

# The Big Picture

Still here



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**Head of European Equity Strategy**  
**Roland Kaloyan**  
+33 1 58 98 04 88  
roland.kaloyan@sgcib.com

  
**Deputy Head of GAA and Equity Strategy**  
**Charles de Boissezon**  
+33 1 42 13 58 41  
charles.de-boissezon@sgcib.com

  
**Equity Strategist**  
**Kevin Redureau**  
+33 1 58 98 02 30  
kevin.redureau@sgcib.com

  
**Equity Strategist**  
**Makhdoom Muteeb Raina**  
+91 80 67311232  
makhdoom-muteeb.raina@sgcib.com

  
**Head of Asia Equity Strategy**  
**Frank Benzimra**  
+852 2166 4309  
frank.benzimra@sgcib.com

  
**Asia Equity Strategist**  
**Rajat Agarwal**  
+91 80 6731 5184  
rajat.agarwal@sgcib.com

  
**Head of Equity Derivatives Strategy**  
**Vincent Cassot**  
+33 1 42 13 59 55  
vincent.cassot@sgcib.com

  
**Equity Derivatives Strategist**  
**Jitesh Kumar**  
+33 142135507  
jitesh.kumar@sgcib.com

  
**Head of GAA and Equity Strategy**  
**Alain Bokobza**  
+44 207 676 60 09  
alain.bokobza@sgcib.com

  
**Global Asset Allocation**  
**Sophie Huynh**  
+44 20 7676 7471  
sophie.huynh@sgcib.com

  
**GAA Strategist**  
**Praveen Singh**  
+91 80 6731 4232  
praveen.singh@sgcib.com

  
**Head of Technical Analysis**  
**Stephanie Aymes**  
+44 20 7762 5898  
stephanie.aymes@sgcib.com

  
**ESG/SRI Financial Analyst**  
**Yannick Ouaknine**  
+33 1 58 98 23 50  
yannick.ouaknine@sgcib.com

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## Investment summary

*This time last year, in our [European Equity Strategy 2018 Outlook report](#), we presented a bearish view for equity markets in 2018. Since then, the MSCI World has lost 9% from its January high, and, while we have identified a handful of factors that could provide some relief to equities in 1H19, longer term, the bear is still here. In our view, the challenge will be to balance the risks of a prolonged economic cycle (resulting from continued central bank liquidity injections) against the opportunities offered by solid companies and undervalued (sometimes oversold) segments.*

**2019: another challenging year for global equities.** We see downside potential to global equity indices for the next 12 months, with poor performances likely to be concentrated in 2H as investors discount the next US recession (SGe early to mid-2020). Our end-2019 index targets call for an S&P 500 at 2,400pts, the EuroStoxx 50 at 2,800pts and the Nikkei 225 at 21,400pts.

**Eurozone equities: limited upside potential in 1H19.** A short-term rebound in the eurozone economy after several disappointing quarters could be a support for the eurozone indices. However, we see limited equity upside potential as we expect earnings expectations to continue to be revised down. In 2H19, eurozone investors are likely to turn their attention to ECB rate hikes (we anticipate a September hike) in addition to cyclical concerns in the US.

**Our preferred index in Europe is the CAC 40; and our least preferred, the FTSE MIB.** Tensions between the Italian government and the EU look unlikely to subside with an excessive deficit procedure (EDP) on the horizon. Beyond the political noise, the FTSE MIB index, along with the IBEX, have the weakest balance sheets on average. We prefer the CAC 40 on political stability and sector make-up grounds. The DAX could offer an inexpensive upside opportunity in the event of a ceasefire between the US and China. The SMI index offers attractive defensive appeal in the context of a higher volatility regime.

**Brexit deal still likely.** Despite what we've seen in recent weeks, we still assign a 75% probability to a deal between the UK and the EU even if it proves very hard to sell to the UK parliament. However, uncertainties will linger until then. A deal would not necessarily be good news for the FTSE 100 (full of exporters), as it would strengthen sterling. Eurozone indices would benefit from a deal in our view.

**Sector allocation.** The recession is not for now, but we are gradually repositioning portfolios for the end of the cycle. This quarter we delve deeply into the past behaviour of sector earnings in times of recession. Our analysis highlights which sectors appear more at risk and which historically have proven to be more immune. We also factor in the impact on sector allocation of last quarter's changes in the economic, rates and political backdrop. This leads us to update our sector allocation as follows:

- Consumer Staples upgraded from Underweight to Neutral
- Consumer Discretionary switched from Overweight to Underweight
- Information Technology cut from Overweight to Neutral
- Overweight maintained on Healthcare, Oil & Gas, Financials and Basic Industries
- Underweight maintained on Industry, Real Estate, Utilities and Telecoms

**SG Premium List** – We are adding Henkel and replacing Renault with Volkswagen.



## Five key calls on European equity markets

### Key Call #1 Liquidity to dry in the market

The Fed looks poised to hike three times by June 2019, followed by a single hike by the ECB in September. As a consequence, we would recommend avoiding illiquid segments (such as global small caps) and focusing on high-quality balance sheets.

- + Long European Pharmaceuticals and Oil & Gas
- + Short Global Small Caps
- + Long Dec20 and Dec21 SX5E dividend futures/Short longer-dated dividend futures (Dec25+)

### Key Call #2 Focus on robust earnings

Earnings momentum is turning negative in Europe (= earnings downgrades). Focus on (not-too-expensive) sectors/indices which show relatively robust earnings during cyclical slowdowns.

- + Long SMI
- + Long European HPC and Pharmaceuticals

### Key Call #3 Look for opportunities in trade war casualties

Tensions between the US and pretty much the rest of the world have pushed some sectors into historically low valuations. A lot of bad news is already priced in, so any positive news should trigger a strong rerating.

- + Long DAX
- + Long European Semiconductors, Metals & Mining and Automobiles
- + Long/Short SG Trade War related basket

### Key Call #4 A Brexit deal still likely

Our base case scenario (75% probability) is for a deal between the UK and the EU, which should support the GBP but not the FTSE 100 (full of exporters). This would also support Eurozone indices.

- + Long SX5E/Short FTSE100
- + Long SG Stronger Sterling basket

### Key Call #5 Hedge against political noise

In the US, the split congress spells more political gridlock. In Europe, tension remains between Italy and the EU, with an 'Excessive Deficit Procedure' (EDP) looming. In the UK, a Brexit deal remains our central scenario but probably only after much more turmoil. In Germany, Merkel's leadership looks likely to be increasingly challenged. All this 'noise' is likely to stoke volatility in equity markets.

- + Long CAC40 / Short FTSE MIB
- + Short Russell2000

## SG global equity indices outlook (1)

Downside potential for global equities.

After a challenging year for risky assets in 2018, we see further downside potential to global equity indices for the next 12 months. The spectre of a US recession in early/mid-2020 would impact equity markets in 2H19.

US equities to price in a US recession by the end of 2019, with poor performance concentrated in 2H.

In the US, we expect a more restrictive monetary policy to push equity valuations lower, while political gridlock and trade tensions will likely be a source of volatility. We revise our S&P500 target for end-2019 slightly upward as the SG economics team has 'postponed' the US recession by two quarters. Factoring in a mild recession in the US in early/mid-2020, our valuation model indicates that the S&P 500 could dip to 2400pts by end-2019 and come out flat in 2020 overall. We would expect the market to bottom some time in 2020.

Limited upside potential for eurozone equities in 1H19.

A potential rebound in the eurozone economy after a series of disappointing quarters, the end of trade tensions and/or a Brexit deal could support eurozone equity valuations in early 2019. However, upside would likely be limited as earnings momentum has now entered negative territory. Looking to the second half of the year, an ECB rate hike in September would be a source of volatility and push the EUR and the cost of debt higher. In the UK, our base case scenario is for a Brexit deal with the EU, but the subsequent strengthening of the GBP would be a headwind for an FTSE100 index full of exporters.

Too early to add risk on Asia equities

While we expect Asia equities to recover in 2020, 2019 could be another challenging year due to an extended growth slowdown in China, a bear market in tech hardware and a correcting US equity market. A ceasefire in the US-China trade conflict is the upside risk. Our market picks in the region are Japan (inflation rising), China (valuation) and India (earnings).

### SG global equity index targets

Index	Current (19/11)	1Q19e	2Q19e	3Q19e	4Q19e	End-2019e	End-2020e	End-2021e	End-2022e
S&P 500	2,690	2,700	2,650	2,550	2,400	2,400	2,400	2,700	3,000
STOXX 600	355	360	365	340	300	300	290	330	370
Euro STOXX 50	3,160	3,200	3,300	3,100	2,800	2,800	2,750	3,200	3,500
FTSE 100	7,001	7,000	7,200	6,600	6,000	6,000	5,800	6,600	7,200
CAC 40	4,985	5,100	5,200	5,000	4,500	4,500	4,400	5,000	5,500
DAX 30	11,245	11,500	11,750	11,250	10,000	10,000	9,800	11,000	12,000
FTSE MIB	18,823	18,500	18,000	17,500	16,000	16,000	15,500	18,000	20,000
IBEX 35	9,006	9,000	9,000	8,700	8,000	8,000	7,800	9,000	10,000
SMI	8,813	9,000	9,200	8,800	8,000	8,000	8,000	8,800	9,500
MSCI Asia ex-Jap	607	620	650	605	565	565	620	650	710
NIKKEI 225	21,821	23,000	24,000	23,500	21,400	21,400	24,000	26,000	29,000
TOPIX	1,638	1,720	1,790	1,760	1,600	1,600	1,790	1,940	2,180
HSI	26,372	27,100	28,600	27,600	25,600	25,600	27,500	29,000	31,000
MSCI CHINA	73	76	80	78	71	71	77	81	87
KOSPI 200	272	270	270	260	250	250	260	270	290
NIFTY50	10,763	11,200	11,200	11,400	11,200	11,200	12,200	13,000	14,800

Source: Datastream, SG Cross Asset Research/Equity Strategy

## SG global equity indices outlook (2)

### Quarterly and yearly index trends

Index	*1Q19e	2Q19e	3Q19e	4Q19e	End-2019e	End-2020e	End-2021e	End-2022e
S&P 500	0%	-2%	-4%	-6%	-11%	0%	13%	11%
STOXX 600	1%	1%	-7%	-12%	-16%	-3%	14%	12%
Euro STOXX 50	1%	3%	-6%	-10%	-11%	-2%	16%	9%
FTSE 100	0%	3%	-8%	-9%	-14%	-3%	14%	9%
CAC 40	2%	2%	-4%	-10%	-10%	-2%	14%	10%
DAX 30	2%	2%	-4%	-11%	-11%	-2%	12%	9%
FTSE MIB	-2%	-3%	-3%	-9%	-15%	-3%	16%	11%
IBEX 35	0%	0%	-3%	-8%	-11%	-3%	15%	11%
SMI	2%	2%	-4%	-9%	-9%	0%	10%	8%
MSCI Asia ex-Japan	2%	5%	-7%	-7%	-7%	10%	5%	9%
NIKKEI 225	5%	4%	-2%	-9%	-2%	12%	8%	12%
TOPIX	5%	4%	-2%	-9%	-2%	12%	8%	12%
HSCEI	3%	6%	-3%	-7%	-3%	7%	5%	7%
MSCI CHINA	3%	5%	-3%	-9%	-3%	8%	5%	7%
KOSPI 200	-1%	0%	-4%	-4%	-8%	4%	4%	7%
NIFTY50	4%	0%	2%	-2%	4%	9%	7%	14%

Source: SG Cross Asset Research/Equity Strategy. \*1Q19e: difference between current level and end-1Q19e target

### Changes in indices from current levels

Index	*1Q19e	2Q19e	3Q19e	4Q19e	End-2019e	End-2020e	End-2021e	End-2022e
S&P 500	0%	-1%	-5%	-11%	-11%	-11%	0%	12%
STOXX 600	1%	3%	-4%	-16%	-16%	-18%	-7%	4%
Euro STOXX 50	1%	4%	-2%	-11%	-11%	-13%	1%	11%
FTSE 100	0%	3%	-6%	-14%	-14%	-17%	-6%	3%
CAC 40	2%	4%	0%	-10%	-10%	-12%	0%	10%
DAX 30	2%	4%	0%	-11%	-11%	-13%	-2%	7%
FTSE MIB	-2%	-4%	-7%	-15%	-15%	-18%	-4%	6%
IBEX 35	0%	0%	-3%	-11%	-11%	-13%	0%	11%
SMI	2%	4%	0%	-9%	-9%	-9%	0%	8%
MSCI Asia ex-Japan	2%	7%	0%	-7%	-7%	2%	7%	17%
NIKKEI 225	5%	10%	8%	-2%	-2%	10%	19%	33%
TOPIX	5%	9%	7%	-2%	-2%	9%	18%	33%
HSCEI	3%	8%	5%	-3%	-3%	4%	10%	18%
MSCI CHINA	3%	9%	6%	-3%	-3%	5%	10%	18%
KOSPI 200	-1%	-1%	-5%	-8%	-8%	-5%	-1%	6%
NIFTY50	4%	4%	6%	4%	4%	13%	21%	38%

Source: SG Cross Asset Research/Equity Strategy. \*1Q19e: difference between current level and end-1Q19e target

## European equity sectors: key calls

Our sector allocation mixes strategic orientations based on our medium-to-long-term investment themes with tactical positions based on shorter-term market views.

### Our key calls on MSCI sectors

	Most preferred	Neutral	Least preferred
<b>Financials</b>	Insurance Banks	Diversified Financials & IBs (▼)	
<b>Basic Industries</b>	Steel, Metals & Mining	Chemicals Construction Materials (▼) Paper, Packaging	
<b>Healthcare</b>	Pharmaceuticals		Healthcare Equipment
<b>Oil &amp; Gas</b>	Integrated Oil companies	Oil Services	
<b>Consumer Staples</b>	Household & Personal Care (▲)	Food Tobacco Food & Staples Retailing (▲)	Beverages
<b>Information Technology</b>	Semiconductors	Software & IT Services (▼)	Technology Hardware & Equip. (▼)
<b>Industry</b>	Aerospace & Defence	Construction	Capital Goods Transportation & Other Services
<b>Real Estate</b>			Real Estate
<b>Utilities</b>			Utilities
<b>Consumer Discretionary</b>	Automobiles & Components	Media	Hotels, Restaurants & Leisure Retailing (specialised) Durables, Apparel & Luxury (▼)
<b>Telecoms</b>			Telecoms

Note: Only sector recommendation changes are highlighted; not weight changes which do not trigger a recommendation change. Source: SG Cross Asset Research/Equity Strategy

### Our key calls on STOXX sectors

Top 5 longs		Top 5 shorts	
Insurance	SXIP	Telecommunications	SXKP
Basic Resources	SXPP	Real Estate	SX86P
Healthcare	SXDP	Utilities	SX6P
Banks	SX7P	Food & Beverage	SX3P
Oil & Gas	SXEP	Retail	SXRP

Source: SG Cross Asset Research/Equity Strategy

### What's new in our sector allocation

- Consumer Staples upgraded from 450bp underweight to neutral
- Utilities underweight trimmed to 100bp
- Financials overweight trimmed to 300bp, from 450bp, and concentrated in Insurance
- Consumer Discretionary switched from 100bp overweight to 150bp underweight
- Information Technology cut from 150bp overweight to neutral
- Basic Industries' overweight is marginally trimmed to 150bp

### Our current largest positions

- **Overweights:** Financials (+300bp), Basic Industries (+150bp), Healthcare (+150bp)
- **Underweights:** Telecoms (-250bp), Consumer Discretionary (-150bp)

Top three Overweights  
= 600bp over benchmark.

Top two Underweights  
= 400bp under benchmark.

## European equity sector allocation

	MSCI	SG	Weighting	Comments
<b>Oil &amp; Gas</b>	<b>8.3%</b>	<b>9.3%</b>	<b>Overweight</b>	<b>Prefer IOCs on profitability</b>
Integrated Oil Companies	8.2%	9.2%	Overweight	Sound balance sheets and recovering profitability. Solid dividends
Oil Services	0.1%	0.1%	Neutral	Poor profitability still, and more geared than IOCs to oil price volatility
<b>Basic Industries</b>	<b>7.7%</b>	<b>9.2%</b>	<b>Overweight</b>	<b>A mixed bag – Steel, Metals &amp; Mining a clear favourite</b>
Chemicals	3.8%	3.8%	Neutral	Late-cycle but expensive
Construction Materials	0.7%	0.7%	↓ Neutral	Falling earnings, low credit ratings, but relative P/E at 10-year low.
Steel, Metals & Mining	2.7%	4.2%	Overweight	Should continue to recover from oversold levels. Rising RoE. Cheap
Paper, Packaging	0.5%	0.5%	Neutral	-
<b>Industry</b>	<b>12.7%</b>	<b>11.7%</b>	<b>Underweight</b>	<b>Outside Aerospace &amp; Defence, an unattractive group</b>
Aerospace & Defence	2.2%	2.7%	Overweight	Expensive, but now late cyclical, with good earnings and cash
Construction	1.7%	1.7%	Neutral	France helps, periphery hurts. 'Cheap' on P/E, expensive on P/BV
Capital Goods	5.4%	4.9%	Underweight	A rare case of an expensive cyclical sector
Transportation & Other Services	3.4%	2.4%	Underweight	Earnings falling but still high, with Brexit looming on top
<b>Consumer Discretionary</b>	<b>10.0%</b>	<b>8.5%</b>	<b>Underweight</b>	<b>Switching from long-held overweight to underweight</b>
Automobiles & Components	2.9%	3.9%	Overweight	Worries abound, but valuations are extremely low (6.2x P/E)
Durables, Apparel & Luxury	3.6%	2.1%	↓ Underweight	Highly cyclical with a fading momentum on a record-high P/BV
Hotels, Restaurants & Leisure	1.3%	0.8%	Underweight	Heavy exposure to the UK and disruptive players. Expensive on top of that
Media	1.3%	1.3%	Neutral	Getting 'cheaper' but digital continues to hurt.
Retailing (specialised)	0.9%	0.4%	Underweight	Online retail competition and strong UK exposure. Poor EPS momentum
<b>Consumer Staples</b>	<b>14.0%</b>	<b>14.0%</b>	<b>Neutral</b>	<b>Long HPC/Short Beverages</b>
Food & Staples Retailing	1.2%	1.2%	↑ Neutral	Has probably reached an earnings floor. Neutral on our scorecard
Beverages	3.0%	2.0%	Underweight	Highly geared, earnings decline accelerating. Expensive too
Food	4.5%	4.5%	Neutral	Good earnings profile, but very expensive on 21.5x earnings
Tobacco	1.4%	1.4%	Neutral	Potential regulatory trouble, but attractively valued
Household & Personal Care	3.9%	4.9%	↑ Overweight	Very resilient earnings in downturns, and attractive valuations
<b>Health Care</b>	<b>14.0%</b>	<b>15.5%</b>	<b>Overweight</b>	<b>Our favourite defensive sector</b>
Pharma, Biotech & Services	11.9%	14.4%	Overweight	Strong balance sheets, defensive qualities, attractive valuations
Health Care Equip. & Services	2.1%	1.1%	Underweight	Expensive on 19x falling earnings
<b>Financials</b>	<b>19.1%</b>	<b>22.1%</b>	<b>Overweight</b>	<b>Insurance is our clear favourite in Financials</b>
Banks	10.0%	11.0%	Overweight	Rank 2nd on our scorecard, but need ECB hike or better political backdrop
Div. Financials & Invest. Banks	3.2%	3.2%	↓ Neutral	Volatile earnings in a slowdown. Not particularly cheap
Insurance	5.9%	7.9%	Overweight	Superb earnings momentum, and deep value on 9.5x P/E
<b>Real Estate</b>	<b>1.4%</b>	<b>0.4%</b>	<b>Underweight</b>	<b>At risk from rising bond yields and Brexit</b>
<b>Information Technology</b>	<b>5.3%</b>	<b>5.3%</b>	<b>Neutral</b>	<b>Long Semiconductors / Short Technology hardware</b>
Software & IT Services	2.9%	2.9%	↓ Neutral	Supporting CRM, cloud and cybersecurity, but on 20x P/E
Technology Hardware & Eqpt.	0.9%	0.4%	↓ Underweight	Take profit on the YTD best performer (+28% vs market)
Semi-conductors	1.5%	2.0%	Overweight	Trade tensions have pushed valuations very low, despite strong EPS
<b>Telecom Services</b>	<b>3.6%</b>	<b>1.1%</b>	<b>Underweight</b>	<b>Earnings continue to fall, putting dividends at risk</b>
<b>Utilities</b>	<b>3.9%</b>	<b>2.9%</b>	<b>Underweight</b>	<b>The decade long underperformance should slowly come to an end</b>

Source: SG Cross Asset Research/Equity Strategy

## SG European Premium List

SG's Premium List is derived from the research of our 80+ equity analysts. It showcases shares that we expect to appreciate in absolute terms. The strategy team ensures consistency within the list and a balance between themes, sectors and countries.

<p><b>BP</b> <i>Integrated Oil Companies</i></p> <p>BP is our preferred stock in Oil &amp; Gas. Its record as project manager is materially transformed: BP delivered seven major projects in 2017 (with 500kboed combined capacity), with six new start-ups due in 2018 (with 900kboed capacity), typically below the original budget/ahead of time. This supports our confidence in: 1) its targeted production growth of 5% p.a. in 2016-21, i.e. well above oil/gas demand growth, and at materially lower unit production costs and 35% higher cash margins than legacy production under a flat oil price (of \$52/bbl); 2) a targeted 2021 upstream free cash flow of \$13-14bn p.a. (pre-tax) at a \$55/bbl real Brent price, i.e. double the actual 2017 E&amp;P free cash flow (of \$6.9bn).</p> <p>SG rating: Buy</p>	<p><b>TechnipFMC</b> <i>Oil services</i></p> <p>The arguments in favour of our recent Buy rating have strengthened in the wake of the high-quality 3Q results/earning call/sell-side meeting. We continue to see a significant rerating as likely given: 1) the acceleration in O&amp;G capex; 2) expected upgrades to 2019-20e consensus; and 3) the improving cash flow/WCR outlook. Our \$20bn target equity value implies c.10x FY20e EV/EBITDA (i.e. c.\$2bn EBITDA, the same as the depressed FY17 result).</p> <p>SG rating: Buy</p>	<p><b>EVONIK</b> <i>Chemicals</i></p> <p>The company offers a rather defensive, high-quality, late-cyclical portfolio and seems to be significantly undervalued. Earnings dynamics have picked up strongly of late. The new CEO has announced substantial cost savings of €200m (8% of group EBITDA) and is now planning to sell off the legacy and cyclical MMA/PMMA business (EV of c.€2bn). Earnings and FCF generation momentum started to improve in 1H18, and for the first time in many years Evonik was able to surprise positively by beating market expectations in 2Q18 and increasing its EBITDA and its FCF guidance for FY18. At 8.3x EV/EBITDA, Evonik trades in line with more cyclical integrated chemicals companies and at a minimum discount of 15-20% to its closest peer DSM</p> <p>SG rating: Buy</p>	<p><b>ArcelorMittal</b> <i>Steel, Metals &amp; Mining</i></p> <p>Although the shares have weakened in the past month on general market risk aversion, the profitability outlook remains supportive in the group's key North American, European and Brazilian markets. There is rising uncertainty with regard to mid-term automotive steel demand, but this is largely offset by reduced steel supply from China, notably as a result of ongoing seasonal closures due to environmental issues. The company remains on the path to deleveraging, and we see upside risks to the 2019 dividend consensus, while the consolidation of Ilva and acquisition of Essar should cement its leading positions in Europe and help establish the company in the world's most important growth market.</p> <p>SG rating: Buy</p>	
<p><b>CRH</b> <i>Construction Materials</i></p> <p>We remain positive on CRH thanks to its developed market exposure, with the US witnessing a continued recovery in volumes, pricing power is intact enabling CRH to maintain its margins despite significant cost pressures. And the recovery in Europe happening albeit at a slower pace. Earlier this year, CRH announced a €1bn share buyback to unlock shareholder value as CRH shares offer a 2018e FCFE yield of 6%. CRH's good portfolio management skills and solid balance sheet, coupled with its proactive approach to shareholder remuneration, is another big plus, in our view.</p> <p>SG rating: Buy</p>	<p><b>Volkswagen</b> <i>Automobiles</i></p> <p>VW arguably represents the largest repository of unrealised value in the sector. This in itself is hardly news, so the real question is whether the management team led by group CEO Herbert Diess is prepared to take the necessary steps to unlock it. The partial IPO of VW TRATON Truck &amp; Bus operations, and Porsche AG CFO's suggestion of a partial Porsche AG IPO suggest to us a deepening desire to discuss and address the gulf in valuations of some of VW's core assets. Reporting Lamborghini separately (rather than consolidated within Audi) could also help. With WLTP issues receding from November onwards, we believe investors will once again concentrate on what we consider to be the incontrovertible unrealised value that resides within the group.</p> <p>SG rating: Buy</p>	<p><b>Accor</b> <i>Hotels, Restaurants and Leisure</i></p> <p>Accor has sold 65% of Accorinvest to an investor group (PIF and GIC, Colony, Amundi, Predica), the remaining 35% should be fully sold on a five years horizon. Cash from the sale is earmarked for a share buyback plan over the next two years and to maintain balance sheet flexibility to underpin the company's investment grade credit rating. The remaining amount has enabled the group to reinforce its position notably in the luxury segment with the acquisition of Mövenpick, and in the Asia-Pacific region with the acquisition of Mantra.</p> <p>SG rating: Buy</p>	<p><b>Publicis</b> <i>Media</i></p> <p>Publicis is working to restore investor confidence through cost cutting via its "Power of One" restructuring plan, debt reduction and more communication on the consulting revenues, which are compensating for a slowdown in traditional media. We remain convinced of the agency's adaptability and versatility and see potential for more growth from the digital transformation business, a market growing in the double digits.</p> <p>SG rating: Buy</p>	
<p><b>Novartis</b> <i>Pharmaceuticals</i></p> <p>The new CEO's refocus on innovation is well on track and should drive multiples expansion, helped by the Alcon spin-off (slated for 1H19), Sandoz reshaping (disposal of the commoditised generics ongoing) and Consumer disposal (completed earlier this year). Novartis generates above-pharma-sector-average growth (2018-23e EPS CAGR at 9% vs 7%) but trades only in line on 2019e P/E. We think market scepticism on its (promising in our view) late-stage pipeline in respiratory, cancer and neurology leaves room for upside surprises.</p> <p>SG rating: Buy</p>	<p><b>Credit Agricole</b> <i>Banks</i></p> <p>CASA is our preferred French bank for three main reasons: 1) Capacity to generate revenue growth, supported by the group's business mix, composed of high ROE activities such as AM but also insurance (the biggest contributor to group earnings) and consumer finance. CASA's highly integrated business mix enabled it to grow its revenues by 5% in 9M18; 2) Capital strength - CASA is the only French bank to have already exceeded its business plan capital target (11%). Even if a proportion of CASA's current excess capital (€1.5bn) is likely to be allocated to regulation in the near term (i.e., TRIM), it should allow the bank some flexibility to reinvest in the franchise; 3) Attractive valuation, still very compelling on 7.2x 2019e P/E, while offering a 6.5% yield at end 2018e.</p> <p>SG rating: Buy</p>	<p><b>ABN Amro</b> <i>Banks</i></p> <p>ABN is a high-return and Dutch-market-gearred bank, offering better net interest income (NII) resilience than peers and exposure to a domestic economic recovery. This is combined with a strong and growing capital position, which should give ABN the capacity to absorb the "B4 shock". The valuation remains attractive with the stock trading at a 2019e P/TBV of 1.1x for a 12.5% ROE. We expect to offer a 7% yield in 2018e (vs 5.5% expected by other European banks on average).</p> <p>SG rating: Buy</p>	<p><b>Axa</b> <i>Insurance</i></p> <p>Axa is developing a new strategy to deliver superior growth prospects, with a focus on fewer countries and an emphasis on scale in its preferred product segments (health, protection, commercial P&amp;C). Axa expects the XL Group acquisition to deliver material cost (-€0.2bn target) and revenue synergies (€0.1bn target). It is focusing more on non-life insurance, which, as a rule, is better at generating cash and thus should reinforce its solvency II ratio. It intends to fully divest its US life operations following the initial IPO of a 28.2% stake in May 2018. We expect this to help it to generate a 'wall of cash' of €25bn over three years (2018-20e) giving it additional flexibility to raise its dividend and/or make acquisitions/share buybacks.</p> <p>SG rating: Buy</p>	
<p><b>Allianz</b> <i>Insurance</i></p> <p>Three key reasons: i) Allianz had the best capital generation in the sector in 1H18, generating 13ppt of capital pre dividend, positioning it well for further share buybacks (we pencil in €2bn for 2019e); ii) it is starting to focus more on cost reduction, as shown by a recent improvement in its P&amp;C expense ratio; iii) its share price performance has been dull this year and, although its valuation is not as compelling as that of Axa and Generali (Allianz 2019e P/E of 10.0x vs sector 9.9x), we think it will outperform.</p> <p>SG rating: Buy</p>	<p><b>SAP</b> <i>Software &amp; IT services</i></p> <p>SAP is now mainly focused on its cloud businesses, which it expects to account for 30% of revenues in 2020. With an expanding portfolio of new cloud solutions and its flagship product, S/4 HANA, SAP expects to tap more cross/up-selling opportunities. The group is also targeting higher gross margins by developing public cloud solutions and pushing into CRM (with a differentiating factor in its conversational AI). SAP's increasingly mature cloud portfolio is set to improve profitability in our view.</p> <p>SG rating: Buy</p>	<p><b>Deutsche Post</b> <i>Transportation &amp; Other svcs</i></p> <p>In our view, Deutsche Post has the best positioning in its sector, with a strong international presence. It is well diversified in terms of regions and customers, and so presents a defensive character. Based on its strong cash generation and balance sheet, we see potential for rising shareholder returns. Deutsche Post looks well set to benefit from ecommerce via rising parcel volumes and stronger consumption in the eurozone. We think the market is not fully discounting the group's FY20 targets, leaving room for positive surprises.</p> <p>SG rating: Buy</p>	<p><b>STMicroelectronics</b> <i>Semiconductors</i></p> <p>We expect STM to continue to re-rate thanks to strong 2H revenue growth, particularly in the Analog, MEMs and Sensor division (driven by the Apple 3D-imaging module design win). STM's Industrial and Automotive growth drivers remain intact, with the proliferation of electronic components driving semi content in industry (IoT, automation, robotics, energy efficiency) and auto (principally thanks to ADAS and xEV). We expect 2018 growth to meet or exceed the higher end of the 14-17% guidance range, supported by stepped-up capex (\$1.2-1.3bn in FY18).</p> <p>SG rating: Buy</p>	<p><b>Henkel</b> <i>HPC</i></p> <p>Group OSG of 2.7% in 3Q18 is below Staples, while 40bp of AOPM is broadly in line. Adhesives 3Q18 OSG was 3.8% with rising input costs offset by pricing. Fears of a China slowdown appear unfounded for now. For Laundry (33% sales), 3Q OSG was 2.5%. HEN's Beauty portfolio (20% sales) posts structurally lower growth (3Q 0.5% OSG). Regaining NA share in HPC is top priority and strong margin progression should continue. HEN has spent 14% of mkt cap on M&amp;A over the past 2 years and is looking for more. We value HEN on a 10-15% discount to Global Staples to reflect the late stage of the economic cycle.</p> <p>SG rating: Buy</p>





# Editorial

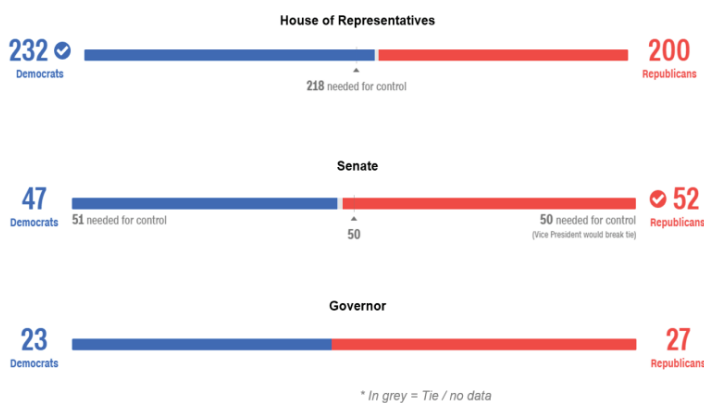


## 2019: a year of risk for US equities

### Risk of political gridlock in the US

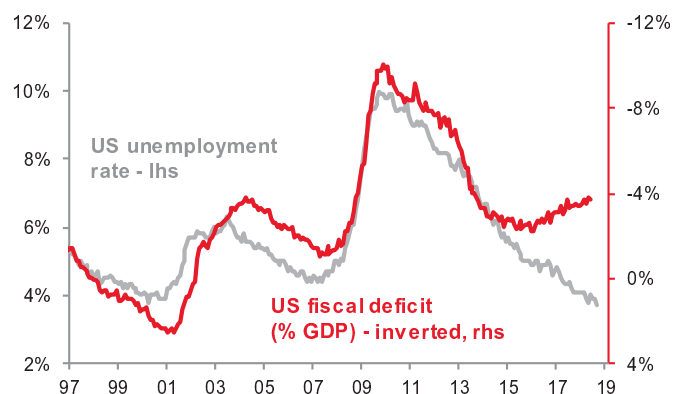
The results of the US midterm elections have changed the political picture in the US as Congress is now split (the House of Representatives now has a majority of Democrats, while the Senate remains controlled by Republicans). As we highlighted in our [US Midterm Elections report](#), this could have serious market and economic consequences, such as potentially more frequent government shutdowns, impeachment considerations and general uncertainty. At this late stage in an already lengthy expansion period, uncertainty could be more damaging. The growing US deficit does not leave much room in the event of an economic slowdown.

#### A split Congress, a more complex political picture



Source: CNN

#### US deficit: already very high at this stage of the cycle

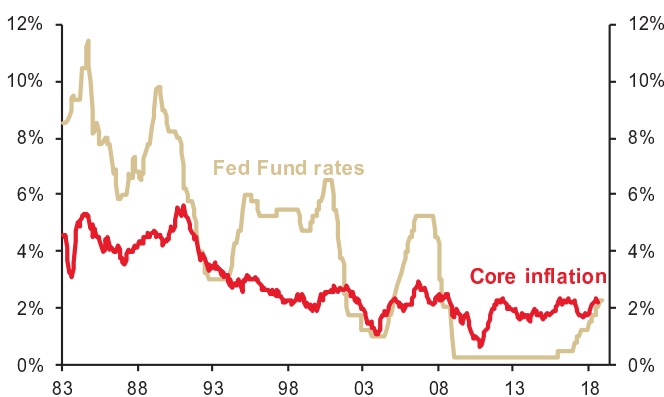


Source: SG Cross Asset Research/Equity Strategy

### More restrictive US monetary policy

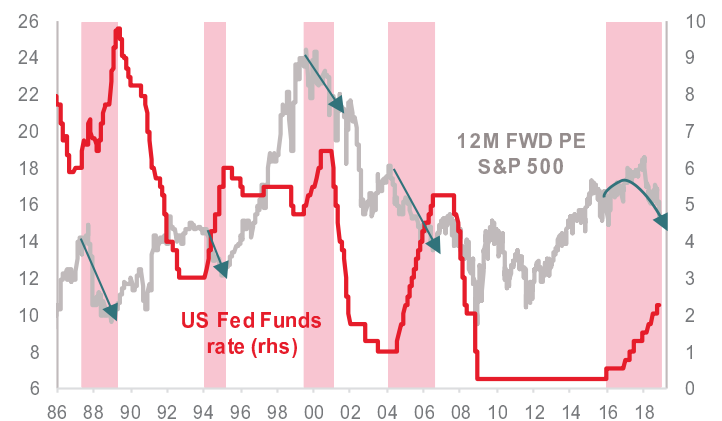
US financial assets benefited from an ultra-accommodative monetary policy, with Fed funds below the core inflation rate for a decade (until it changed in October). Our scenario assumes three more rate hikes, lifting the Fed funds to 3% by June 2019, putting pressure on equities through three channels: 1) it would push higher the WACC (weighted average cost of capital) and thus lower the valuation of equities (see below); 2) flow wise, investors would reallocate into cash in USD out of other assets (including equities); 3) the Fed funds rise is a typical sign of the end of the cycle (flattening/inversion of yield curve...).

