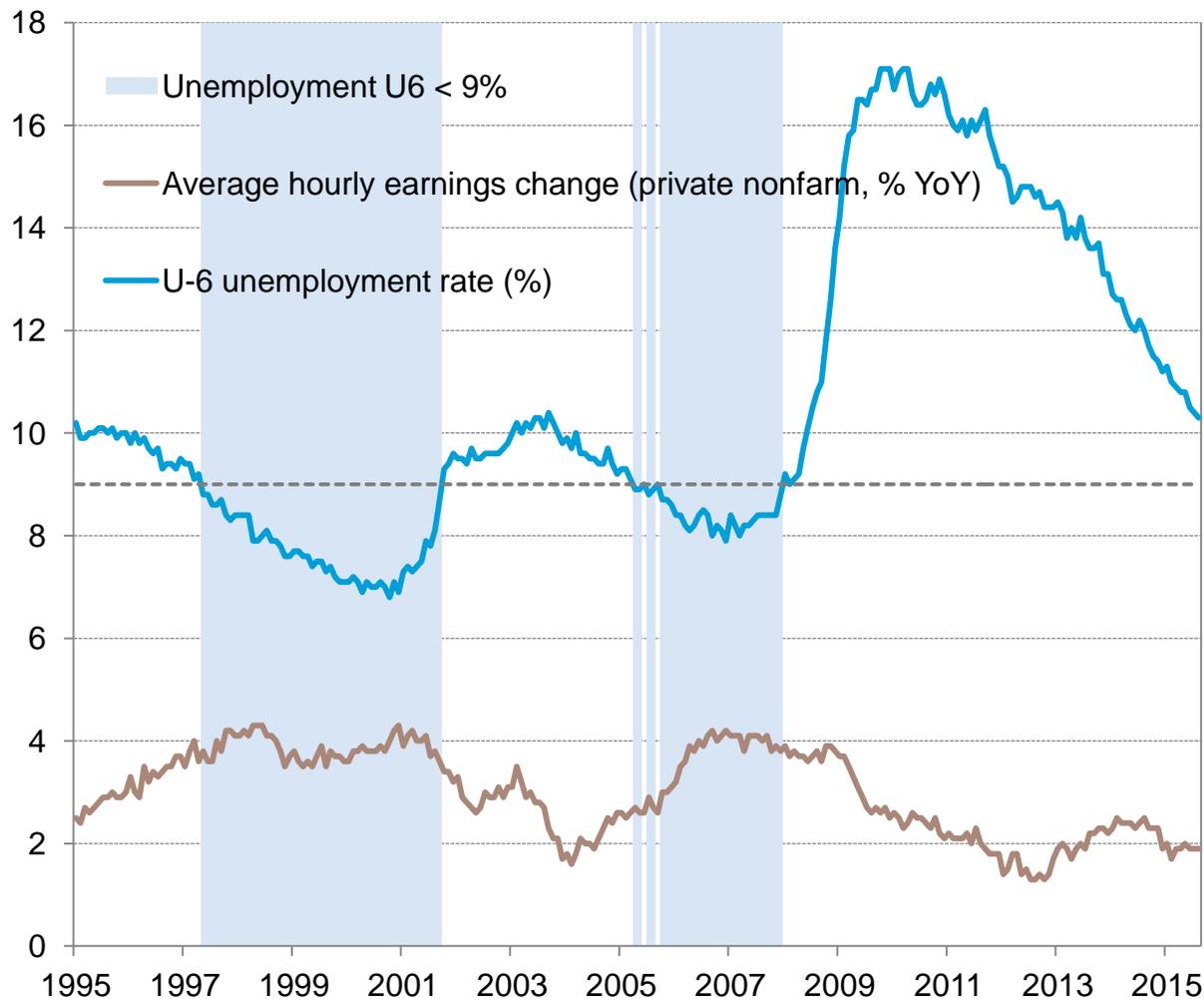
Sources: Societe Generale Private Banking, Bloomberg  
Past performance is not an indication of future performance.

## REGIONAL OUTLOOK

### UNITED STATES

#### US wage growth should finally begin to catch up

- US growth is broadening but not accelerating, with the long-awaited capex pickup still sluggish, particularly hampered by the energy sector.
- Although salary growth has remained modest so far, continued labour market improvements should fuel wage inflation eventually.
- Private consumption remains robust and should be the main driver of US growth in coming quarters.



Sources: Societe Generale Private Banking, Bloomberg  
 Past performance is not an indication of future performance.

