



1 MONTH IN 10 SNAPSHOTS

May 2016



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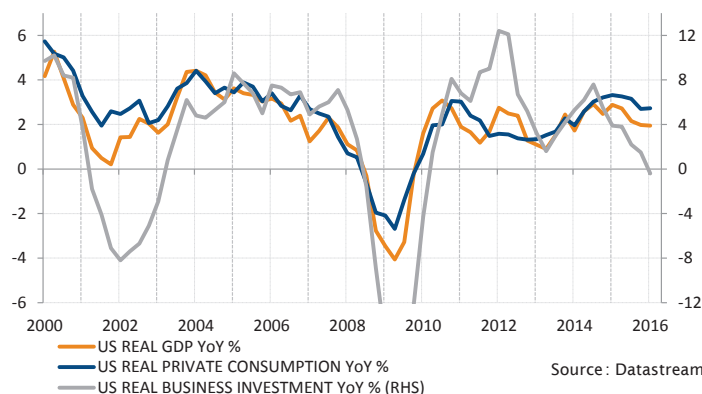
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1. United States - Services keep the economy afloat

- The US economy experienced a disappointing 1st quarter: growth slowed down significantly and, at +0.5% annualised over the period, was the lowest in two years. Yet, it managed to stay in positive territory only thanks to the consumption of services since nearly all other components of GDP proved to be negative or stable. Only residential real estate and public spending also made a positive contribution.
- Business investments fell for the 2nd consecutive quarter (a first since 2009). The contribution of foreign trade to growth was negative (because of the increase in the trade deficit), and business inventory drawdowns also weighed on activity. Even durable consumer goods declined in the 1st quarter.
- As such, if the US economy manages to maintain a growth rate of 2% over 12 months, it is only thanks to the resistance of domestic demand, which relies on the continuation of job creations and, particularly for real estate, on very favourable financing conditions. However, the absence of cyclical dynamics illustrated by the decline in investment limits the possibilities of acceleration, as reflected in the IMF's latest forecasts (+2.4% expected for 2016, +2.5% for 2017).

*Consumption supports the growth
despite the decline in investment*

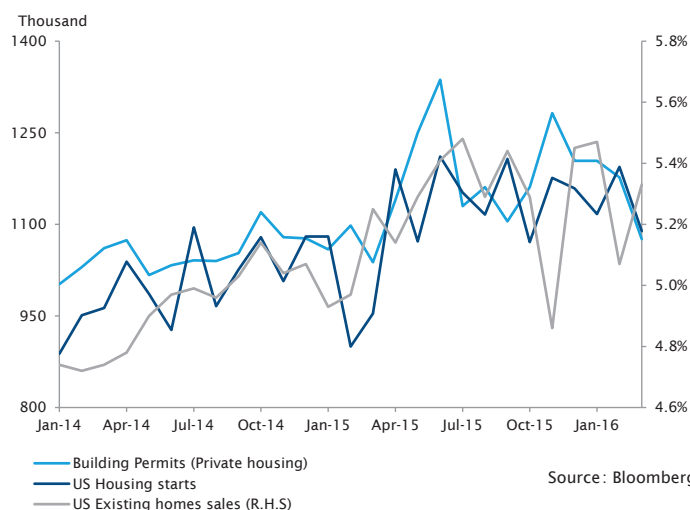




2. US real estate - Signs of weakness of the US real estate market

- Despite a rebound beyond expectations in March in existing home sales, the latest figures on housing starts and building permits indicate a slowdown in the real estate market. Although the construction field was an important driver of US growth in recent years, its contribution to the gross domestic product could run out of steam in 2016.
- The figures on new housing starts showed an 8.8% decline for March, a larger decrease than expected by the market. The trend is also downward for building permits, a leading indicator of activity in the sector, down 8.6% over the same period. The strong recovery of existing home sales in March (+5.1%) is good news, but it is not enough to avoid the risk of a slowdown, since existing homes create no new value.
- However, the Fed's accommodative monetary policy, illustrated by exceptionally low rates, combined with a robust dynamic of the job market maintains an environment favourable for the real estate market. The coming months will tell us about the temporary nature and the magnitude of the impact of the slowdown in the real estate sector.