#### A decade of Fed funds below US core inflation



Sources: Datastream, Bloomberg, Fed, SG Cross Asset Research/Equity Strategy

#### When the Fed hikes, US equities derate

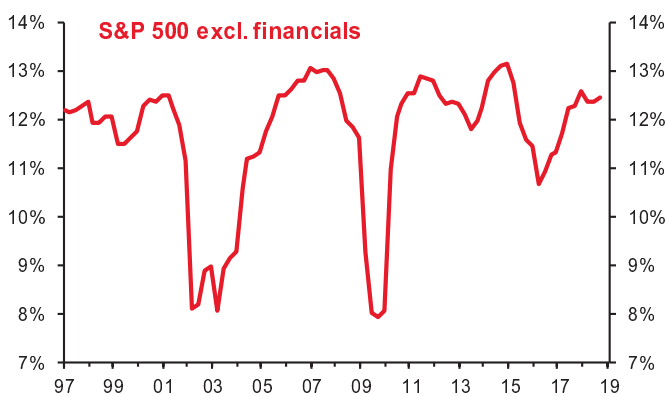


Source: IBES, Datastream, SG Cross Asset Research/Equity Strategy

## US recession in early/mid-2020

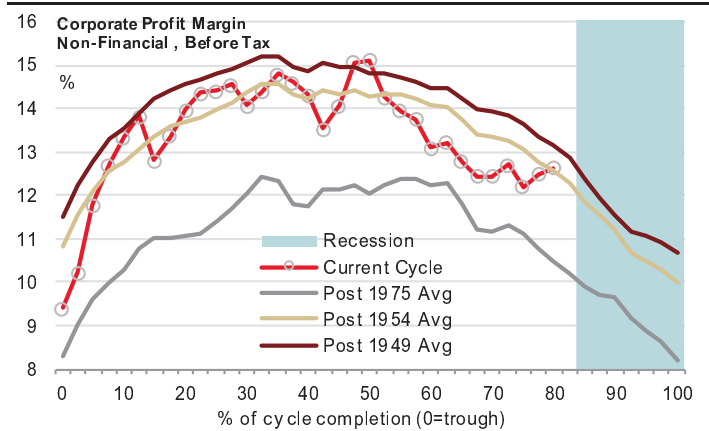
The US economy looks set to enjoy its last leg of expansion in 2019, making this cycle the longest in history (in June 2019). The fiscal stimulus has postponed the date of the next US recession, which is expected now in early/mid-2020 in our scenario. As a consequence, markets should price in the recession a few months ahead of time. This suggests that cyclical concerns could be a major market driver in the 2H19, when GDP growth is already expected to decelerate (1.6% in 3Q19 and 1.1% in 4Q19). The jump in productivity in mid-2018 contained unit labour costs and raised margins, but looking forward, tight labour, rising wage costs and the difficulty of passing on these costs to consumers should narrow margins and reduce incentives for investment and hiring.

**Toppish US EBIT margin (S&P 500 excluding financials)**



Based on historical constituents excluding financials.  
Source: Worldscope, Datastream, SG Cross Asset Research/Equity Strategy

**US profit margin through a cycle**

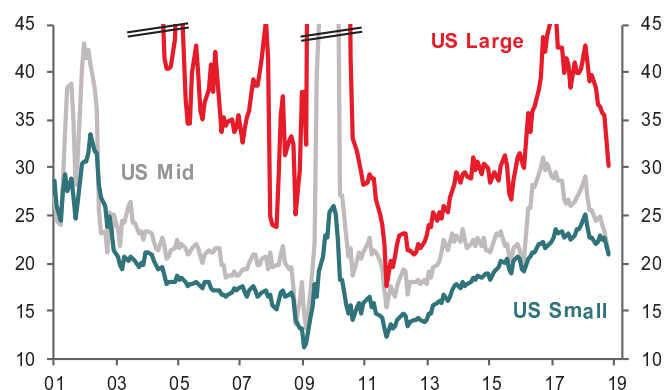


Source: SG Cross Asset Research/Economics

## The Russell 2000: our least preferred index

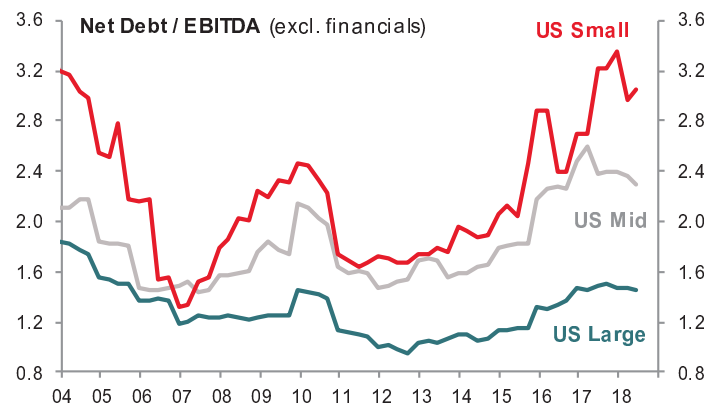
As we highlighted in [our recent report on the midterm elections](#), as the Russell 2000 index would be one of the worst performers in the event of a US political gridlock, as US small caps would not benefit from the potentially weaker USD. US small caps are trading at high valuation ratios (trailing P/E ratio of 30.2x vs 20.9x for US large caps) and have a very average high leverage ratio (net debt to EBITDA of 3.1x vs 1.5x for US large caps). Thus, US small caps are more at risk from the rising cost of debt (higher rates or higher credit spread – or both) and asset rotation (illiquid segment). More details about global small caps can be found in our [Invest with Size](#).

**US small caps: valuation still high ...**



MSCI US size indices, Source: MSCI SG Cross Asset Research/Equity Strategy

**...and leverage very high**



MSCI US size indices, based on historical components excluding financials, Source: MSCI, SG Cross Asset Research/Equity Quant & Strategy

## S&P 500 target: 2,400pts by end-2019

The initial assumption underlying our year-end 2019 target for the S&P 500 of 2,440 points is a decline in sales growth in 2019, and a mild contraction of 5.0% in 2020e. This decline in activity is consistent with our economists' forecast of 2.4% GDP growth in 2019e and 0.4% in 2020e, versus +2.9% this year. We then apply margin forecasts to our sales estimates to work out the earnings. Our economists' team's chart (see p.13) implies that, at the end of the cycle, profit margins are likely to narrow by c.200bp on average. Hence, we are looking for a margin contraction from 12.0% this year to 10.0% by end-2020.

### SGe S&P 500 forecasts

	Variable	End-2018e	End-2019e	End-2020e	End-2021e
SGe	Profit margin *	12.0%	11.5%	10.0%	10.7%
SGe	Sales growth (yoy)	8.7%	4.0%	-5.0%	3.0%
SGe	Sales	1,339	1,393	1,323	1,363
SGe	EPS *	161	160	132	146
SGe	EPS growth (yoy) *	24%	-1%	-17%	11%
SGe IBES **	EPS growth (yoy) *	24%	9%	10%	15%
SGe IBES **	12m Fwd P/E	15.5	14.0	15.5	16.5
<b>SGe</b>	<b>S&amp;P 500</b>	<b>2,715</b>	<b>2,440</b>	<b>2,365</b>	<b>2,663</b>

\* excluding companies with negative EPS, \*\* Source: IBES, SG Cross Asset Research / Equity Strategy

Applying these sales growth and margin numbers to the current sales and earnings figures for the S&P results in flat EPS growth in 2019e, and a 17% EPS contraction in 2020e. Moreover, given the Fed action, we expect some multiple contraction (chart p.4). Importantly, we take into account in our forward P/E assumption the fact that the IBES consensus usually never forecasts an EPS contraction. Indeed, since 1990, the 12-month forward EPS growth has never been below 5% except during the worst of the 2008-09 crisis when it reached -5% (vs -30% looking at trailing EPS). Hence, we expect the 12m forward P/E to hit a low of less than 14x by mid-2020e.

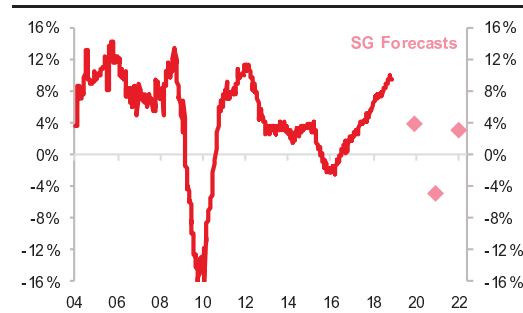
After a strong increase of c.9% in 2018e, we expect sales growth to slow to 4% in 2019e, followed by a 5% decline in sales in 2020e, in line with our US economic scenario.

Profit margins (after tax) have strongly improved over the last year thanks to the tax cut. Based on our scenario of higher wage growth, interest rates and inflation, we expect profit margins to come under pressure, and to lose c.200bp by end-2020e, in line with our US recession call.

Thanks to the US tax reform, EPS (after tax) has soared by c.24% (yoy) for the S&P 500. With lower sales growth, no additional tax effect and declining margins, we expect EPS to be flat next year and lose almost 20% (yoy) in 2020e.

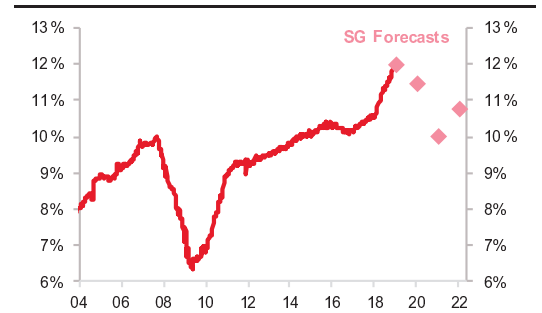
We expect the S&P 500's valuation to remain under pressure from three additional Fed rate hikes.

### Sales growth (yoy)



12-month trailing sales, Source: IBES, Datastream, SG Cross Asset Research/Equity Strategy

### Profit margin \*



\* Profit margin based on IBES data (excluding companies with negative EPS), Source: IBES, SG Cross Asset Research/Equity Strategy

### EPS growth (yoy) \*



12-month trailing EPS growth (excluding companies with negative EPS), Source: IBES, SG Cross Asset Research/Equity Strategy

### 12-month forward P/E



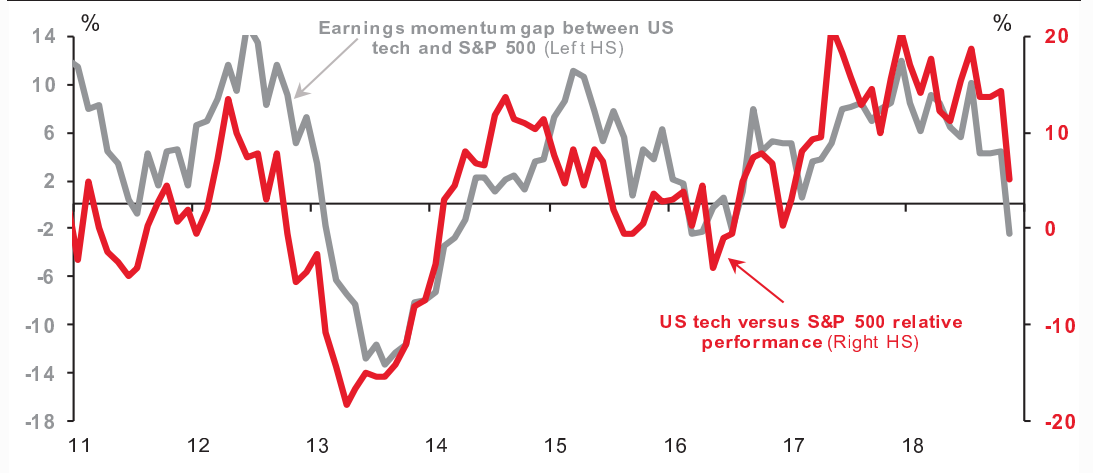
Source: IBES, Datastream, SG Cross Asset Research/Equity Strategy

## Keep your shorts on US tech

**Increase focus on the medium-term outlook for asset allocation investing: US tech as an indirect victim.** The global growth resynchronisation in both EM & DM in 2016 and the late-cycle fiscal boost initiated by Trump towards end-2017 have both supported tech stocks earnings momentum. More recently, the ongoing trade war tensions between China and the US have weighed on both the performance and earnings momentum of US tech vs the S&P 500. The trade war tensions currently favour the S&P 500 vs the Nasdaq 100 as the S&P 500 is only 5.6% exposed to China in terms of revenues, vs 9.1% for the Nasdaq 100. The ability of developed market tech companies to capture more market share within EMs is also key and could limit any substantial growth potential in the future. Lastly, we also expect regulatory/data protection aspects to cloud the medium-term outlook: 12.3% of Nasdaq 100 revenues are generated by internet data service companies.

**Sophie Huynh**  
+44 20 7676 7471  
sophie.huynh@sgcib.com

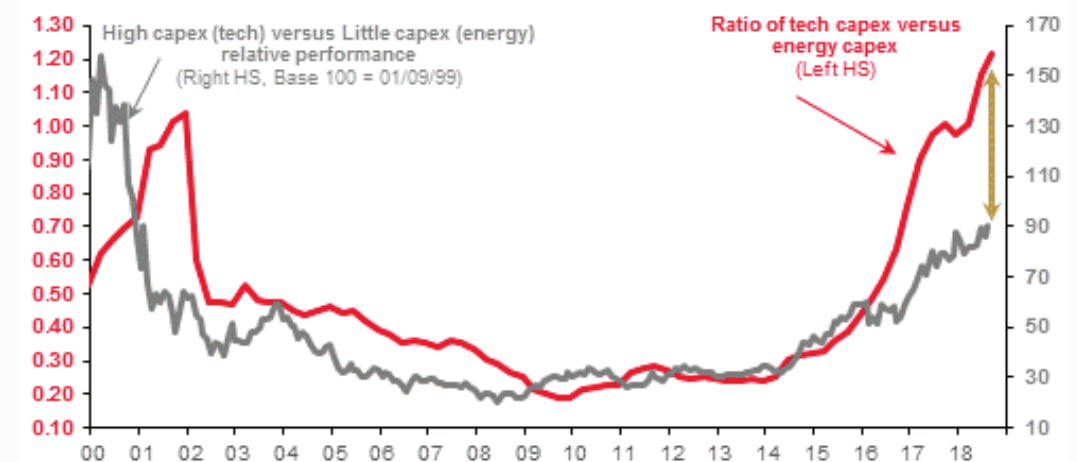
### Earnings momentum of US tech clouded by economic and regulatory worries



Earnings momentum = 1y change in 12m forward EPS. Source: Datastream, IBES, SG Cross Asset Research/US Equity Strategy

Capex may also have been a source of support for US tech. However, as we show in the chart below, investing in capex is not always rewarded by share performance. Finally, the share buybacks boost though cash repatriation has been a common theme within US tech companies, especially Apple. However, based on our calculations, the EPS boost from share buybacks has been only limited for US stocks overall, as the main increase in EPS over the past two years can be attributed to real GDP growth and increased household and business confidence.

### Capex has not been rewarding in share performance terms



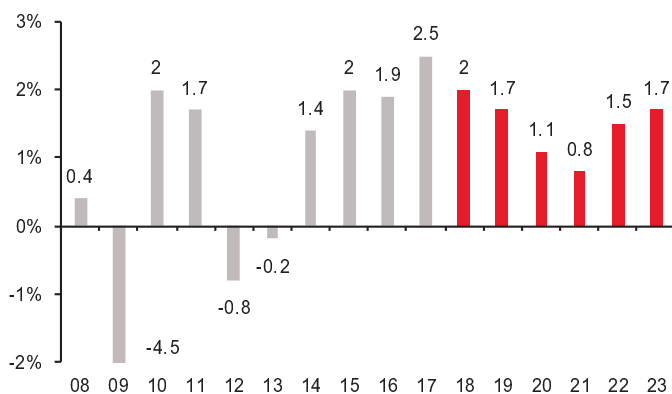
Source: Datastream, SG Cross Asset Research/US Equity Strategy

## Eurozone equities limited by negative earnings momentum

### End of ECB's accommodative policy – but growth no stronger

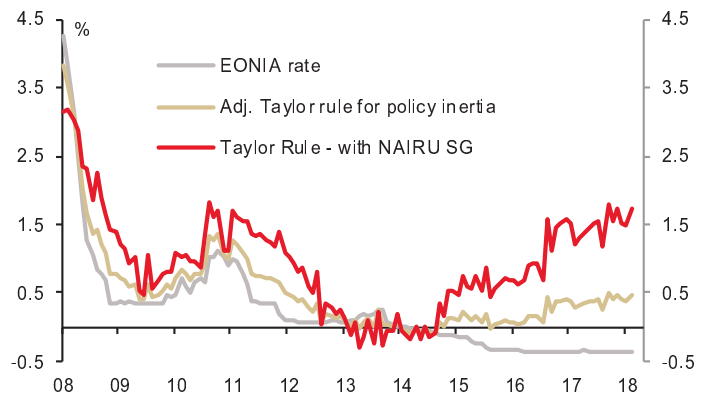
After a disappointing year in terms of growth in the eurozone (2.0%), we are not expecting any acceleration for the next two years (1.7% in 2019 and 1.1% in 2020). In our scenario, the ECB, after ending QE this year, will start to hike rates in September 2019 and push the cost of debt and the EUR higher. This is not good news for eurozone equities, apart from financials.

SGE: no GDP growth acceleration in the pipeline



Source: SG Cross Asset Research / Economics

ECB largely behind the curve according to the Taylor rule



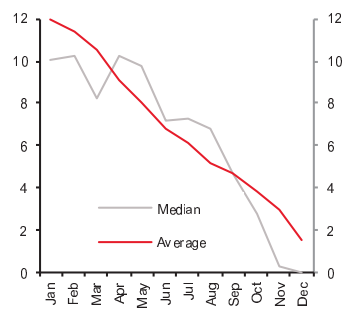
Post-crisis Taylor rule estimated policy rate. Source: Datastream, ECB, SG Cross Asset Research/Economics

### Earnings momentum back into negative territory

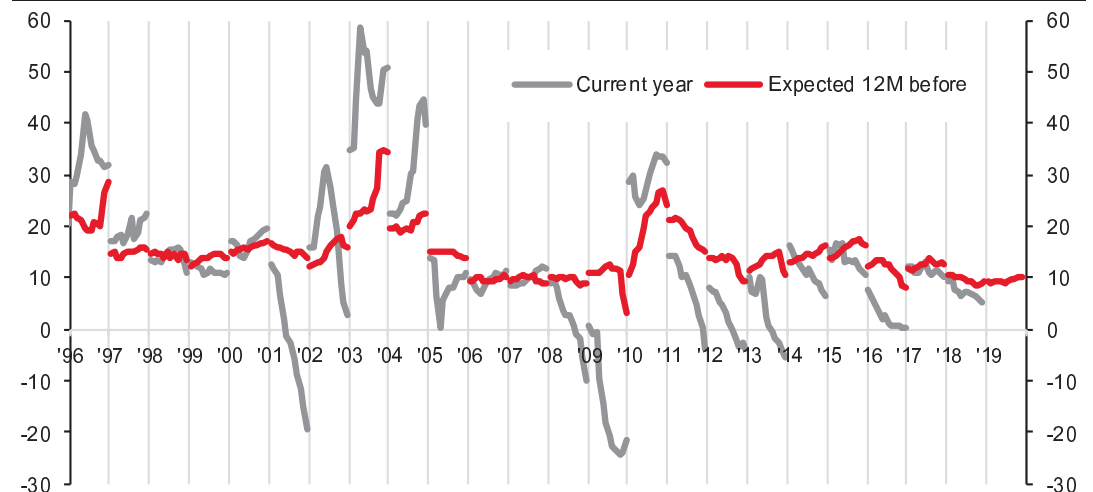
Following the latest disappointing quarterly reports in Europe (see [here](#)), analysts have started to cut their estimates for both 2018 and 2019. 2018 EPS for the eurozone market have been revised down by 7% since May and 2019 EPS by 6%, leaving EPS growth at 4.8% for 2018 and 10.2% for 2019. This looks still a bit high for 2019 given the macro picture and the EUR and rates outlook. We would expect 2019 eurozone EPS growth to be rather flat.

Earnings downgrades: same pattern every year for the past ten years – 2017 was an exception

Average path of downgrades



Note: monthly average (resp. median) of current year's consensus EPS growth estimate, since 2008, for MSCI EMU index. Source: Datastream, MSCI, SG Cross Asset Research/Equity Strategy



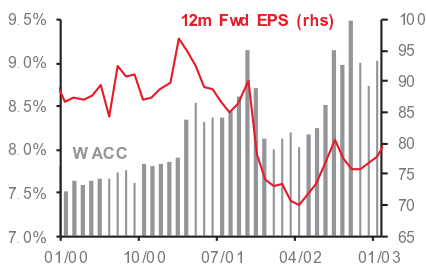
Note: Grey line is the evolution each year of the consensus EPS growth estimate for that year. Red line is what that estimate was 12 months earlier, for that same year. Index = MSCI EMU. Source: Datastream, MSCI, SG Cross Asset Research/Equity Research



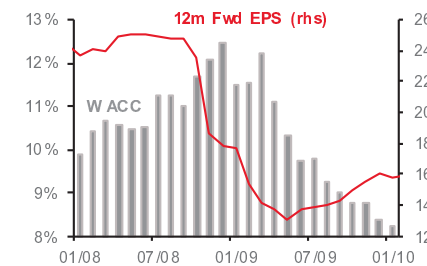
## WACC already higher – cs earnings expectations soon lower

When share prices are collapsing, equity analysts tend to justify target price changes by increasing their WACC assumptions (and mainly the equity risk premium). In a second stage, equity analyst consensus contributors cut their earnings estimates as corporates adjust their guidance. We observed this behaviour during the last two recession (see charts below) and note that the market WACC (as measured by SG, is the internal rate of return of equities – see [here](#)) has already started to increase recently, and consequently there is a good chance of more earnings downgrades.

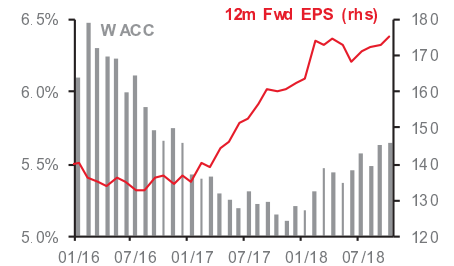
2000-2003



2008-2010



Since 2016



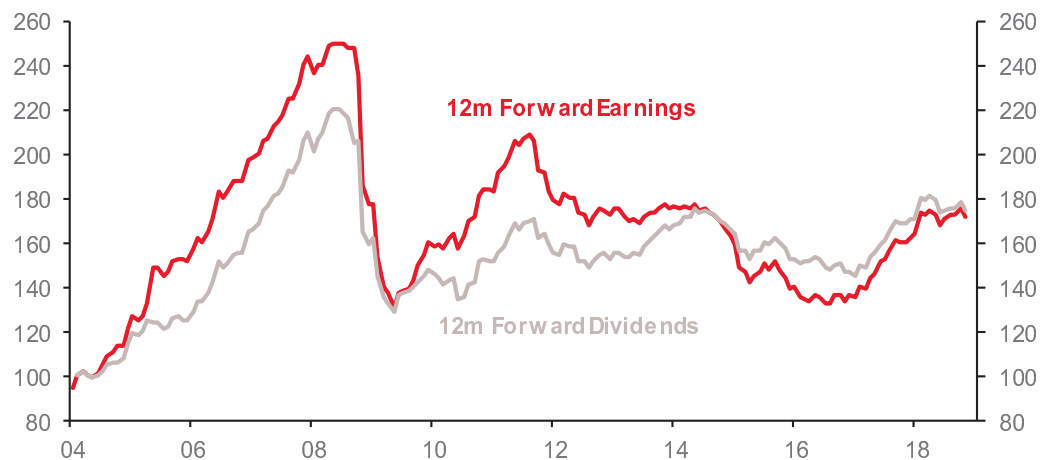
WACC = Equity Internal Rate of Return. Source: Datastream, IBES, SG Cross Asset Research /Equity Strategy

## Dividend expectations tend to track earnings expectations

Historically, dividends tend to move in line with earnings but display less volatility. When possible, companies tend to increase their pay-out ratios. Given that we expect earnings to come under pressure in next two years, we could also see some dividend cuts vs expectations. Indeed, the analyst consensus expects Eurostoxx50 DPS to rise by 6% in 2019 and 8% in 2020. This is not what is priced in by futures markets (see [Invest with Dividends](#)). To know where dividends are more at risk, see our list of names drawn up in coordination with SG equity analysts in our report: [Which stocks are most at risk of a dividend cut?](#)

## Dividends and earnings expectations

Earnings expectations are far more volatile than dividends expectations. Between 2011 and 2016, earnings expectations dropped by 36% vs a 13% cut in dividend expectations.

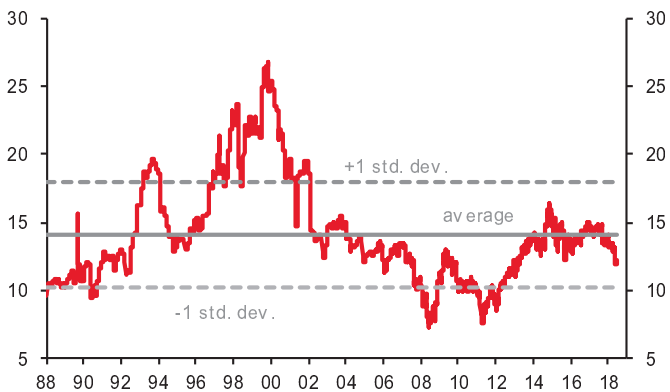


100 = 01/01/04. Source: Datastream, IBES, SG Cross Asset Research/Equity Strategy

## Eurozone equities: not yet at a valuation floor

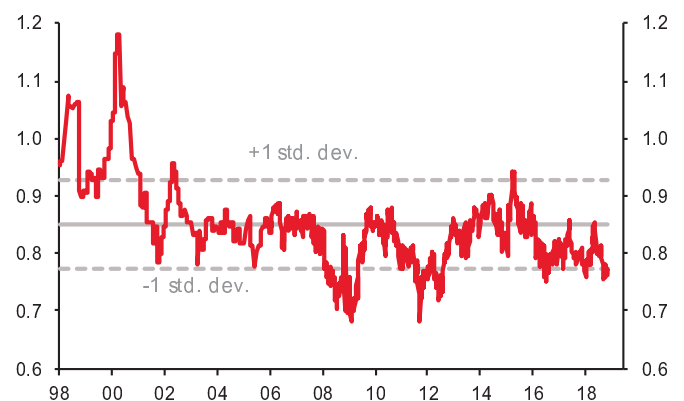
The eurozone equity market is trading at 12-month forward P/E of 12.2x. This is 15% below its 30-year average (14.3x) and 25% below the US equity ratio (16.3x). The political uncertainties in Europe (e.g. Brexit and Italy) combined with the lack of growth acceleration and escalating trade tensions between the US and China have been among the main drivers of this derating. As a consequence, for there to be a rerating of eurozone equities, there would need to be some change on these fronts. A Brexit deal, an easing in US-China trade tensions and an economic catch-up in the coming months could all be potential supportive factors for a short-lived rerating in 1H19, except in the event of market stress ahead of European Parliament elections (see [here](#)).

**Eurozone equities – 12-month forward P/E ratio**



Source: IBES, SG Cross Asset Research/Equity Strategy

**Eurozone vs US equities – 12-month forward P/E ratio**

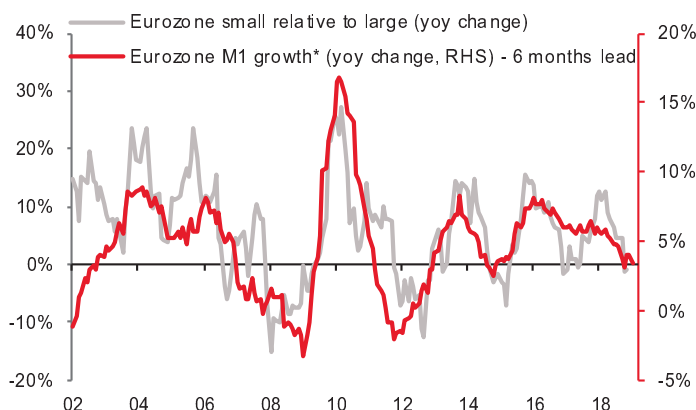


Source: IBES, SG Cross Asset Research/Equity Strategy

## A more challenging environment for eurozone small caps

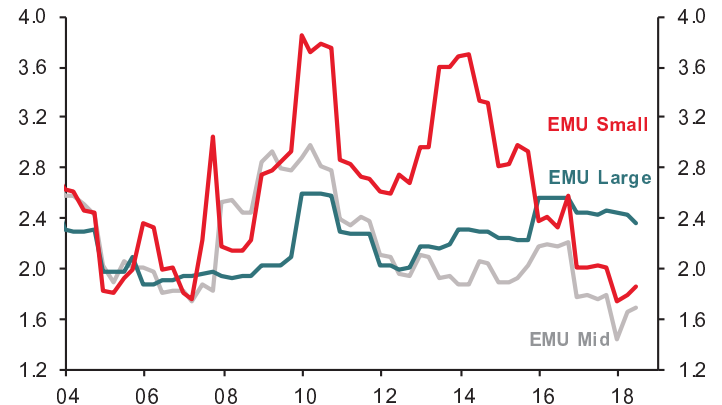
Eurozone small caps are still benefiting from strong fundamentals, but the environment is growing more challenging. Liquidity appears more constrained in the eurozone as the ECB should end its QE by the end of 2018. Meanwhile liquidity supply (M1 indicator) growth, which is historically a leading indicator of small relative to large performance) is showing some weakness (see left-hand chart below). On the other hand, profitability remains strong and leverage is actually lower for eurozone small caps than for large caps (1.9x vs 2.4x). For these reasons, we switched to Neutral (from overweight) on eurozone small vs large caps in our report [Invest with Size: Managing exposure to small caps in a challenging environment](#).

**Lower liquidity could soon represent a headwind for small caps**



Eurozone small cap performance (yoy) minus eurozone large-cap performance (yoy) in EUR, total return. \*Liquidity measured by eurozone money supply (M1) growth rate (yoy) minus eurozone nominal GDP growth rate (yoy). Source: ECB, Eurostat, MSCI, Datastream, SG Cross Asset Research/Equity Strategy. Past performance is not indicative of future performance.

**Eurozone small caps have a lower net debt to EBITDA**



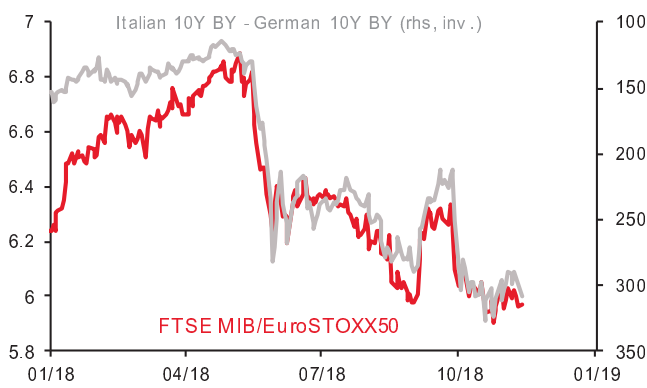
Excluding financials, Source: MSCI, SG Cross Asset Research/Equity Quant & Strategy

## Eurozone: maintain preference for core over peripherals

**Stay away from the FTSE MIB: beyond political uncertainties, balance sheets are weak**

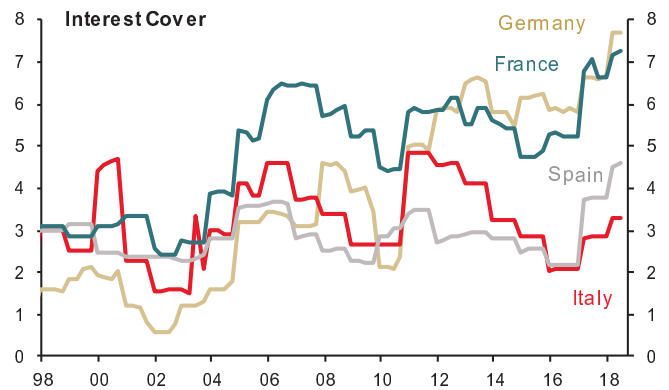
The FTSE MIB relative performance has been driven mainly by political concerns since the beginning of the year as highlighted by the strong correlation between equity and bond market. Following Italy's large deviation from the fiscal rules, tensions with the EU could intensify, potentially pushing the European Commission to open an Excessive Deficit Procedure (EDP) in January, possibly followed by sanctions (up to 0.2% of GDP). Beyond the political uncertainty, we continue to underweight Italian equities given the weakness of listed company balance sheets (interest cover at 3.3x).

**Italian equities and bonds have been correlated this year**



BY= Bond yield, Source: SG Cross Asset Research/Equity Strategy

**Italian market has the weakest balance sheet**



Interest Cover = EBIT/Interests expense, excluding financials, Source: MSCI, SG Cross Asset Research/Equity Quant & Strategy

## Germany: hammered by escalating trade tensions

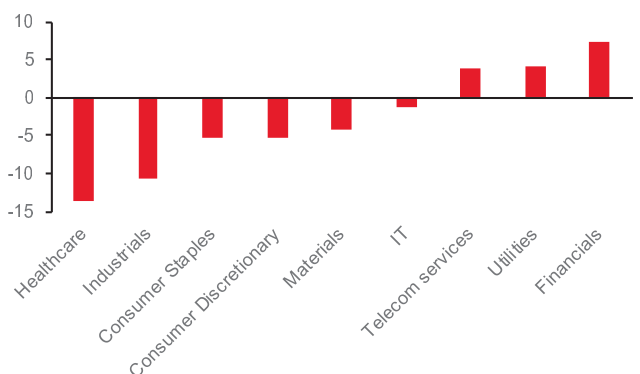
If our preference for core over peripherals in 2018 has paid off (-7.4% for core vs -8.6% for peripherals), it has done so mainly due to the good performance of the CAC 40 (-2.6%). Indeed, the DAX has suffered considerably this year (-12.2%). Most of the sectors in Germany have strongly underperformed their euro area peers (except for Financials, Telecoms and Utilities), including Healthcare, Consumer Discretionary and Industrials, which represent more than 50% of the German market weighting. The last two sectors have suffered badly due to US-China trade tensions.

**German – 12-month forward relative P/E ratio**



Source: Datastream, IBES, SG Cross Asset Research/Equity Strategy

**German sector – Eurozone sector performance, YTD**



Source: Datastream, SG Cross Asset Research /Equity Strategy

## European stocks sensitive to US-China trade tensions

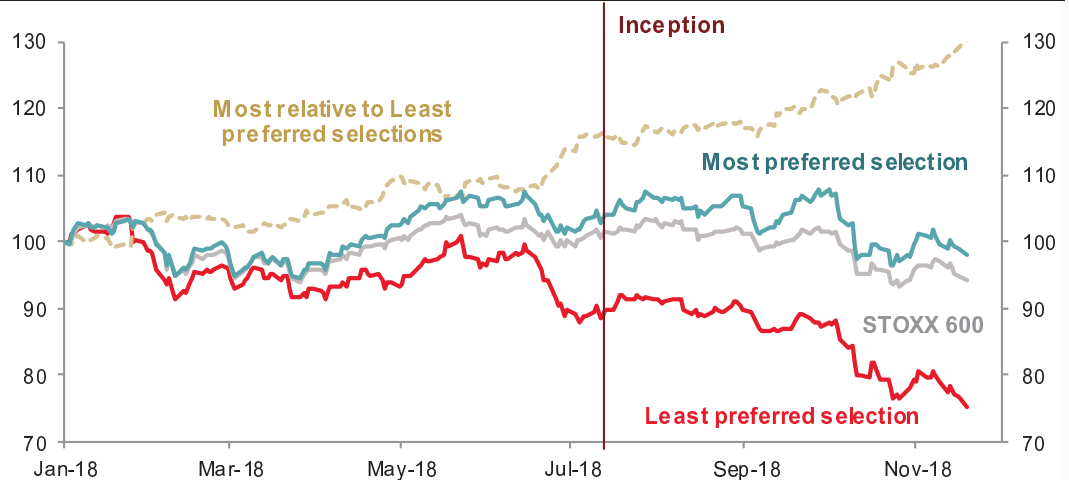
Trade war has been a key driver of market performance this year, notably as President Trump ramped up his protectionist rhetoric into the US midterm elections. Our dedicated long and short baskets have delivered steady performance to reflect this theme.

### Rising trade tensions have supported our Most versus Least preferred selections

**Year-to-date performance:**

- Most preferred selection: -1.8%
- STOXX 600: -5.8%
- Least preferred selection: - 24.6%

Performance in euro in total return, Past performance is not indicative of future results. Basket presented assumes no transaction costs. Source: Datastream, SG Cross Asset Research / Equity Strategy



Base 100: 01/01/2018, performance in total return in euro, equi-weighted on 12/07/18. Past performance is not indicative of future results. Basket presented assumes no transaction costs. Source: Datastream, SG Cross Asset Research/Equity Strategy

Indeed in July 2018 we asked our equity sector analysts how their sectors were likely to be impacted by the sanctions already in place and in the event of further escalations. We also asked them to look within each sector for ideas on how to hedge the trade-war scenario. From their inputs, we established lists of most (and least) preferred stocks to own in the event of increasing (and decreasing) trade tensions. Going into 2019, the situation is less obvious in our mind, as we could see a truce between the US and China and possibly a deal being signed after the 2018 tantrum. Our long and short baskets, however, remain effective tools to express a view.