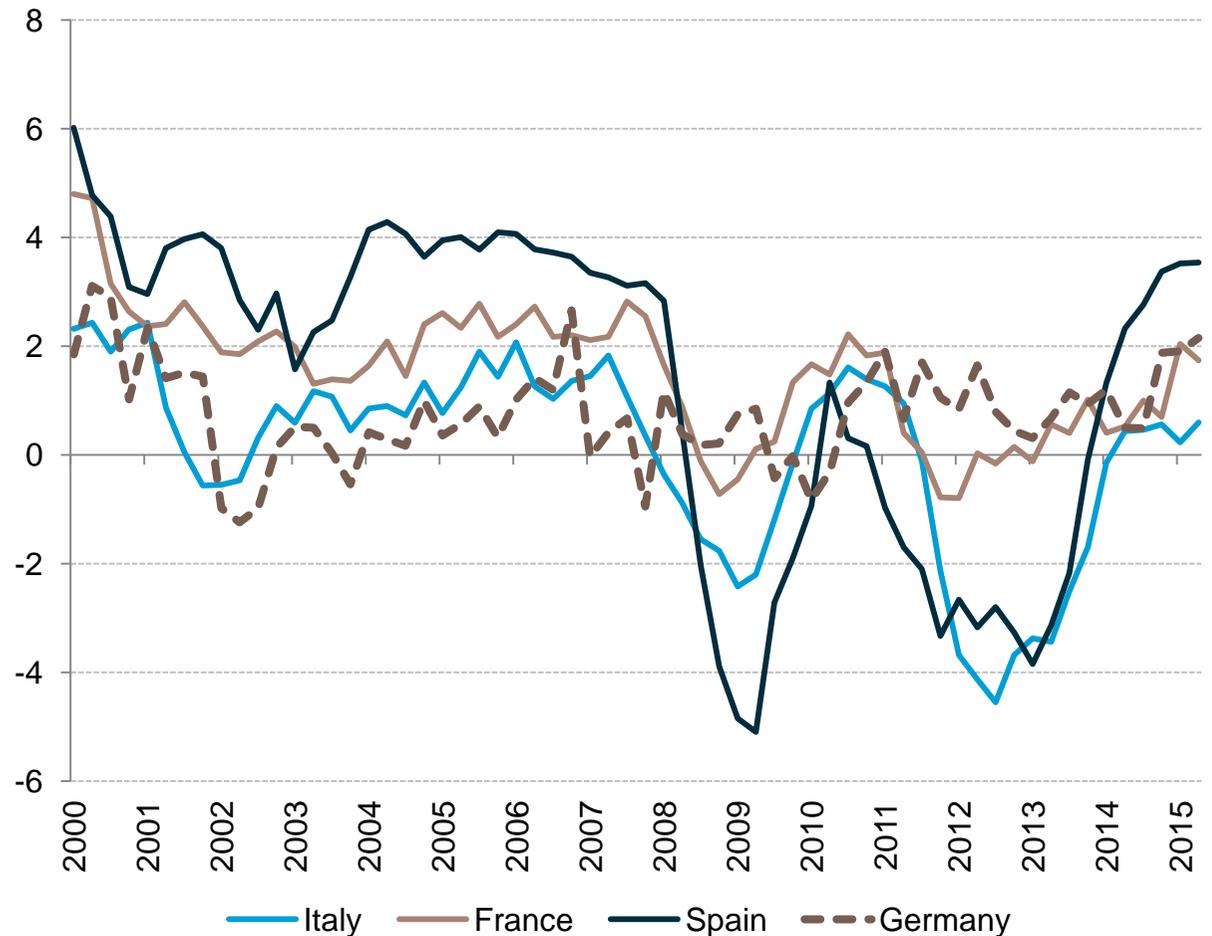
## REGIONAL OUTLOOK

### EUROZONE

#### Domestic demand is improving in the euro area

##### *Private consumption (% qoq)*

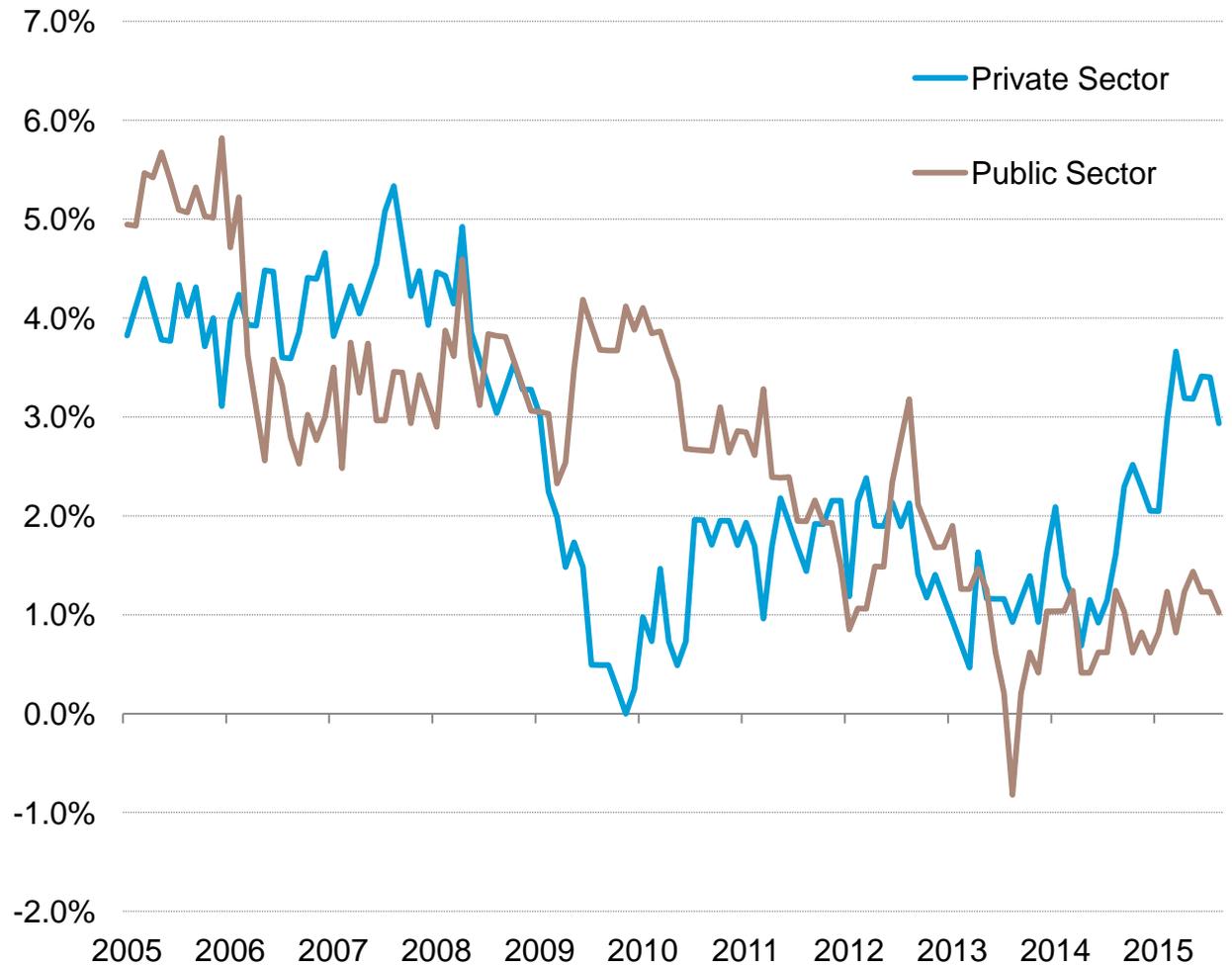
- The euro zone has begun to recover from the slowdown in late 2014, helped by the weakening euro, lower energy prices and less fiscal tightening – we anticipate real GDP growth around 1.3% this year.
- Germany is showing steady signs of improvement, with a spillover effect on the rest of the euro zone.
- With banks easing credit standards, lending activity is finally showing signs of recovery. Monetary conditions are improving suggesting faster growth in corporate and consumer lending.



## REGIONAL OUTLOOK UNITED KINGDOM

- Over the past two years, the UK has been the strongest developed economy in terms of GDP growth (Composite PMI at 55.4 in October).
- However, recent data point to a slight slowdown. In a context of low inflation, the BoE should remain on hold this year.
- Over the medium-term though, robust consumption and relatively low exposure to China should ensure a strong economic momentum.

### Nominal wages are finally picking up, though only in the private sector (yoy, %)



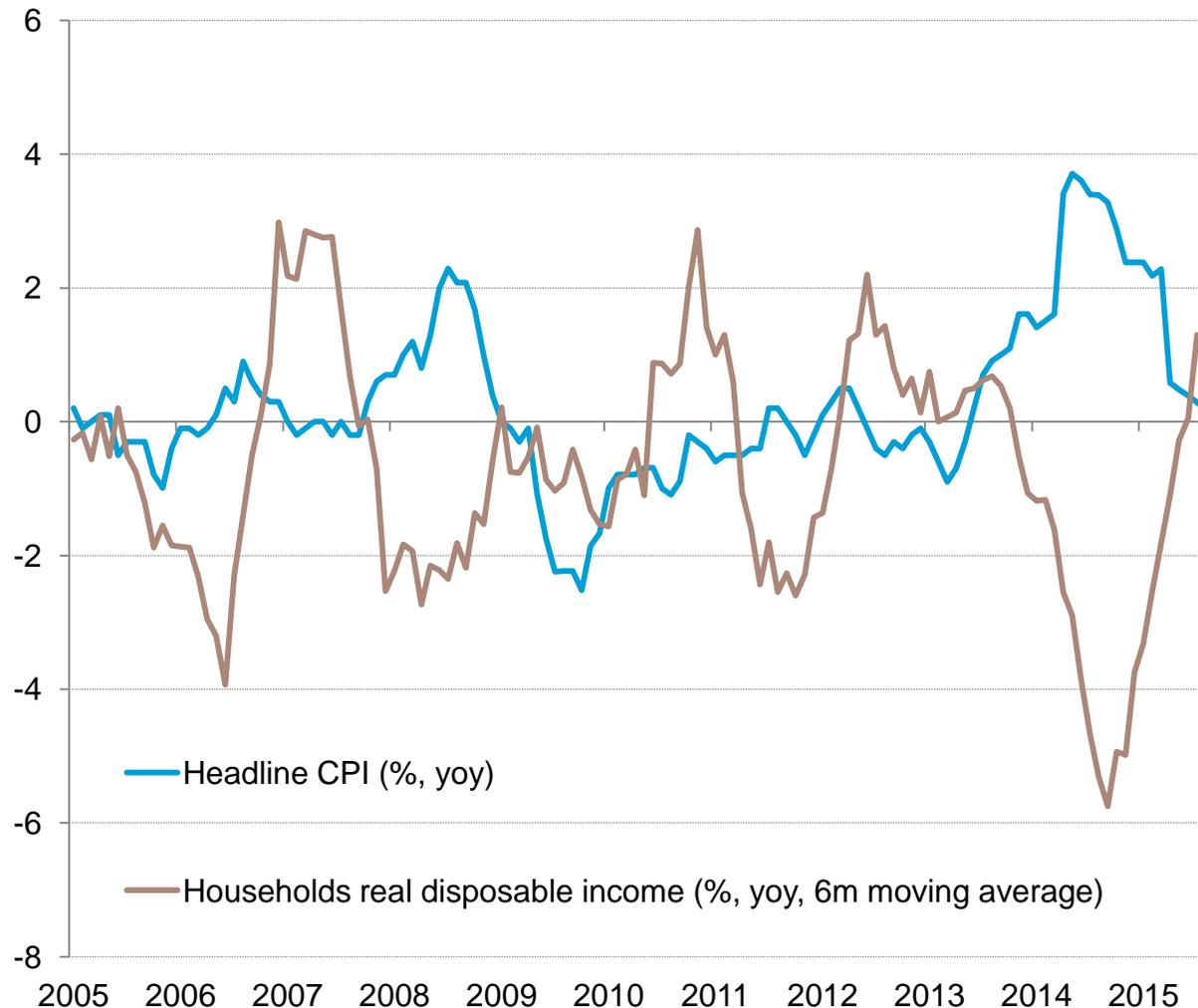
Sources: Societe Generale Private Banking, Bloomberg  
Past performance is not an indication of future performance.

## REGIONAL OUTLOOK

### JAPAN

- Japan has returned to patchy growth after last year's brief recession but growth is not strong enough to be self-sustaining.
- After the first consumption tax hike in April 2014 dampened activity and hit retail sales, the next one has been postponed from October 2015 to April 2017.
- Labour market is also improving with unemployment close to historic lows. With Shinzo Abe emphasizing the importance of raising salaries to Japanese corporate leaders, we expect wages to pick up.

