

# Weekly Newsletter



## MARKET OVERVIEW

### EUROZONE

Eurozone manufacturing PMI fell to a two-year low of 53.2 in September, from 54.6 in August. Note however, that the ongoing US-China trade war also hurt production sites in other areas around the globe.

### UNITED KINGDOM

Consumer credit growth accelerated to £1.1 billion, from £0.8 billion last month. However, the annual rate came in at 8.1%, i.e. the lowest since August 2015.

### UNITED STATES

US ISM Manufacturing PMI fell to 59.8 in September, from 61.3 in August – the highest level since 2004. The Non-manufacturing PMI rose to 61.6 in September, from 58.5 a month earlier, or to its highest level since the index was created in 2008.

### ASIA & EMERGING COUNTRIES

Japanese manufacturing PMI was steady in September at 52.5, indicating a relatively sound improvement in goods-producing.

### THEME OF THE WEEK

Italy's budget – Dov'è l'uscita ?

## SUMMARY

### INVESTMENT & MARKETS OVERVIEW

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### GLOSSARY

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Observation date in next two weeks		
ISIN	TICKER	DATE
XS1816572785	18M EUR PHOENIX PLUS 80% VK FTI	8.10.2018
XS1816572199	18M USD PHOENIX PLUS 80% VK MT	8.10.2018
XS1816573247	5Y EUR PH+ WO 75% SX7E SXPP SXDP 0,39% P.M.	8.10.2018
XS1265964210	5Y EUR DEP LN STL 5.70% 2020	9.10.2018
XS1265966009	5Y EUR DEPOSIT LINKED NOTE WO 3Y EURQ PHOENIX PLUS WORST OF	9.10.2018
XS1574472384	50% HUI SX5E 1.10% P.Q. 21042020 3Y USD FLOORED CAPPED FLOATER 100%KG [3.00%;(USDLIB3M;1.00%)]	11.10.2018
XS1417403265	12102019 5 Y USD PHOENIX PLUS SX7E 60%	12.10.2018
XS1778423894	1,415% p.q.	15.10.2018
XS1669740976	3Y USDQ PH+ SD WO 70% 2914 JT	16.10.2018

## Italy's budget – Dov'è l'uscita ?

On September 27, Italy's coalition announced a 2019 deficit target of 2.4% of gross domestic product (GDP), or three times the previous government's target of 0.8%. What does this mean for the economy and markets?

Last week's announcement was sketchy on details. The main contributors to the increased deficit were a flat tax for small and medium sized enterprises (SMEs), costing 0.3% of GDP; guaranteed minimum income for the poorest, at 0.5%; improved pension entitlements, 0.7%; and repeal of the planned value-added tax (VAT) hike, 0.7%. On the plus side, the coalition plans a tax amnesty and cost savings of around 1% of GDP.

Further details will be released when the government presents its medium-term analysis of growth and spending projections to the lower house of parliament on October 10th. Thereafter, Italy has until the 15th to submit its 2019 budget to the European Commission (EC), which in turn has until month-end to decide if the plans are compatible with EU treaties.

The deficit matters to markets because Italy's overall debt burden is so heavy at 132% of GDP. This has forced Italian governments in recent years to run primary budget surpluses to keep the debt-to-GDP ratio stable. With next year's nominal growth expected at 2.2%, the 2.4% budget deficit seems over-ambitious, especially as the interest payments on Italy's debt amount to 3.8% of GDP.

In coming weeks, much will hinge on the EC's reaction. The defiant stance taken by the coalition partners has proved popular with voters – their joint share in opinion polls has risen from 50.1% to over 60%, suggesting the EC might want to avoid exacerbating eurosceptic sentiment with a hard line approach.