### Least / Most preferred stocks in the event of rising trade tensions

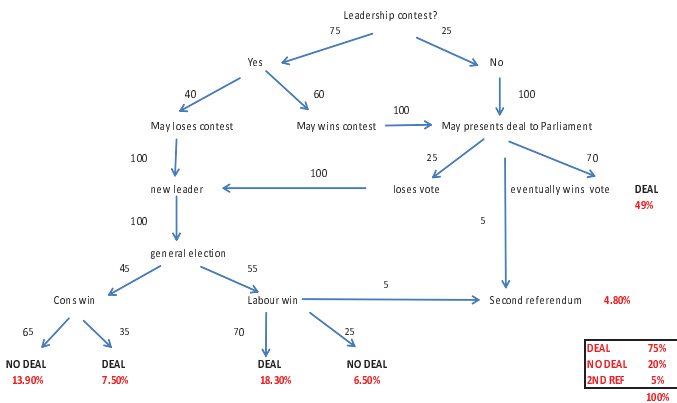
Sector	Least Preferred	Most Preferred	Sector view
<b>Aerospace &amp; Defence</b>	Cobham	Airbus, Safran	Limited impact in the short term as aerospace contracts are very long term in nature and protected by escalation clauses in supply chain contracts
<b>Automobiles &amp; Comp.</b>	Daimler, BMW	VW	In a no-win situation, the relative advantage goes to the VW Group as all the SUVs it imports into China are produced in Europe
<b>Beverages</b>	Brown-Forman, Remy Cointreau	Diageo, Campari	Potential retaliatory tariffs on EU spirits would affect Rémy Cointreau and Pernod Ricard most, while Diageo and Campari have significant production in the US
<b>Capital Goods</b>	SKF, Vestas, Osram, Norma	Schneider, Legrand	Complex supply chain, but auto tariffs and supply chain / production changes will affect some names more than others
<b>Chemicals</b>	BASF, Arkema	Linde, Solvay, Evonik	Cyclical sector with exposure to industrial markets, including automotive, but several sub-sectors are much more defensive (e.g. industrial gases and flavours & fragrances)
<b>Food</b>	Glanbia, Arysza	Danone, Unilever, Chr Hansen	Concerns over potential disruption should current NAFTA renegotiations fail
<b>Food Retailing</b>	Ocado	Carrefour, Casino	Limited impact as retailers have diversified sourcing, while higher food inflation could help the sector
<b>Luxury Goods</b>	Tod's, Ferragamo, Swatch, Brunello Cucinelli	Kering, LVMH, Burberry, Prada	Trade wars and import duties could impact the sector in two ways: i) costs - low risk as production costs are almost all in Europe; and ii) demand - high risk of a negative impact on the wealth effect and consumer confidence
<b>Semiconductors</b>	STM, IFX		European manufacturers rely heavily on Chinese back-end production, and part of which is destined for the US. Negative impact from ripple effect of tariffs on global growth
<b>Software and IT Svs</b>	IBM	Dassault Systèmes	Limited impact as: i) very low exposure to China (c.3%), ii) services not mentioned in the trade war rhetoric so far, and iii) very long life cycle (15 years in the case of ERP)
<b>Steel &amp; Aluminum</b>	SSAB, Salzgitter, Kloeckner	ArcelorMittal, ThyssenKrupp	US aluminium premiums rallied in anticipation of tariffs, offsetting the impact of taxes for foreign producers. ArcelorMittal and ThyssenKrupp have, in our view, been unjustifiably punished

Source: SG Cross Asset Research/Equity

## Brexit: a deal still looks likely

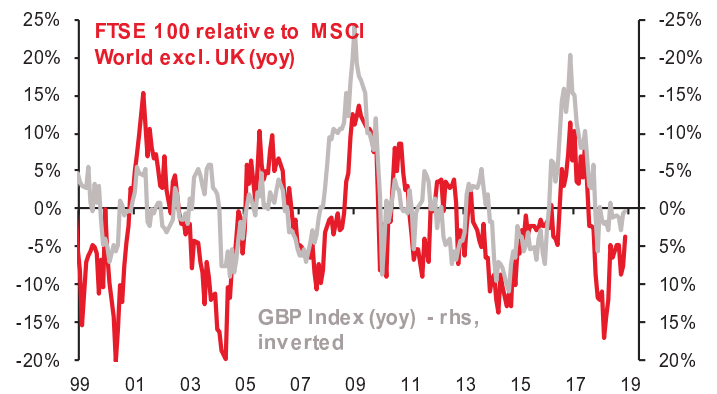
A draft Brexit agreement has been struck between the UK and the EU27. This has triggered an outpouring of dissatisfaction in the UK. The deal will be very hard to sell to the UK Parliament. There is a very high risk of it being voted down, at least in its initial form, but ultimately, we think Prime Minister May will succeed. SG sees the probability of a deal as 75%, no deal 20% and a second referendum as 5% (more details [here](#)). A deal would not necessarily be good news for the FTSE 100, which is full of exporters, as it would strengthen sterling.

Decision tree, numbers of each branch are probabilities



Source: SG Cross Asset Research/Economics

The FTSE 100 tends to underperform when the GBP strengthens



Performance in local currency in total return (including dividends), Source: SG Cross Asset Research/Equity Strategy

All the baskets have been built in coordination with SG equity analysts.

### Deal, no deal or new referendum: how to position?

**In the event of a deal (75%):** we would recommend buying companies that would benefit from a strengthening of sterling, like the 20 companies we selected in our SG Stronger GBP basket <SGGBPUP Index> (see composition in [What could a Brexit deal mean for equity markets?](#)).

**In the event of no deal (20%):** we would recommend going long Brexit+ <SGBRITLG Index>/ short Brexit- <SGBRITSH Index> (see composition on p.45 of our 30 October [Invest with Baskets](#)). Since the referendum (June 2016), our long/short has delivered + 20%.

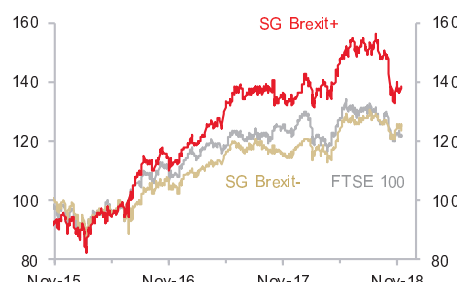
**In the event of a new referendum (5%):** this is the only chance of a “no Brexit” and thus the only scenario whereby the UK economy would not suffer (hard or soft, Brexit will come at a cost). In this scenario, our SG Stronger GBP basket would benefit as GBP should recover and we would also recommend getting exposure to cyclical consumer stocks with strong sales exposure to the UK such as those in our UK Domestic players basket <SGUKDOM Index> (see composition on p.36 of [Invest with Baskets](#)). Since the referendum, it has underperformed the FTSE 100 by 20%.

SG Stronger GBP basket is tightly correlated with the currency



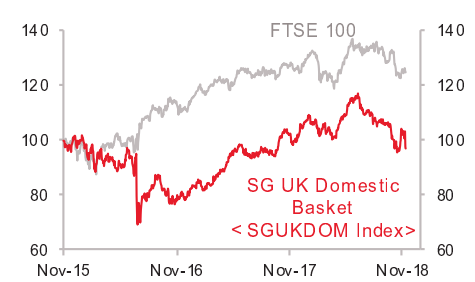
Basket in EUR, FTSE 100 in GBP, performance in total return, Source: Datastream, SG Cross Asset Research/Equity Strategy

Long Brexit+ / short Brexit- is sensitive to the Brexit outcome



Performance in GBP in net return via Bloomberg tickers, Source: Bloomberg, SG Cross Asset Research/Equity Strategy

UK domestic players have underperformed since the referendum



Performance in GBP in net return via Bloomberg tickers, Source: Bloomberg, SG Cross Asset Research/Equity Strategy

## Sector allocation – Resilience matters

### What has changed since last quarter?

We see six points on the economic, rates and political fronts that have changed over the past three months and which have an impact on sector allocation:

- a) Euro area growth prospects are revised down, with GDP growth now estimated at 2.0% for 2018 and 1.7% for 2019, vs 2.1% and 1.9% previously
- b) SG's call for the first ECB hike is pushed out to September 2019, versus June previously, and SG's target for June 2019 10Y bund yields is now 0.80% vs 1.20% previously
- c) The situation in Italy is not improving to say the least, with the EC likely to very soon start the process leading to the opening of an Excessive Deficit Procedure, which may be supplemented by sanctions
- d) In the UK, while a draft Brexit agreement has been struck with the EU, this has triggered an outpouring of dissatisfaction in the UK and a challenge to the PM from her own ranks
- e) In the US, the Republicans lost the House of Representatives in the end, yet at the same time, the protectionist tantrum leading into the elections – which had a marked impact on some European sectors – could well abate now
- f) Finally, also in the US, our economist has pushed out his US recession call by two quarters, delaying it to 1H20 and lifting US growth in 2019 by 0.8pp to 2.4%

Considering all this, especially better US growth into 2019 and softer in Europe, a delayed ECB hike and political worries in the EU should limit the appetite for the more cyclical segments of European equities. With this in mind, this quarter we delve deeply into sector earnings historical behaviour in the context of recessions to highlight which are more at risk and which are historically more immune. This forms part of our progressive repositioning of portfolios into the end of the cycle.

### What this means for our sector allocation:

- Consumer Staples upgraded from 450bp underweight to neutral
- Utilities underweight trimmed to 100bp
- Financials overweight trimmed to 300bp, from 450bp, and concentrated in Insurance
- Consumer Discretionary is switched from 100bp overweight to 150bp underweight
- Information Technology is cut from 150bp overweight to neutral
- Basic Industries' overweight is marginally trimmed to 150bp
- Pharma & Biotech, Oil & Gas, Industry, Real Estate and Telecoms unchanged



## Seven sector recommendation changes

**Consumer Staples upgraded from 450bp underweight to neutral**

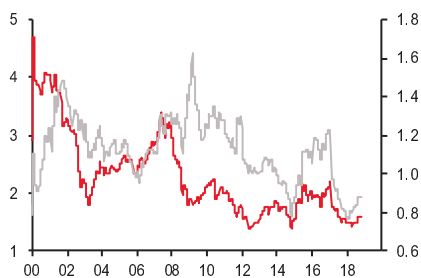
**Utilities underweight trimmed to 100bp**

Food & Staples Retailing:  
50bp underweight to neutral

HPC:  
200bp underweight to 100bp  
overweight

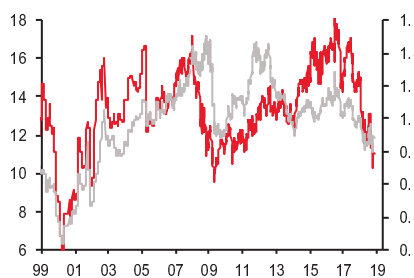
Given the above, we also expect no real strength in the euro in 1H19, and have cut the sensitivity weight to a higher euro in our sector scorecard accordingly (10% now vs 20% previously). This goes hand in hand with reducing the weight of the rates factor in the scorecard, given that we see only limited gains in bund yields from current levels to the June target, compared to the upside we expected six months ago. This typically pushes up bond proxies in our scoring, such as HPC and Utilities – two sectors which we reweight into (HPC upgraded to 100bp overweight from 200bp underweight, Utilities up +150bp to a smaller -100bp underweight). Food & Staples Retailing is also upgraded to neutral from 50bp underweight on similar grounds. Beverages scores only 26th on our metrics, so we only trim our underweight from -200bp to -100bp. Overall this moves us from 450bp underweight Consumer Staples to neutral. We remain, however, firm sellers of Telecoms (250bp underweight), which continues to score poorly on our metrics.

**Food & Staples Retailing: P/B**



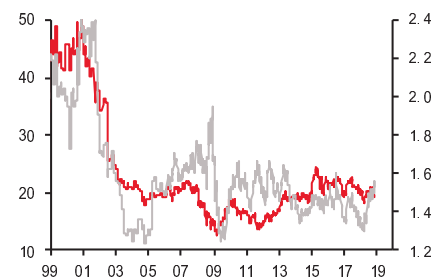
absolute (red) & relative (grey, rhs)  
Source: IBES, SG Cross Asset Research/Equity Strategy

**Tobacco: 12m fwd P/E**



absolute (red) & relative (grey, rhs)  
Source: IBES, SG Cross Asset Research/Equity Strategy

**HPC: 12m fwd P/E**



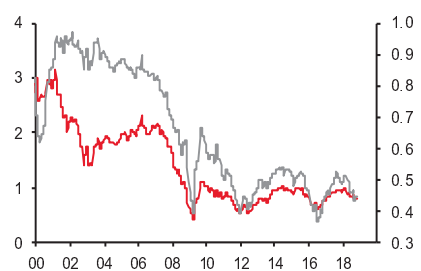
absolute (red) & relative (grey, rhs)  
Source: IBES, SG Cross Asset Research/Equity Strategy

## Financials overweight trimmed to 300bp from 450bp, and concentrated in Insurance

Div. Financials & Invest. Banks:  
50bp overweight to neutral

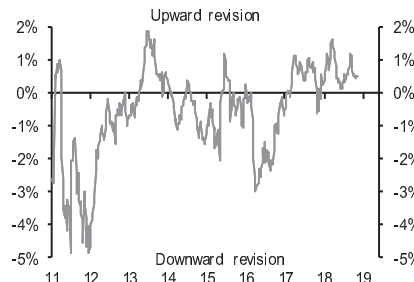
As far as bond sensitivity is concerned, we navigate with some caution on the value style. Our quantitative strategy team highlights its current low valuations, but our discussions with clients suggest that for value to be unlocked in Europe, we need some convincing earnings numbers. There are plenty of Banks and UK stocks in the Europe value style. Banks need an ECB hike, and UK plcs some political clarity. There are record-low valuations on some of these names. We keep Banks for example on a moderate overweight as they would offer an asymmetric upside profile should the ECB tone turn supportive. They should also benefit from any improvement in Italy and on risky assets. They form, in effect, our (so far out of the money) upside call on a market uplift.

**Banks: P/BV**



absolute (red) & relative (grey, rhs)  
Source: IBES, SG Cross Asset Research/Equity Strategy

**Insurance: earnings momentum**



3m change in 12m forward EPS.  
Source: IBES, SG Cross Asset Research/Equity Strategy

**Insurance: 12m fwd P/E**



absolute (red) & relative (grey, rhs)  
Source: IBES, SG Cross Asset Research/Equity Strategy

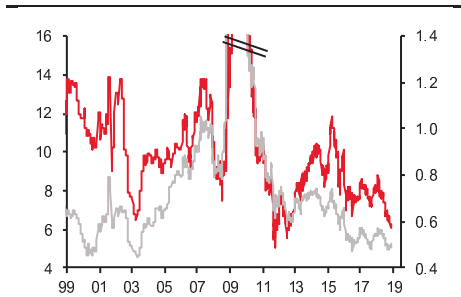
However, we cut Diversified Financials & Investment Banks from 50bp overweight to neutral, and take profit on Insurance, where we reduce our overweight by 100bp to 200bp above benchmark.

### Consumer Discretionary is switched from 100bp overweight to 150bp underweight

Durables, Apparel & Luxury:  
neutral to 150bp underweight

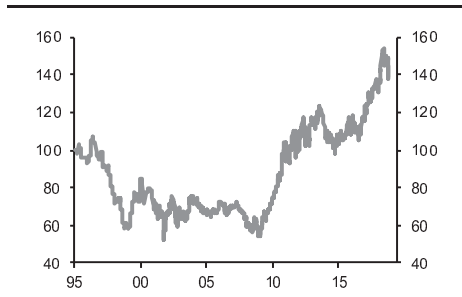
At the other end of the valuation spectrum, we continue to reduce positioning in Durables, Apparel and Luxury, beginning last quarter with a move to neutral and now to 150bp underweight. The sector ranks 26th (out of 30) on valuations, and 22nd overall on our scorecard. Given our lower economic forecasts on the euro area, we also halve our overweight in Autos, from 200bp to 100bp. As with Banks on the ECB and Italy, we keep Autos at overweight as it represents an asymmetric, very attractively valued call on improving trade tensions. The Auto sector trades on a decade-low relative P/BV (1.0 vs. 1.7 for the overall market), and a very low 12m forward P/E resting on single-digit earnings-growth expectations. This switches our overall positioning on Consumer Discretionary from 100bp overweight to 150bp underweight.

**Autos: 12m fwd P/E**



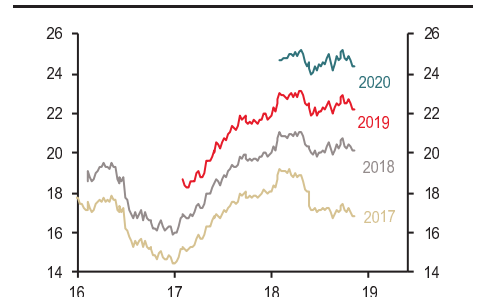
absolute (red) & relative (grey, rhs)  
Source: IBES, SG Cross Asset Research/Equity Strategy

**Durables, Apparel, Luxury: relative perf.**



Relative data= relative to Europe in euro and total return  
Source: IBES, SG Cross Asset Research/Equity Strategy

**Durables, Apparel, Luxury: EPS**



Source: IBES, SG Cross Asset Research/Equity Strategy

### Information Technology is cut from 150bp overweight to neutral

Software & IT services:  
50bp overweight to neutral

Technology hardware & Equip.:  
50bp overweight to 50bp underweight

Software & IT Services and Technology Hardware now rank respectively 27th and 29th out of 30 sectors on our scorecard. We liked the former on CRM market growth, consolidation in cloud applications and growing cybersecurity, and the latter more on balance sheet strength, but both now appear richly valued. In Tech Hardware notably, we take profit: it is the best-performing sector in Europe ytd (+28% outperformance), and we align our sector view with our concerns on the Nasdaq. According to our technical analyst, the US tech index could see further correction and possibly fall by 11% to 6171 pts.

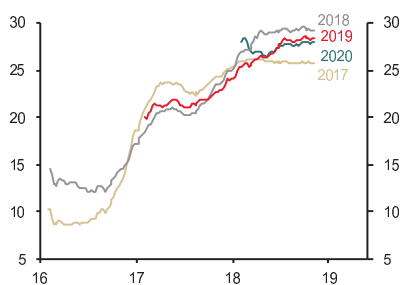
## Basic Industries' overweight is marginally trimmed to 150bp

Construction Materials :  
50bp overweight to neutral

We cut Construction Materials to neutral from 50bp overweight. The sector is very cyclical and tends to underperform in the downcycle, something captured in our earnings cyclicality analysis detailed in the following pages. Yet stock prices have declined much more than the downward earning revisions this time round so far, leaving us neutrally positioned.

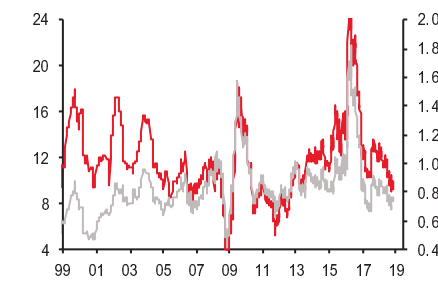
Our overweight is concentrated entirely in Steel, Metals & Mining. There has been quite a lot of newsflow on the sector since the introduction of import tariffs on steel and aluminium by the US. The sector has started to recover slightly on a relative basis, outperforming the market by 3% over the last quarter, despite a lower LME index (-4% in €). We remain positive given very attractive valuations (forward P/E at 5y low of 9.2x, and a quite attractive DY of 4.7%), low EPS growth expectations (-3% in 2019e and -2% in 2020), rising profitability (ROE at 15%) and the potential risk of a steel shortage in China (more [details](#)).

Steel, Metal, Mining: EPS



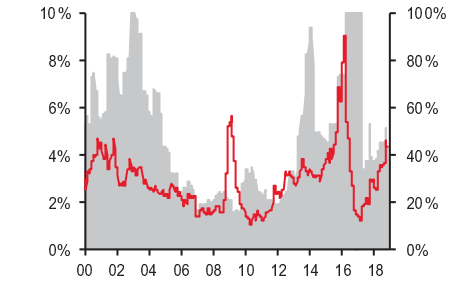
Source: IBES, SG Cross Asset Research/Equity Strategy

Steel, Metal, Mining: 12m fwd P/E



absolute (red) & relative (grey, rhs)  
Source: IBES, SG Cross Asset Research/Equity Strategy

Steel, Metal, Mining: DY and payout



payout = shaded area.  
Source: IBES, SG Cross Asset Research/Equity Strategy

## Pharma & Biotech, Oil & Gas, Industry, Real Estate and Telecoms unchanged

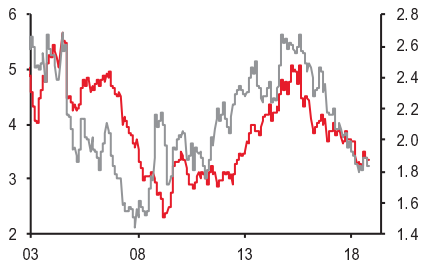
For a focus on the companies most at risk of a dividend cut:



At a time when we are beginning to see some stress on the dividends of European (and US) companies, we continue to favour strong balance sheets at a reasonable price, and well covered dividends. This is clearly the case for both Pharma & Biotech and Oil & Gas companies, on which we remain 150bp and 100bp overweight, respectively. In Oil & Gas, we like IOCs in particular, even if we don't expect oil prices to rise significantly from current levels: despite outperforming the market by 12% ytd, the valuation remains attractive with a dividend yield of 5.3% while earnings momentum remains in positive territory, allowing the payout ratio to normalise (73%).

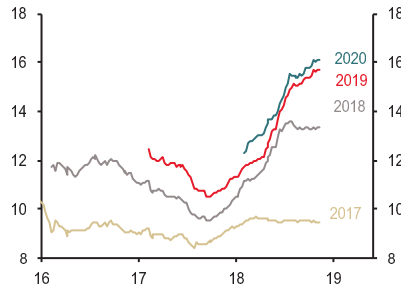
In Industry, we are underweight Transportation & Services in particular. The sector has not benefited from a lower oil price continuing its downward trend, -5% over the past three months. While the P/B has fallen to 2.0x, it still trades at a premium to the market (1.7x). Earnings momentum has failed to bottom out, while 2019 EPS growth expectations (20% yoy) are quite high and could be at risk of a downgrade. Capital Goods are an expensive cyclical sector. Most cyclical sectors and sectors with high EM exposure are now trading at a significant discount to the market. Capital Goods, also cyclical and EM exposed, are not cheap: the sector is trading at 14x 12m forward P/E ratio, well above market level (12.4x).

**Pharma & Biotech: P/BV**



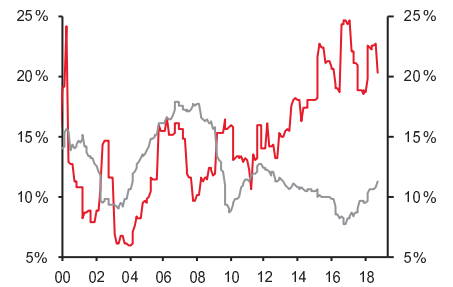
absolute (red) & relative (grey, rhs)  
Source: IBES, SG Cross Asset Research/Equity Strategy

**IOC's: Earnings per share**



Source: IBES, SG Cross Asset Research/Equity Strategy

**Aerospace & Defense: RoE**



Grey = Europe. RoE = 12m trailing earnings/book value.  
Source: IBES, SG Cross Asset Research/Equity Strategy

We like Aerospace & Defense, the second-best-performing sector ytd, with a performance of 11% (+16% relative to market). While we are turning more cautious on our sector allocation, we note that, over the past decade, the sector (especially civil) has become much less cyclical owing to the greater geographical diversity of the customer base and the order backlog. Moreover, defence spending remains on an upward trajectory. Although valuations for both sub-sectors, Aero and Defence are at historical highs (so limited upside from further multiple expansion), the outlook for earnings and cash should support the sector.

As for Real Estate, lower bond yields since the beginning of the year have allowed the sector to outperform the market slightly ytd (+3%). Nonetheless, we keep our view of rising bond yields, which should put the sector under pressure. Its attractive 4.6% dividend yield could be at risk given an increasing payout ratio (76%). Brexit puts the UK Real Estate sector at risk (particularly London offices), hence we could see some consolidation in this market. We keep our preference for eurozone names ([more details](#)), especially stocks linked to Germany and Spain.

## Our sector scorecard now incorporates earnings resilience

In the following section, we detail how we approach earnings resilience (or lack thereof) in an economic slowdown, with the idea to progressively take more consideration of the extent to which each sector has seen its earnings impacted in the previous downturns. It is too early to give more than 10% to this factor, but we like to incorporate small signals from this analysis and provide guidance to investors on what to potentially expect further down the timeline.

**Scorecard methodology.** For the euro, we allocate 60% to 2y correlation, 20% to 10y correlation and 20% to performances during euro strengthening periods. For bond yields, we look at sector performances over five periods of rising bond yields. For credit, we favour sectors with a higher proportion of IG, in particular above BBB. For valuation and earnings/growth, we take the standard definitions used for our “spider web” methodology. For peripheral exposure (defined as exposure to Italy+Spain+Portugal+Greece), we use the country of domicile for each company and weigh the companies by that MSCI weight in the sector index. We allocate 10% of our scoring to our European sectors’ sensitivity to emerging markets, using correlations between sector relative performances and the MSCI global EM index versus the MSCI World (2/3 weighted to last 2y correlation and 1/3 weighted to 10y correlation). And for Earnings resilience, we use the methodology introduced this quarter in the following section, effectively looking at the typical peak-to-trough earnings behaviour of sectors.

### European equity sector allocation, ranked by our 8 key drivers

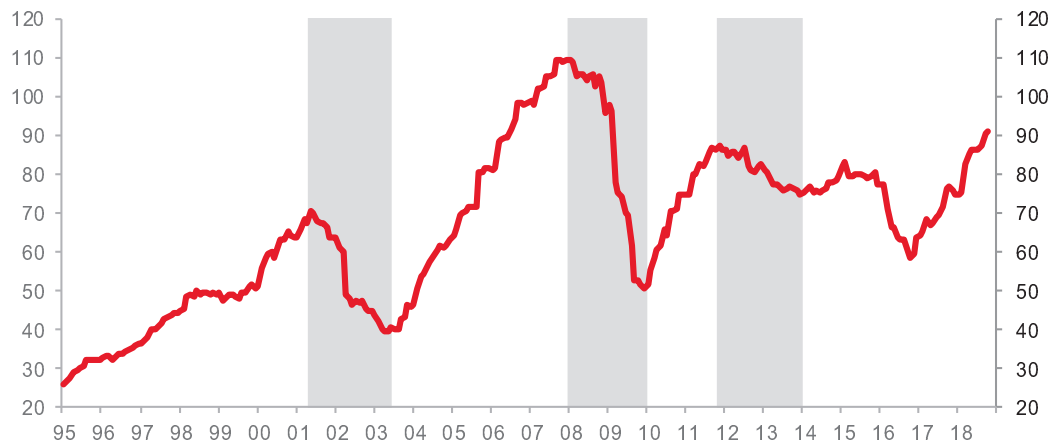
Rank	Sector	SG Weight	L3M rel. perf.	10% Euro	10% Rates	15% Credit	10% Growth	25% Valuation	10% % Periph.	10% % EM	10% Resilience
1	Insurance	OW	+6%	7	10	2	2	4	21	18	27
2	Banks	OW	-1%	15	5	3	3	1	27	29	22
3	Integrated Oil Companies	OW	+3%	11	15	1	14	5	23	22	19
4	Steel, Metals & Mining	OW	+7%	6	1	14	10	3	17	30	26
5	Construction Materials	N	-5%	24	6	22	3	10	1	12	20
6	Semiconductors	OW	-10%	1	2	6	10	24	1	20	29
7	Chemicals	N	-0%	5	11	9	24	19	1	23	13
8	Automobiles & Components	OW	-5%	10	3	15	28	1	25	24	25
9	Hotels, Restaurants & Leisure	UW	+1%	23	14	19	6	22	1	4	10
10	Construction	N	+0%	4	17	12	5	14	28	26	11
11	Aerospace & Defence	OW	-4%	9	8	10	8	27	15	10	14
12	Food	N	+7%	20	30	4	9	28	1	7	4
13	Pharma, Biotech & Scs	OW	+6%	28	24	5	22	20	13	3	2
14	Capital Goods	UW	-5%	12	9	17	6	17	19	21	16
15	Div. Financials & Invest. Banks	N	-5%	16	12	8	22	7	16	28	28
16	Real Estate	UW	-2%	18	27	16	17	15	1	9	18
17	Food & Staples Retailing	N	+5%	22	21	29	1	12	18	14	5
18	Oil Services	N	-3%	30	4	31	15	8	1	15	23
19	Tobacco	N	-23%	26	28	26	26	11	1	6	6
20	Household & Personal Care	OW	+4%	17	26	7	25	29	1	8	1
21	Utilities	UW	+6%	14	25	20	10	8	29	25	9
22	Durables, Apparel & Luxury	UW	-7%	2	13	11	10	26	20	19	17
23	Telecom Services	UW	+7%	21	22	24	16	5	26	16	15
24	Media	N	+1%	29	18	27	26	13	1	1	21
25	Health Care Eq. & Service	UW	-7%	25	23	21	20	24	1	2	7
26	Beverages	UW	-1%	13	29	18	20	23	14	13	3
27	Software & IT Services	N	-9%	8	16	13	19	30	24	11	12
28	Transportation & Other services	UW	-4%	3	19	23	17	16	22	27	24
29	Technology Hardware & Eqpt.	UW	+8%	19	7	25	29	21	1	17	30
30	Retailing (specialised)	UW	+3%	27	20	30	14	18	30	5	8

Note: Ranks are shown for each sector - the higher the rank, the better the sector on a given factor (1 is best, 30 is worst). Sectors are weighted by 8 factor rankings (factor weights are given on the first table row). SG weights are the current weights in our recommended sector allocation. Source: SG Cross Asset Research/Equity Strategy

## Which sector to favour when earnings are under pressure?

Earnings in Europe have recovered significantly over the last two years. However, we note that they remain -17% below their pre-2008-09 financial crisis peak. In this analysis, we look at sector EPS contraction over the last three recessions, based on respective sector EPS peaks and troughs. Aggregate results tend to display the sector cyclical/defensiveness relative to market.

European earnings in the cycle (12-month trailing EPS, €)



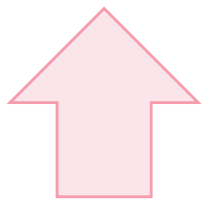
Shaded in grey: periods of EPS contraction, 12m trailing EPS in EUR, Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

We do not take into consideration the EPS contraction of 2016, which was driven by lower commodity prices.

European sector EPS contraction during previous recessions

Average	Sectors	2001-04	2007-10	2011-14	Since 2017	Fwd EPS growth
-98%	Tech. Hardware & Eqt.	-100%	-93%	-100%	0%	37%
-88%	Semi-conductors	-100%	-100%	-65%	-5%	15%
-80%	Div. Financials	-85%	-100%	-57%	-8%	14%
-73%	Insurance	-98%	-91%	-29%	-11%	10%
-72%	Metals & Mining	-68%	-74%	-76%	0%	-2%
-72%	Auto & Comp	-84%	-100%	-31%	-2%	9%
-60%	Transportation & Svs	-53%	-100%	-28%	0%	15%
-58%	Oil Services	-100%	-28%	-45%	0%	28%
-57%	Banks	-36%	-80%	-55%	0%	5%
-51%	Media	-100%	-39%	-12%	0%	4%
-51%	Constr. Materials	-34%	-74%	-44%	-23%	14%
-49%	Oil & Gas	-46%	-64%	-36%	0%	19%
-47%	Real Estate	-10%	-92%	-40%	-13%	6%
-46%	Durables, Ap. & Luxury	-87%	-50%	-3%	0%	11%
-46%	Capital Goods	-70%	-51%	-16%	-4%	12%
-45%	Telecom	-100%	-10%	-26%	-1%	5%
-44%	Aerospace & Def	-68%	-35%	-27%	-29%	21%
-43%	Chemicals	-50%	-56%	-21%	0%	6%
-40%	Software & IT Svs	-100%	-12%	-7%	-1%	12%
-37%	<b>Market</b>	<b>-44%</b>	<b>-54%</b>	<b>-14%</b>	<b>0%</b>	<b>9%</b>
-35%	Construction	-40%	-30%	-36%	0%	14%
-33%	Hotels, Rest. & Leisure	-37%	-54%	-8%	0%	9%
-31%	Utilities	-39%	-31%	-23%	0%	4%
-21%	Retailing (spec)	-26%	-31%	-7%	-17%	8%
-20%	Healthcare Svs	-45%	-6%	-7%	-1%	14%
-18%	Tobacco	-31%	-17%	-6%	-6%	7%
-18%	Food & Staples Ret.	-16%	-11%	-26%	-3%	13%
-17%	Food	-31%	-20%	0%	0%	9%
-16%	Beverages	-23%	-20%	-7%	-1%	10%
-16%	Pharma & Biotech	-21%	-15%	-12%	0%	7%
-6%	HPC	0%	-16%	-4%	0%	8%

12-month trailing EPS in EUR, negative EPS are taken into account in this analysis, if EPS turns negative, we consider -100%, 12-month forward EPS growth, Source: MSCI, IBES, Datastream, SG Cross Asset Research/Equity Strategy



### Relatively strong EPS contraction

We observe that, over the last three recessions, European market EPS contracted by:

- 44% in 2001-04
- 54% in 2007-10
- 14% in 2011-14

Unsurprisingly, Staples and Healthcare appear more defensive while IT, Financials, Metals & Mining, Autos and Transportation appear more cyclical

Since 2017, market EPS are currently peaking up, while Capital Goods are 4% below their 2017+ peak.

### Relatively low EPS contraction



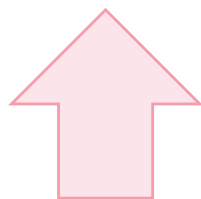


In the table below, we now compare the timing of sector earnings cycles vs the market. Basically, we compare the calendar date of the sector EPS peak to the calendar date of the market EPS peak (negative value if the sector precedes the market, a positive value if the sector lags the market). We apply a similar approach for sector troughs (i.e. inputting the number of months relative to market trough).

**Have any sectors systematically preceded periods of market EPS contraction?**

EPS	2001-04		2007-10		2011-14		Average	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
<b>Market</b>	<b>May-01</b>	<b>May-03</b>	<b>Jan-08</b>	<b>Dec-09</b>	<b>Nov-11</b>	<b>Dec-13</b>		
Media	-5	-1	-12	+5	-6	-25	-6	-5
Transportation & Svs	-13	-12	+3	+2	-7	-21	-4	-8
Div. Financials	-7	+2	+1	-6	-10	-15	-4	-5
Insurance	0	+2	-1	-2	-9	-20	-3	-5
Hotels, Rest. & Leisure	-7	+7	+7	+4	-9	-22	-2	-3
Constr. Materials	-7	-11	+3	+10	-4	-18	-2	-5
Durables, Ap. & Luxury	-2	-8	-3	0	-3	-21	-2	-7
Banks	0	-1	-3	+7	-4	-5	-2	0
Tech. Hardware & Eqt.	-2	-10	-6	-1	+4	-6	-1	-4
Semi-conductors	+1	-5	-7	-1	+2	+4	-1	-1
Construction	-7	-15	+12	+10	-6	+2	0	-1
Retailing (spec)	0	-18	+9	-3	-10	-25	0	-12
Telecom	-10	-2	+6	-9	+4	+12	0	0
Real Estate	+8	-12	-5	0	+2	+10	+1	-1
Oil Services	+4	-11	+9	+10	-6	-22	+2	-6
Beverages	-13	-21	+13	-3	+9	-11	+2	-9
Capital Goods	+2	+10	+9	-1	-1	-19	+3	-3
Tobacco	-4	-24	+8	-12	+9	-10	+3	-12
Healthcare Svs	+1	-5	-4	-18	+16	0	+3	-6
Chemicals	-3	-9	+12	-1	+5	-2	+4	-3
HPC	+1	-22	+6	-5	+10	-10	+4	-9
Metals & Mining	-1	-3	+13	+4	+6	0	+5	0
Software & IT Svs	-7	-2	+16	+3	+9	-8	+5	-2
Pharma & Biotech	+17	+7	-4	-12	+8	-2	+5	-2
Oil & Gas	+5	0	+9	+10	+8	+4	+6	+4
Food & Staples Ret.	+23	+7	+9	-3	-9	-18	+6	-4
Aerospace & Def	+14	+7	+16	+10	-2	-14	+7	+1
Food	-7	-22	+14	-4	+22	-17	+7	-11
Auto & Comp	0	-12	+12	0	+21	+5	+8	-2
Utilities	+14	+1	+4	-9	+13	+11	+8	+1

Months before (negative) or after (positive) market EPS peak. Peak represents market/sector EPS peak, Trough represents market/sector EPS trough, based on trailing EPS in EUR. **Red** and **Blue** cells in Average Peak columns indicate that sector has systematically preceded (red) or lagged (blue) the market peak. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy



**RED indicates EPS having peaked before the market**

We observe that, over the last three recessions, European market EPS started to contract in:

2001-04 crisis -> May 2001

2007-10 crisis -> Jan 2008

2011-14 crisis -> Nov 2011

Media sector EPS systematically contracted before market EPS in the last three recessions. They started to contract 5 months before the market in 2001, 12 months before in 2008, and 6 months before in 2011.