**Inflation has come down,  
disposable income has recovered**

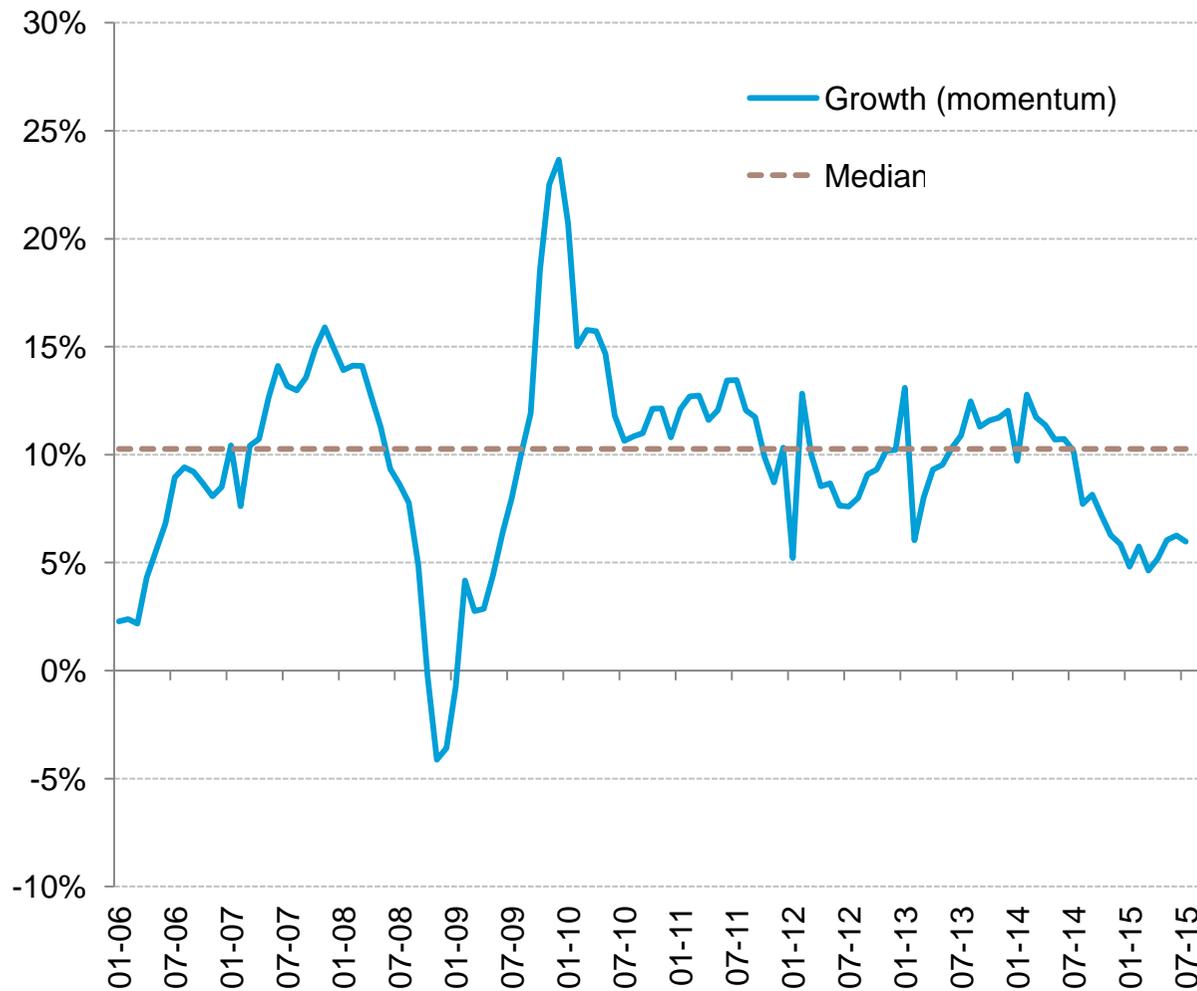


Sources: Societe Generale Private Banking, Bloomberg  
Past performance is not an indication of future performance.

## REGIONAL OUTLOOK EMERGING MARKETS

### A structural slowdown, not a growth collapse *China growth momentum monthly index*

- The recent market sell-off was triggered by renewed fears of a hard landing in China. These concerns were raised by disappointing data on industrial production and capital spending, and have spread to the whole EM world. Volatility should remain high.
- However, we foresee no full-fledged crisis. Most emerging economies show better fundamentals than during the Asian crisis of the late 1990s: they now have sounder public finances, strong currency reserves and are less dependent on short-term foreign capital inflows.

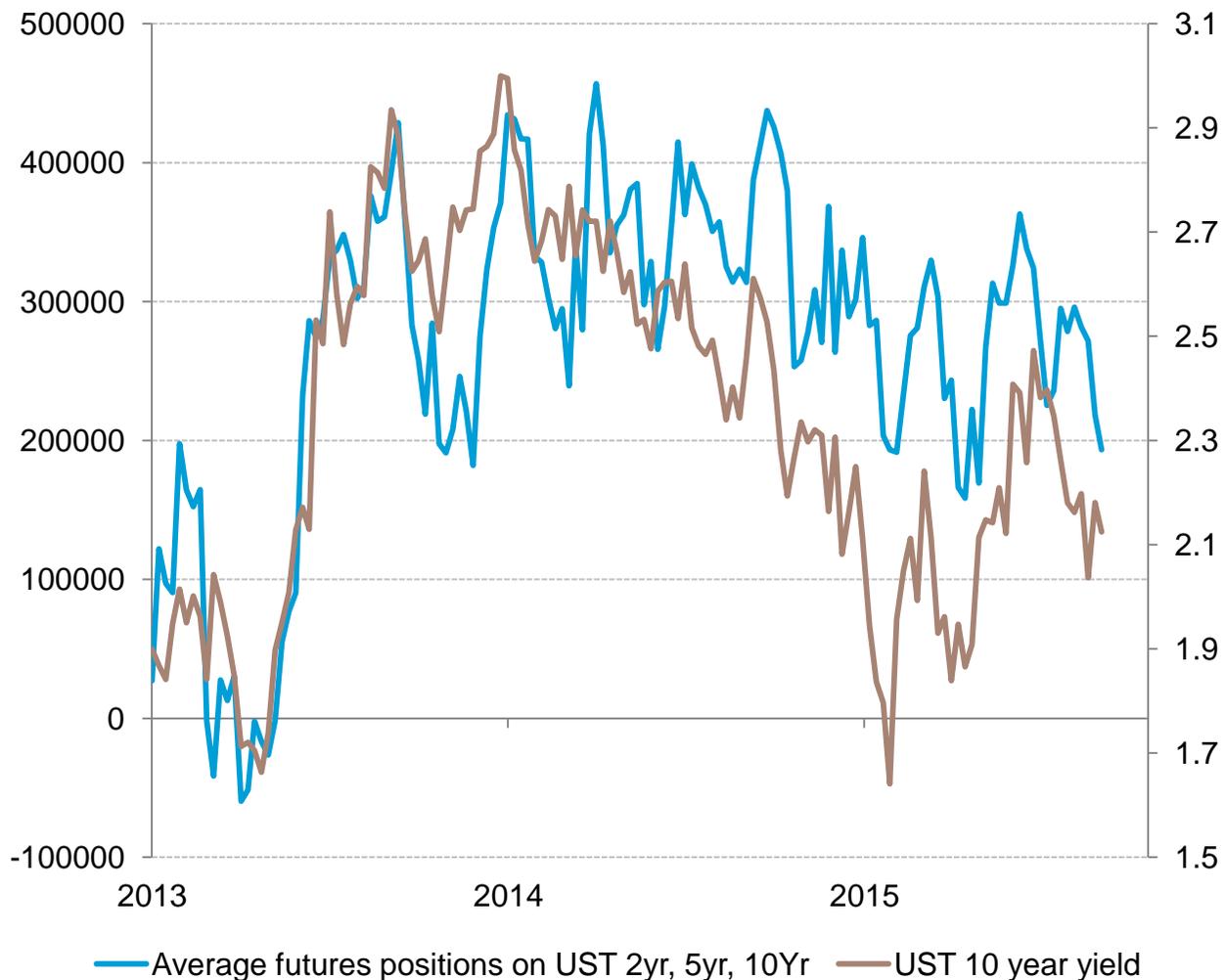


Sources: Societe Generale Private Banking, Bloomberg  
Past performance is not an indication of future performance.