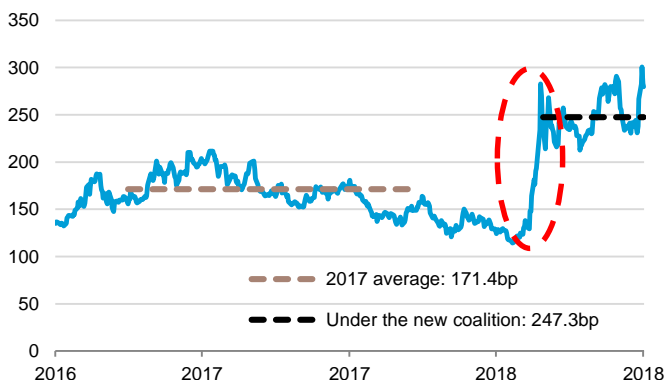
Bond market vigilantes seem to be doing the EC's work. The cost of insuring against Italy defaulting on its debt obligations shot up this week, as has the yield on 10-year government bonds (BTPs). And rating agencies will publish updated assessments of Italy's credit quality later this month. At present, Italy's ratings are only two notches above High Yield status, a level which would make Italian bonds ineligible for European Central Bank purchases. Already, shares of Italy's banks, large holders of BTPs, have tumbled.

Putting it all together. On Wednesday, Italy's Finance Minister suggested projected deficits for 2020 and 2021 might be lower than planned, triggering a rally in BTPs. In addition, recent polls have shown a surge in support for La Lega, whose roots are in the more prosperous North where businesses and households might have more to lose from a eurozone and Italian banking crisis. Tensions will run high this month, as will volatility in Italian markets, but we expect a compromise to be struck in due course.

Source: Societe Generale Private Banking, Strategy, 08/10/2018

### Italian bond yields surged with the new coalition

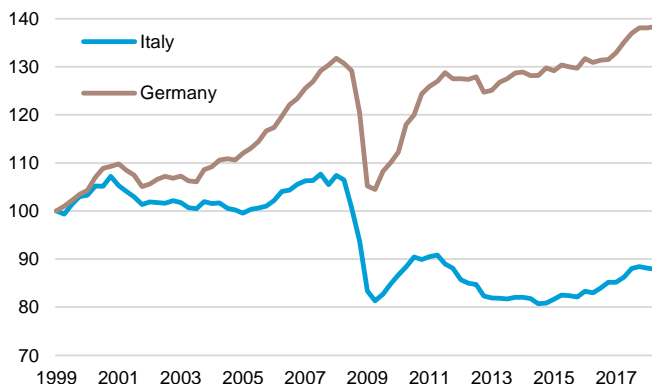
Italy-Germany 10-year bond spread (bp)



Sources: SGPB, Datastream, 04/10/2018.

### Italian industrial production has not even regained its pre-crisis level

Industrial production ex. construction, seasonally adjusted, Q1 1999=100



Sources: SGPB, Datastream, Q2 2018.

# Market News

## This week and next

### EUROZONE

Eurozone manufacturing PMI fell to a two-year low of 53.2 in September, from 54.6 in August. Note however, that the ongoing US-China trade war also hurt production sites in other areas around the globe.

The unemployment rate fell to 8.1% in August, from 8.2% in July. This is encouraging for policy-makers as it reflects sustained economic growth and increased new jobs creation, despite a slight slowdown this year versus last.

Eurozone PPI rose 4.2% YoY in August, above expectation of 3.9%, driven by more costly energy prices.

The composite PMI fell to 54.1 in September, from 54.5 in August, indicating slower growth in the eurozone private sector.

Eurozone retail sales fell for the second month in a row, by respectively -0.2% MoM in August and -0.6% in July.



#### This week's key events

	Period	Prev.	Cons.
8 Oct Investors sentiment index	Oct	12	--
12 Oct Industrial production YoY	Aug	-0.1%	--

### UNITED KINGDOM

Consumer credit growth accelerated to £1.1 billion, from £0.8 billion last month. However, the annual rate came in at 8.1%, i.e. the lowest since August 2015

UK manufacturing PMI unexpectedly rebounded to 53.8 in September, from 52.8 in August. This is partly due to greater output and new order growth.