**BLUE indicates EPS having peaked after the market**



We note that Financials and Consumer Discretionary (especially Durables, Apparels & Luxury and Media sectors) EPS have tended to contract before the market earnings cycle during periods of economic recession. On the other hand, Oil & Gas, Household and Personal Care (HPC), and Utilities sector EPS systematically peaked after the market over the three periods studied.

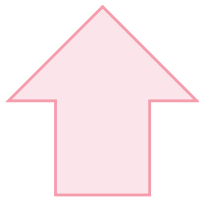
## Sector valuation, what is priced in?

Recent weaknesses in equity markets could indicate that the market is anticipating a contraction in EPS. Comparing the current P/E to the average P/E since 1995 (\*), we found that a 14% contraction in EPS at the market level would move back the current MSCI Europe P/E of 15.2x to 17.7x (its historical average).

### What is priced in? Looking at current vs historical P/E

Sectors	Current P/E	Average trailing P/E since 1995*	Delta (Premium / Discount)
Aerospace & Def	24.1	18.2	32%
Food	23.5	19.9	18%
Beverages	21.3	19.4	10%
Software & IT Svs	29.0	26.7	9%
Constr. Materials	18.3	17.3	6%
Durables, Ap. & Luxury	19.6	20.0	-2%
Food & Staples Ret.	17.6	18.0	-2%
Healthcare Svs	24.3	25.5	-4%
Hotels, Rest. & Leisure	18.8	19.8	-5%
Construction	14.9	15.8	-6%
Capital Goods	16.8	18.5	-9%
Retailing (spec)	18.2	19.8	-9%
Utilities	13.7	15.0	-9%
Chemicals	15.9	17.9	-11%
Pharma & Biotech	19.3	21.8	-12%
Div. Financials	14.3	16.1	-12%
Semi-conductors	26.0	29.7	-12%
<b>Market</b>	<b>15.2</b>	<b>17.7</b>	<b>-14%</b>
Oil & Gas	13.9	16.6	-16%
Telecom	15.8	19.0	-17%
Real Estate	16.4	19.9	-18%
HPC	20.7	25.6	-19%
Transportation & Svs	14.8	18.8	-21%
Insurance	13.3	17.9	-25%
Tobacco	11.8	15.9	-26%
Banks	10.3	15.0	-31%
Media	14.7	21.7	-32%
Metals & Mining	9.5	15.2	-38%
Auto & Comp	6.6	13.4	-51%
Oil Services	<i>Neg P/E</i>	20.4	<i>nm</i>
Tech. Hardware & Eqt.	<i>Neg P/E</i>	25.5	<i>nm</i>

\* Average 12-month trailing P/E since 1995 excluding periods of negative P/Es or P/Es above 50x.  
Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy



**Expensive sectors: a slight discount or even a premium vs the historical average P/E**

Currently the market is trading at a P/E of 15.2x, which is 14% below historical average of 17.7x.

**Value sectors: a sizeable discount vs the historical average P/E**



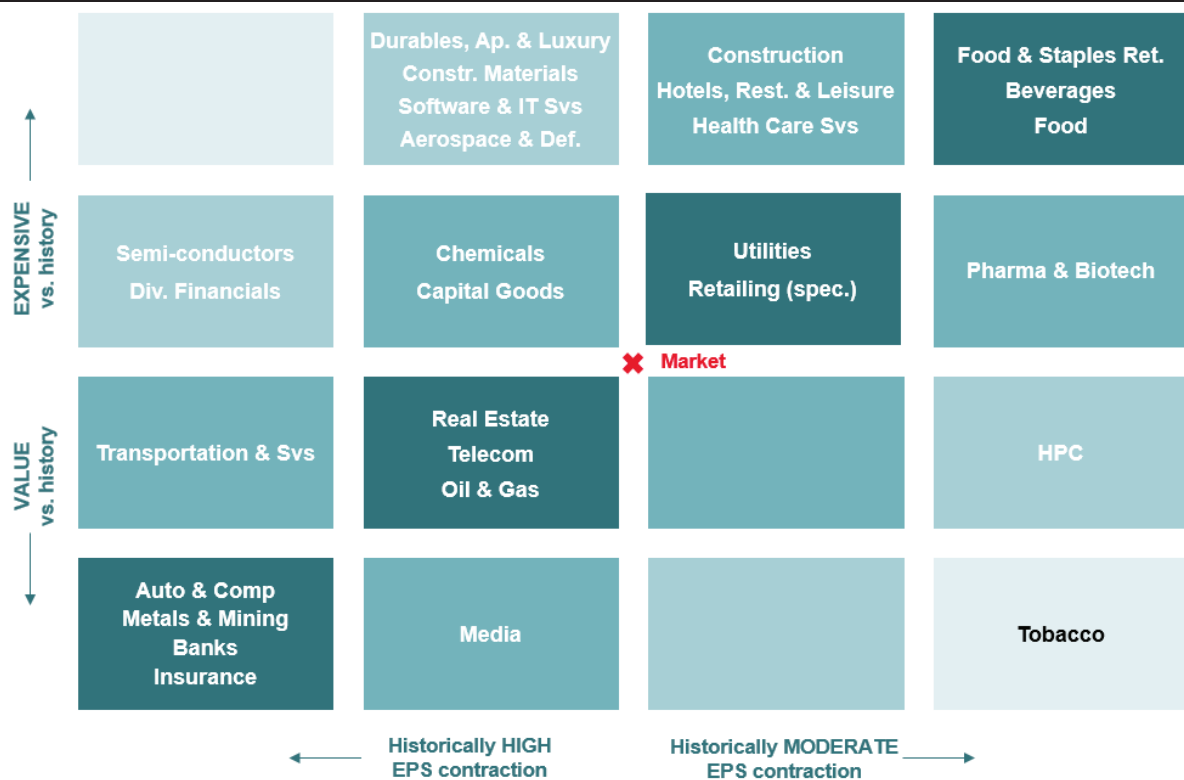
Only a handful of sectors are trading at above their historical average (the top 5 sectors in the table above), notably Aerospace & Defence sectors, which is currently trading at a 32% premium to its historical level on a P/E basis. On the other hand, several sectors are trading in value territory and a few in deep value territory such as the Automobiles & Components sector (50% discount to average), Metals & Mining (38% discount), Media (32% discount) and the Banking sector (31% discount).

### Sector matrix: EPS cycle & P/E valuation

Crossing our first table on EPS sectors impact during recessions (X-axis) with our third table on P/E valuation (Y-axis), we obtain the matrix below. In the bottom-left-hand corner we find Value and cyclical sectors such as Automobiles & Components, Metals & Mining, Banks, Insurance, and Transportation & Services, while in the top-right-hand corner we have defensive but expensive sectors (Food & Staples Retailing, Beverages and Food).

We determine that four sectors appear relatively 'value' compared to their historically moderate earnings declines in a downturn, namely: Pharmaceuticals & Biotechnology, Household & Personal Goods, Tobacco and Media.

**Sector Matrix: Historical EPS moves in downturns vs current P/E valuation (relative to history)**



Analysis based on EPS contraction over the last three periods of recession / Valuation based on current P/E vs historical average Technology Hardware and Oil & Services sectors are both cyclicals, however current negative P/E is not meaningful for valuation, Source: SG Cross Asset Research/Equity Strategy

#### Scoring methodology:

##### High/Moderate EPS contraction (market average EPS contraction = -37%):

Scoring	-2	-1	+1	+2
EPS contraction	$x < -55\%$	$-55\% < x < \text{Market}$	$\text{Market} < x < -20\%$	$x < -20\%$

Source: SG Cross Asset Research/ Equity Strategy

##### Value/Expensive (current market P/E vs historical average = -14%):

Scoring	-2	-1	+1	+2
Current P/E vs historical avg.	$x < -20\%$	$-20\% < x < \text{Market}$	$\text{Market} < x < -8\%$	$x < -8\%$

Source: SG Cross Asset Research/Equity Strategy

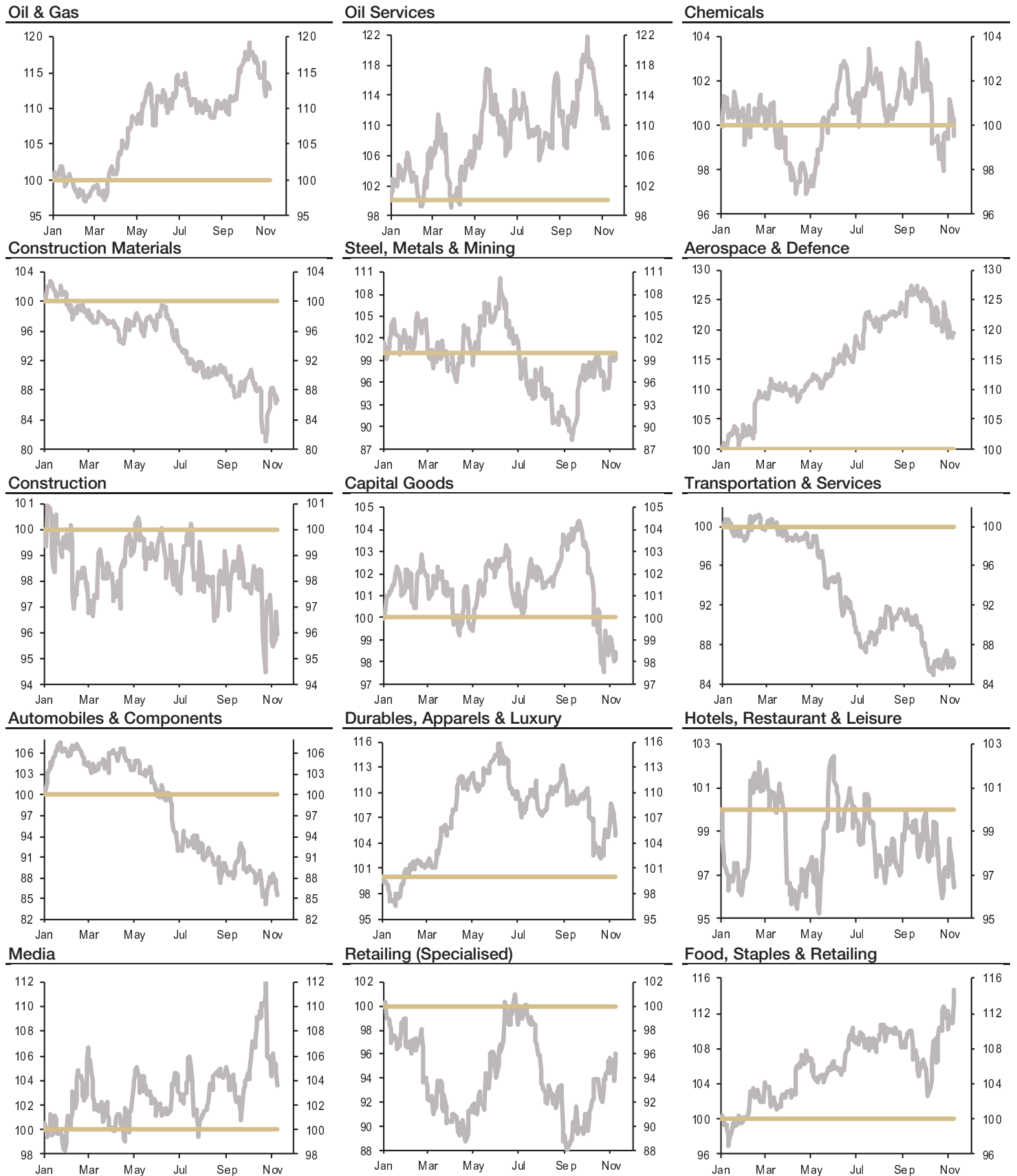
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# European equity sectors in pictures

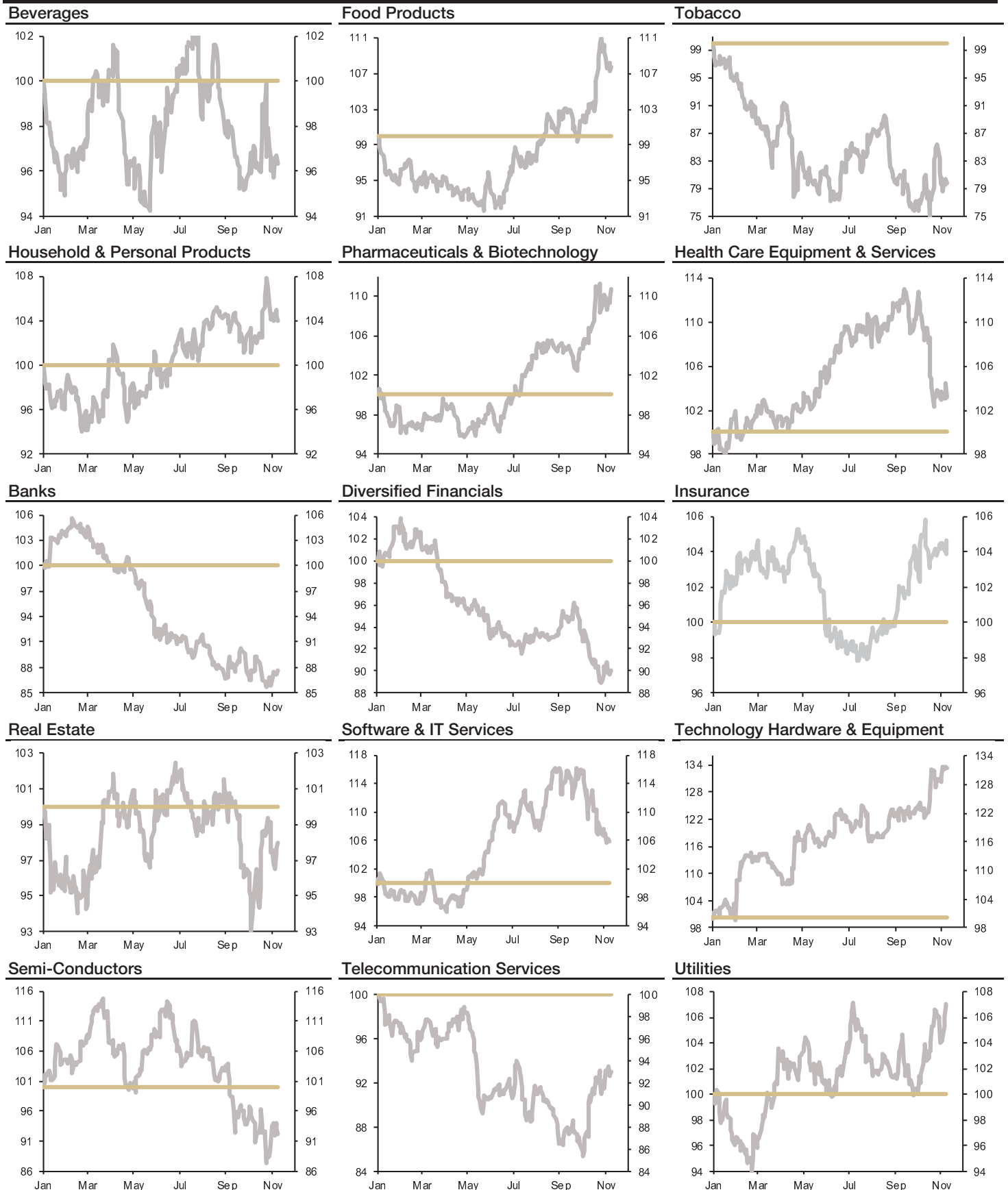


## Relative performance since January 2018



100=01/01/2018, performance relative to the European market in euro and total return. Source: MSCI, Datastream, Cross Asset Research/Equity Strategy

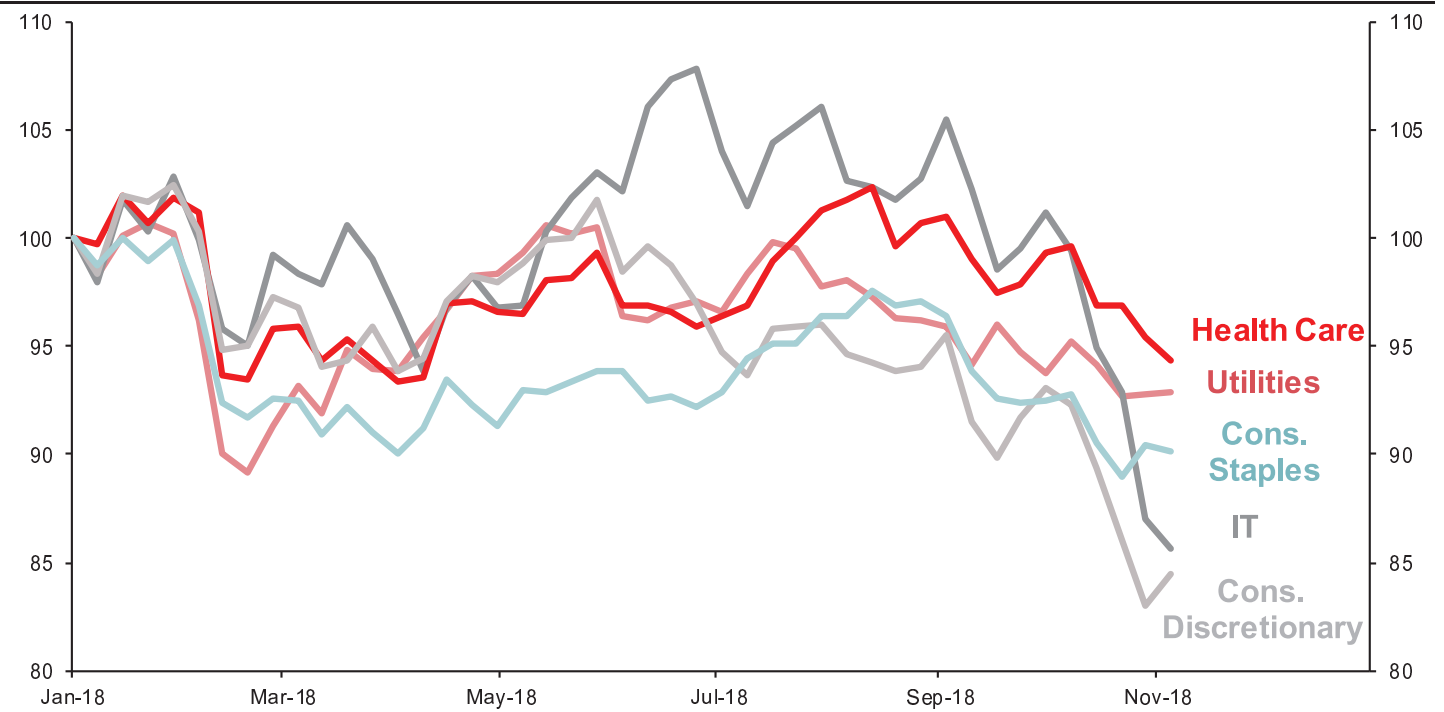
## Relative performance since January 2018



100=01/01/2018, performance relative to the European market in euro and total return. Source: MSCI, Datastream, Cross Asset Research/Equity Strategy

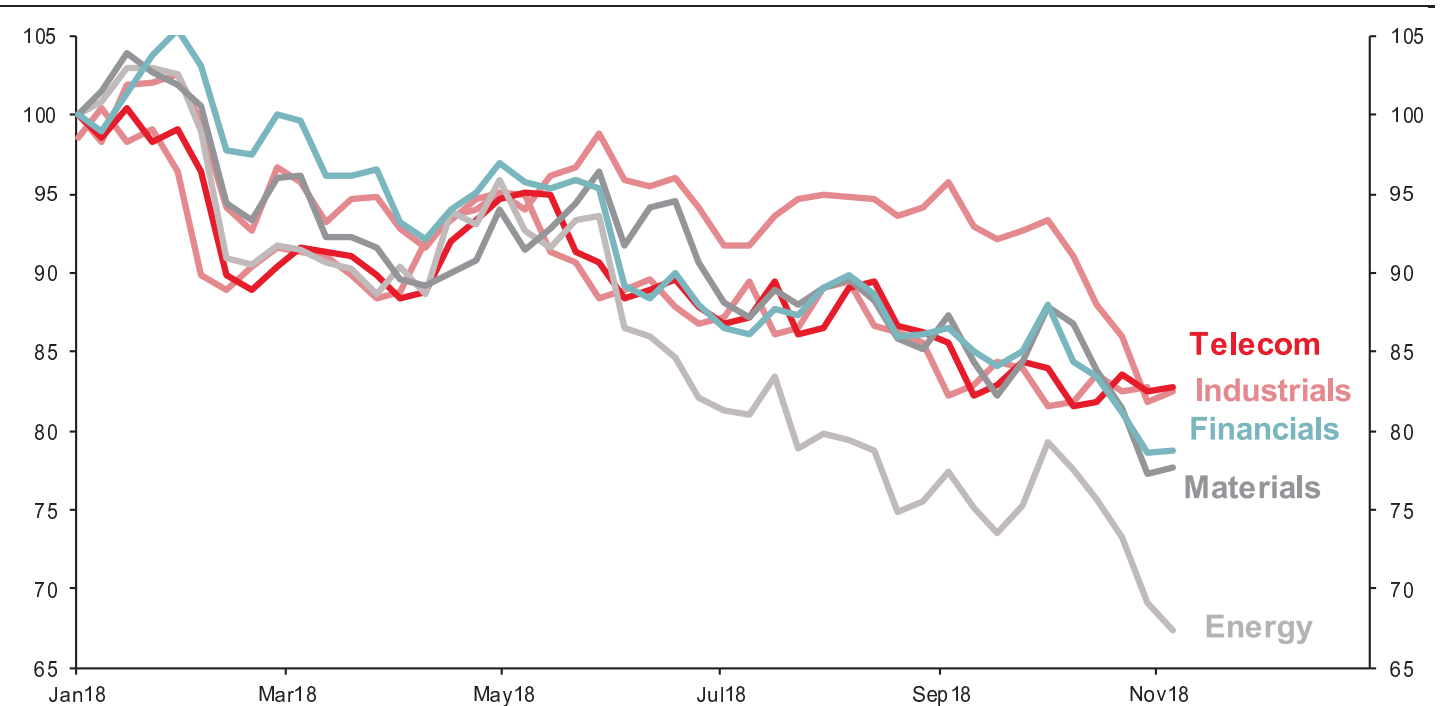
## Top & Bottom five in terms of sectors valuation

Top five 12m forward P/E ratios relative to MSCI Europe since January 2018



12m forward P/E ratio rebased in 01/01/2017. Source: MSCI, IBES, Datastream, SG Cross Asset Research/Equity Strategy

Bottom five 12m forward P/E ratios relative to MSCI Europe since January 2018



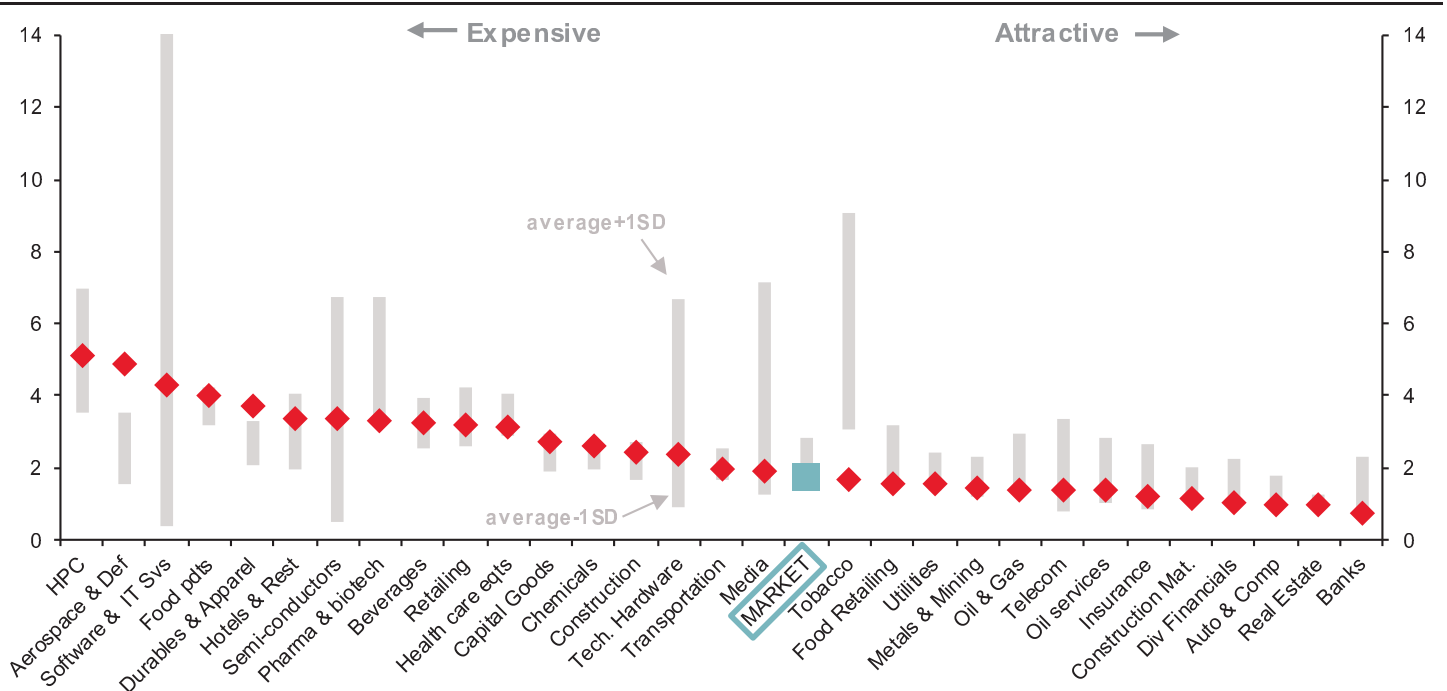
12m forward P/E ratio rebased in 01/01/2017. Source: MSCI, IBES, Datastream, SG Cross Asset Research/Equity Strategy



## Valuation (1)

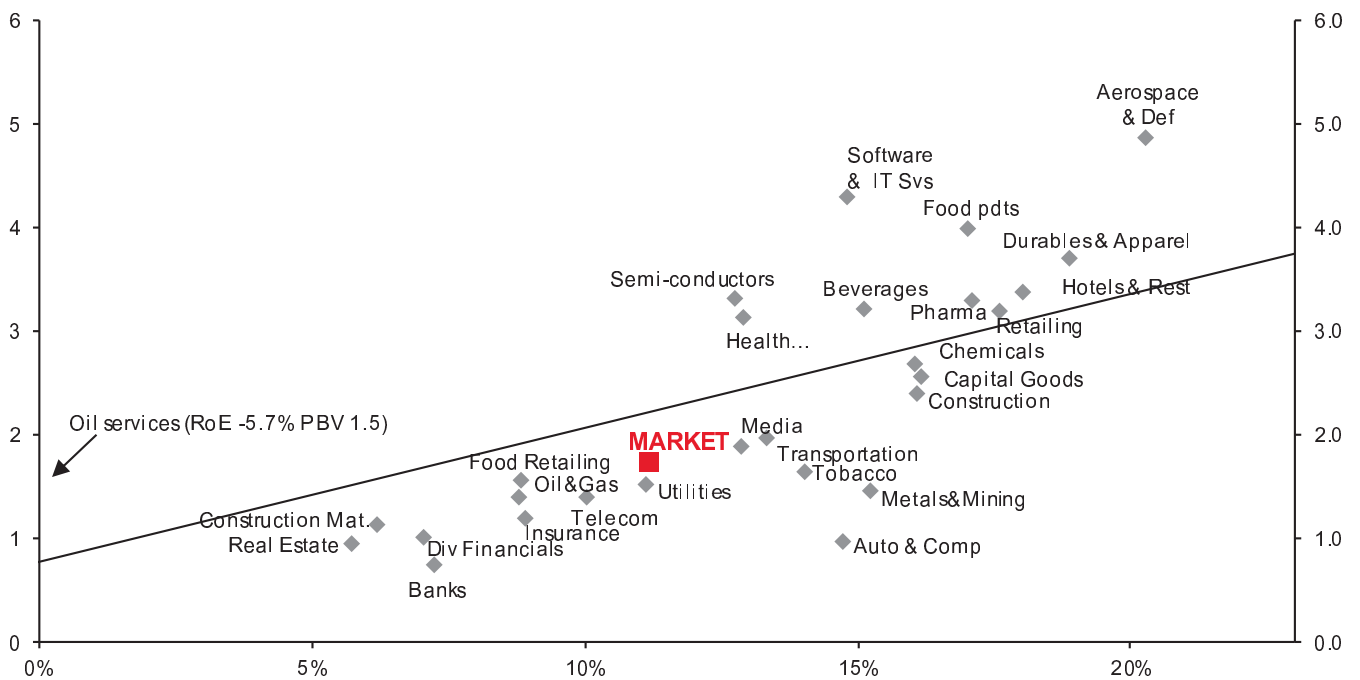
There are many ways to capture equity valuation. Here we look at price to book value and compare it to profitability. Several sectors still harbour the potential to drive the European market valuation and profitability higher. These include financial sectors, such as Banks and Insurance, all of which are at the bottom left of the second chart below. Compared to their historical price to book values, Durables & Apparel looks expensive, while Banks looks attractive.

Price to book value (PBV)



Price to book value = current price / current book value. Blue = current, orange = market, grey high = historical average + 1 standard deviation, grey low = historical average - 1 standard deviation. Historical average since 01/01/95. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

Price to book value (PBV) versus return on equity (RoE)

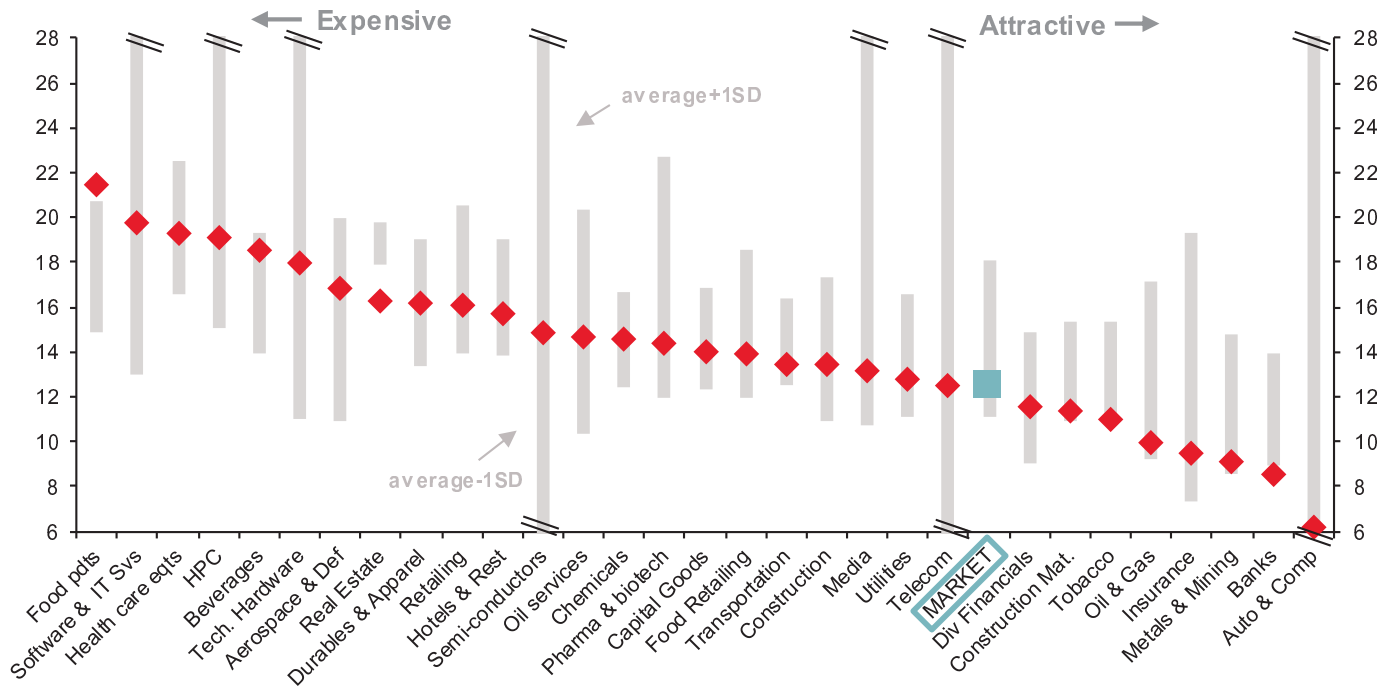


Return on equity = 12m trailing earnings/current book value; blue = current, orange = market. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

## Valuation (2)

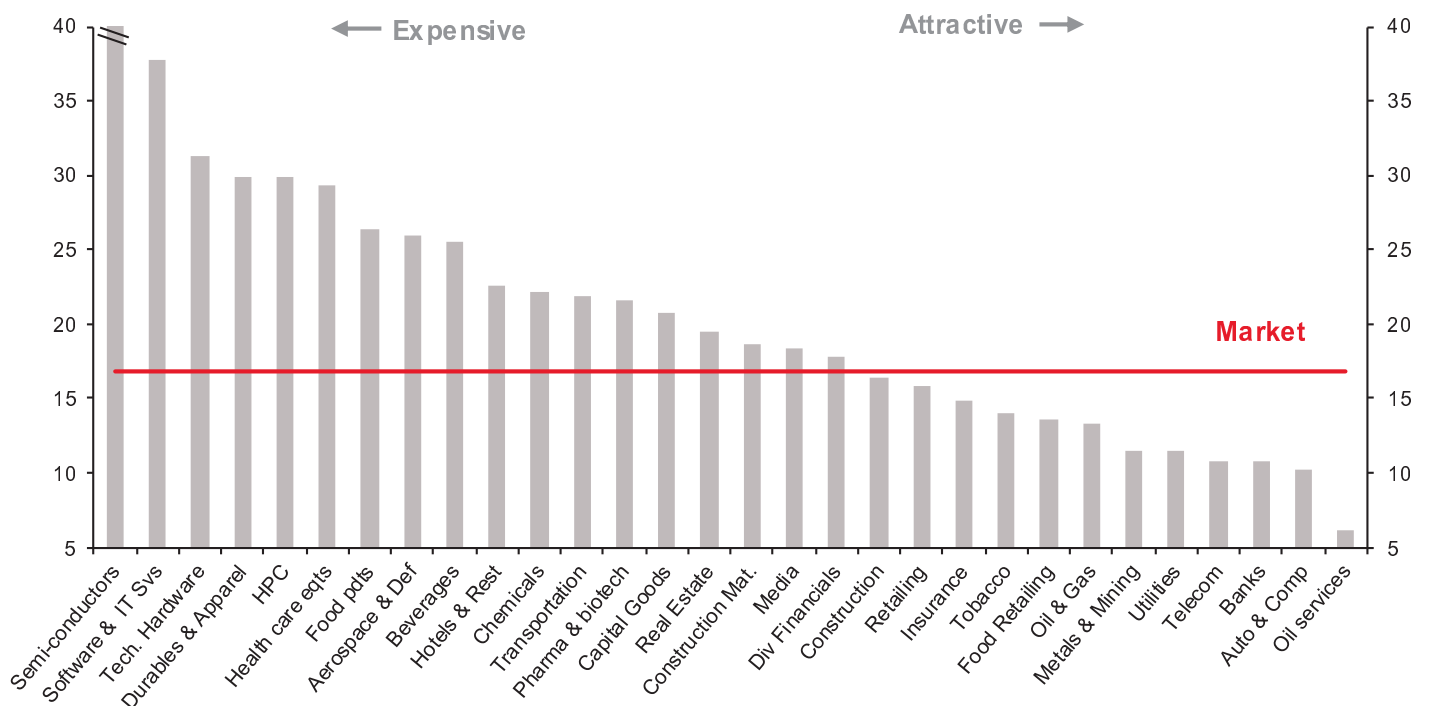
Another classical valuation measure is the price-to-earnings ratio (12-month forward or cyclically adjusted). The Food sector is trading at demanding levels compared to its historical price-earnings ratio range. Automobiles appear relatively attractive. Our tools also highlight value in Oil & Gas and Metals & Mining.