## FIXED INCOME UNITED STATES

### The futures markets moves in line with spot yields

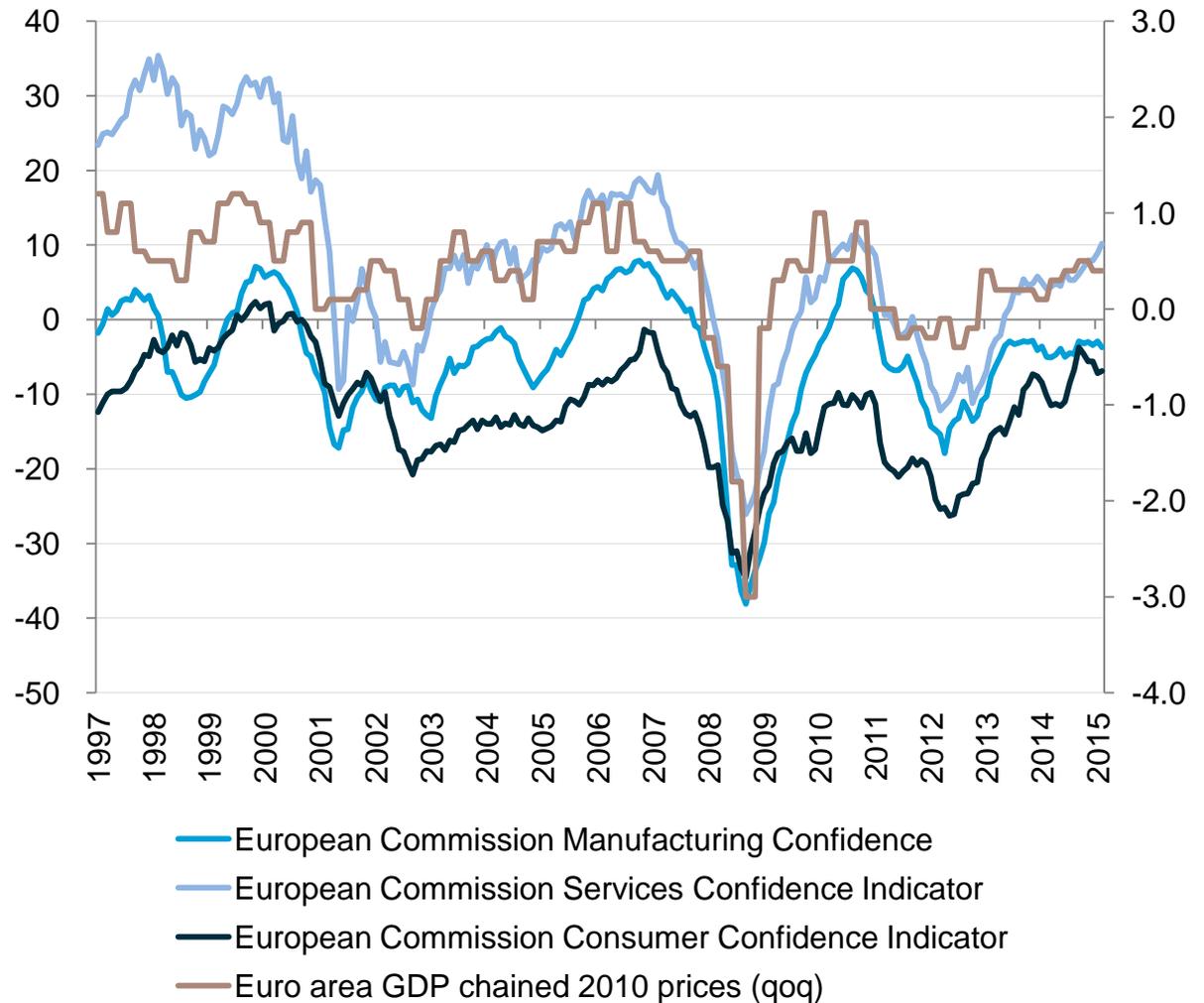
- Despite growing concerns in China and other emerging countries, the US domestic economy is likely to remain quite robust.
- The Fed should start normalising its monetary policy, but a 2015 rate hike, although still possible, is now less likely.
- Monetary tightening, an expanding economy and expensive valuations will drive US government bond yields higher and caution is advised. We prefer shorter durations that will limit interest rate sensitivity and suggest diversifying through inflation-linked bonds.



## FIXED INCOME EUROZONE

### Euro area confidence indicators

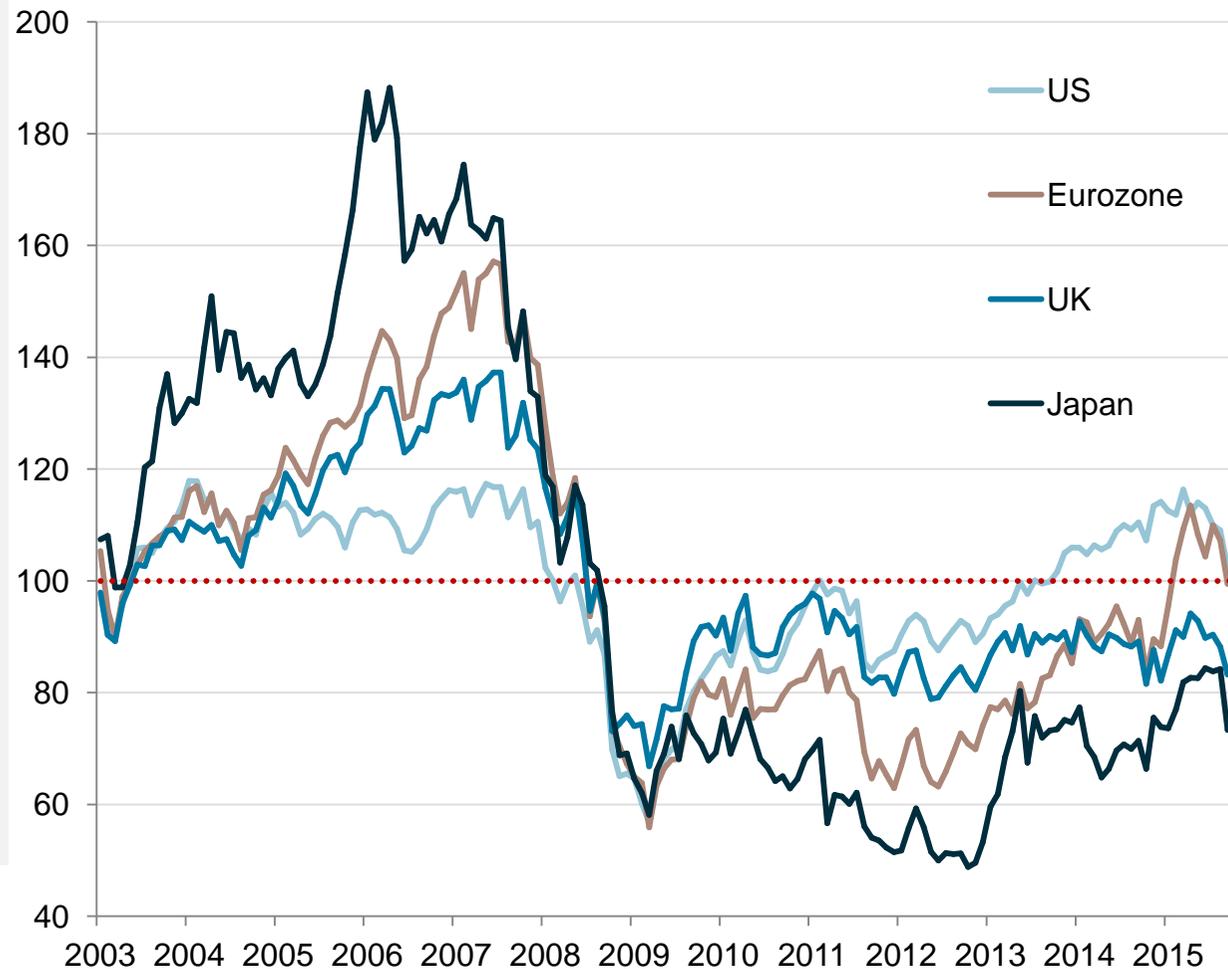
- **ECB quantitative easing will last at least until September 2016, maintaining all euro zone yields under downward pressure. Risks are increasingly tilted towards an extension of the programme’s timeframe and a broadening of its scope.**
- **We see little value in core countries, as short rates should remain negative and long yields will stay low around current levels.**
- **Non-core bond spreads should narrow and we suggest holding medium-long term durations.**



## EQUITY MARKETS EXPENSIVE VALUATIONS

### CAPE\* ratios per region (% of their recent average)

- Over the past few years, equity markets have surged. In a context of rather low earnings growth, this has pushed valuations (P/E ratios) up. However, the summer storm did bring some valuations back in more affordable territory.
- The next leg in equity markets should be driven by the trend in earnings, more than multiple expansion.
- Recent market turmoil has fostered volatility, which should remain high in the short-run.