UIK construction PMI fell to 52.1 in September, from 52.9 in August.

UK Nationwide House Price index rose 0.3% MoM in September, up from -0.5% in August, suggesting that home buyers are back on the market.



#### This week's key events

	Period	Prev.	Cons.
10 Oct GDP Estimate YoY	Aug	1.6%	--
10 Oct Manufacturing Output YoY	Aug	1.1%	1.1%

### UNITED STATES

US ISM Manufacturing PMI fell to 59.8 in September, from 61.3 in August – the highest level since 2004. The Non-manufacturing PMI rose to 61.6 in September, from 58.5 a month earlier, or to its highest level since the index was created in 2008.

US vehicle sales unexpectedly rose to \$17.4 million in September, from \$16.6 million in August.

US private sector employment added another 230,000 jobs in September, after a total of 163,000 in August. US employment continues to climb steadily, with job increases in nearly every sector.

Initial jobless claims fell to 207,000, down 8,000 from the previous week's revised level of 215,000.



#### This week's key events

	Period	Prev.	Cons.
11 Oct Inflation rate YoY	Sep	2.7%	2.8%
12 Oct U. Michigan consumer sentiment	Oct	100.1	98.5

### ASIA & EMERGING COUNTRIES

Japanese manufacturing PMI was steady in September at 52.5, indicating a relatively sound improvement in goods-producing.

Japan's large companies plan to increase capital expenditure by 13.4% in the current fiscal year ending end March 2019, compared with 13.6% in the previous Tankan survey.

South Korea industrial production rose 1.4% MoM in August, from 0.5% in July, a rather encouraging figure amid the ongoing trade war.

The Turkish inflation rate increased to 6.3% MoM in September, well above expectations of 3.6%, underscoring the deep impact of the Lira crisis on the economy and consumers.



#### This week's key events

	Period	Prev.	Cons.
10 Oct Japan: Machinery orders YoY	Aug	13.9%	1.6%
12 Oct China: Trade balance (\$bn)	Sep	27.9	19.4