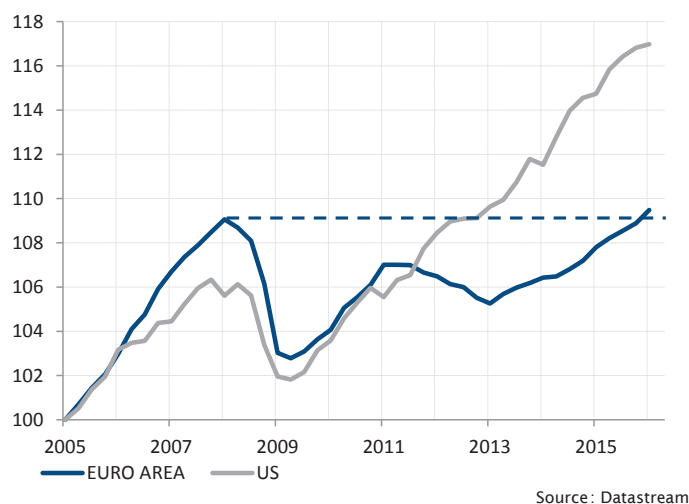
Building permits, new housing starts, and existing home sales



3. Eurozone - It took 8 years...

- Thanks to a 0.6% increase in GDP in the 1st quarter, the eurozone finally exceeded the level that it had reached in early 2008. Eight years later... By comparison, it took less than four years for the US economy to return to its pre-2008 peak, and its GDP is currently 10% above that level!
- It is true that, in the meantime, the eurozone had to go through a second recession, brought about by austerity measures associated with the sovereign debt crisis. Admittedly, the eurozone's growth potential is structurally lower than that of the United States. Nevertheless, the GDP gap that has widened on both sides of the Atlantic is spectacular...
- The two regions are thus in different phases of the economic cycle: the US is undoubtedly approaching the end of the cycle, during which an increase in wages will be necessary to fuel growth and stimulate investment, while the eurozone is still in a cyclical recovery phase, with unemployment still very high (more than in 2009) and investment struggling to recover. In such an environment, it is not surprising to see a strong divergence between the Fed's policy and the ECB's policy!

The European economy just exceeded its 2008 peak...

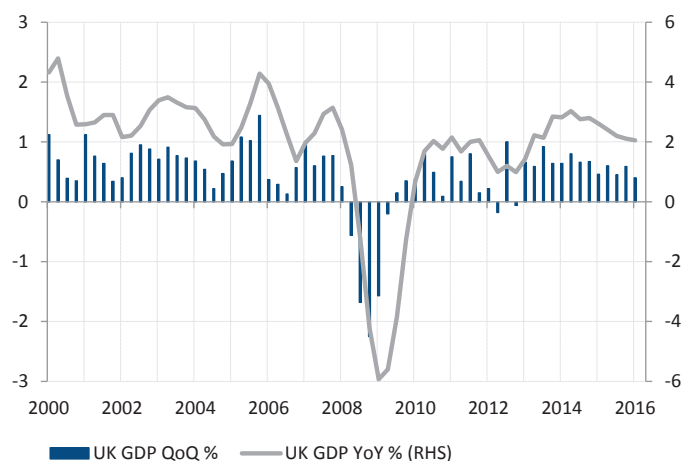




4. United Kingdom - The impact of the Brexit is felt

- The uncertainty caused by the vote on the Brexit is beginning to weigh on economic activity. The annual rate of GDP growth slowed to its lowest point in three years. Retail sales are declining, the number of unemployed has increased (a first in more than three years), and activity in industry is decreasing sharply.
- Of course, this movement fits into a context of low global growth and less favourable domestic economic policy, after the budget stimulus put in place for the general elections. However, the trend's recent intensification suggests that uncertainty about the future of the British economy is weighing on an economy that was previously among Europe's most dynamic.
- Although the likelihood of a vote to remain in the EU seems to be dominating today, this loss of momentum illustrates at least one element: uncertainty is detrimental to economic activity. Without commenting on the long-term impact of a possible exit from the EU, it is a safe bet that, if voters approve the Brexit, the many unknowns surrounding the future negotiations on the terms of the exit, the content of commercial agreements with the EU, or the return of the debate on Scotland's independence will weigh on investment and employment in the short term.