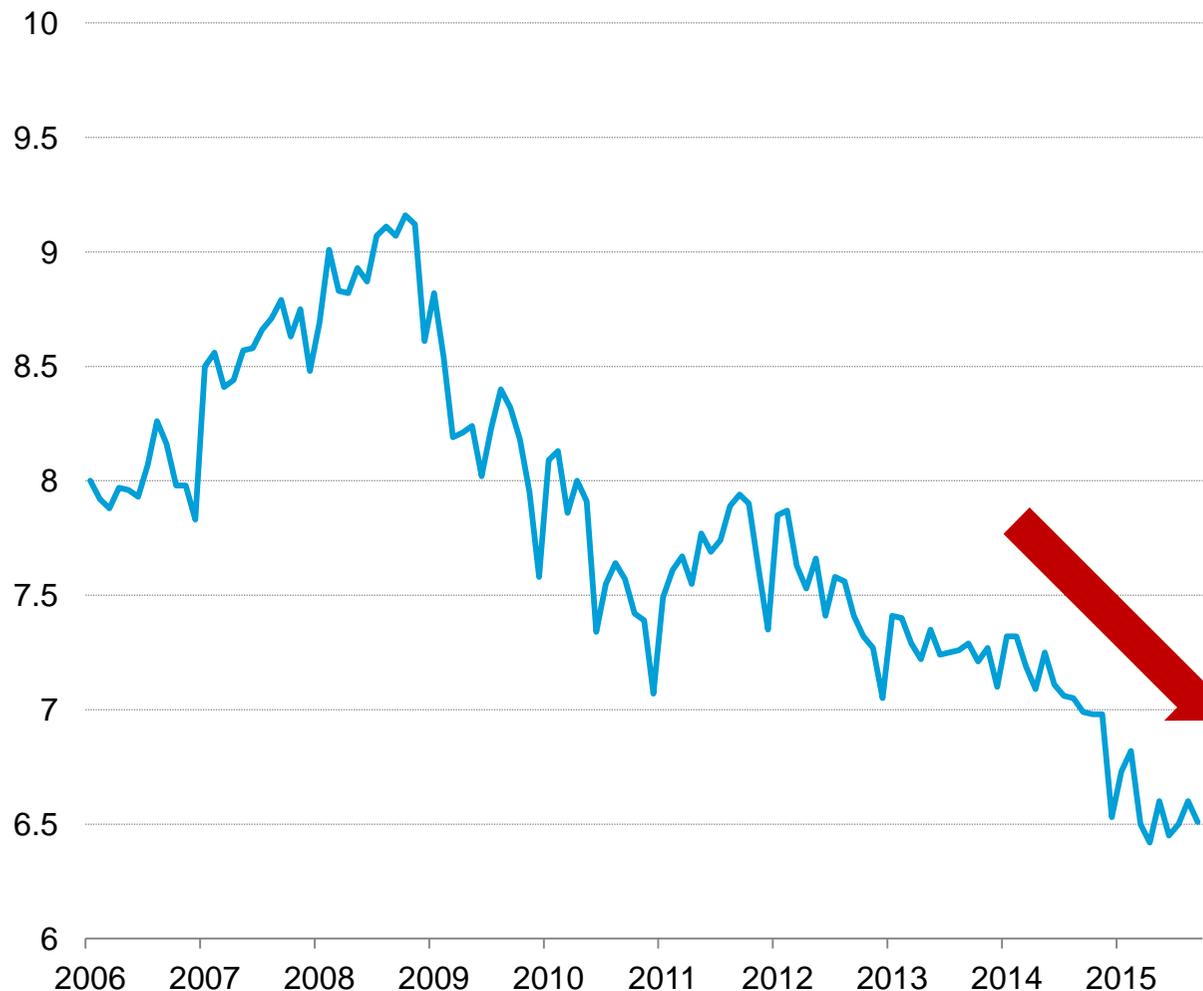


\* CAPE: Cyclically Adjusted Price-to-Earnings ratio

Sources: Societe Generale Private Banking, Bloomberg  
Past performance is not an indication of future performance.

## EQUITY MARKETS EUROZONE

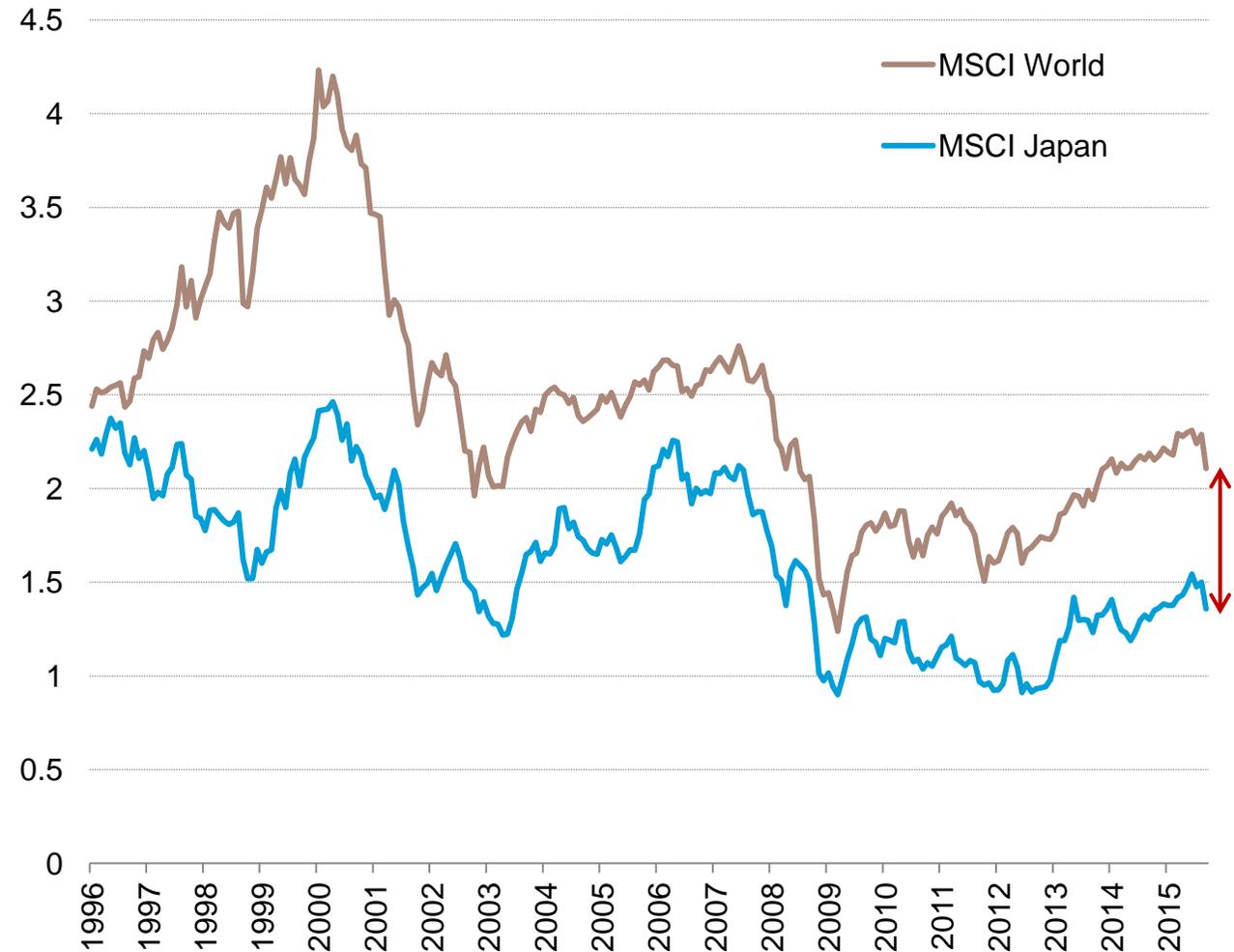
### Euro area – average interest rate on consumer loans



- The drop in energy prices and EUR weakness will boost 2015 and early 2016 euro area company profits.
- Households will also benefit from the energy price slump, with an increase in disposable income. With low interest rates, especially in the euro area because of the ECB's quantitative easing, this improved purchasing power should mostly be directed towards consumption rather than savings.
- However, sluggish global trade will penalise eurozone manufacturers, and the Greek crisis remains on the table.