# Market Performance

## MARKETS AT A GLANCE

Interest rates						Government bonds*					
	Last	1w k	3mth	YTD	12mth		1w k	3mth	YTD	12mth	
EONIA (EUR)	-36 bp	0 bp →	0 bp	-2 bp	-1 bp	United States (3-7yr)	-0,4 % ↓	-0,7 %	-1,6 %	-2,2 %	
3mth Euribor (EUR)	-32 bp	0 bp →	0 bp	1 bp	1 bp	United Kingdom (3-7yr)	-0,2 % ↓	-0,7 %	-1,0 %	-0,5 %	
3mth Libor (USD)	241 bp	1 bp ↑	7 bp	72 bp	106 bp	Germany (3-7yr)	0,0 % →	-0,9 %	-0,2 %	-0,6 %	
3mth Libor (GBP)	80 bp	0 bp →	10 bp	28 bp	46 bp	Japan (3-7yr)	-0,1 % →	-0,3 %	-0,3 %	-0,2 %	
10-year US Treasury bond	320 bp	14 bp ↑	rke	78 bp	86 bp						
10-year German bond	54 bp	1 bp →	23 bp	11 bp	8 bp	Equities*					
10-year French bond	88 bp	4 bp ↑	24 bp	10 bp	13 bp		Last	1w k	3mth	YTD	12mth
10-year UK bond	167 bp	7 bp ↑	39 bp	48 bp	29 bp	MSCI AC World	518	-1,3 % ↓	3,7 %	3,1 %	8,4 %
						Eurostoxx 50	3 375	-2,2 % ↓	-0,8 %	-0,6 %	-2,8 %
						DAX	12 244	-1,5 % ↓	-0,6 %	-5,2 %	-5,6 %
						CAC 40	5 411	-2,3 % ↓	1,8 %	4,8 %	4,2 %
						S&P 500	2 902	-0,4 % ↓	7,5 %	10,1 %	16,6 %
						FTSE 100	7 418	-1,6 % ↓	-1,0 %	-0,1 %	3,6 %
						SMI	9 098	-0,2 % ↓	5,1 %	0,3 %	1,4 %
						Topix	1 801	0,1 % →	7,3 %	1,1 %	9,2 %
						IBOV Brazil	82 953	3,7 % ↑	11,0 %	8,6 %	8,3 %
						MICEX Russia *	2 465	-0,4 % ↓	7,0 %	16,8 %	18,7 %
						MSCI EM	1 010	-3,9 % ↓	-3,3 %	-10,6 %	-5,8 %
						SENSEX 30 India	35 169	-3,2 % ↓	-1,0 %	5,1 %	12,3 %
						Hang Seng (H-K)	26 624	-3,9 % ↓	-4,3 %	-8,1 %	-2,9 %
						Shanghai Composite	2 821	1,1 % ↑	2,3 %	-14,7 %	-15,8 %
Credit						Commodities					
		1w k	3mth	YTD	12mth		Last	1w k	3mth	YTD	12mth
BAML EURO Corp. IG		0,0% →	-0,2 %	-0,7 %	-0,2 %	Brent	\$86	5,2 % ↑	9,7 %	28,8 %	53,1 %
BAML EURO Corp HY		0,0% →	1,6 %	0,1 %	0,7 %	Gold	\$1 203	1,8 % ↑	-4,2 %	-7,7 %	-5,6 %
BAML GBP Corp IG		-0,3% ↓	-0,6 %	-2,4 %	-0,5 %	Silver	\$14,6	2,6 % ↑	-8,8 %	-14,0 %	-12,0 %
BAML US IG		-0,8% ↓	0,0 %	-3,0 %	-2,1 %						
BAML US HY		-0,2% ↓	2,3 %	2,2 %	2,5 %						
JPM Global EM Sov. Plus		-1,3% ↓	0,6 %	-5,3 %	-4,3 %						
Exchange rates											
	Last	1w k	3mth	YTD	12mth						
EUR/USD	1,15	-1,1 % ↓	-1,2 %	-4,1 %	-2,1 %						
EUR/CHF	1,14	0,4 % ↑	-1,3 %	-2,4 %	-0,4 %						
GBP/USD	1,30	-0,5 % ↓	-1,6 %	-3,6 %	-1,7 %						
USD/JPY	114	0,5 % ↑	3,1 %	1,1 %	1,0 %						
USD/BRL	3,87	-3,4 % ↓	-1,0 %	17,0 %	23,6 %						
USD/CNY	6,87	-0,3 % ↓	3,6 %	5,6 %	3,2 %						
USD/RUB	67,0	2,2 % ↑	5,8 %	16,2 %	16,2 %						

Performance should not be seen as a guarantee of future returns. Source: Datastream, 04 October 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	1.30
EUR/CHF	1.14
USD/JPY	114
Brent	\$84.5
Gold	\$1199

Source: Datastream. On 04 October 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 05.10.2018.)