British growth slows down ahead of the vote on the Brexit

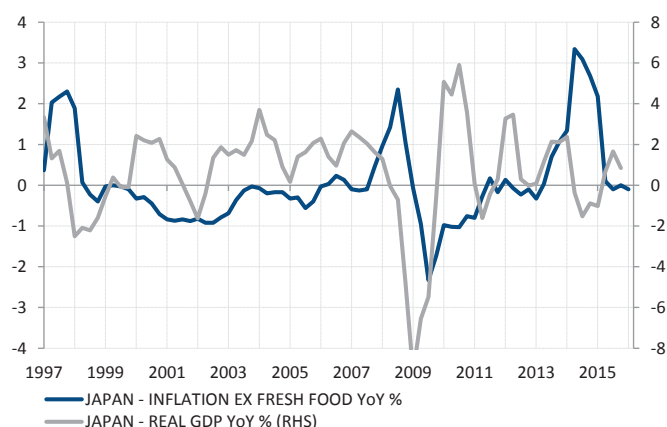


Source: Datastream

5. Japan - Abe and Kuroda losing against deflation?

- Three years after the wave of hope sparked by Mr Abe's arrival to power, the Japanese economy seems to have (almost) returned to the starting point. The massive easing of monetary policy by the Bank of Japan and the resulting decline of the yen initially benefited exporting companies and pushed inflation up to the highest levels seen in 20 years.
- However, at the same time, imported inflation and the increase in VAT in 2014 eroded consumer buying power because they were not offset by an equivalent increase in wages: real income of households has thus declined since 2013!
- Today, the stated goal of creating a dynamic of sufficient domestic demand in order to pull the economy out of deflation seems to have failed: growth is barely positive (+ 0.5% expected in 2016, like in 2015), and inflation has returned to 0%. The government and the central bank currently have extremely limited room for manoeuvre: the BoJ has already adopted negative rates, and its bond purchases have inflated its balance sheet, which represents 80% of GDP; the public deficit exceeds 5% of GDP, and debt is close to 250% of GDP.

Low growth, no inflation: Japan continues to flirt with deflation

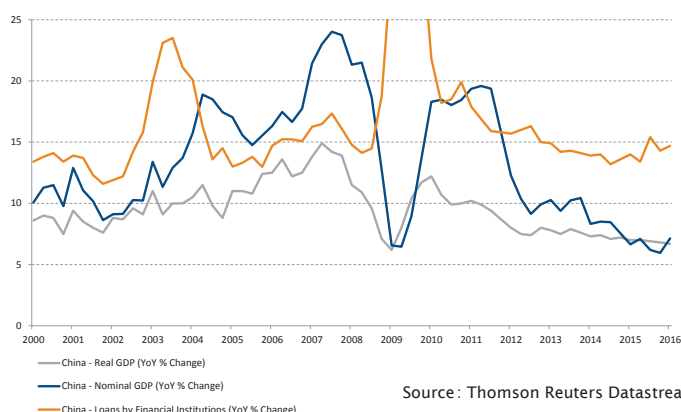


Source: Datastream

6. China - “Déjà vu”...stabilisation of credit growth

- Chinese officials are trying to stimulate or stabilise growth at around 6.5% by reviving credit.
- The massive monetary and fiscal stimulus policy is possibly, in the short term, helping the manufacturing sector, but this has a cost that will simply be pushed into the future and, ultimately, will worsen the structural problems of the world’s second-largest economy.
- In this context, public debt should increase strongly to cancel out the slowdown associated with private debt. In other words, China continues to fuel its credit bubble.
- Although we can legitimately question the soundness, over the medium-to-long term, of credit stimulus for an economy whose debt level and overcapacities in industry and real estate are already worrisome, it seems to permit some stabilisation of GDP growth and activity indicators in the long term.
- Although the Chinese economy is showing new signs of weakness, it is very likely that the trend towards easing of lending conditions will continue.

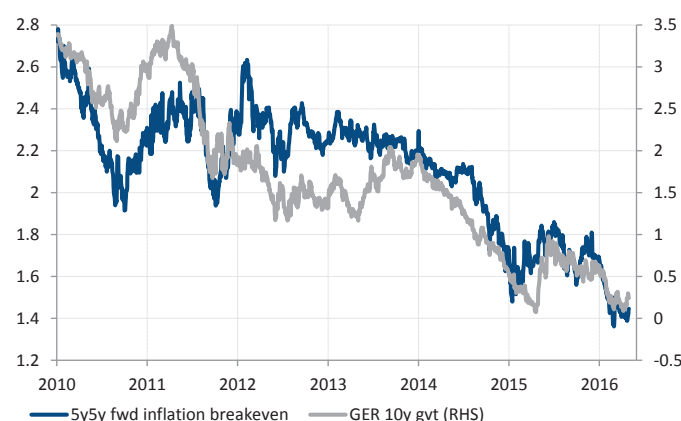
China - Real & nominal GDP and bank credit (annual % change)



7. Bonds - Risks on the Bund in the short term

- For two years, the main determinant of the evolution of German long interest rates was medium-term inflation expectations (measured by the 5-year inflation rate anticipated in 5 years). In 2014, the stalling of these anticipations under the ECB’s 2% target dragged German rates to record lows at the same time as it forced the ECB to ease its monetary policy aggressively (QE, negative rates).
- Just a year ago, encouraging economic indicators and the ECB’s intervention caused a rebound in expected inflation and a sudden increase in German rates. In 2016, oil’s decline and fears about growth have brought them back down to their 2015 lows.
- Today, conditions seem ripe for a repeat of the 2015 scenario: economic growth remains positive and was even above expectations in the 1st quarter in the eurozone. Against this backdrop, the increase in oil and commodity prices as well as the ECB’s recent measures to stimulate credit could cause a rebound in expected inflation. The Bund is currently under threat of a short-term correction.