## EQUITY MARKETS JAPAN

### Japan, one of the cheapest developed markets Price-to-book ratios (x)

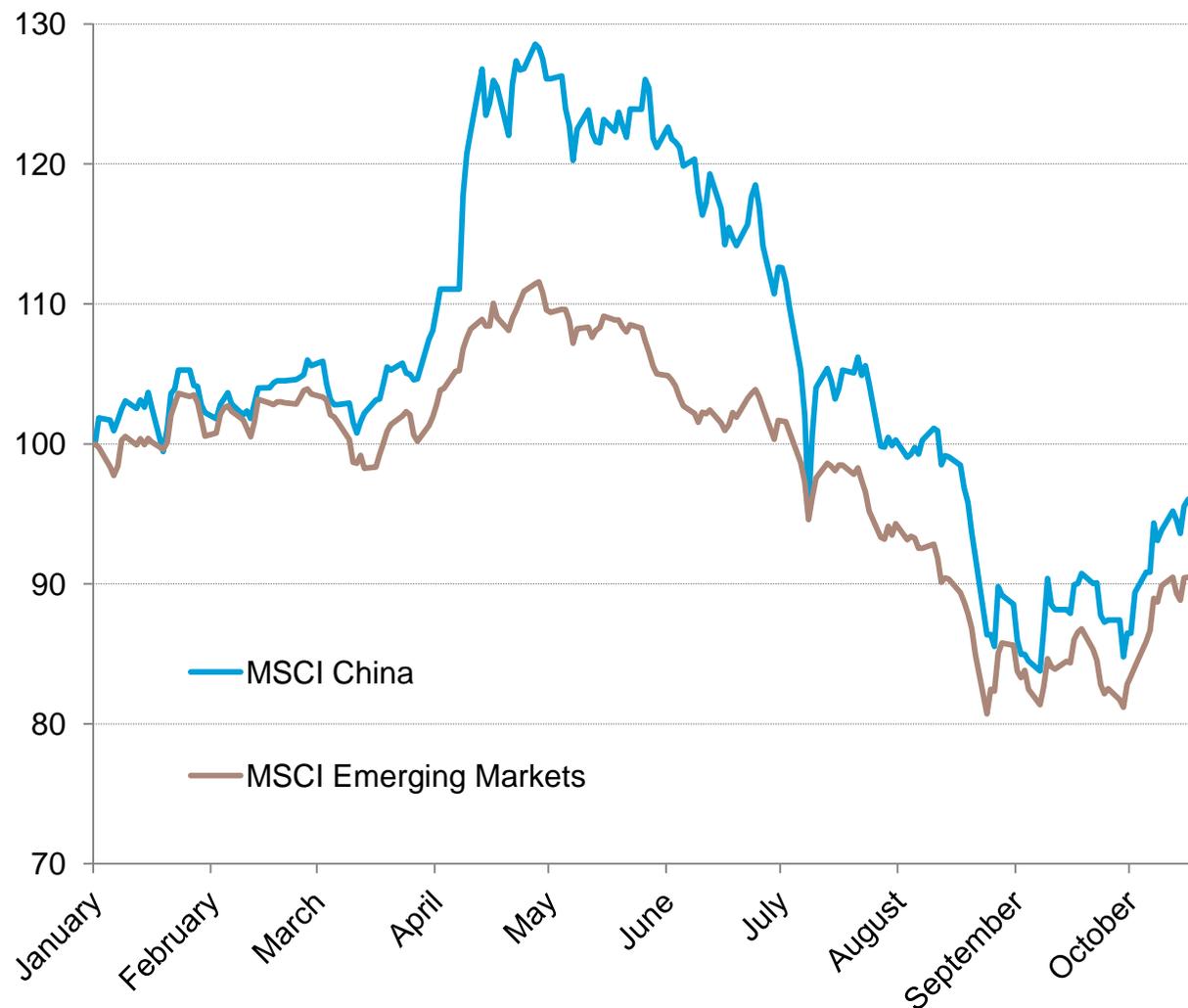


- Japan macro fundamentals are good, with job creations and capital spending to support the sputtering recovery.
- The possible expansion of the QE should also support equity prices.
- Further, corporate governance reforms should underpin shareholder value creation through higher dividends, share buybacks and improved returns on equity.
- On the valuation side, Japan is one of the cheapest developed regions, trading at 14.0x the earnings expected for the current fiscal year, a 15% discount to the 10-year average.

## EQUITY MARKETS EMERGING MARKETS

### 2015: emerging markets on a roller coaster

- We do not expect a hard-landing in China, though the negative market sentiment should maintain pressure on investors in the near-term. Consequently, we stand cautious regarding emerging markets.
- Although Asia-Pacific remains our preferred region within EMs, it is also the most exposed to the Chinese slowdown.
- Finally, commodity-exporter regions should still be avoided, even though countries like Russia or Brazil may be hitting rock bottom.



Sources: Societe Generale Private Banking, Bloomberg  
Past performance is not an indication of future performance.

## OUR ALLOCATION IN THE CURENT ENVIRONNENT

- **We continue to like Equities**, although there will be more volatility ahead.
  - We prefer Developed Markets (EZ and Japan)
  - We are globally underweight in Emerging Markets although we like ASIA ex Japan.
  - We have sector bias on Financials, Technology and Consumer Discretionary.
- **We are underweight on Fixed Income.**
  - Government bonds are too expensive.
  - High Quality Bonds, Investment Grade, yields are not attractive. There is still some value in High Yield Bonds in the Eurozone.
  - We have some exposure to Financial Debt Instruments.
- **We have significantly increased our Alternative exposure**
  - We like Long/Short Credit and Event driven, Merger Arbitrage Strategies.
  - We are underweight commodities including Gold.

## THE AGE OF TURBULENCE

John Birdwood

## DISRUPTIVE DEVELOPMENTS AND PORTFOLIO CONSTRUCTION

### DISRUPTIVE DEVELOPMENTS:

- Internet/Big Data
- Stuff Intensity of GDP
- 3D Technologies and Materials Science
- New Medical Technology

### THREATS AND OPPORTUNITIES – EXAMPLES:

- Traditional Banking vs Fin Tech
- Commodity Users vs Commodity Producers
- Reshoring

# AIRBNB APARTMENTS AVAILABLE IN FLORENCE – UNUSED CAPACITY BECOMES AVAILABLE

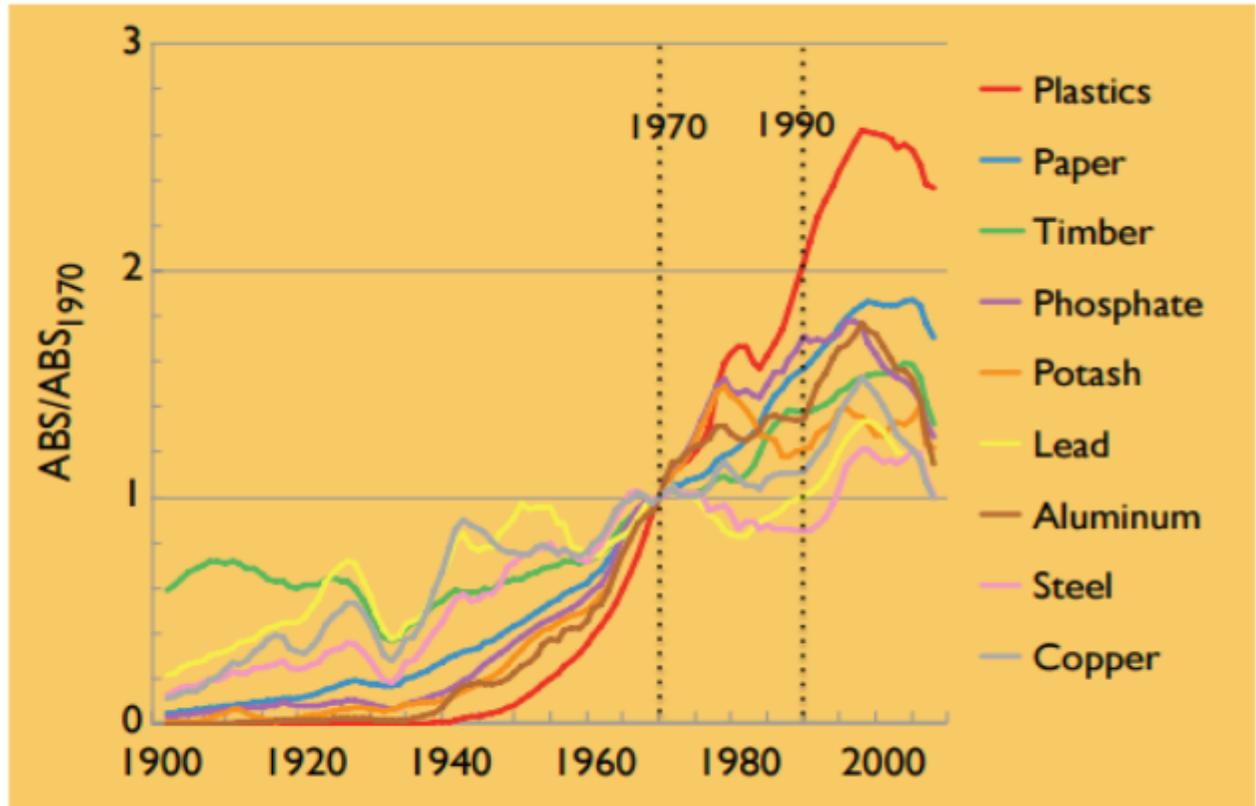


What happens to hotel pricing power?

Source: Airbnb, November 2015  
Past performance is not an indication of future performance.