Price-to-earnings ratio – 12-month forward P/E



Price-to-earnings ratio = current price / 12m forward earnings. Blue = current, orange = market, grey high = historical average + 1 standard deviation, grey low = historical average - 1 standard deviation. Historical average since 01/01/95. Source: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

Cyclically adjusted price-to-earnings ratio (CAPE)

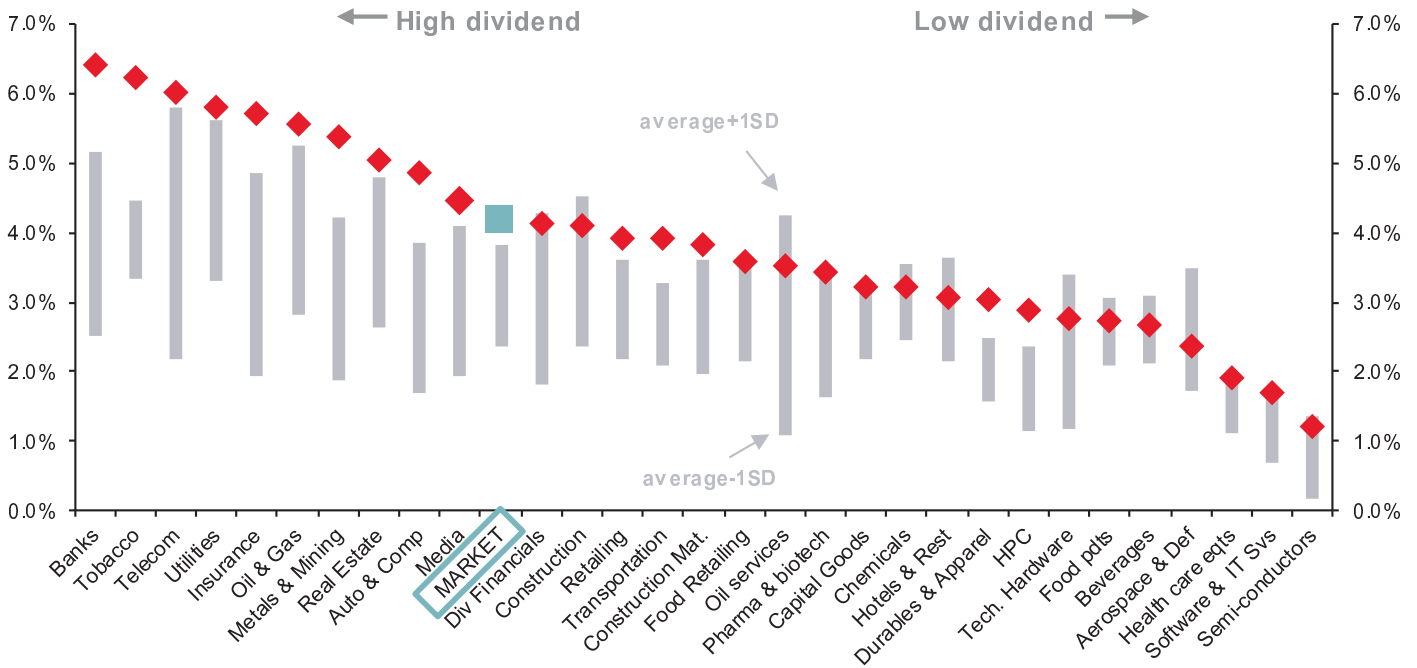


Cyclically adjusted price-to-earnings ratio = current price / 10y moving average earnings; blue = current, orange = market. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

## Dividend

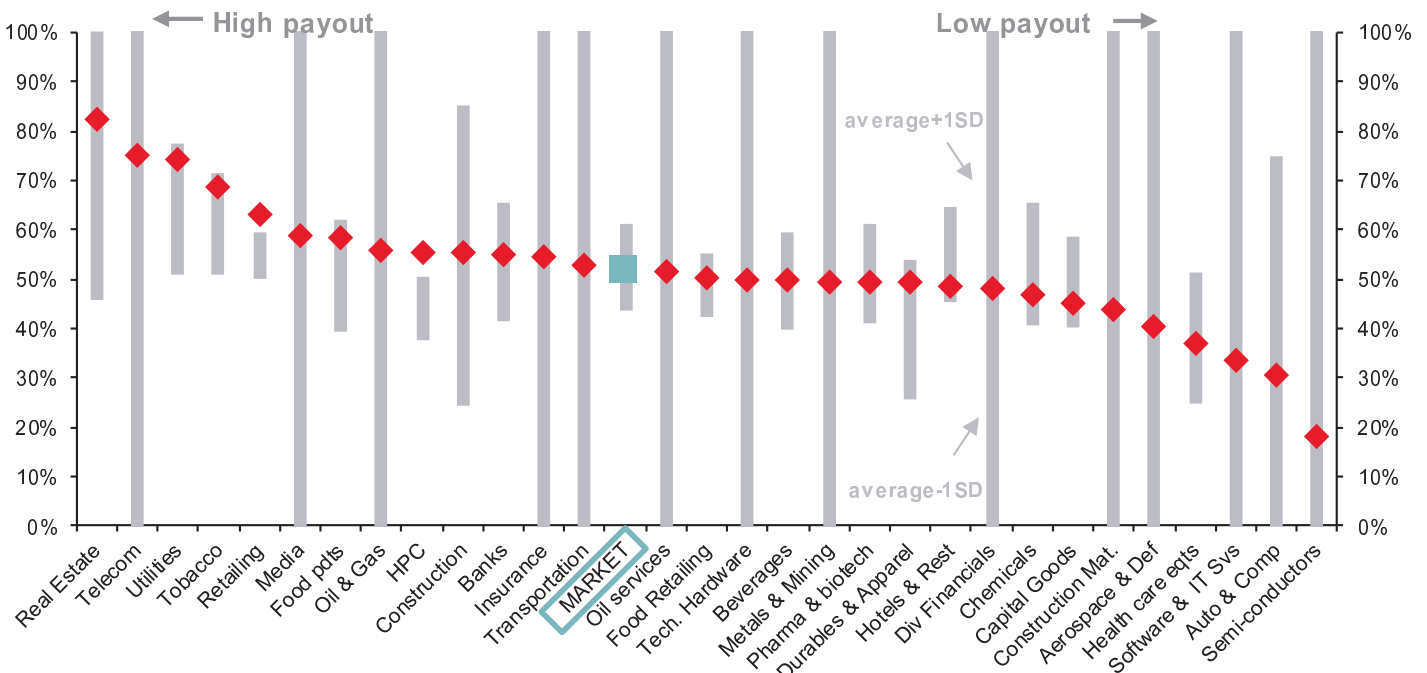
Starving for yield? All the European equity sectors offer a dividend yield above the current 10y German bond yield (0.4%). Ten equity sectors in Europe even offer a dividend yield of over 4% (see first chart below), and most of them have a sustainable payout ratio (second chart below). Real Estate, Telecom and Utilities are paying out more than 70% of their earnings, whereas the Automobile sector is paying only 27% of its earnings despite an attractive yield of 4.0%.

Dividend yield – 12-month forward



Dividend yield = 12-month forward dividend per share / current price. Blue = current, orange = market, grey high = historical average + 1 standard deviation, grey low = historical average - 1 standard deviation. Historical average since 01/01/95. Source: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

Payout ratio – 12-month forward

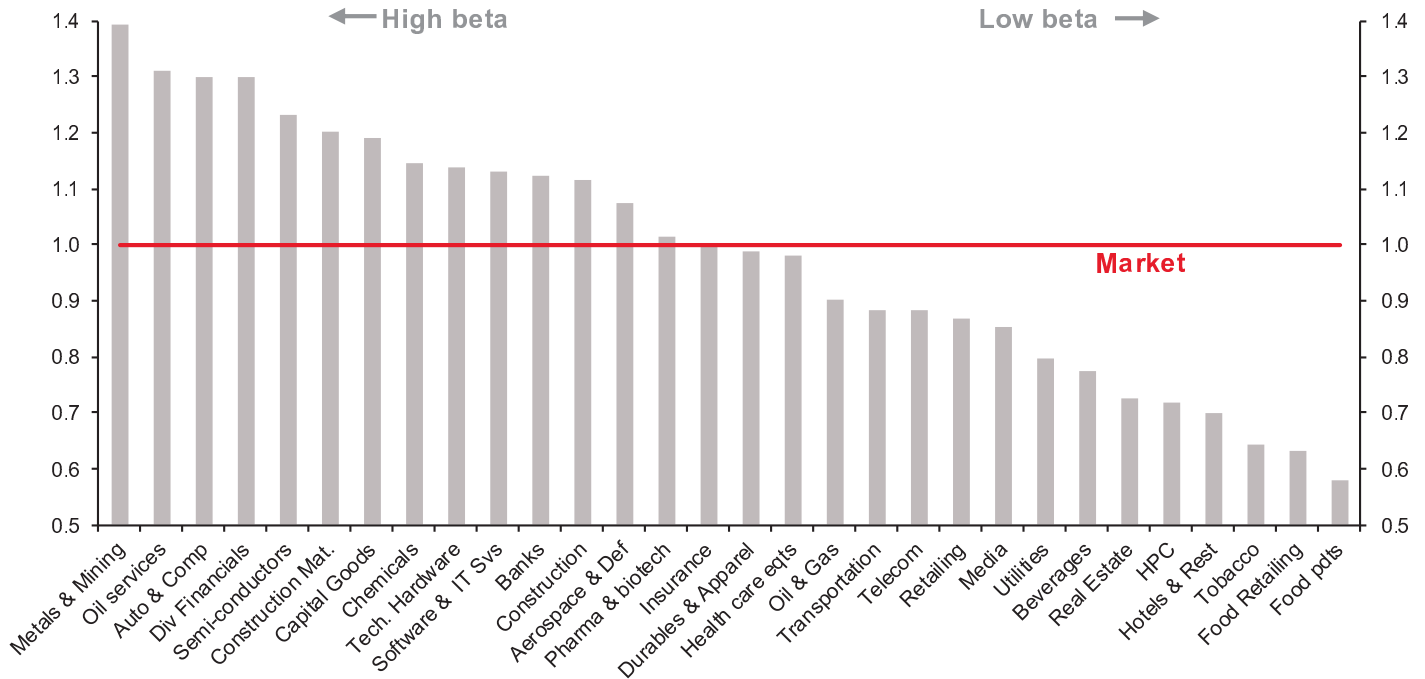


Payout ratio = 12-month forward dividend per share/12-month forward earnings per share; blue = current, orange = market, grey high = historical average + 1 standard deviation, grey low = historical average - 1 standard deviation. Historical average since 01/01/95. Source: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

## Risks

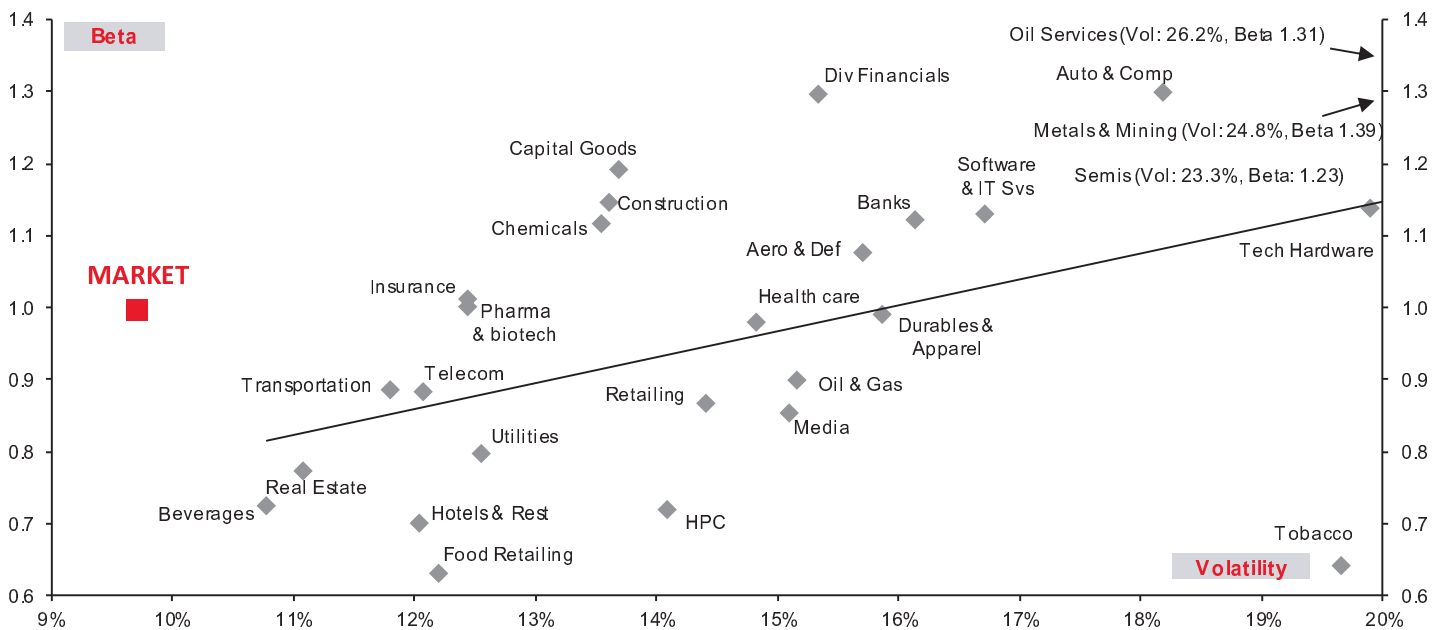
To take advantage of a bull/bear market, investors can increase/decrease the average beta of their portfolios. Automobiles, Metals & Mining and Oil services have the highest betas, while Food, Food Retailing and Tobacco have the lowest. However, high-beta sectors are also often the most volatile (i.e. the riskiest), as shown in the second chart below.

Beta



Beta relative to European equity market and based on 2 years' weekly data; blue = current, orange = market. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

Beta versus historical volatility

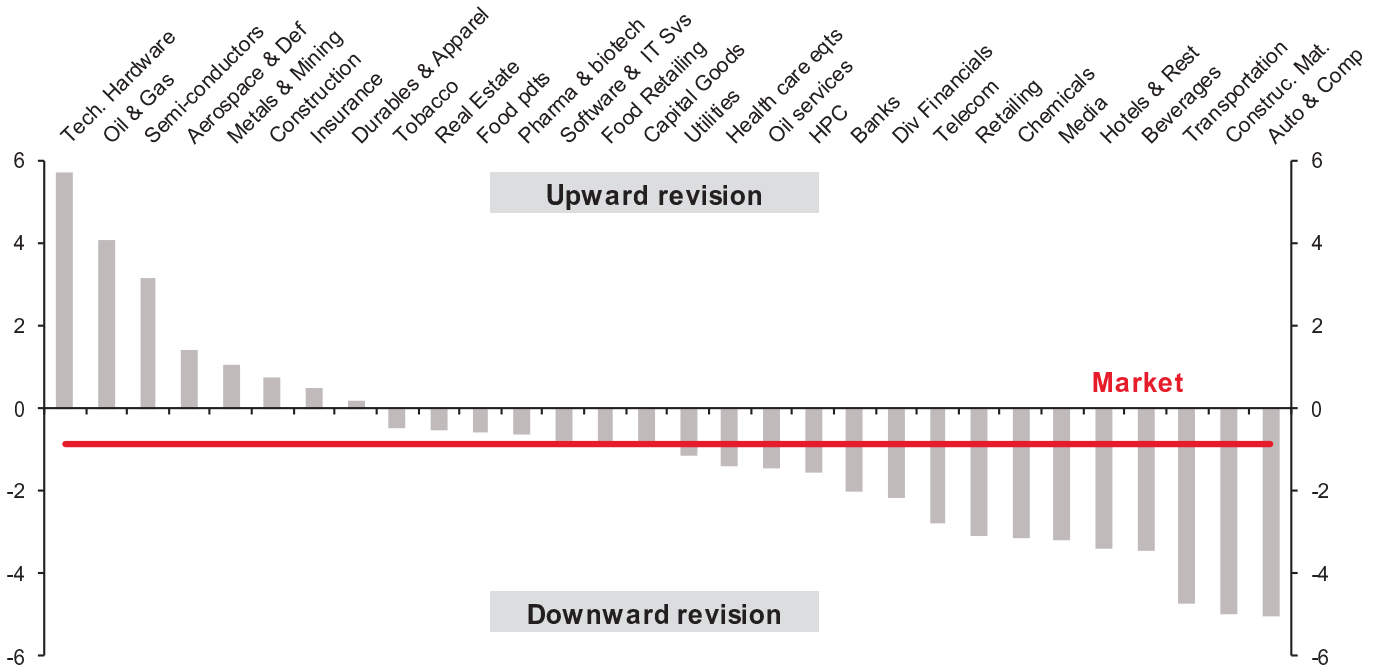


Beta relative to European equity market; beta and volatility based on 2 years' weekly data; blue = current, orange = market. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

## Momentum

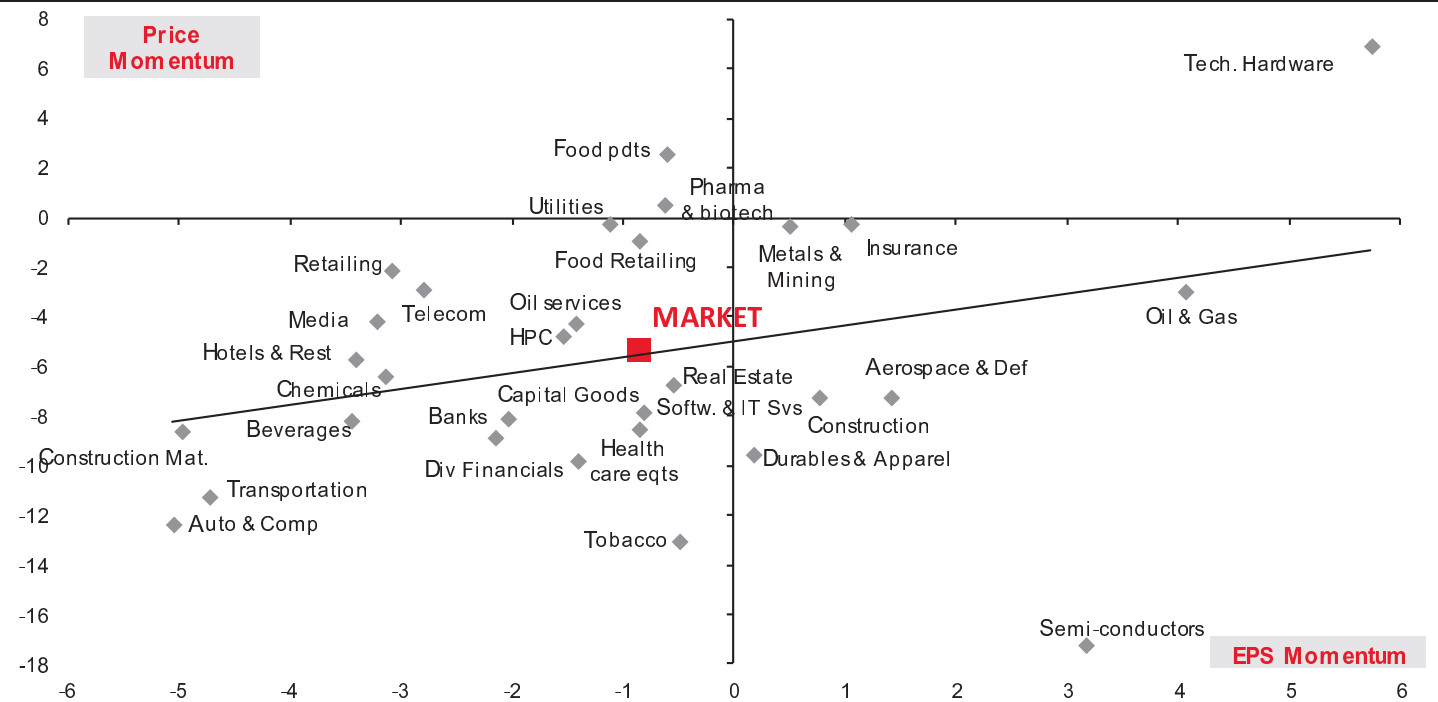
The trend is your friend. Earnings revisions can act as either a tailwind or a headwind for stock prices. Currently, eight sectors have seen upward revisions. Analysts have slashed their 12-month forward earnings expectations on the Automobile, Construction Materials and Transportation sectors.

### Earnings momentum



Earnings momentum = 3 months' change in 12-month forward earnings per share; blue = current, orange = market. Source: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

### Price momentum versus earnings momentum

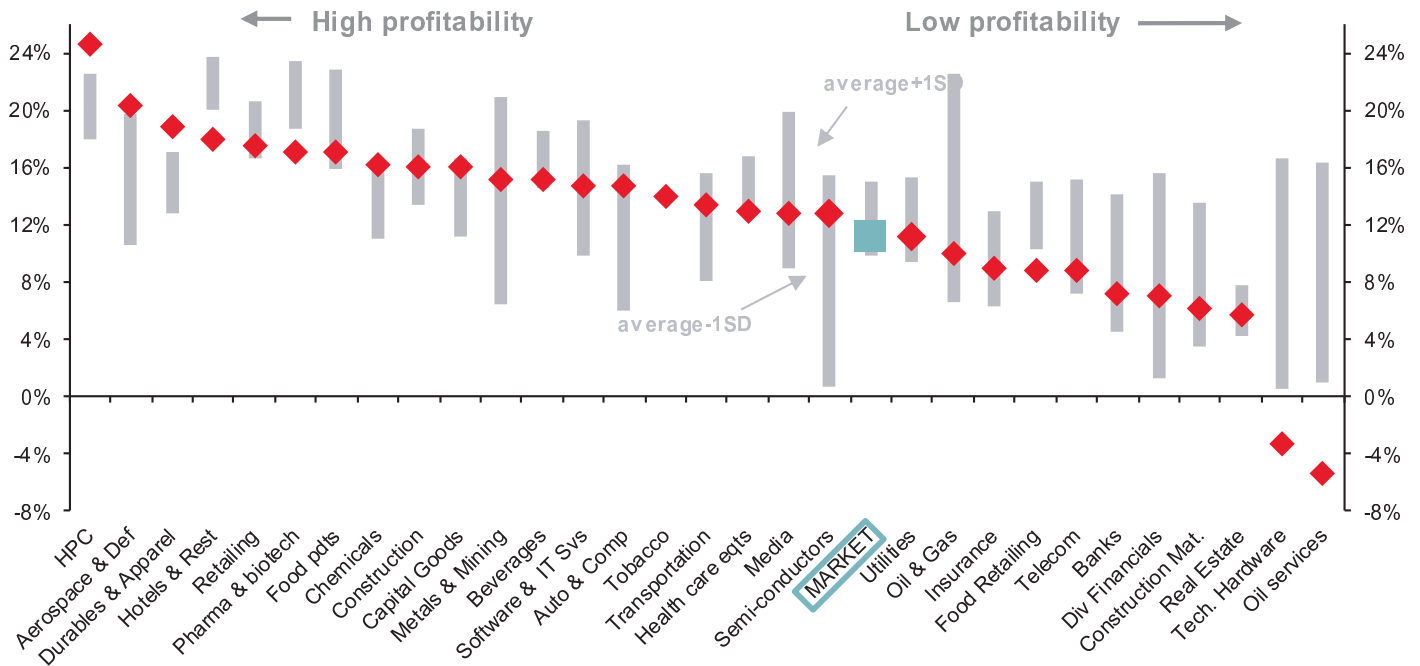


Price momentum = 3-month change in Total Earnings (dividend reinvested); Earnings momentum = 3-month change in 12-month forward EPS; blue = current, orange = market. Source: MSCI, IBES, Datastream, SG Cross Asset Research/Equity Strategy

## Profitability

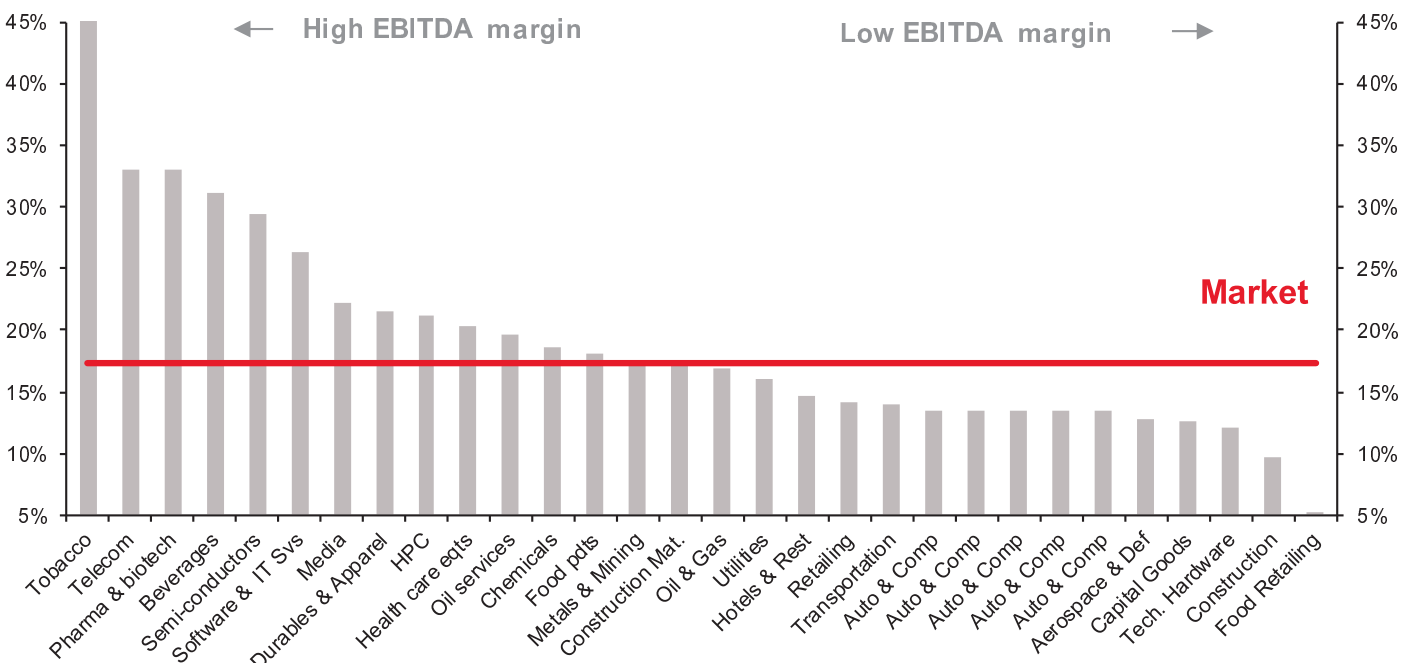
Valuation and profitability are often highly correlated (see chart in valuation section), with valuations rising as profitability increases. Profitability can be measured by return on equity (first chart below) or by EBITDA margins (second chart below). The European Technology Hardware sector has a poor score on both measures. Pharmaceuticals generate high profitability levels.

### Return on equity



Return on equity = 12m trailing earnings/book value; blue = current, orange = market, grey high = historical average + 1 standard deviation, grey low = historical average - 1 standard deviation; Tobacco out of scale (RoE = 53%, average +1SD= 47.9%, average-1SD= 33.2%). Historical average since 01/01/95. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

### EBITDA margin

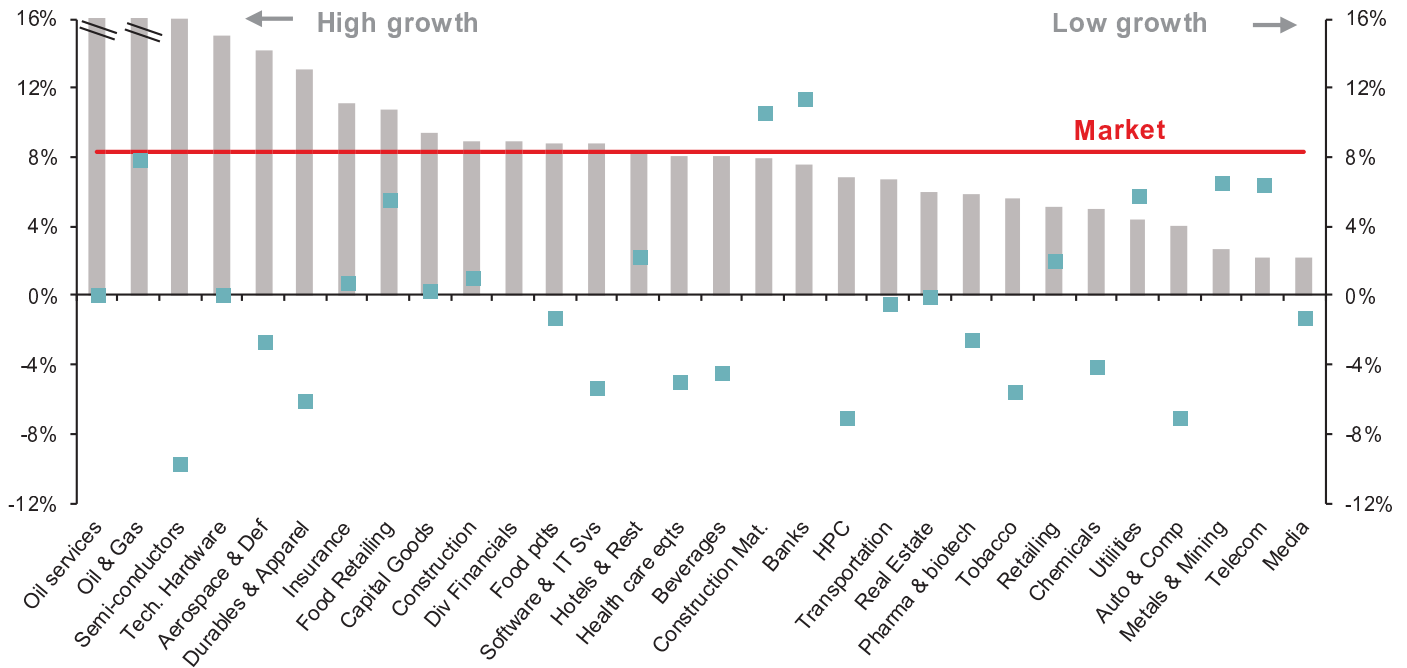


EBITDA = Earnings before interest, taxes, depreciation and amortisation; EBITDA margin = EBITDA/Sales; blue = current, orange = market. Source: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

## Growth

It is easier for a sector or stock to beat consensus expectations if expectations are low. Below, we look at 3-year forward earnings growth (based on IBES consensus data). We already expect eight sectors to generate double-digit earnings growth (on average) and we do not expect any sectors to contract over the next three years. The second chart below highlights long-term implied earnings growth, as derived from the Gordon Shapiro model.

3 year forward earnings growth (annualised)



Compounded average growth rate of earnings for the next 3 years (IBES data); blue = current, orange = market, grey = 10-year growth; 10-year growth out of range: Tech. Hardware (-12%), Construction Mat. (-5%), Banks (-8%), Oil Services (39%), Div Financials (-1%), Real Estate (-0.3%). Source: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

Long-term implied earnings growth (as derived from Gordon Shapiro model)

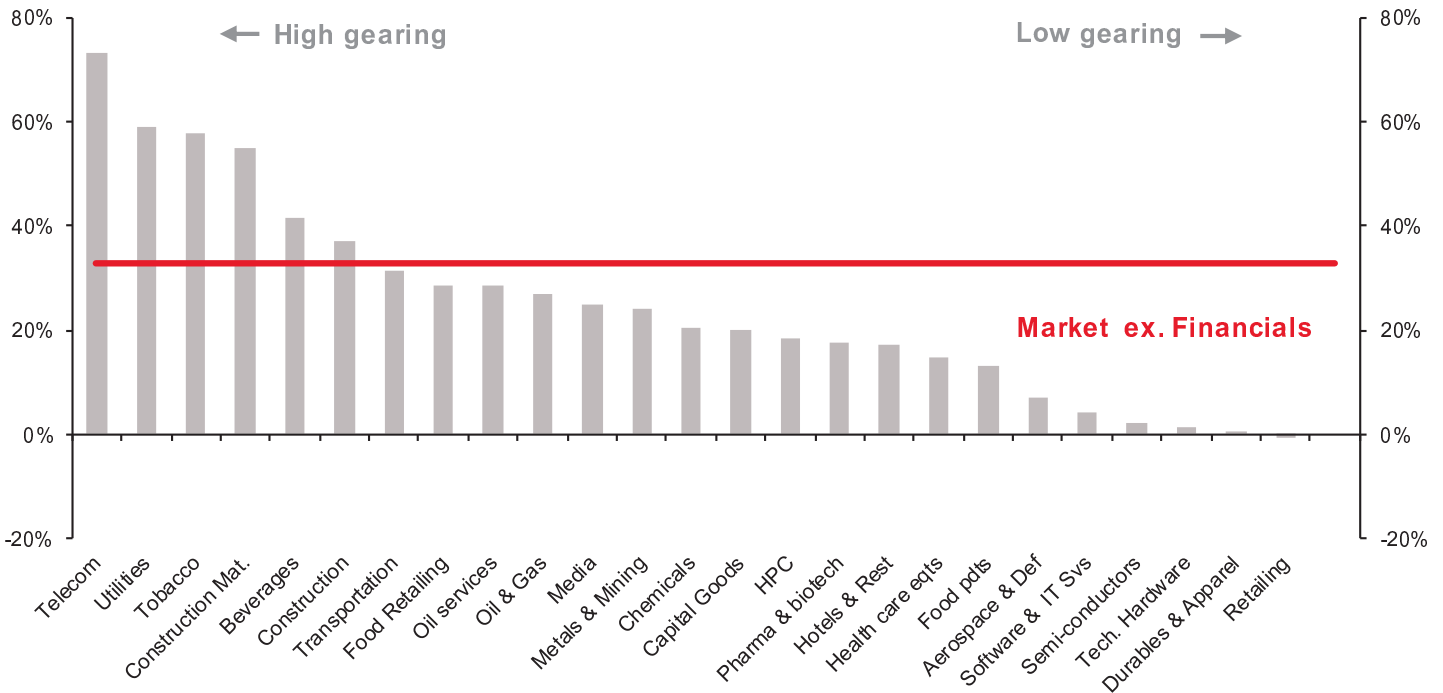


Long-term implied growth = Sector Beta \* Equity Risk Premium + 10y bond yield - 12-month forward dividend yield; blue = current, orange = market; Source: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

## Balance sheet

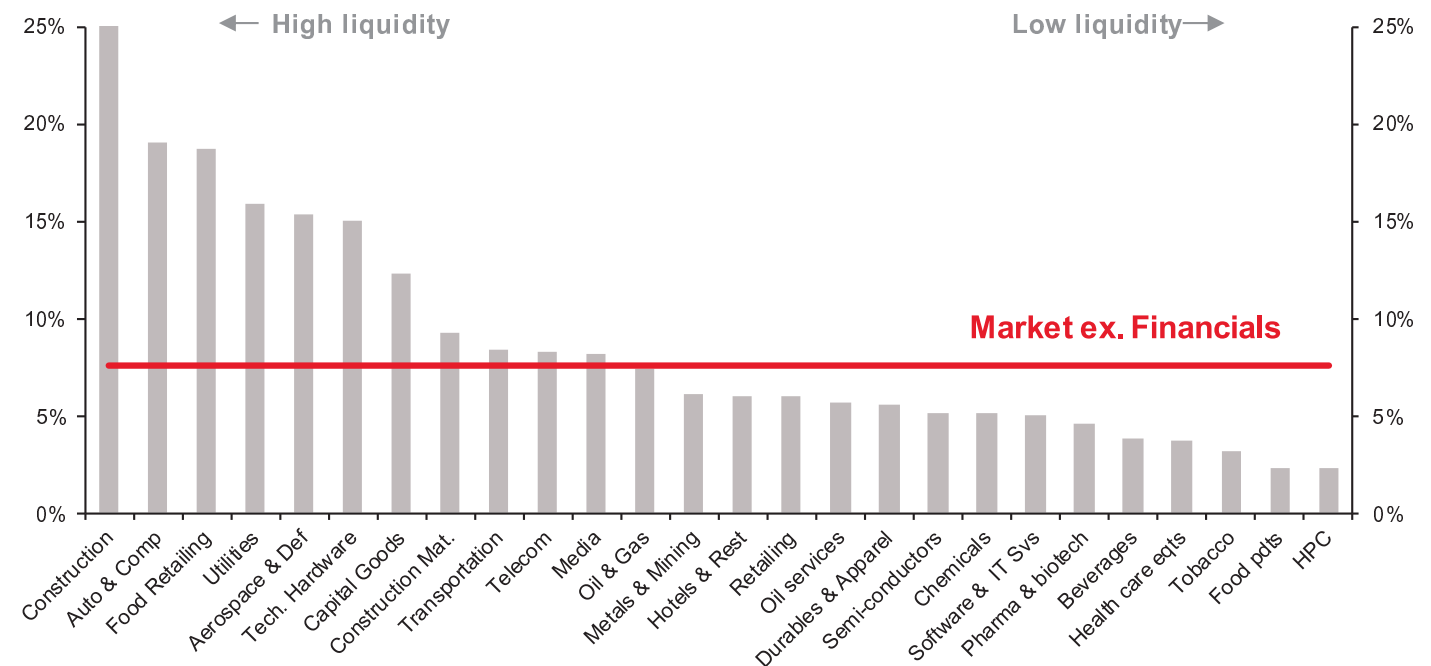
Highly leveraged sectors (such as Telecom, Utilities, and Tobacco) could be under pressure if bond yields increase. On the opposite end of the spectrum, sectors with strong balance sheets (low gearing, high cash positions) could be tempted to implement more shareholder-friendly policies (dividends, share buybacks, M&A etc.). The balance-sheet ratio below does not apply to Financials.