Short-term risks on German rates

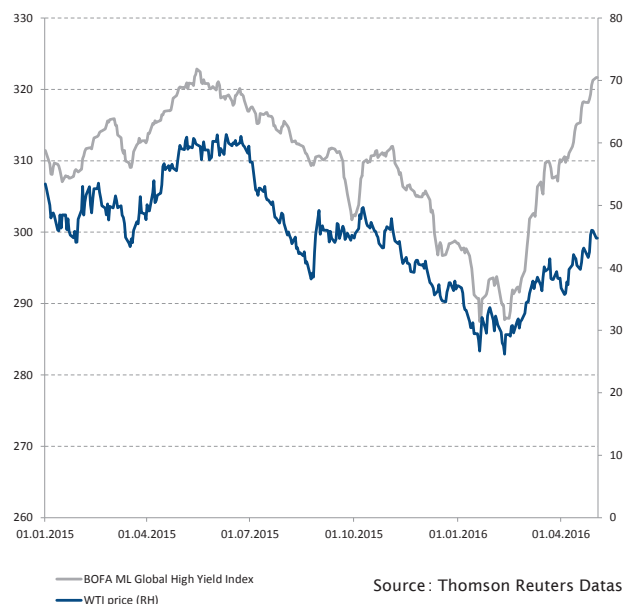




8. Bonds - Correlation between high-yield debt and oil prices

- Since the beginning of the year, high-yield debt has ranked among the best asset classes in terms of performance (respectively +7.6% and +3.8% for US and European high-yield). The risk premium for this asset class has compressed strongly over the past two months after a start of the year where spreads had increased significantly.
- At the same time, the price of a barrel of oil also increased with the WTI and Brent up +23.8% and +33.0% respectively, pulling the entire block of commodities up.
- In addition, in the US, the Fed recently adopted a more accommodating stance and therefore gave investors a renewed appetite for high-risk assets like high-yield. In Europe, the ECB continues to be accommodating and is not yet ready to come out of its current policy. In April, details of the corporate sector purchase programme that it will undertake over the next few months were revealed and positively surprised market expectations.
- In the end, in an environment of zero rates and positive but soft positive growth, with low inflation and accommodative central banks, these corporate bonds characterised by weaker health nevertheless offer attractive yields, even adjusted to the risks associated with them.

Change in high-yield debt and oil prices



9. US equities – Underperformance of technology and rebound of energy stocks

- In recent years, the US technology stock sector outperformed the energy sector, especially under pressure last year with the dizzying drop in oil and commodity prices in general. In 2015, the S&P 500 Information Technology ended the year up +4.3% compared with -23.6% for the S&P 500 Energy.
- At the beginning of the year, few investors were willing to buy companies directly or indirectly tied to changes in the price of a barrel. Most of the funds started 2016 largely underweighted in the sector, and very few analysts issued buy recommendations. Lots of bad news was also expected by the market, which retrospectively increased the effect of positive surprises. From a valuation perspective, these companies are valued at historically low levels. In April, the sector posted performance of +8.7% compared with +1.0% for the market (S&P 500) in general.
- Conversely, one of the biggest disappointments for equity markets came from the underperformance of technology (-5.5% in April and -3.4% since the beginning of the year). Many of this sector's flagship companies announced quarterly earnings in April below expectations of the consensus...which had praised them to the skies last year.

Relative performance between the S&P 500 Information Technology and Energy indices



10. European equities - Easing pressure on banks

- Although European financial companies are still posting an underperformance of more than 8% compared with the Eurostoxx50, the downward trend observed lately has slowed down. After a disastrous start, the pressure on the European banking sector seems to have eased somewhat in the beginning of the second quarter.
- So far, European financial companies have suffered the brunt of the negative interest rate policies that have weighed heavily on their earnings. Interest margins have shrunk, resulting in downward revisions of quarterly earnings. In addition, a more restrictive regulatory environment continues to negatively impact shareholders.
- However, opportunities for investors who have a certain risk appetite remain. For example, Italy's recent decision to create the "Atlante" fund is an encouraging sign. Although the market currently appears a bit sceptical, this measure should allow Italy to tackle its stock of doubtful loans that have polluted the banking systems so much. This political desire to take on the heart of this sector's problem could lead to a positive result for Italian banks.

Performance of the Eurostoxx50 and European banks (May 2015=100)



Source: Bloomberg/SYZ AM