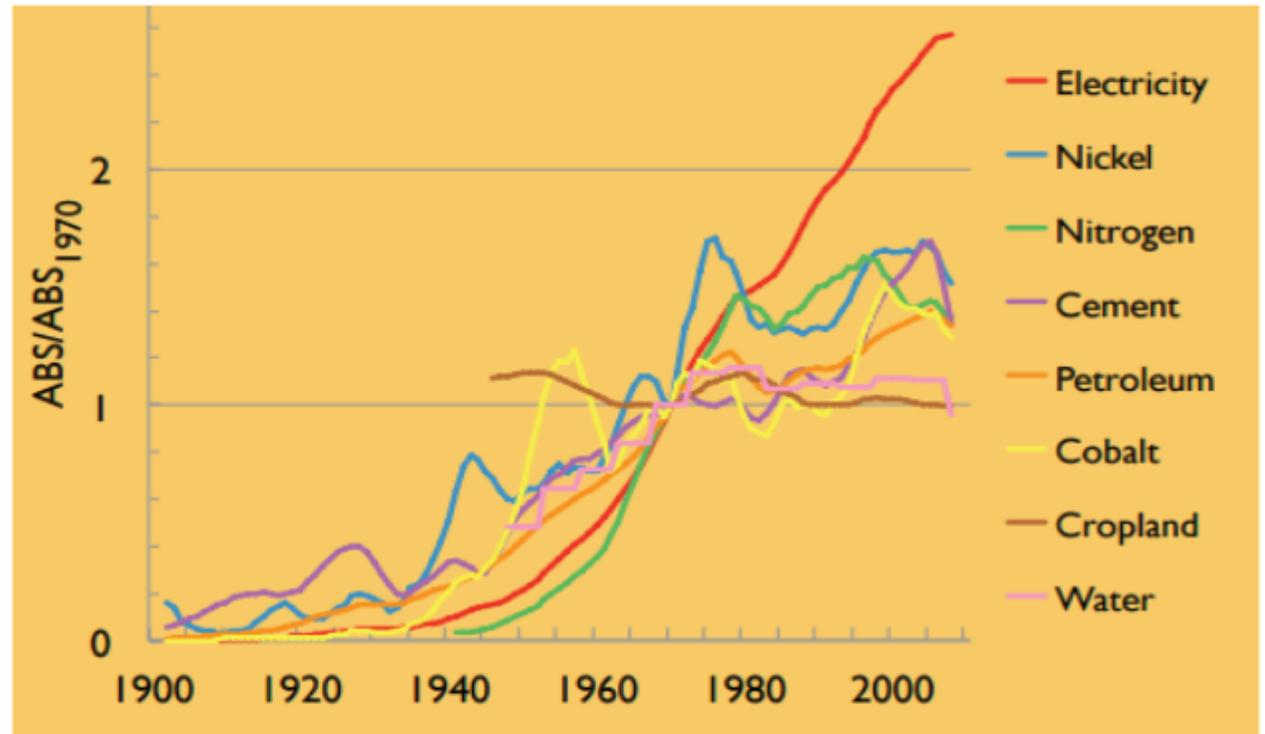
## “STUFF” INTENSITY TO GNP FALLING

**Figure 12.** Use of nine basic commodities, US 1900–2010. Note: Uses five-year moving average; legend is ordered top-down by value in 2010. Data source: USGS National Minerals Information Center 2013.



## THERE IS ONE BIG EXCEPTION

**Figure 14.** Absolute use of likely peaking commodities, US 1900–2010. Note: Uses five-year moving average; legend is ordered top-down by value in 2010. Data source: USGS National Minerals Information Center 2013.



## THE IMPACT OF 3D PRINTING



....French boy tries on his 3D printed prosthesis. It allows him to grasp objects and costs \$55 to make

## TURBULENCE IS NOT NEW SECTORAL BREAKDOWN OF LONDON EQUITY INDEX EQUALLY WEIGHTED

	1900		2015
Banking / Insurance	18	Banking / Insurance	15
Iron, Coal, Steel	14	Mining/Oil	10
Textiles	12	Consumer Goods (Tobacco, Food, Drink, Household)	10
Railways / Trams	10	Retail	9
Electricity / Gas / Water	9	Telecoms / Media / Leisure	9
Mechanical Equipment	8	Business Services/ IT	8
Shipping	6	Engineering	6
Food	5	Air Transport / Tourism	5
Canals & Docks	4	Building Services / Construction	5
Drink	4	Pharmaceutical / Medical	5
Telegraph / Electrical Equipment	4	Utilities	5
Retail	3	House Builders	4
Chemicals	2	REITS	4
Building Materials	1		

**But the pace of change varies and is accelerating**

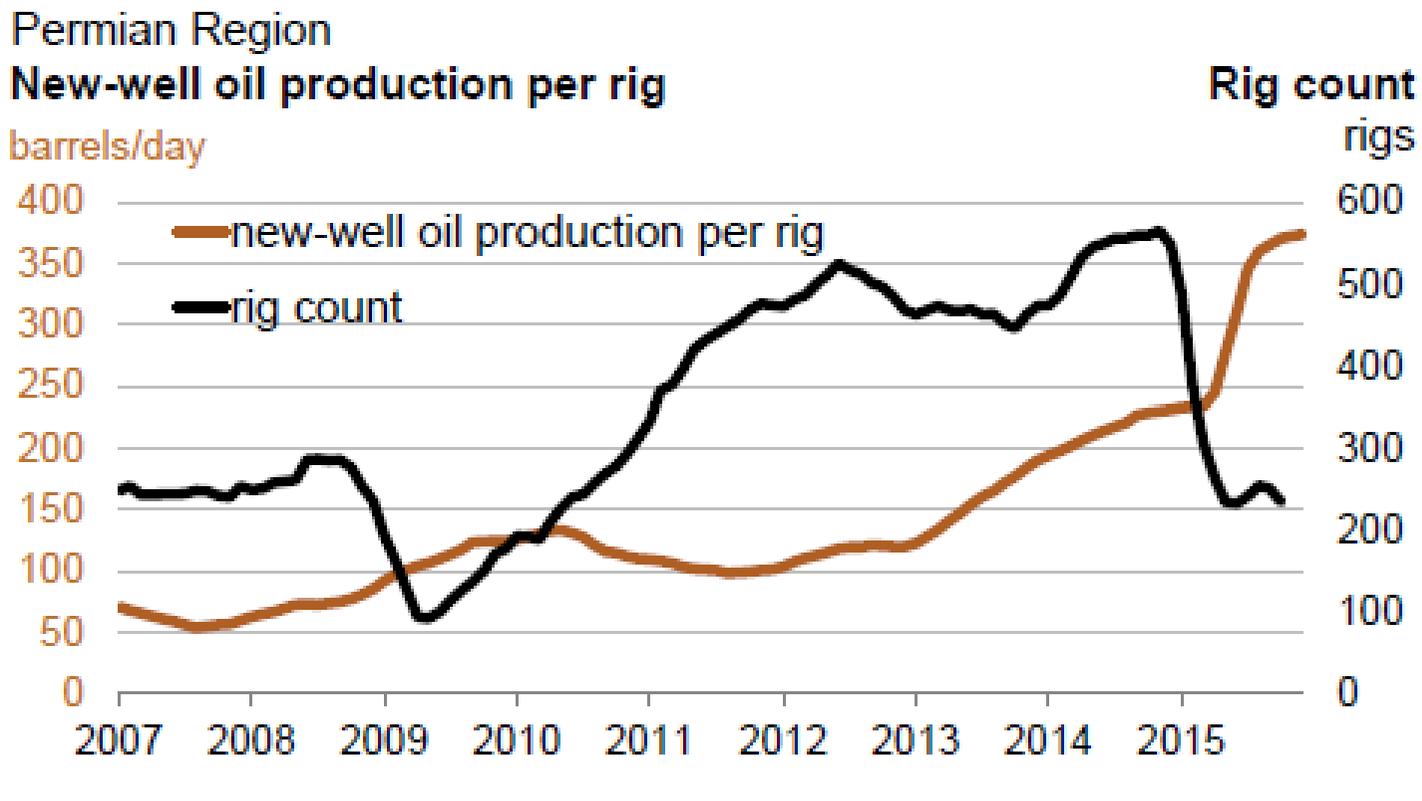
## TRADITIONAL BANKS VS FIN TECH

	BANKS	FIN TECH
Management	Bankers	Tech People
Platform	Huge Branch Network	Digital
Regulation	High	Low
Balance Sheet	Shrinking	Growing
Loan Approval	10 weeks	2 weeks
Capital Costs	Increasing	Low

### Investment Response

Target Return: 10% exposure to new lenders  
 Latest Purchase: Funding Circle: P2P SME lender

## PRODUCTIVITY GROWTH IN THE SHALE



....Breakevens now \$40 for WTI. And heading lower?

## CONCLUSION

- Deflationary effects of new technologies likely to persist
- The new economy is hard to measure: Growth is probably understated
- Beware of value traps and indexation
- Focus on strategies that understand the new dynamics

## APPENDICES

## IMPORTANT INFORMATION

### \*DEFINITION OF RISK

This risk classification is a Societe Generale Private Banking internal risk indicator. There are five different risk gradings, which are based on the measure of the Value at Risk (VaR) of each specific strategy. The risk rating does not compare the strategy against other asset classes.