	ISIN	NAME	UNDERLYING	CURRENCY	BONUS	MATURITY	PRICE
1	XS1119148853	5Y EUR DEPOSIT LINKED NOTE	Košarica valuta	EUR	9% p.a.	10/12/2019	93,60%
2	XS1212271008	5Y EUR TWINWIN 65 SX5E100 CAP	Eurostoxx 50	EUR	sudjelujući	12/06/2020	104,21%
3	XS1265964210	5Y EUR DEPOSIT LINKED NOTE	WO Total, Repsol, Statoil	EUR	5,70% p.a.	16/10/2020	103,08%
4	XS1314889129	USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,70% p.a.	17/03/2021	96,55%
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	97,82%
7	XS1416369285	3Y EUR PHOENIX PLUS WO	ENGIE, E.ON, Enel	EUR	3,0% p.s.	08/08/2019	100,92%
8	XS1417403265	3 Y USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,0% p.a.	12/10/2019	99,38%
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	80,63%
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	95,65%
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	84,40%
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	71,12%
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	95,45%
14	XS1778577186	18M EUR PHOENIX PLUS 80% VK	WO Vallorec, Arcelormittal	EUR	1,75% p.m	07/10/2019	100,75%
15	XS1778576535	5Y EUR PH+ WO 55% SX7E SXPP SXDP	WO SX7E SXPP SXDP	EUR	0,33% p.m	05/04/2023	89,05%
16	XS1778423894	5 Y USD PHOENIX PLUS SX7E 60% 1,415% p.q	Eurostoxx Banks	USD	1,415% p.q.	20/04/2023	83,57%
17	XS1778379898	5 Y USD PHOENIX PLUS SX7E 60% 1,30% p.q	Eurostoxx Banks	USD	1,30% p.q.	27/04/2023	80,97%
18	XS1797182869	18M EUR PHOENIX PLUS 80% VK	WO Vallorec, Arcelormittal	EUR	1,45% p.m	31/10/2019	94,06%
19	XS1816572785	18M EUR PHOENIX PLUS 80% VK FTI	WO Vallorec, Technip	EUR	1,75% p.m	16/12/2019	93,29%
20	XS1816572199	18M USD PHOENIX PLUS 80% VK MT.- SG CIB	WO Vallorec, Arcelormittal	USD	1,91% p.m	16/12/2019	92,12%
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	90,80%
22	XS1842908557	4Y USD TWIN WIN CL1	CL1	USD	sudjelujući	08/08/2022	97,55%

**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 05.10.2018.)

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	98,80%
2	XS1471994811	3Y USDQ PHOENIX PLUS 70% DAI GY 2.40% P.Q. NC2Q 06012020	Daimler	USD	2,40% p.q.	06/01/2020	87,58%
3	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	99,16%
4	XS1533380355	5Y EUR PHOENIX PLUS 50% CO FP 1,81% P.Q. NC2Q 12052022	Casino Guichard	EUR	1,81% p.q.	12/05/2022	76,51%
5	XS1574623341	3Y CHF PHOENIX PLUS 60% 70% LH	Lafarge Holcim	CHF	3,0% p.s.	22/04/2020	96,91%
6	XS1555608782	5Y USDQ PHOENIX PLUS STEP DOWN 50% CO FP 2,20% P.Q.	Casino Guichard	USD	2,20% p.q.	16/05/2022	72,26%
7	XS1511962331	3Y USD PHOENIX PLUS 80% HUI 7.60% P.S.	HUI	USD	7,60% p.s.	03/03/2020	70,61%
8	XS1622385232	5Y EUR PHOENIX PLUS 70% BNP FP 2.18% P.Q. NC2Q 06062022	BNP	EUR	2,18% p.q.	06/06/2022	86,98%
9	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	96,86%
10	XS1583545865	5Y EUR PHOENIX PLUS 60% CO FP 2% P.Q.	Casino Guichard	EUR	2,0% p.q.	08/08/2022	72,60%
11	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	69,58%
12	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	96,94%
13	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	89,54%
14	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	77,02%
15	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	96,28%
16	XS1669454537	1Y EUR PH+ 75% STM FP 4,80% P.S.	ST Microelectronics	EUR	4,80% p.s.	20/11/2018	81,01%
17	XS1667712852	5Y EUR PH+ 60% ACA FP 1,75%	Credit Agricole	EUR	1,75% p.q.	22/12/2022	91,40%
18	XS1667711961	2Y EUR PH+ 70% RNO FP 2%	Renault	EUR	2,0% p.q.	08/01/2020	95,97%
19	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	97,17%
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/ 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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