### Gearing ratio



Gearing ratio = net debt / EBITDA; net debt = total debt - cash; EBITDA = Earnings before interest, taxes, depreciation and amortisation; blue = current, orange = market excluding financial sectors.  
Source: Worldscope, Datastream, SG Cross Asset Research/Equity Strategy

### Cash to market capitalisation



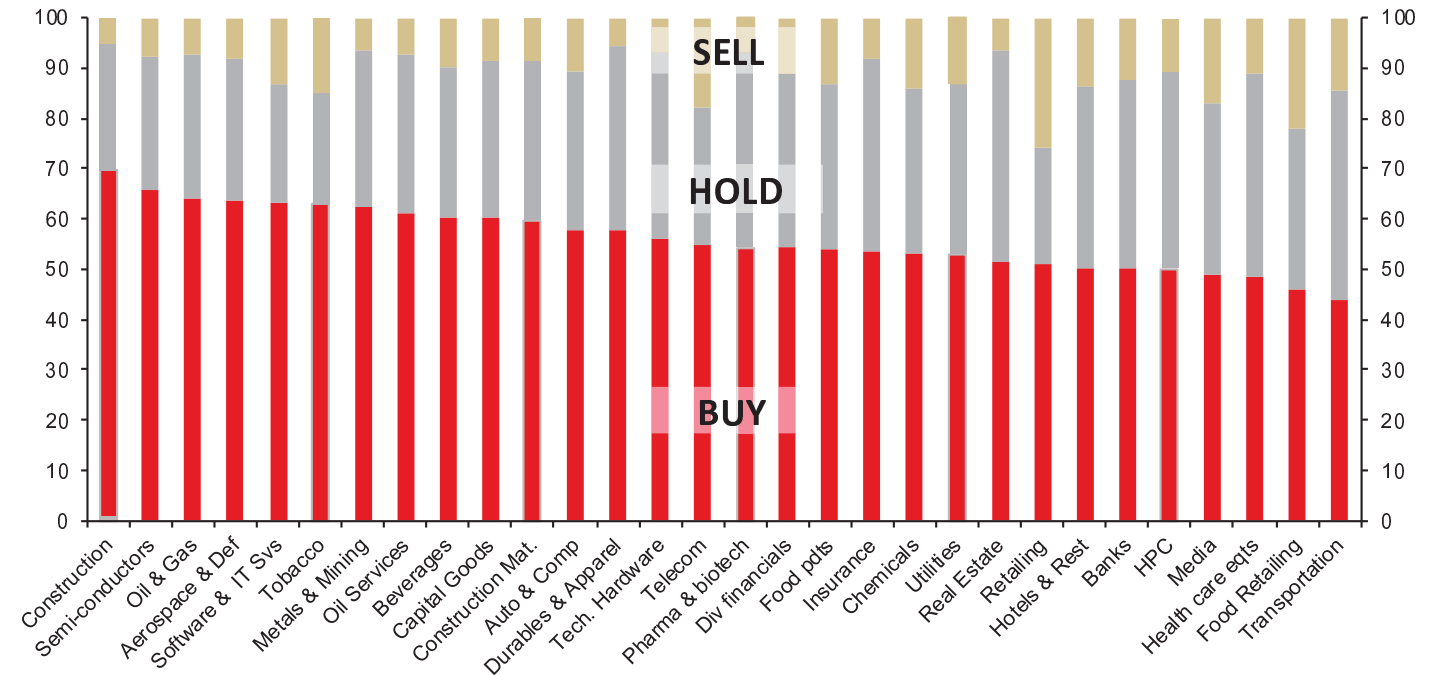
Cash: money available for use in the normal operations of the company. It is the most liquid of all of the company's assets; blue = current, orange = market excluding financial sectors.  
Source: Worldscope, MSCI, Datastream, SG Cross Asset Research/Equity Strategy



## Consensus

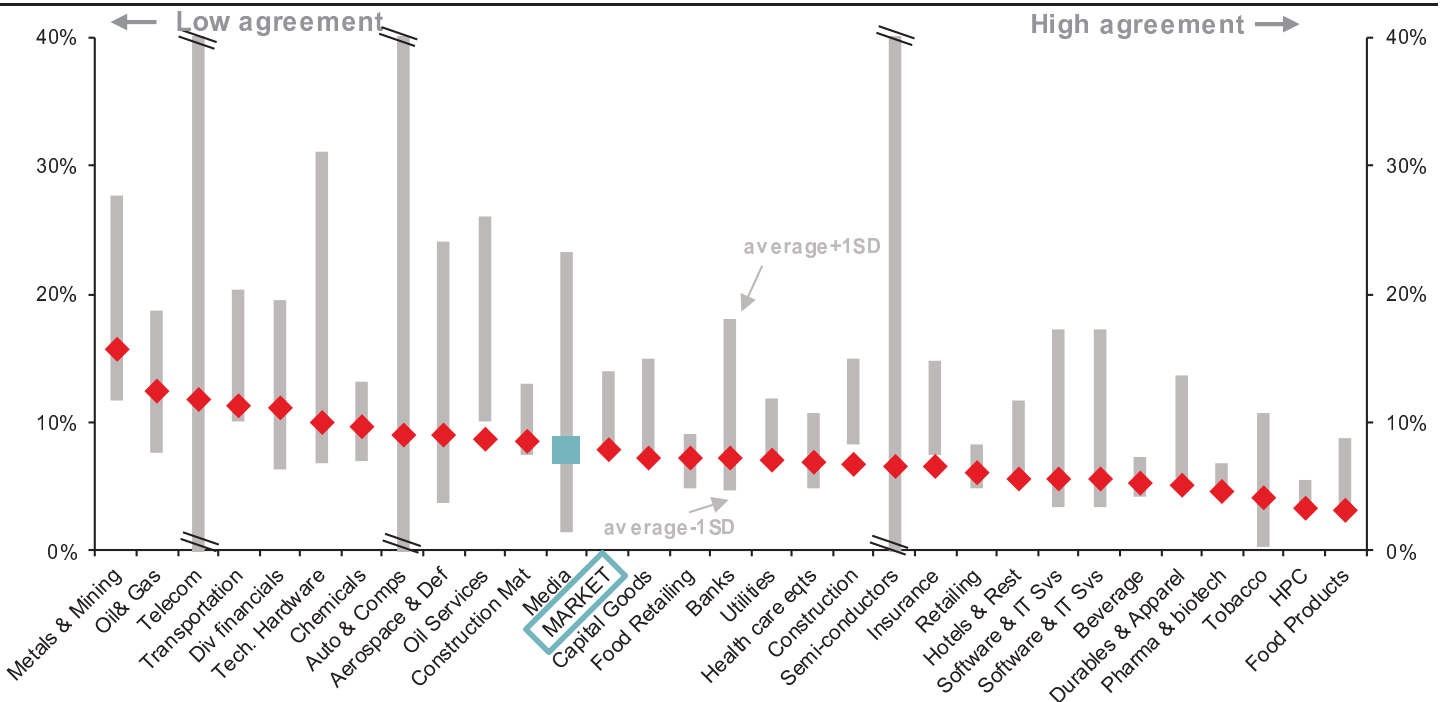
It is rarely a good sign when analysts' ratings converge. Below, we measure the quantity of Buys, Holds and Sells (weighted by market cap.) in each sector. The consensus is particularly positive on Construction, Semis and Oil & Gas, whereas analysts are very cautious on Transportation, Food Retailing and Health Care Equipment. The second chart below highlights consensus agreement on forward earnings (convergence of views on consumer sectors).

Percentage of Buys/Holds/Sells



Percentage weighted by market capitalisation, based on IBES data; blue = Buy, Brown = Hold, Grey = Sell. Source: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

Standard deviation of 12-month forward earnings per share

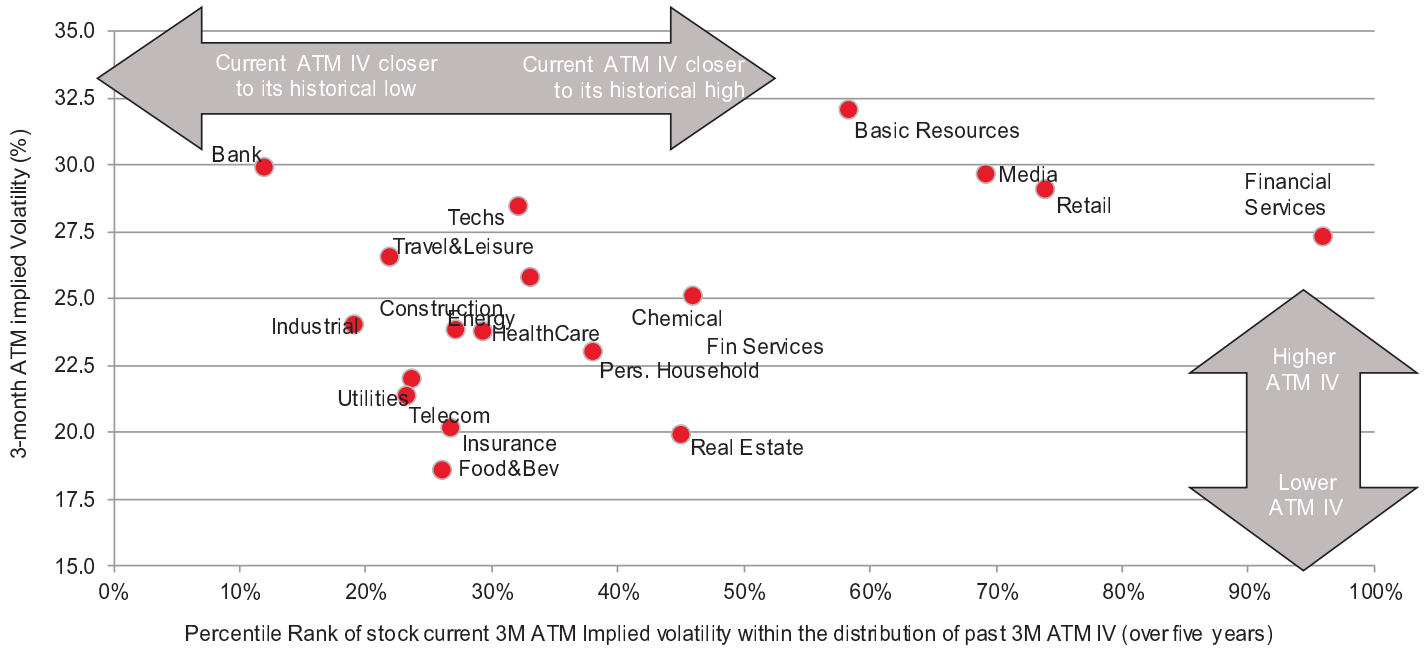


Historical average since 01/01/95. Source: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

**Equity derivatives (Vincent Cassot, [vincent.cassot@sgcib.com](mailto:vincent.cassot@sgcib.com), +33 1 42 13 59 55)**

The charts below show average 3-month ATM implied volatilities and 3-month 90%-110% implied skew (the difference between Put and Call prices) for STOXX sector components, and their historical richness (5-year percentile). **For volatility:** volatility has picked up compared to last quarter with the Financial Services, Basic Resources, Media and retail sectors all trading at higher volatilities (and percentiles compared to history). The Banks sector remains on 'inexpensive' percentiles despite a pick-up in absolute volatility. **For skew:** skew (difference between Puts and Calls volatility) has also moved higher across all sectors. Media skew remains at the highest levels of the last five years, suggesting significant demand for puts (compared to calls) on stocks. Healthcare and Travel & Leisure are some of the sectors with elevated skew. Finally, skew on the Food & Beverages sector has also increased significantly compared to last quarter, suggesting increased investor apprehension.

**Implied volatility by sector (average of components) and historical richness (STOXX sectors)**



Source: SG Cross Asset Research/Derivatives

**Implied skew per sector (average of components) and its historical richness (STOXX sectors)**

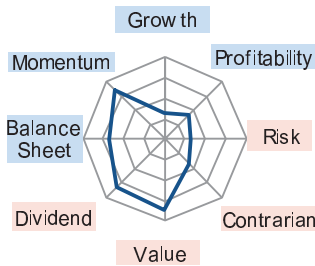


Source: SG Cross Asset Research/Derivatives

## Spider web: methodology & scoring system

We have designed a brand new proprietary scoring system nicknamed “Spider web” to provide a comprehensive sector overview in just one image. With this approach, we look at each sector and assign a score to each of the following eight characteristics (growth, profitability, risk, contrarian, value, dividend, balance sheet, momentum). The higher the scores (see the table below), the larger the size of the web and the more attractive the sector. How well a sector scores on any given characteristic (e.g. risk) depends on how the sector ranks on two underlying criteria (e.g. beta and volatility). The two underlying criteria are different for each of the eight characteristics.

### Spider web: an example



Source: SG Cross Asset Research/Equity Strategy

For each characteristic, we apply 2 criteria (with the exception of “Value”, for which we apply 3)

Characteristics	Criteria	Characteristics	Criteria
<b>Growth</b>	3-year forward earnings growth	<b>Value</b>	Current price to book value
	10-year historical earnings growth		12-month forward price earnings ratio
			Cyclically adjusted price earnings (CAPE)
<b>Profitability</b>	Current return on equity	<b>Dividend</b>	12-month forward dividend yield
	Current EBITDA margin		10-year historical dividend yield
<b>Risk</b>	2-year beta	<b>Balance Sheet</b>	Net debt/EBITDA (gearing)
	2-year historical volatility		Cash / market capitalisation (liquidity)
<b>Contrarian</b>	% of Sell ratings in the sector	<b>Momentum</b>	3-month change in 12-month forward earnings
	% of non-Buy ratings in the sector		3-month price performance

Source: SG Cross Asset Research / Equity Strategy

### Spider web score (each criterion has a maximum score of 20)

	Growth	Profitability	Risk	Contrarian	Value	Dividend	Balance sheet	Momentum	
Integrated Oil company	10	7	10	8	16	18	10	17	Integrated Oil company
Oil Services	na	6	20	12	15	8	8	11	Oil Services
Chemicals	5	13	12	15	8	10	10	8	Chemicals
Construction Materials	14	6	17	4	15	10	9	3	Construction Materials
Steel, Metals & Mining	10	11	20	5	16	15	10	17	Steel, Metals & Mining
Aerospace & Defense	12	12	13	3	4	5	17	14	Aerospace & Defense
Construction	14	8	10	1	12	14	13	13	Construction
Capital Goods	13	9	12	6	9	8	13	8	Capital Goods
Transportation & Other services	9	8	5	18	10	10	10	2	Transportation & Other services
Automobiles & Components	3	8	17	6	19	12	10	1	Automobiles & Components
Durables, Apparel & Luxury	10	16	12	9	4	5	13	10	Durables, Apparel & Luxury
Hotels, Restaurants & Leisure	13	12	3	16	6	9	12	7	Hotels, Restaurants & Leisure
Media	5	12	9	18	12	14	11	9	Media
Retailing (specialized)	10	12	8	18	9	12	15	10	Retailing (specialized)
Food & Staples Retailing	16	3	3	19	13	10	12	14	Food & Staples Retailing
Beverages	8	15	3	9	5	5	4	5	Beverages
Food Products	11	13	2	11	3	5	8	16	Food Products
Tobacco	5	15	9	1	14	19	3	8	Tobacco
Household & Personal Care	5	17	6	12	2	4	7	10	Household & Personal Care
Pharmaceutical & biotechnology	7	17	9	7	8	7	8	16	Pharmaceutical & biotechnology
Health care equipment & services	8	11	10	14	4	2	9	6	Health care equipment & services
Banks	14	11	14	15	19	19	10	7	Banks
Div. Financials & Investment Banks	7	7	15	9	15	14	10	6	Div. Financials & Investment Banks
Insurance	15	4	8	9	16	16	10	16	Insurance
Real Estate	9	11	2	8	11	16	10	5	Real Estate
Software & IT Services	8	14	15	9	2	1	11	10	Software & IT Services
Technology Hardware & Equipment	0	2	16	15	6	4	17	20	Technology Hardware & Equipment
Semi-conductors	10	12	18	4	4	1	12	10	Semi-conductors
Telecommunication Services	9	11	6	14	16	19	7	10	Telecommunication Services
Utilities	10	7	6	15	15	19	10	14	<b>Utilities</b>

Source: SG Cross Asset Research/Equity Strategy

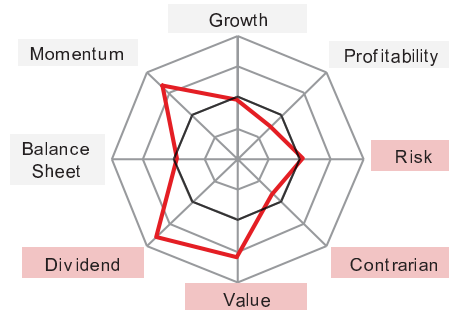
## Integrated Oil Companies (Overweight)

**Strong fundamentals but oil price remains key** – The Oil & Gas sector is down 3% over the last three months, in line with the Brent price in euro. Despite outperforming the market by 12% ytd, valuations remain attractive with a dividend yield of 5.3% while earnings momentum remains in positive territory, helping the payout ratio to normalise (73%). We don't expect oil prices to rise significantly from current levels, but we like the sector for its sound balance sheets and rising profitability. We have a Hold recommendation on Shell (38% of the index weight) and a Buy on BP and Total (both 20% of the index weight).

### Key indicators

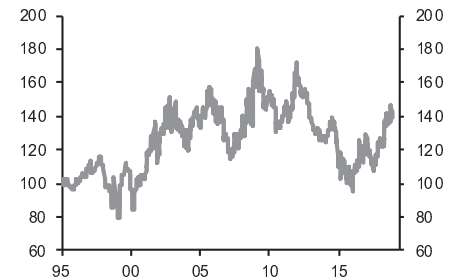
	Oil & Gas	Europe
3m performance	-3%	-5%
12m performance	9%	-3%
2018 year-end P/E	11.6	13.5
12m forward P/E	10.0	12.4
Price to book value	1.4	1.7
Return on Equity	10%	11%
Dividend yield	5.3%	3.7%
Payout ratio	73%	57%
2018 EPS growth	41%	8%
2019 EPS growth	18%	9%
2020 EPS growth	2%	8%
Beta	0.90	1.00

### Spider Web



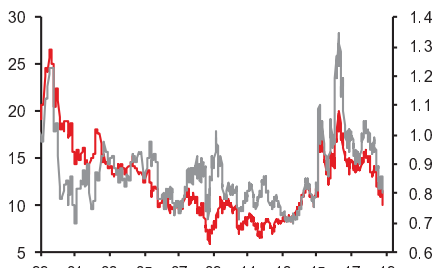
blue = quality, red = value – far from centre = the best

### Relative performance



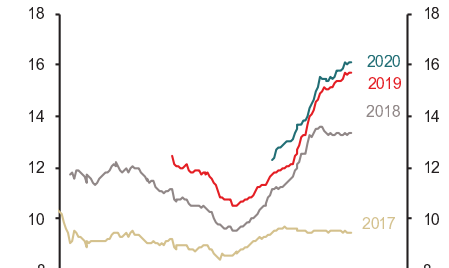
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



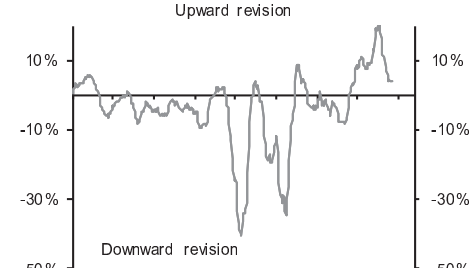
Absolute (red) & relative (grey, rhs)

### Earnings per share



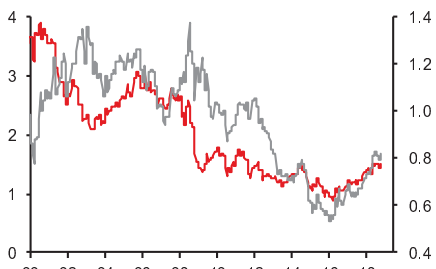
IBES consensus

### Earnings momentum



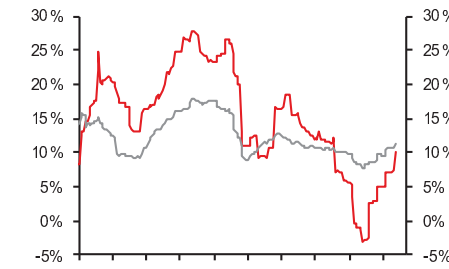
3m change in 12m forward EPS

### Price to book value



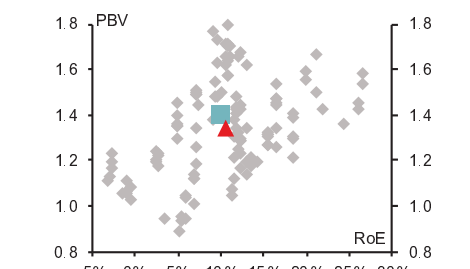
Absolute (red) & relative (grey, rhs)

### Return on equity



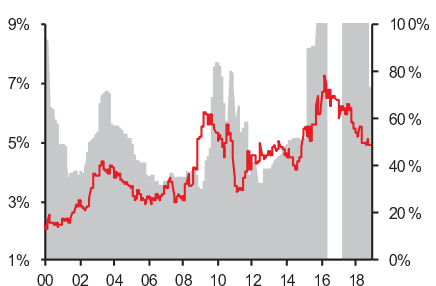
Grey = Europe. RoE = 12-month trailing earnings/ book value

### Price to-book value/RoE

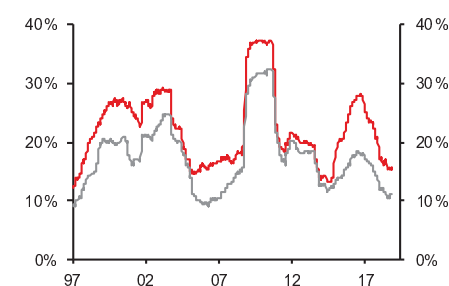


Square = current, grey = 10Y history, triangle=10Y average

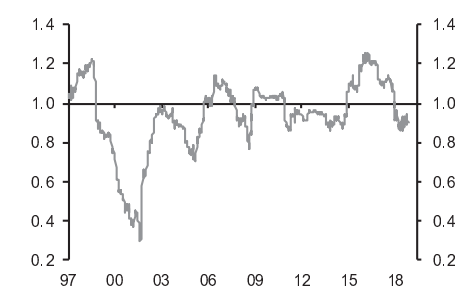
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (78% in total): Royal Dutch Shell (38%), BP (20%), Total (20%).

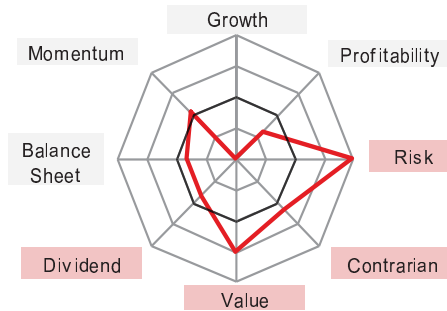
## Oil Services (Neutral)

**Despite the rise in oil prices in recent years, profitability remains weak** – Despite stronger fundamentals and attractive valuations, we have long been Neutral on the sector, and remain so given still-poor profitability and our preference for the sound balance sheets of IOCs. High-double-digit consensus EPS growth expectations could be at risk from downward revisions (2018-19-20 at respectively +30%, +28%, and +23%). Risks remain high given a beta of 1.3x; we continue to prefer IOCs.

### Key indicators

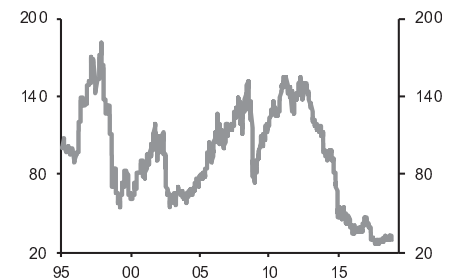
	Oil Services	Europe
3m performance	-7%	-5%
12m performance	-1%	-3%
2018 year-end P/E	18.4	13.5
12m forward P/E	14.7	12.4
Price to book value	1.4	1.7
Return on Equity	-5%	11%
dividend yield	3.2%	3.7%
Payout ratio	nm	57%
2018 EPS growth	30%	8%
2019 EPS growth	28%	9%
2020 EPS growth	23%	8%
Beta	1.31	1.00

### Spider Web



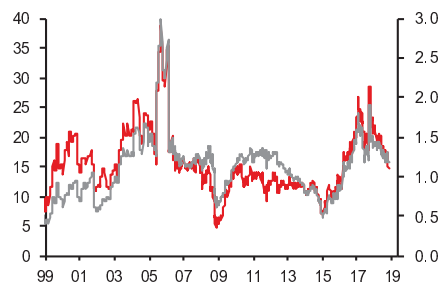
Blue = quality, red = value – far from centre = the best

### Relative performance



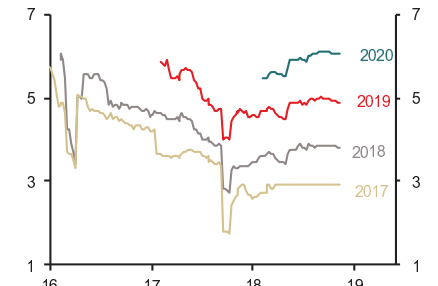
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



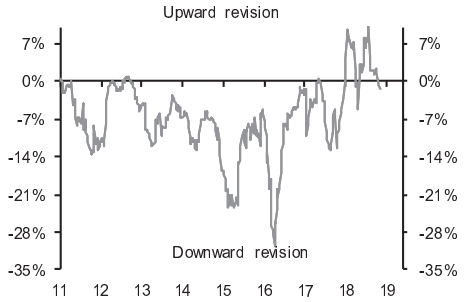
Absolute (red) & relative (grey, rhs)

### Earnings per share



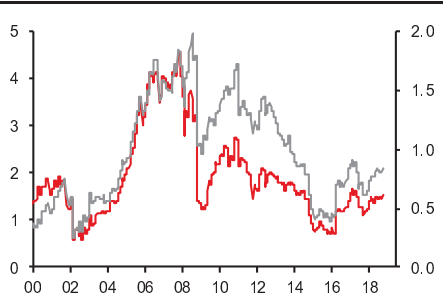
IBES consensus

### Earnings momentum



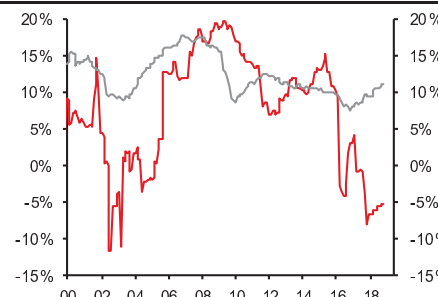
3m change in 12m forward EPS

### Price to book value



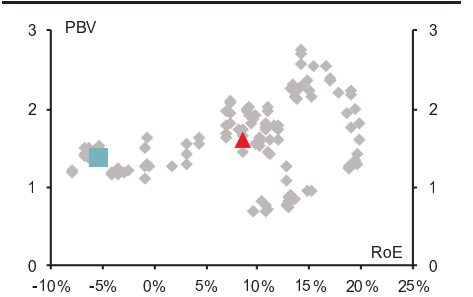
absolute (red) & relative (grey, rhs)

### Return on equity



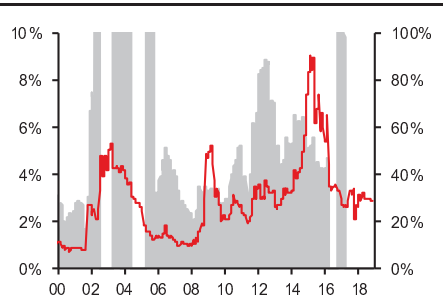
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

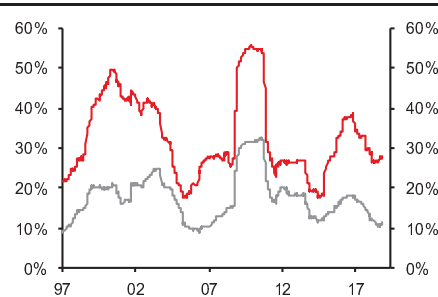


square = current, grey = 10Y history, triangle=10Y average

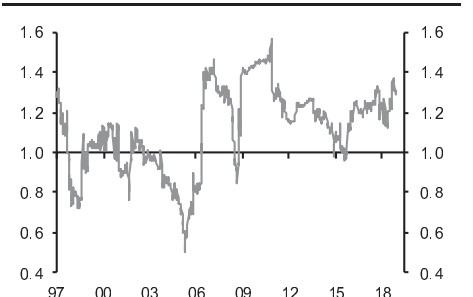
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 2 weight in index (100% in total): Tenaris (53%), Wood Group (John) (47%).

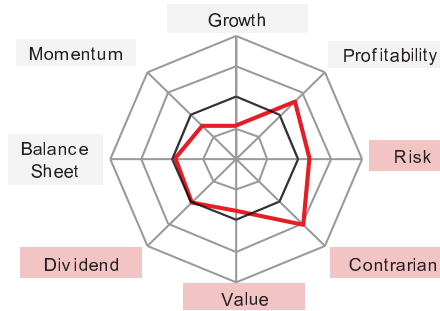
## Chemicals (Neutral)

**Ticking the right boxes, but not 'cheap' –** The sector has been performing in line with the market over the last 3 months and 12 months, in line with our Neutral stance. We like the sector's late-cyclical exposure but we remain cautious from a valuation point of view as doubts on the sustainability of earnings are rising, especially for the more cyclical names (see [link](#)). Earnings momentum has moved to negative territory.

### Key indicators

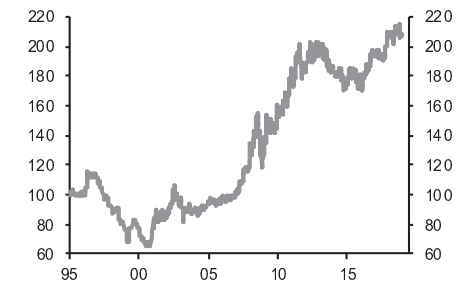
	Chemicals	Europe
3m performance	-5%	-5%
12m performance	-4%	-3%
2018 year-end P/E	15.5	13.5
12m forward P/E	14.6	12.4
Price to book value	2.6	1.7
Return on Equity	16%	11%
Dividend yield	2.8%	3.7%
Payout ratio	45%	57%
2018 EPS growth	0%	8%
2019 EPS growth	7%	9%
2020 EPS growth	9%	8%
Beta	1.15	1.00

### Spider Web



Blue = quality, red = value – far from centre = the best

### Relative performance



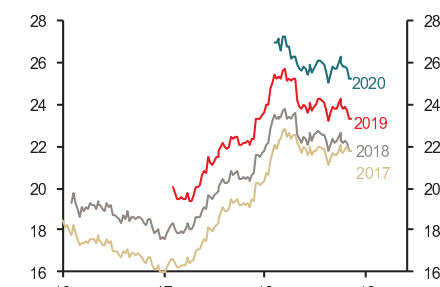
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



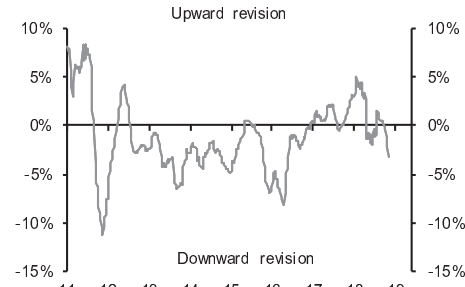
Absolute (red) & relative (grey, rhs)

### Earnings per share



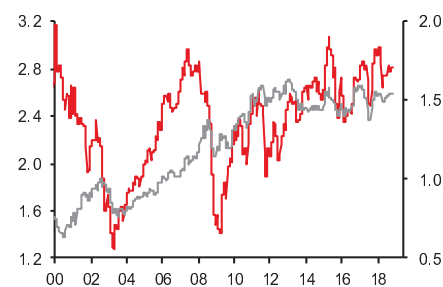
IBES consensus

### Earnings momentum



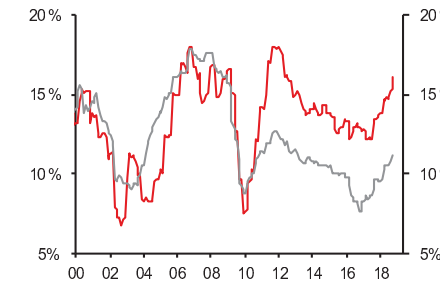
3m change in 12m forward EPS

### Price to book value



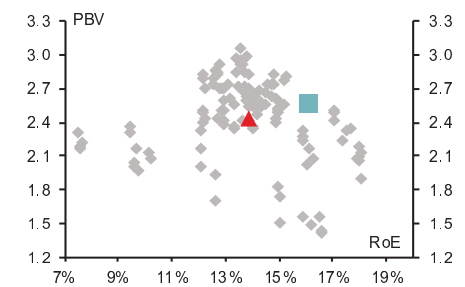
Absolute (red) & relative (grey, rhs)

### Return on equity



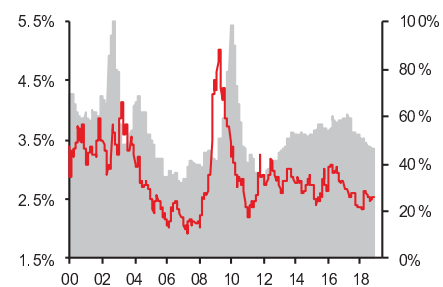
Grey = Europe. RoE = 12-month trailing earnings/ book value

### Price to book value/RoE

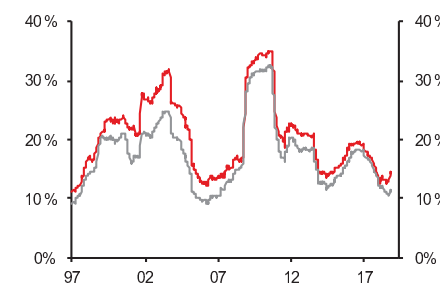


Square = current, grey = 10Y history, triangle=10Y average

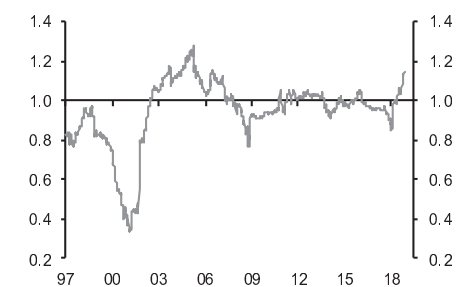
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta

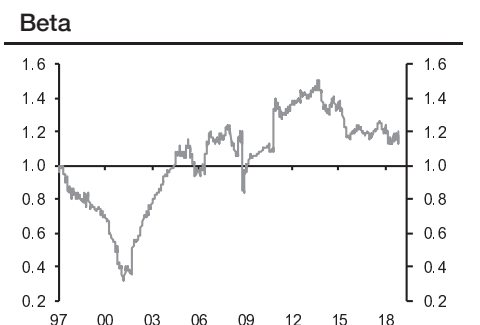
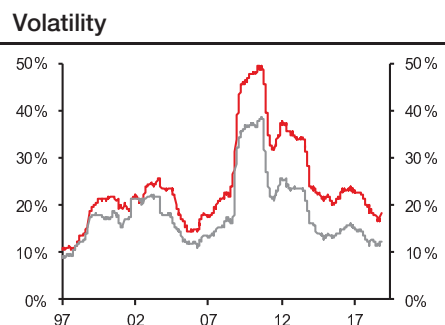
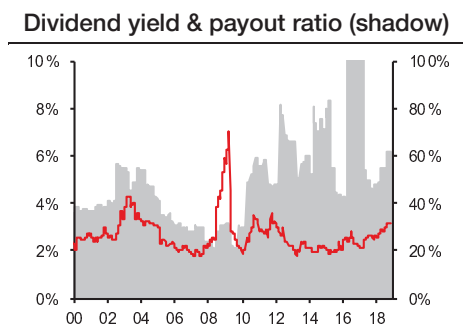
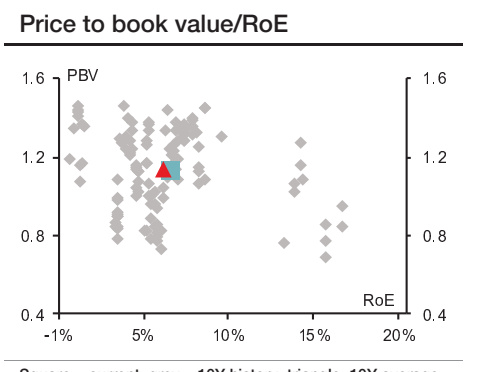
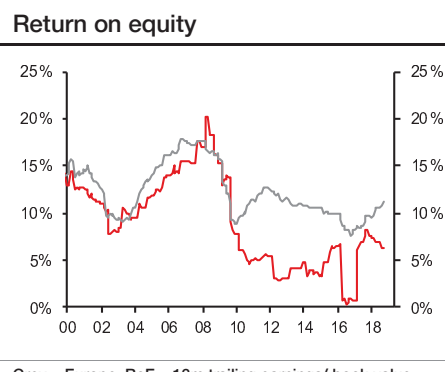
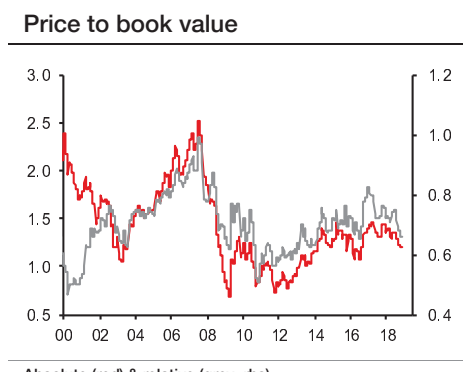
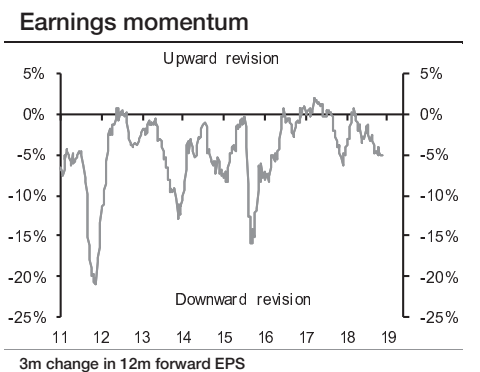
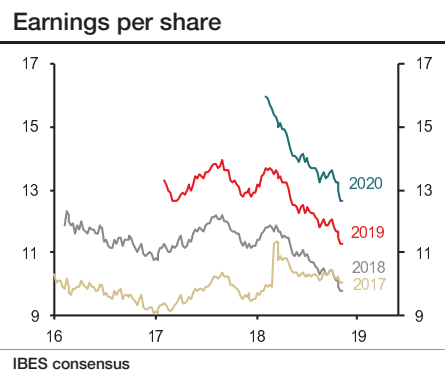
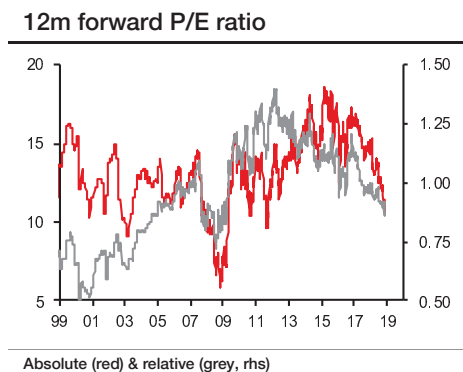
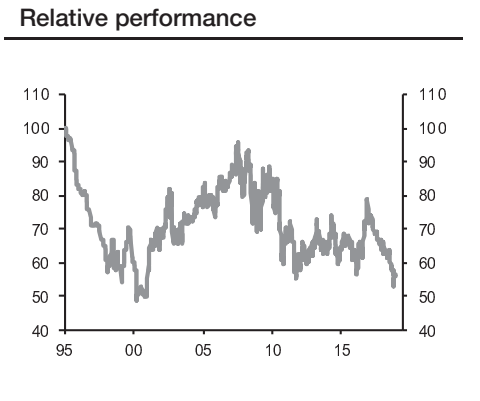
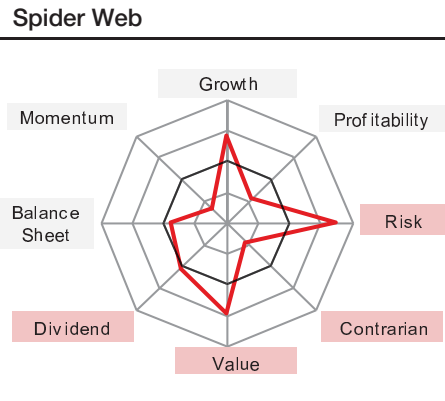


Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (46% in total): BASF (22%), Air Liquide (16%), Givaudan (7%).