The VaR corresponds to the percentile of loss for the strategy under normal market conditions, over a given period of time and using a given pricing model. If the VaR 95% 1 year is x%, this means that there is a 95% probability that the portfolio will not lose more than x% of its value in one year, under normal market conditions.

All strategies are given a risk grading from zero to four, (Lowest risk = 0 to highest risk = 4), with four indicating the highest risk as shown in the table:

VaR Potential maximum loss with a 95% probability computed to the aforementioned hypotheses\*

- **0\* Less or equal to 0%**
- **1\* Less than 5% (excluded)**
- **2\* Between 5% to 15% (excluded)**
- **3\* Between 15% to 30% (excluded)**
- **4\* Greater than 30%**

Investors should be aware that there are other risks inherent in the strategy which are not included within this risk scoring but are contained in the following pages.

Investors should consider and understand all risks before deciding to invest.

## DISCLAIMER

# SOCIETE GENERALE PRIVATE BANKING HAMBROS

### Financial Promotion

This document is provided for information purposes intended to be used by the recipient only and may not be passed on or disclosed to any other persons and/or in any jurisdiction that would render the distribution illegal. It does not constitute, and under no circumstances should it be considered in whole or in part as, an offer, a solicitation, advice or a recommendation to purchase, subscribe for or sell the financial instrument(s) referred to herein. This material is intended to report solely on the investment strategies and opportunities identified by the Societe Generale Private Banking Hambros Group ("SGPB Hambros Group"). The views, strategies and investments described herein may not be suitable for all investors. **Potential investors should consult their financial adviser to assess suitability before investing.**

Potential investors should note that additional information can be found in the product documentation, final terms or product prospectus which are available upon request.

### Advice

Restricted advice – We will advise and make a recommendation for you after we have assessed your needs. We offer advice on limited types of products (which we offer from a limited number of companies). You may ask us for a list of the companies and products we offer advice on.

### Limitation

Information herein is believed to be reliable but SGPB Hambros Group does not warrant its completeness or accuracy and it should not be relied on as such or acted upon without further verification. Opinions, estimates and expressions of judgment are those of the writer and are subject to change without notice. As such, SGPB Hambros Group or Societe Generale and its subsidiaries may not be held liable for any consequences, financial or otherwise, following an investment.

### Investment Performance

Past performance should not be seen as an indication of future performance. Investments may be subject to market fluctuations and the price and value of investments and the income derived from them can go down as well as up. **Your capital may be at risk and you may not get back the amount you invest.** Changes in inflation, interest rates and the rate of exchange may have an adverse effect on the value, price and income of investments.

### Tax, Accounting and Legal

Any services and investments referred to may have tax consequences and it is important to bear in mind that the SGPB Hambros Group does not provide tax advice. The level of taxation depends on individual circumstances and such levels and bases of taxation can change. You should seek professional tax advice in order to understand any applicable tax consequences. In addition, the material is not intended to provide, and should not be relied on for, accounting or legal purposes.

### Structured Products

A product may aim to return your capital at maturity however your investment in this product is at risk in the event of a default by the issuer.

Products may be structured within a wrapper that may allow gains to be subject to capital gains tax rather than income tax. The information relating to the tax treatment on the product has been obtained from, or is based upon, sources believed to be reliable but SGPB Hambros provides no guarantee as to accuracy or completeness.

### Hedge Funds

The document may include funds which have not been specifically approved for sale in the jurisdiction of the recipient. In view of this, special care should be exercised when investing in this type of fund. We draw your attention to the following:

Shares of this fund carry no guarantee of capital, which, under certain circumstances, may lead to the loss of your entire investment;

The investment management methodology implies a degree of risk linked, among other factors, to the use of derivatives, leverage and short selling;

This product caters, therefore, for customers with the experience required to assess the risks inherent in such complex products;

The terms and conditions applicable to redemption may continue to expose you to risk during the period between the redemption request and execution (usually prior notice of 45 calendar days before the last business day of the end of each quarter is required but can be longer for some investments).

Some funds are subject to extended redemption periods or a restriction is placed on the amount of withdrawals from the fund during a redemption period. This is known as gating. The implementation of a gate on a hedge fund is up to the hedge fund manager. The purpose of the provision is to prevent a run on the fund, which would impact on its operations. Investors should consider a hedge fund with a gate as illiquid, as withdrawals from these funds are restricted.

## DISCLAIMER

# SOCIETE GENERALE PRIVATE BANKING HAMBROS

### Private Equity

An investment in the Fund is highly speculative and involves a high degree of risk.

Fund Managers may invest in assets which are not individually authorised by the relevant regulatory authority. In view of this, special care should be exercised when investing in this type of fund. The Portfolio Funds will invest in securities acquired in private transactions. The market value of the companies in which the Portfolio Funds may invest are subject to substantial variation. In the absence of a public market for most of these investments, such investments may be thinly traded or may cease to be traded after an investment has been made in them. An investment in the fund should be considered as illiquid.

### Legal and Regulatory Information

This material is issued by the SGPB Hambros Group. The group includes:

#### United Kingdom

SG Hambros Bank Limited ('SGPB Hambros') which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. SGPB Hambros is registered in England and Wales under number 964058. The company's registered office and principal place of business is at 8 St James's Square, London SW1Y 4JU. We are covered by the Financial Services Compensation Scheme ("FSCS"). You may be entitled to compensation from the FSCS if we cannot meet our obligations. This depends on the type of business and the circumstances of the claim. For investment business, compensation may be available to eligible investors in respect of protected claims up to a maximum of £50,000 per claimant. For further information about the compensation provided by the FSCS (including the amounts covered and eligibility to claim) please ask your private banker or refer to the FSCS website [www.fscs.org.uk](http://www.fscs.org.uk) or call the FSCS on 020 7741 4100 or 0800 678 1100. Please note only compensation related queries should be directed to the FSCS.

#### Jersey

SG Hambros Bank (Channel Islands) Limited ('SGPB Hambros CI') - SGPB Hambros CI is registered in Jersey under number 2693. The company's registered office and principal place of business is at PO Box 78, SG Hambros House, 18 Esplanade, St Helier, Jersey JE4 8PR. SGPB Hambros CI is regulated for banking, investment, funds services and money services business by the Jersey Financial Services Commission ("JFSC"). This document has not been authorised or reviewed by the JFSC.

#### Guernsey

SG Hambros Bank (Channel Islands) Limited – Guernsey Branch, whose principal address in Guernsey is PO Box 6, Hambro House, St Julian's Avenue, St Peter Port, Guernsey, GY1 3AE. SG Hambros Bank (Channel Islands) Limited – Guernsey Branch is licensed under the Banking Supervision (Bailiwick of Guernsey) Law, 1994 and the Protection of Investors (Bailiwick of Guernsey) Law, 1987. SG Hambros Bank (Channel Islands) Limited – Guernsey Branch is a participant in the Guernsey Banking Deposit Scheme. The Scheme offers protection for "qualifying deposits" up to £50,000, subject to certain limitations. The maximum total amount of compensation is capped as £100,000,000 in any five year period. Full details are available on the Scheme's website [www.dcs.gg](http://www.dcs.gg), on request at the address above, from your private banker or call 01481 726521. Deposits with SG Hambros Bank (Channel Islands) Limited – Guernsey Branch are not covered by the Financial Services Compensation Scheme under the Financial Services and Markets Act 2000.

#### Gibraltar

SG Hambros Bank (Gibraltar) Limited ("SG Hambros Gibraltar") is incorporated in Gibraltar under company number 01294 and its registered address is situated at 32 Line Wall Road, Gibraltar. SG Hambros Gibraltar is authorised and regulated by the Gibraltar Financial Services Commission for the conduct of banking, investment and insurance mediation business. SG Hambros is a participant in the Gibraltar Deposit Guarantee Scheme and the Gibraltar Investor Compensation Scheme. You may be entitled to compensation from these schemes if we cannot meet our obligations. This depends on the type of business and the circumstances of the claim. Further details of these schemes are available on request or can be found at [www.gdgb.gi](http://www.gdgb.gi) or [www.gics.gi](http://www.gics.gi) respectively.

Societe Generale Private Banking Hambros is part of the wealth management arm of the Societe Generale Group, Societe Generale Private Banking. Societe Generale is a French Bank authorised in France by the Autorité de Contrôle Prudentiel et de Résolution, located at 61, rue Traibout, 75436 Paris Cedex 09 and under the prudential supervision of the European Central Bank - ECB. It is also authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Further information on the SGPB Hambros Group including additional legal and regulatory details can be found on [www.privatebanking.societegenerale.com/hambros](http://www.privatebanking.societegenerale.com/hambros)

© Copyright the Societe Generale Group 2015. All rights reserved. 10/15