## Construction Materials (Neutral)

**Cyclical and weak balance sheets** – We are turning more cautious on the sector as consensus EPS expectations continue to be revised down with room for further downgrades from currently ambitious levels for 2019 (+15% yoy) and 2020 (+12%). Low credit ratings compared to the rest of the market (67% rated BBB) and dollar sensitivity are medium-term headwinds in our view. We move to Neutral from Overweight as valuation has reached a six year low on 11.4x forward P/E. We rate CRH Buy and LafargeHolcim Sell (respectively 42% and 38% of index weight).

Key indicators	Construction Materials	Europe
3m performance	-8%	-5%
12m performance	-18%	-3%
2018 year-end P/E	13.0	13.5
12m forward P/E	11.4	12.4
Price to book value	1.1	1.7
Return on Equity	6%	11%
Dividend yield	3.4%	3.7%
Payout ratio	62%	57%
2018 EPS growth	-3%	8%
2019 EPS growth	15%	9%
2020 EPS growth	12%	8%
Beta	1.20	1.00



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (96% in total): CRH (42%), LafargeHolcim (38%), Heidelbergcement (17%).



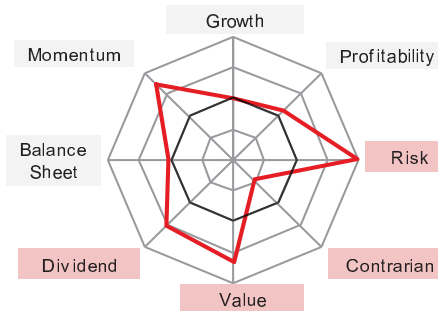
## Steel, Metals & Mining (Overweight)

**Recovering from negative trade war impact** – Newsflow on the Metals & Mining sector has peaked since the US imposed import tariffs on steel and aluminium. The sector has started to recover slightly on a relative basis, outperforming the market by 3% over the last quarter despite a lower LME index (-4% in €). We remain positive on the sector on the back of attractive valuation metrics (forward P/E at 5y low of 9.2x, relatively attractive 4.7% cons. div yield), low cs EPS growth expectations (-3% 2019, -2% 2020), rising profitability (ROE 15%) and a potential steel shortage in China (more [details](#)).

### Key indicators

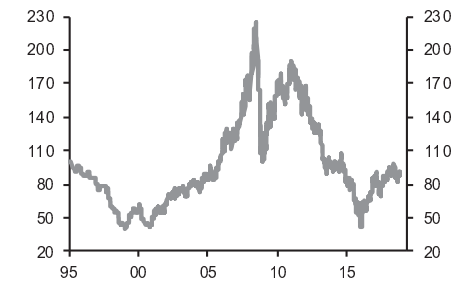
	Metals & Mining	Europe
3m performance	-2%	-5%
12m performance	-1%	-3%
2018 year-end P/E	8.9	13.5
12m forward P/E	9.2	12.4
Price to book value	1.4	1.7
Return on Equity	15%	11%
Dividend Yield	4.7%	3.7%
Payout ratio	44%	57%
2018 EPS growth	13%	8%
2019 EPS growth	-3%	9%
2020 EPS growth	-2%	8%
Beta	1.39	1.00

### Spider Web



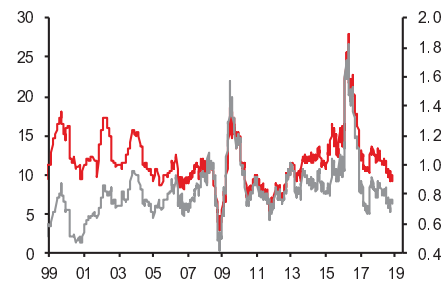
Blue = quality, red = value – far from centre = the best

### Relative performance



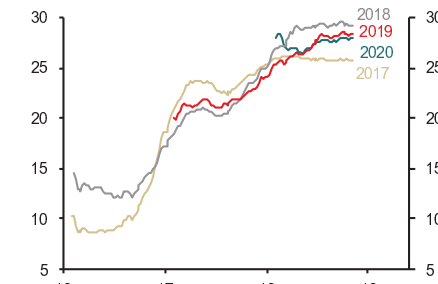
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



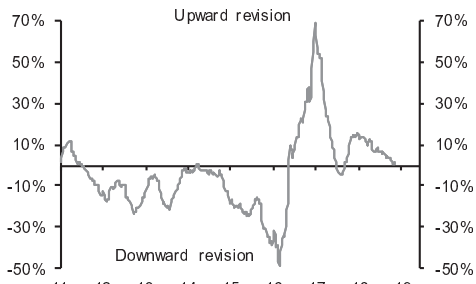
Absolute (red) & relative (grey, rhs)

### Earnings per share



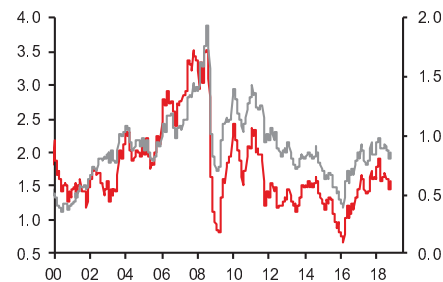
IBES consensus

### Earnings momentum



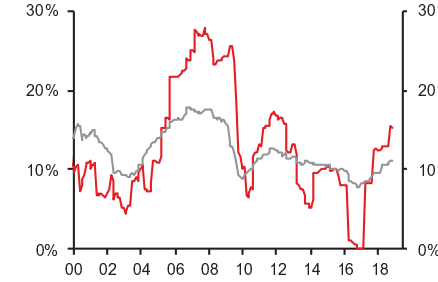
3m change in 12m forward EPS

### Price to book value



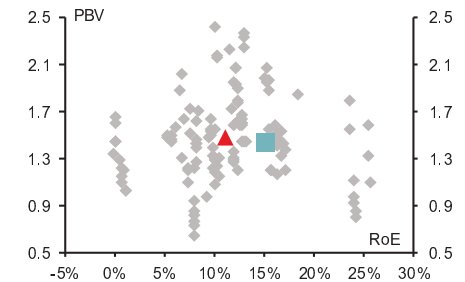
Absolute (red) & relative (grey, rhs)

### Return on equity



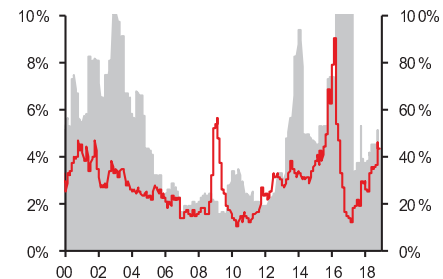
Grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

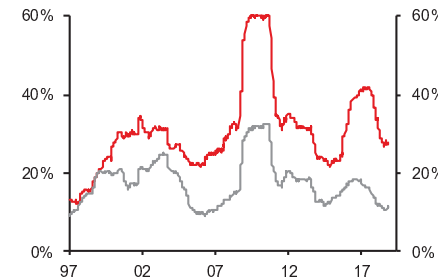


Square = current, grey = 10Y history, triangle=10Y average

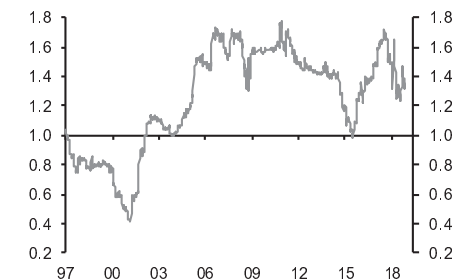
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (65% in total): Rio Tinto (26%), Glencore (21%), BHP Billiton (19%).



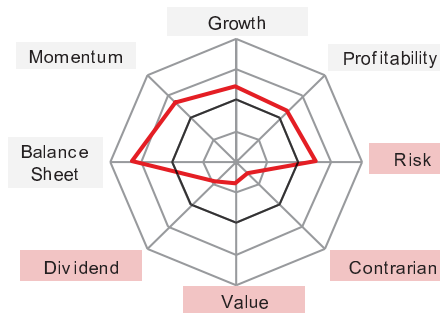
## Aerospace & Defense (Overweight)

**Cyclical but historically lagging the economic cycle** – The second best performing sector YTD at +11% (+16% relative to market). While we are turning more cautious in our sector allocation, we note that over the past decade the sector (especially civil) has become much less cyclical owing to the greater geographical diversity of the customer base and the order backlog. Moreover defense spending remains on an upward trajectory. Although valuations for both Aero and Defence are at historic highs (= limited upside from further multiple expansion), a positive outlook for earnings and cash should support the sector.

### Key indicators

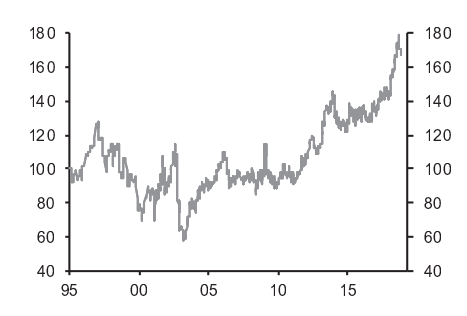
	Aero.& Def.	Europe
3m performance	-8%	-5%
12m performance	13%	-3%
2018 year-end P/E	20.3	13.5
12m forward P/E	16.9	12.4
Price to book value	4.9	1.7
Return on Equity	20%	11%
Dividend Yield	1.8%	3.7%
Payout ratio	44%	57%
2018 EPS growth	2%	8%
2019 EPS growth	22%	9%
2020 EPS growth	19%	8%
Beta	1.08	1.00

### Spider Web



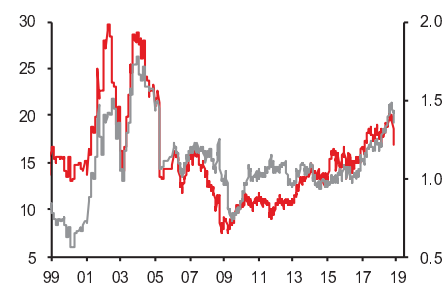
Blue = quality, red = value – far from centre = the best

### Relative performance



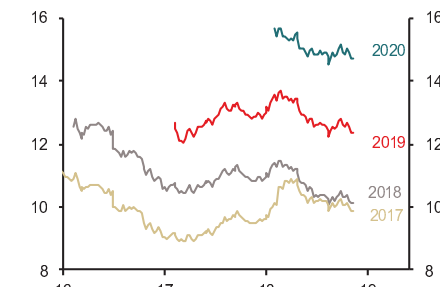
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



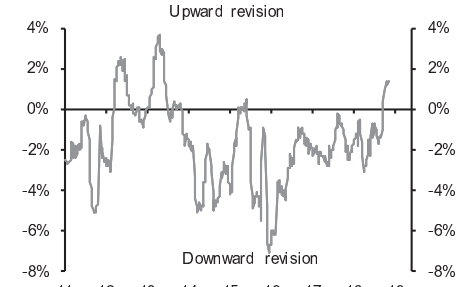
Absolute (red) & relative (grey, rhs)

### Earnings per share



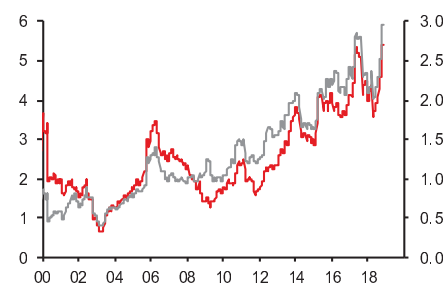
IBES consensus

### Earnings momentum



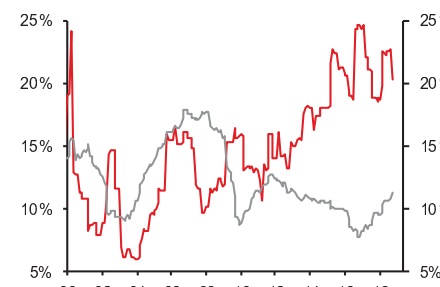
3m change in 12m forward EPS

### Price to book value



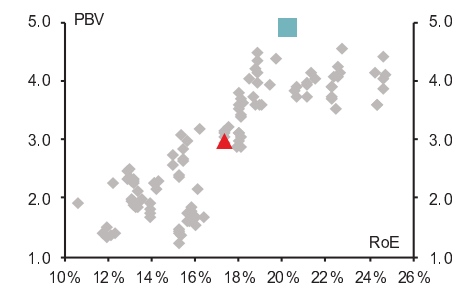
Absolute (red) & relative (grey, rhs)

### Return on equity



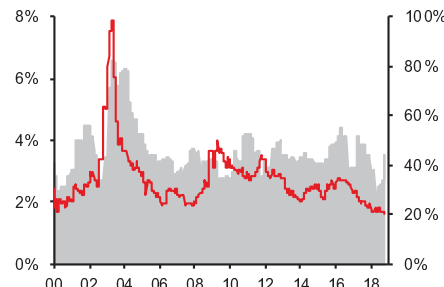
Grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

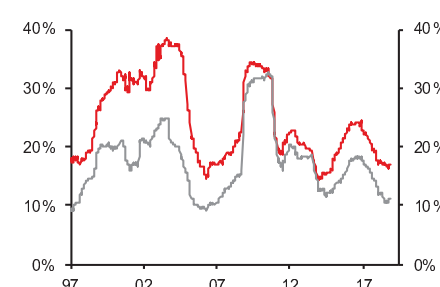


Square = current, grey = 10Y history, triangle=10Y average

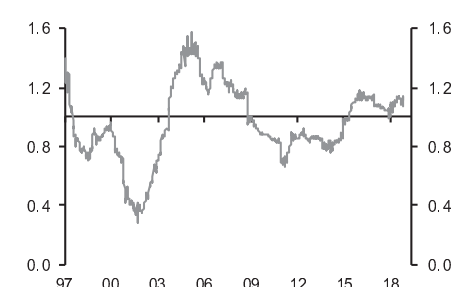
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy Top 3 weight in index (70% in total): Airbus (35%), Safran (23%), BAE Systems (12%).

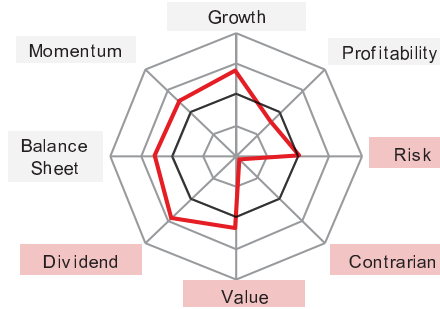
## Construction (Neutral)

**Mixed readings** – The sector has performed in line with the market in the past quarter. 2019 EPS cs growth expectations were revised up following 2018 earnings downgrades. At 13.4x the forward P/E is back at its five years low. We favour the French construction names, but this is balanced by peripheral stocks which we expect to weigh on performance. We reiterate our Neutral stance.

### Key indicators

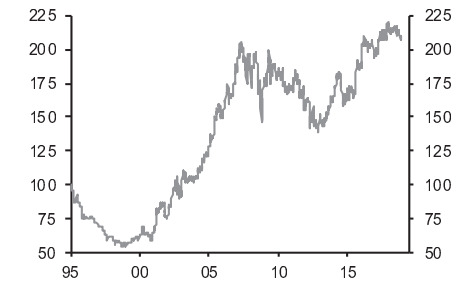
	Construct.	Europe
3m performance	-5%	-5%
12m performance	-5%	-3%
2018 year-end P/E	15.2	13.5
12m forward P/E	13.4	12.4
Price to book value	2.4	1.7
Return on Equity	16%	11%
Dividend Yield	3.6%	3.7%
Payout ratio	54%	57%
2018 EPS growth	3%	8%
2019 EPS growth	15%	9%
2020 EPS growth	9%	8%
Beta	1.12	1.00

### Spider Web



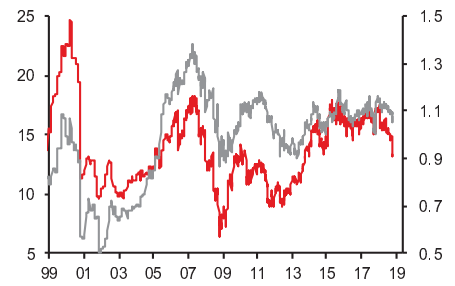
blue = quality, red = value – far from centre = the best

### Relative performance



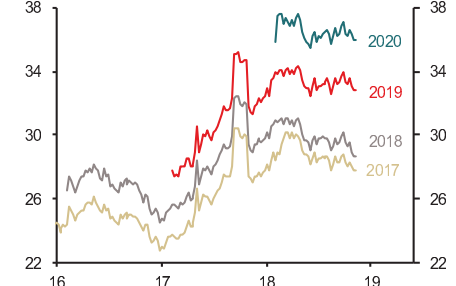
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



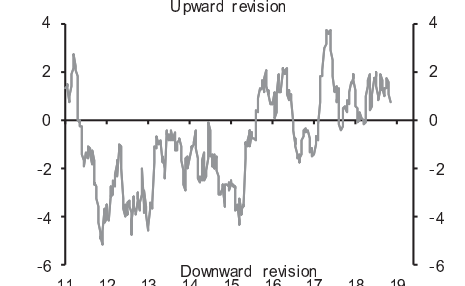
absolute (red) & relative (grey, rhs)

### Earnings per share



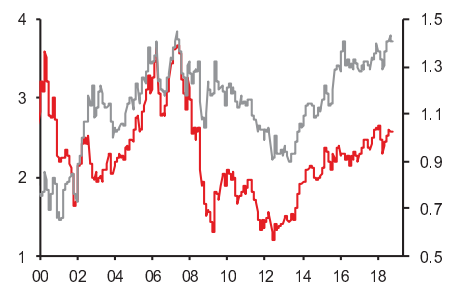
IBES consensus

### Earnings momentum



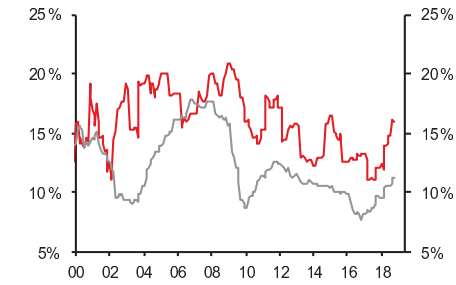
3m change in 12m forward EPS

### Price to book value



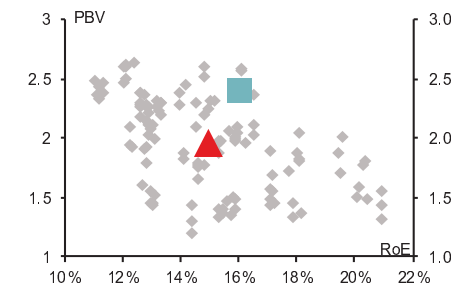
absolute (red) & relative (grey, rhs)

### Return on equity



grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

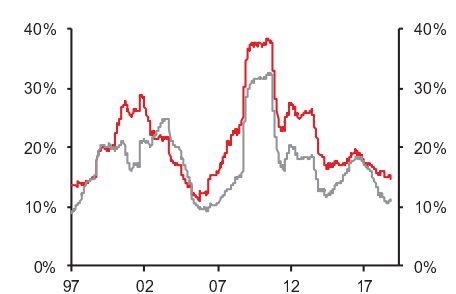


square = current, grey = 10Y history, triangle = 10Y average

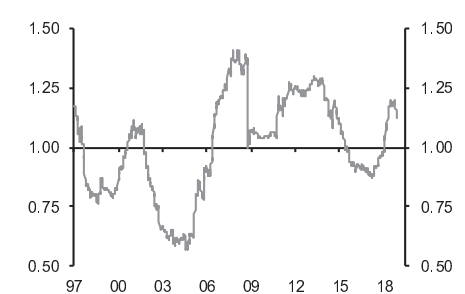
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (60% in total): Vinci (34%), Assa Abloy (13%), Saint Gobain (13%).

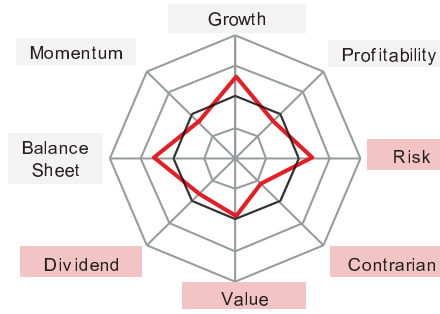
## Capital Goods (Underweight)

**An expensive cyclical sector** – Most cyclical sectors and sectors with high emerging market (EM) exposure are now trading at significant discounts to the market. The Capital Goods sector, which is both cyclical and EM exposed, is not ‘cheap’ on 14.0x 12m cs forward P/E, well above the market on 12.4x.

### Key indicators

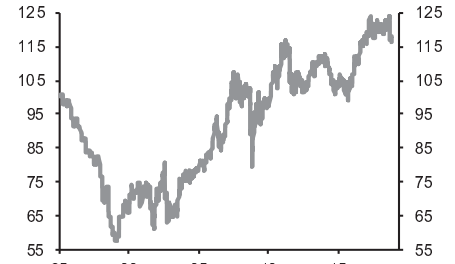
	Capital Goods	Europe
3m performance	-9%	-5%
12m performance	-6%	-3%
2018 year-end P/E	15.7	13.5
12m forward P/E	14.0	12.4
Price to book value	2.7	1.7
Return on Equity	16%	11%
Dividend Yield	2.8%	3.7%
Payout ratio	46%	57%
2018 EPS growth	6%	8%
2019 EPS growth	12%	9%
2020 EPS growth	10%	8%
Beta	1.19	1.00

### Spider Web



blue = quality, red = value – far from centre = the best

### Relative performance



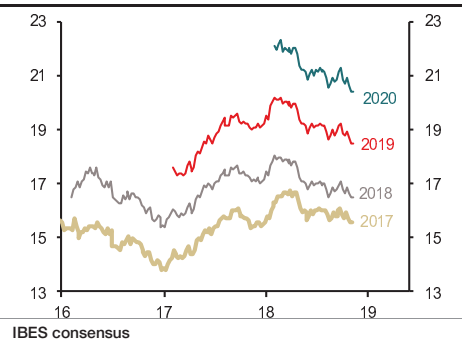
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



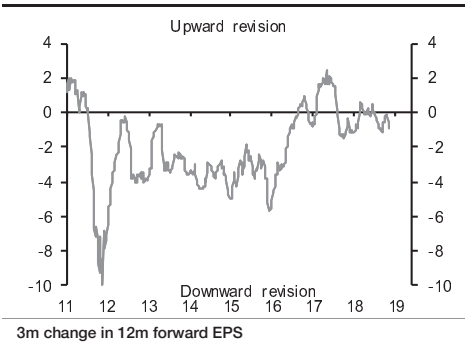
absolute (red) & relative (grey, rhs)

### Earnings per share



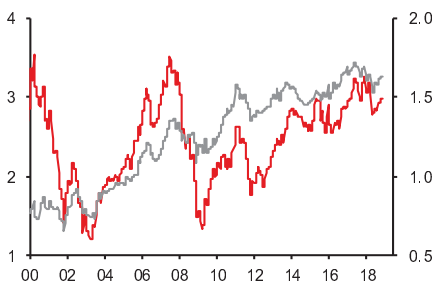
IBES consensus

### Earnings momentum



3m change in 12m forward EPS

### Price to book value



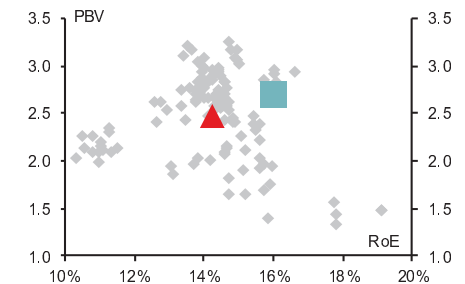
absolute (red) & relative (grey, rhs)

### Return on equity



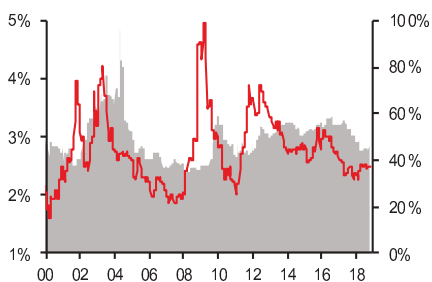
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

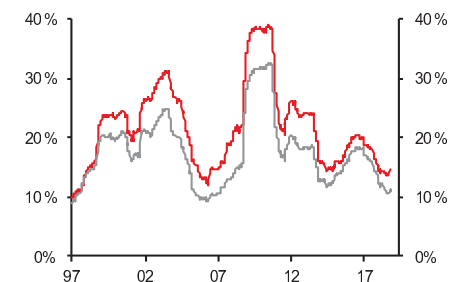


square = current, grey = 10Y history, triangle=10Y average

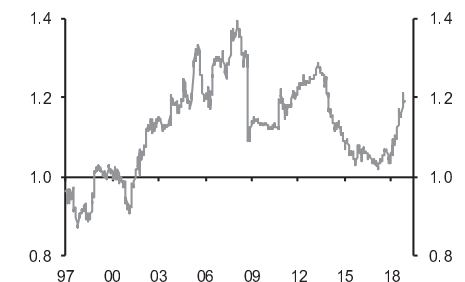
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (37% in total): Siemens (19%), Schneider Electric (9%), ABB (9%).

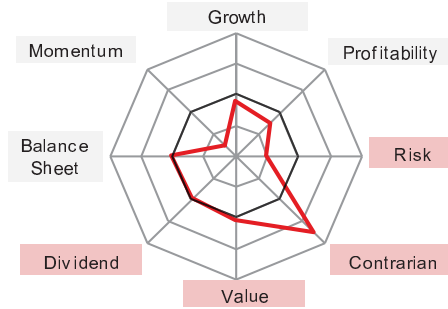
## Transportation & Services (Underweight)

**Lack of catalyst** – The sector has not benefited from lower oil prices, continuing its downward trend at -5% over the past three months. While cs P/B has fallen to 2.0x, it still trades at a premium to the market on 1.7x. Earnings momentum has failed to bottom out, while cs 2019 EPS growth expectations at 20% yoy are relatively high and could be at risk of downgrades. We remain Underweight on this cyclical sector while Brexit remains a concern as the eventual outcome could disrupt the European market.

### Key indicators

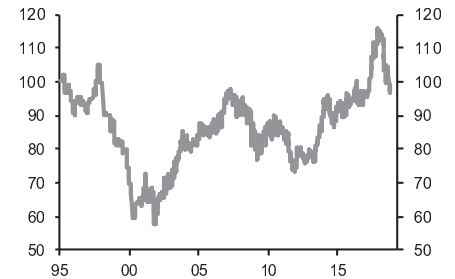
	Transport. & Services	Europe
3m performance	-10%	-5%
12m performance	-14%	-3%
2018 year-end P/E	15.8	13.5
12m forward P/E	13.4	12.4
Price to book value	2.0	1.7
Return on Equity	13%	11%
Dividend Yield	3.4%	3.7%
Payout ratio	50%	57%
2018 EPS growth	-10%	8%
2019 EPS growth	20%	9%
2020 EPS growth	13%	8%
Beta	0.89	1.00

### Spider Web



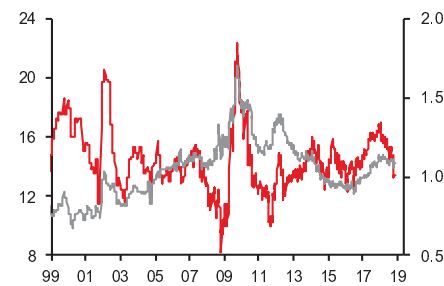
blue = quality, red = value – far from centre = the best

### Relative performance



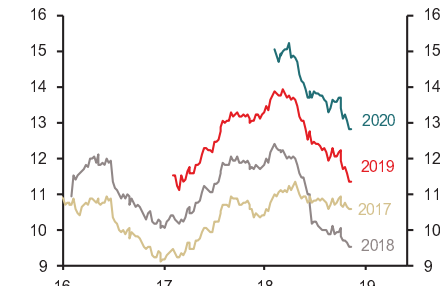
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



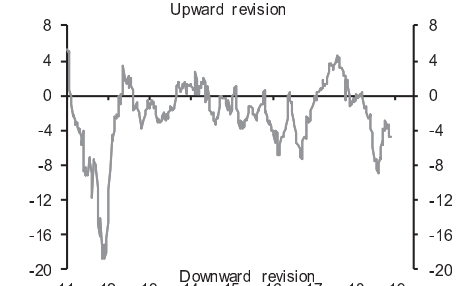
absolute (red) & relative (grey, rhs)

### Earnings per share



IBES consensus

### Earnings momentum



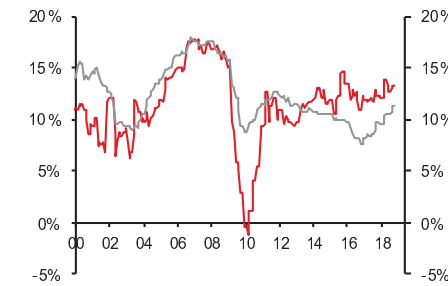
3m change in 12m forward EPS

### Price to book value



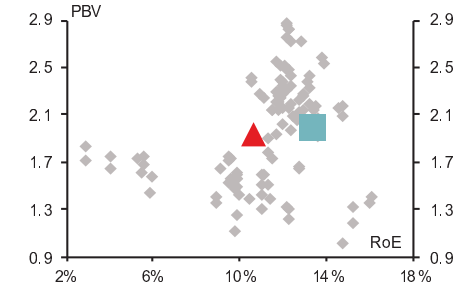
absolute (red) & relative (grey, rhs)

### Return on equity



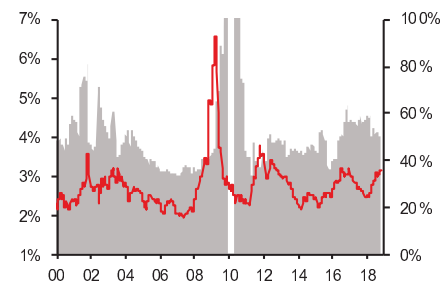
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

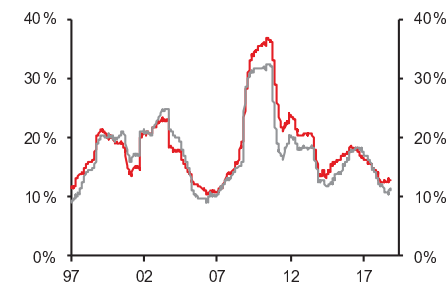


square = current, grey = 10Y history, triangle=10Y average

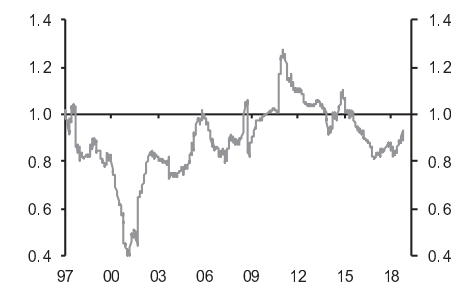
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (30% in total): RELX (13%), Deutsche Post (10%), Experian (7%).

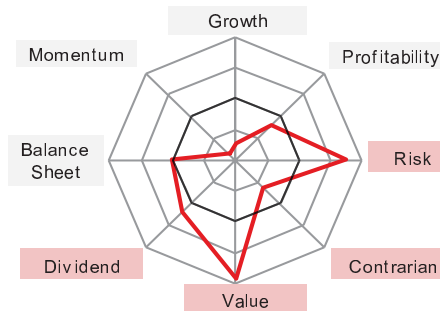
## Automobiles & Components (Overweight)

**Worst case scenario appears priced in** – The sector has been at the centre of many concerns recently: environmental regulation in Europe (WLTP), US/China trade tensions, auto cycle in the US and China, competition from news entrants (Google, Tesla...), Brexit, etc. However, it looks as if the worst is already priced in with the sector is trading on 6.2x vs 12 month forward P/E, close to historical lows.

### Key indicators

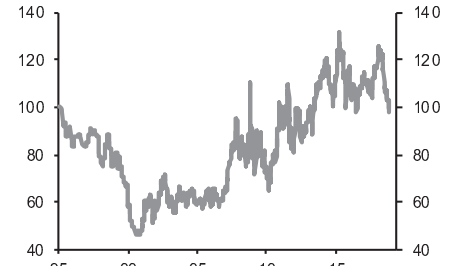
	Auto. & Comp.	Europe
3m performance	-12%	-5%
12m performance	-17%	-3%
2018 year-end P/E	6.8	13.5
12m forward P/E	6.2	12.4
Price to book value	1.0	1.7
Return on Equity	15%	11%
Dividend Yield	4.0%	3.7%
Payout ratio	27%	57%
2018 EPS growth	-4%	8%
2019 EPS growth	10%	9%
2020 EPS growth	6%	8%
Beta	1.30	1.00

### Spider Web



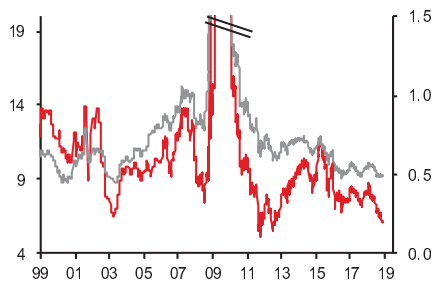
blue = quality, red = value – far from centre = the best

### Relative performance



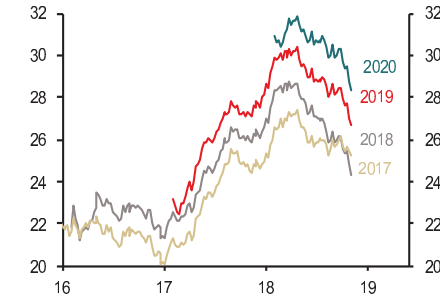
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



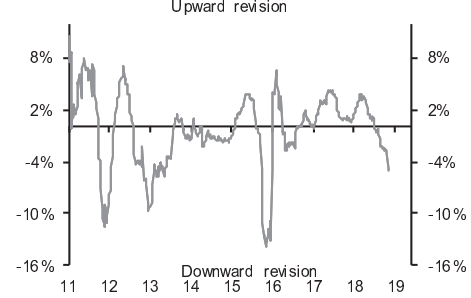
absolute (red) & relative (grey, rhs)

### Earnings per share



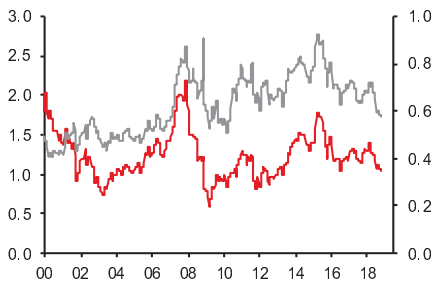
IBES consensus

### Earnings momentum



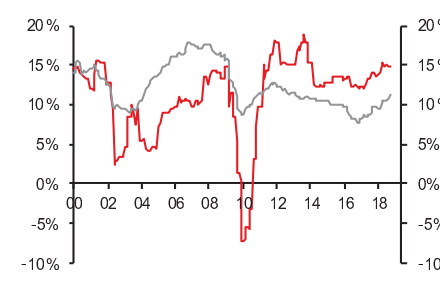
3m change in 12m forward EPS

### Price to book value



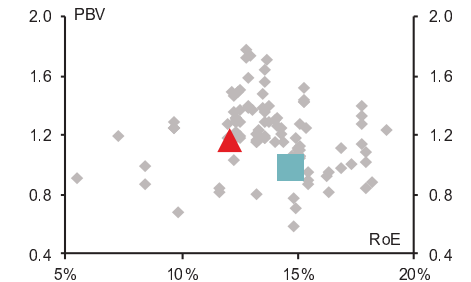
absolute (red) & relative (grey, rhs)

### Return on equity



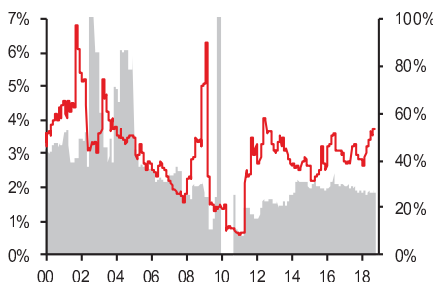
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

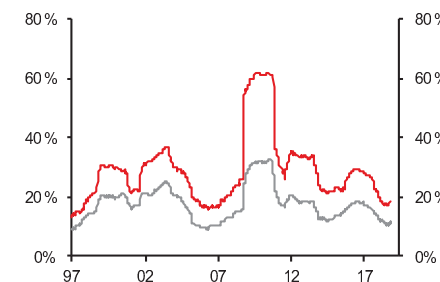


square = current, grey = 10Y history, triangle=10Y average

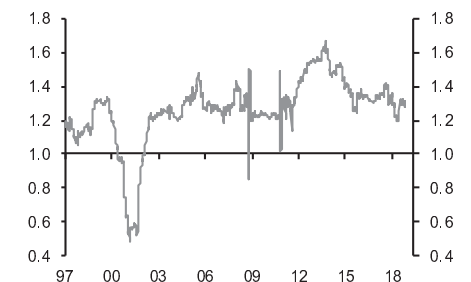
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (50% in total): Daimler (22%), Volkswagen (15%), BMW (13%).

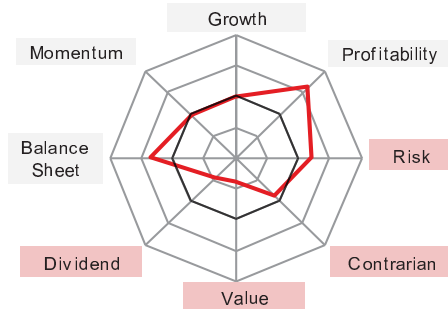
## Durables, Apparels & Luxury (Underweight)

**Downgrade from Neutral to Underweight** – The sector has underperformed the market over the last three months. While valuation has moved down recently, earnings momentum is also declining. The sector’s cyclical nature and high beta make it vulnerable to macro concerns and/or a market sell-off. We downgrade our sector weighting from Neutral to Underweight.

### Key indicators

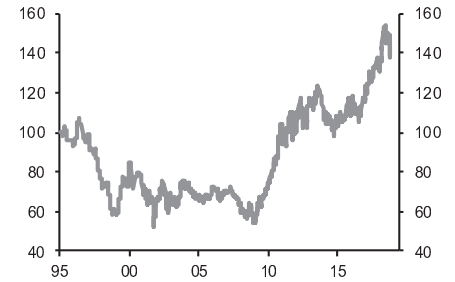
	Durables & Apparels	Europe
3m performance	-10%	-5%
12m performance	1%	-3%
2018 year-end P/E	17.7	13.5
12m forward P/E	16.2	12.4
Price to book value	3.7	1.7
Return on Equity	19%	11%
Dividend Yield	2.5%	3.7%
Payout ratio	49%	57%
2018 EPS growth	20%	8%
2019 EPS growth	10%	9%
2020 EPS growth	10%	8%
Beta	0.99	1.00

### Spider Web



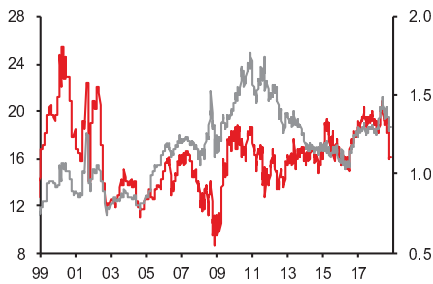
blue = quality, red = value – far from centre = the best

### Relative performance



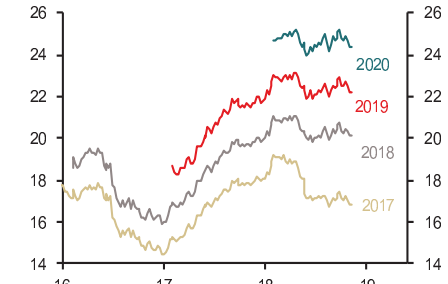
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



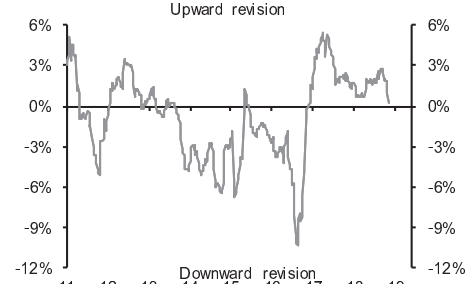
absolute (red) & relative (grey, rhs)

### Earnings per share



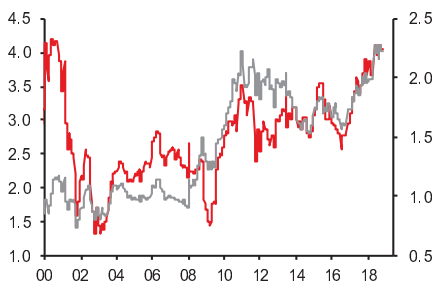
IBES consensus

### Earnings momentum



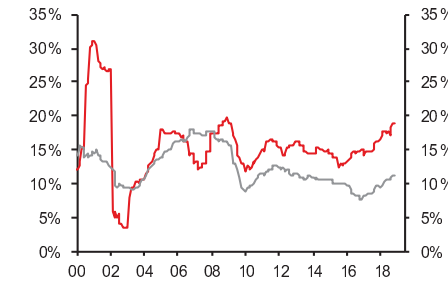
3m change in 12m forward EPS

### Price to book value



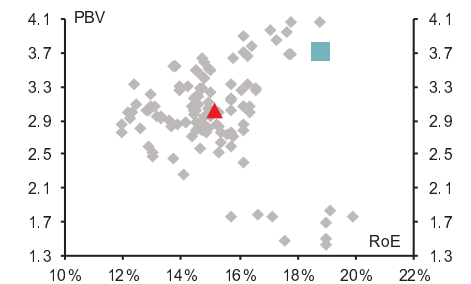
absolute (red) & relative (grey, rhs)

### Return on equity



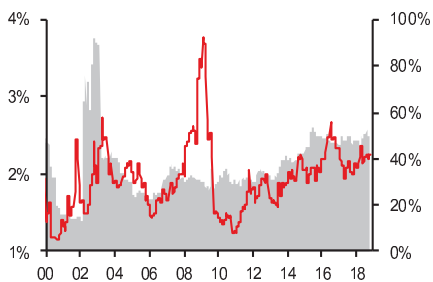
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

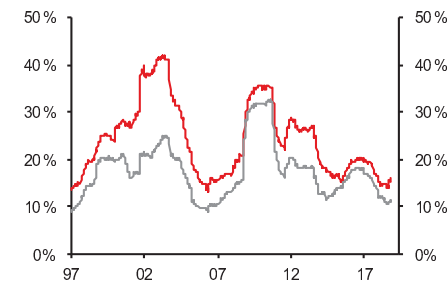


square = current, grey = 10Y history, triangle=10Y average

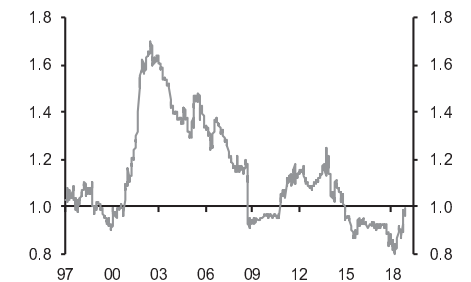
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (53% in total): LVMH (27%), Adidas (14%), Richemont (12%).

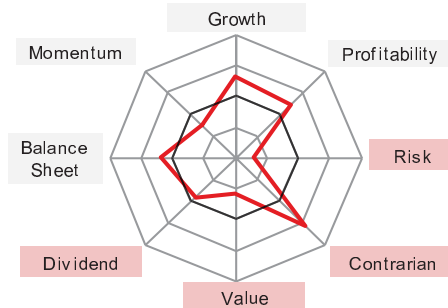
## Hotels, Restaurants & Leisure (Underweight)

**Disruptive changes** – Despite recent underperformance, the sector is still trading at expensive levels on 3.4x price to book value vs 1.7x for the market and 15.8x 12m forward P/E vs 12.1x. We remain Underweight as the sector is heavily exposed to UK names (70%+ of the index weight) while also facing tough competition and disruption from new entrants like Airbnb.

### Key indicators

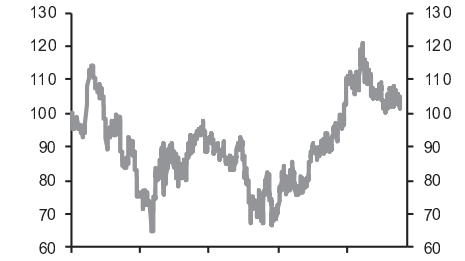
	Hotels & Restaurants	Europe
3m performance	-6%	-5%
12m performance	-3%	-3%
2018 year-end P/E	17.3	13.5
12m forward P/E	15.8	12.4
Price to book value	3.4	1.7
Return on Equity	18%	11%
Dividend Yield	2.7%	3.7%
Payout ratio	51%	57%
2018 EPS growth	6%	8%
2019 EPS growth	10%	9%
2020 EPS growth	9%	8%
Beta	0.70	1.00

### Spider Web



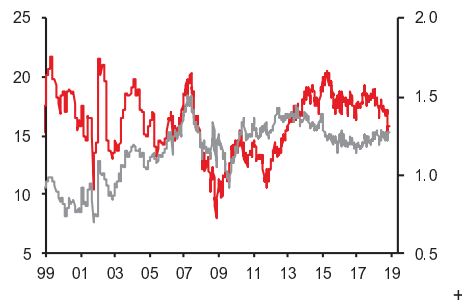
blue = quality, red = value – far from centre = the best

### Relative performance



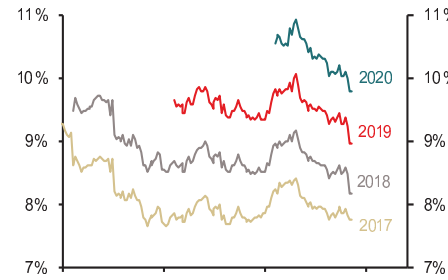
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



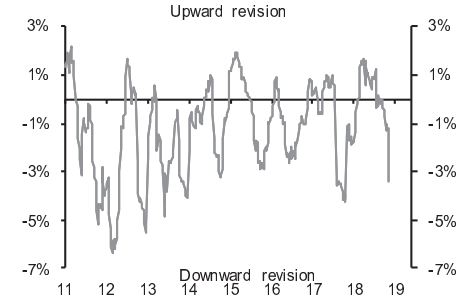
absolute (red) & relative (grey, rhs)

### Earnings per share



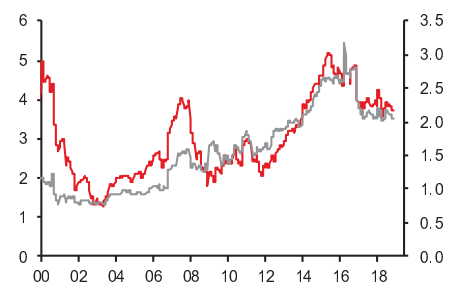
IBES consensus

### Earnings momentum



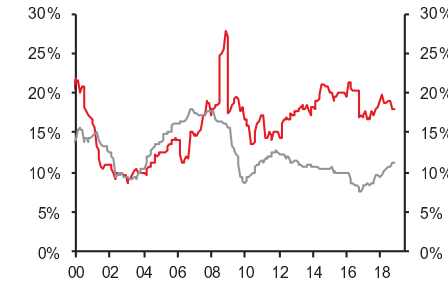
3m change in 12m forward EPS

### pvalue



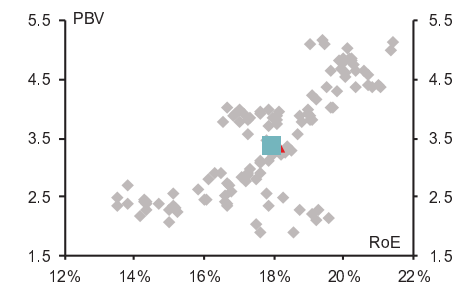
absolute (red) & relative (grey, rhs)

### Return on equity



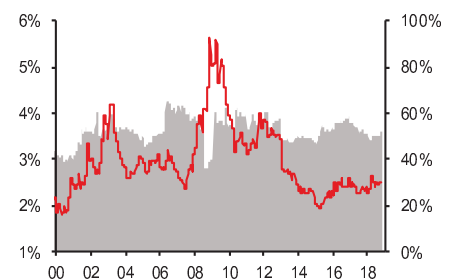
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

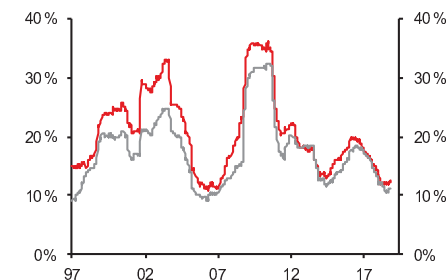


square = current, grey = 10Y history, triangle=10Y average

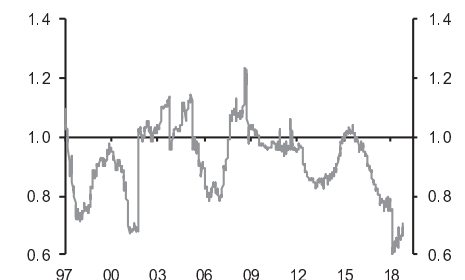
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (50% in total): Compass Group (30%), Whitbread (10%), Carnival (10%).



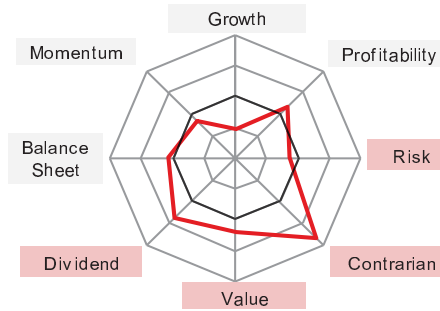
## Media (Neutral)

**Cyclical but valuation are becoming attractive** — The sector has performed in line with the market over the last three months (-5%) and we remain Neutral given: 1) a higher EUR/USD; and 2) a sector adjusting to digital advertising and new entrants – Google and Facebook account for 75% of digital advertising and 30% of total advertising spend. Valuation multiples have come down significantly but we do not see any catalysts for the sector to outperform while earnings momentum is negative.

### Key indicators

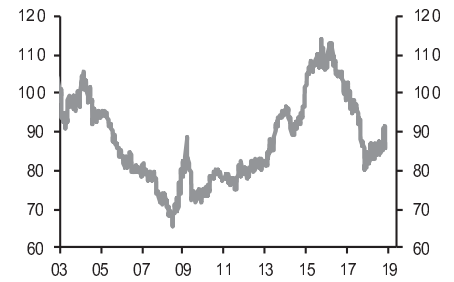
	Media	Europe
3m performance	-5%	-5%
12m performance	3%	-3%
2018 year-end P/E	13.8	13.5
12m forward P/E	13.1	12.4
Price to book value	1.9	1.7
Return on Equity	13%	11%
Dividend Yield	3.9%	3.7%
Payout ratio	58%	57%
2018 EPS growth	-6%	8%
2019 EPS growth	5%	9%
2020 EPS growth	7%	8%
Beta	0.86	1.00

### Spider Web



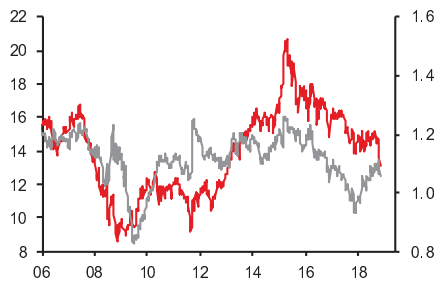
blue = quality, red = value – far from centre = the best

### Relative performance



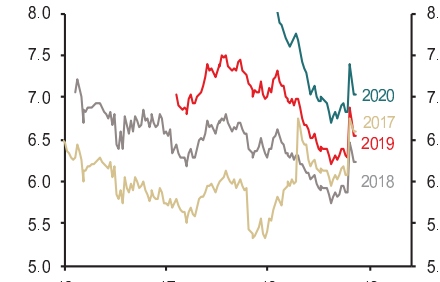
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



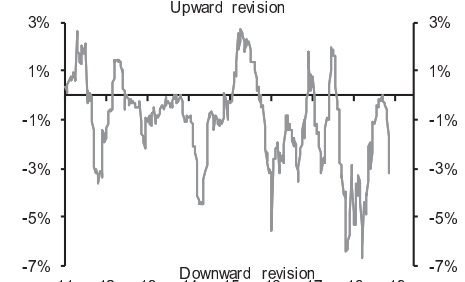
absolute (red) & relative (grey, rhs)

### Earnings per share



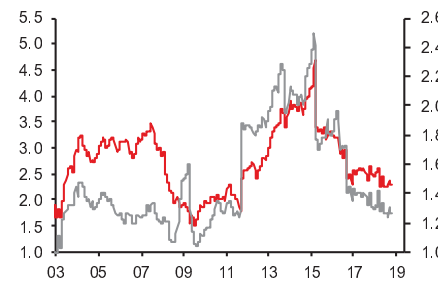
IBES consensus

### Earnings momentum



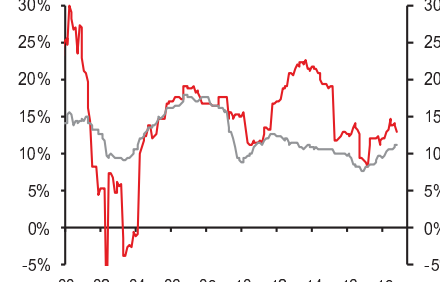
3m change in 12m forward EPS

### Price to book value



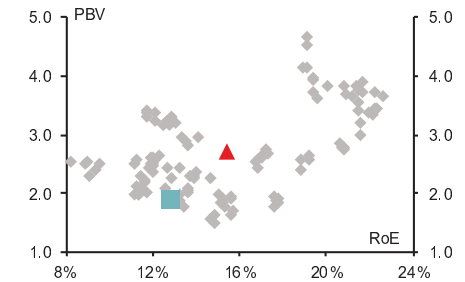
absolute (red) & relative (grey, rhs)

### Return on equity



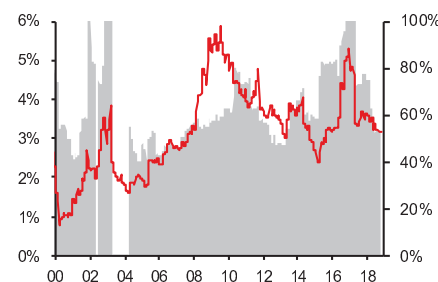
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

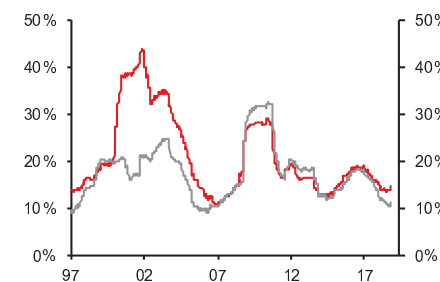


square = current, grey = 10Y history, triangle=10Y average

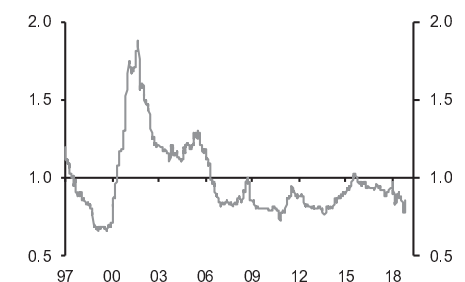
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (47% in total): Vivendi (23%), WPP (13%), Publicis (11%).



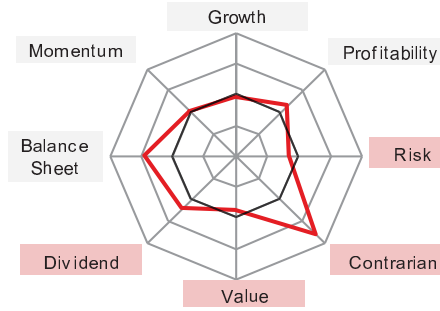
## Retailing (Specialized) (Underweight)

**Bottoming up but EPS momentum remains negative** – The sector has outperformed the market by 3% over the last three months but we remain cautious on a sector facing competition from global online retailers such as Amazon which are investing aggressively to win market share. Earnings momentum remains in negative territory, while the payout ratio is on an upward trend (74%), breaking above its long-term average of c. 60%.

### Key indicators

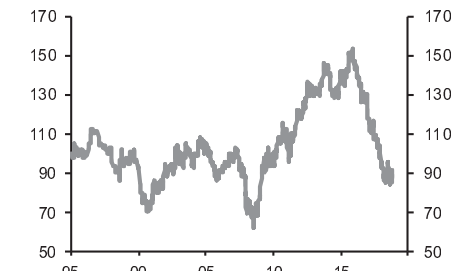
	Retailing (specialised)	Europe
3m performance	-2%	-5%
12m performance	-9%	-3%
2018 year-end P/E	17.3	13.5
12m forward P/E	16.1	12.4
Price to book value	3.2	1.7
Return on Equity	18%	11%
Dividend Yield	4.1%	3.7%
Payout ratio	74%	57%
2018 EPS growth	-1%	8%
2019 EPS growth	9%	9%
2020 EPS growth	7%	8%
Beta	0.87	1.00

### Spider Web



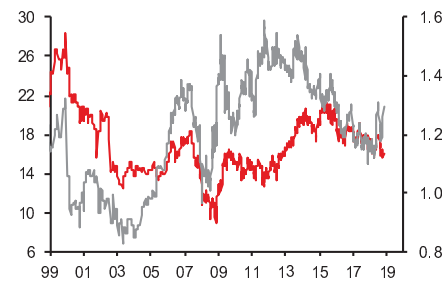
blue = quality, red = value – far from centre = the best

### Relative performance



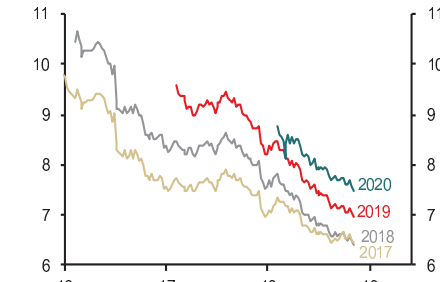
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



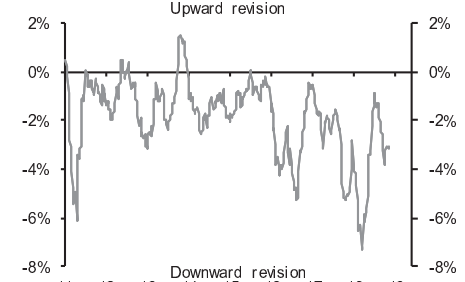
absolute (red) & relative (grey, rhs)

### Earnings per share



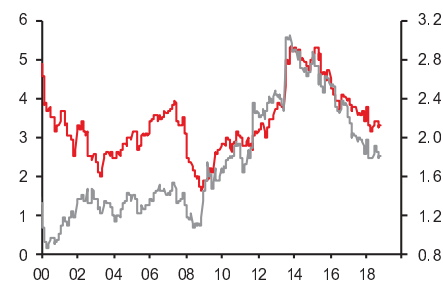
IBES consensus

### Earnings momentum



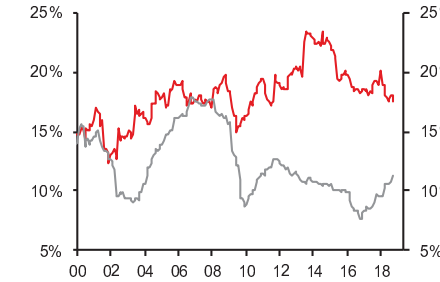
3m change in 12m forward EPS

### Price to book value



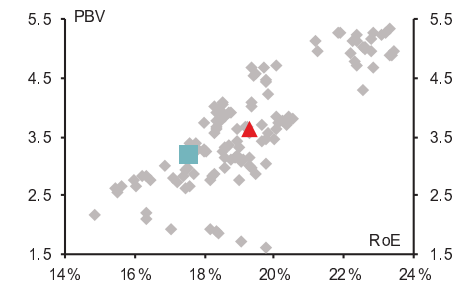
absolute (red) & relative (grey, rhs)

### Return on equity



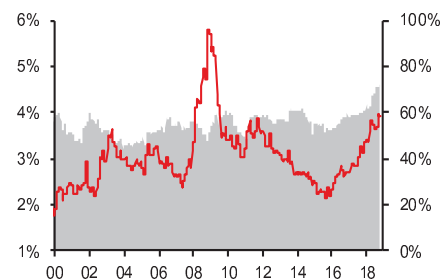
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

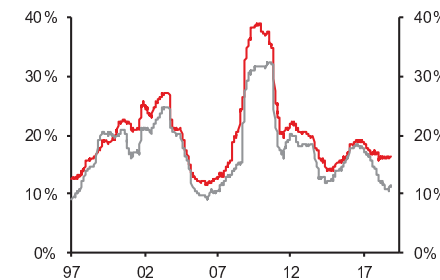


square = current, grey = 10Y history, triangle=10Y average

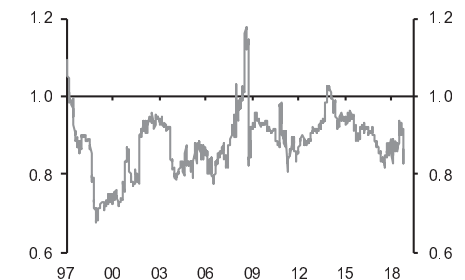
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (73% in total): Inditex (40%), H&M (20%), Next (12%).

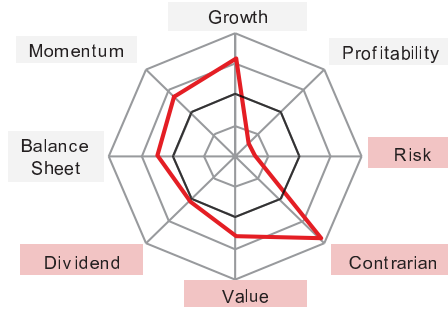
## Foods, Staples & Retailing (Neutral)

**Time to reweight the sector** – We have probably reached a floor in terms of earnings and some food retailers such as Carrefour and Ahold are taking appropriate measures to adapt to the structural shift in the sector (shifting to online, entry of Tech companies). For the time being, the worst appears to be in the past but we expect no real improvement in fundamentals in the coming six months (inflation, volume, price competition). We move our sector stance from Underweight to Neutral.

### Key indicators

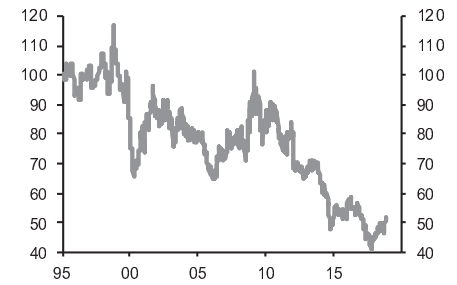
	Food & Staples Ret.	Europe
3m performance	0%	-5%
12m performance	20%	-3%
2018 year-end P/E	15.4	13.5
12m forward P/E	14.0	12.4
Price to book value	1.6	1.7
Return on Equity	9%	11%
Dividend Yield	2.9%	3.7%
Payout ratio	51%	57%
2018 EPS growth	11%	8%
2019 EPS growth	12%	9%
2020 EPS growth	9%	8%
Beta	0.63	1.00

### Spider Web



blue = quality, red = value – far from centre = the best

### Relative performance



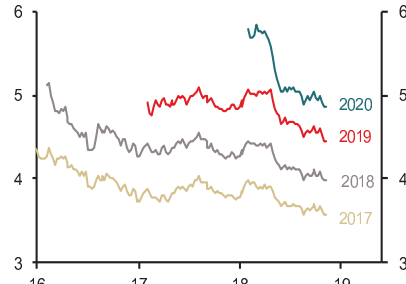
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



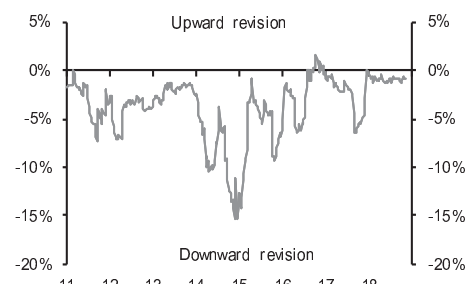
absolute (red) & relative (grey, rhs)

### Earnings per share



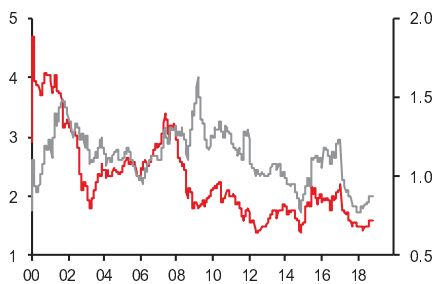
IBES consensus

### Earnings momentum



3m change in 12m forward EPS

### Price to book value



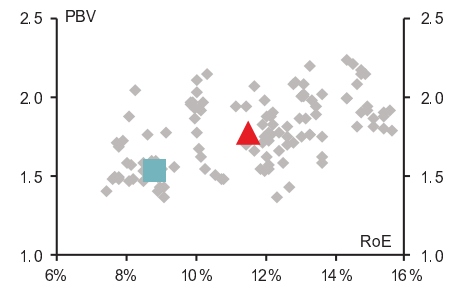
absolute (red) & relative (grey, rhs)

### Return on equity



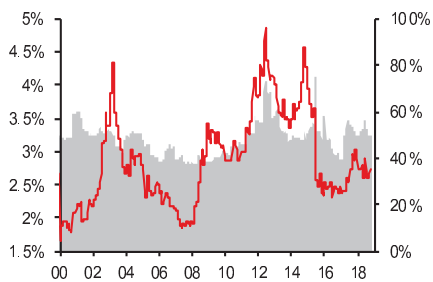
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

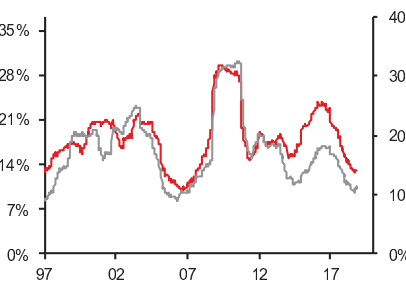


square = current, grey = 10Y history, triangle = 10Y average

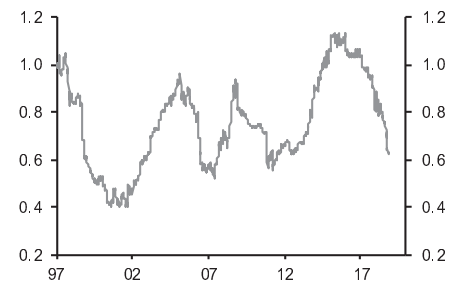
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (70% in total): Ahold Delhaize (30%), Tesco (28%), Carrefour (12%).

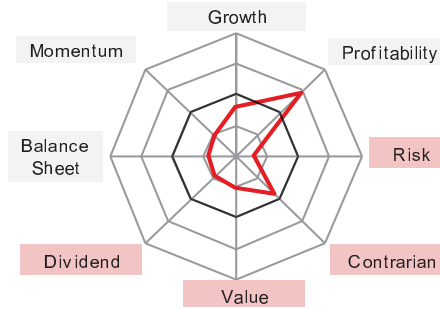
## Beverages (Underweight)

**Weak balance sheets and expensive** – Beverages is one of the most geared sectors following recent acquisitions, and also one of the most expensive. EPS momentum is going south, while ABInbev's recent dividend cut should add some risk premia. Underweight reiterated.

### Key indicators

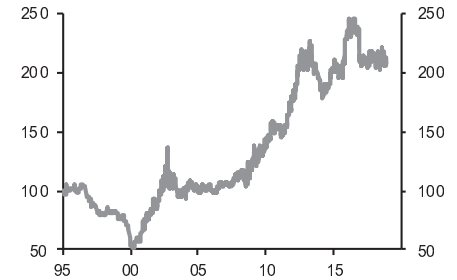
	Beverage	Europe
3m performance	-7%	-5%
12m performance	-5%	-3%
2018 year-end P/E	20.7	13.5
12m forward P/E	18.6	12.4
Price to book value	3.2	1.7
Return on Equity	15%	11%
Dividend Yield	2.7%	3.7%
Payout ratio	56%	57%
2018 EPS growth	5%	8%
2019 EPS growth	11%	9%
2020 EPS growth	9%	8%
Beta	0.77	1.00

### Spider Web



blue = quality, red = value – far from centre = the best

### Relative performance



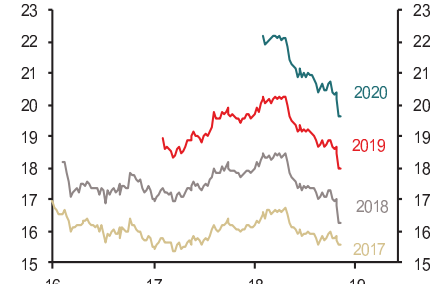
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



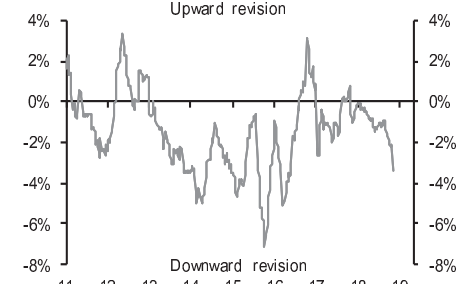
absolute (red) & relative (grey, rhs)

### Earnings per share



IBES consensus

### Earnings momentum



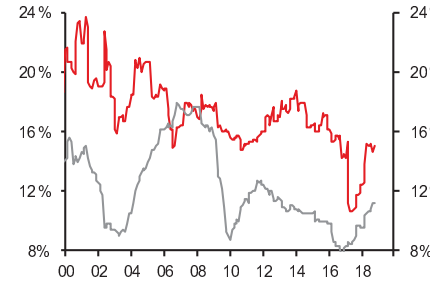
3m change in 12m forward EPS

### Price to book value



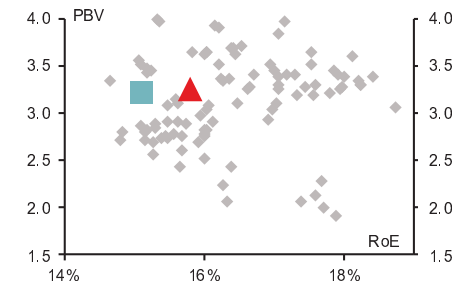
absolute (red) & relative (grey, rhs)

### Return on equity



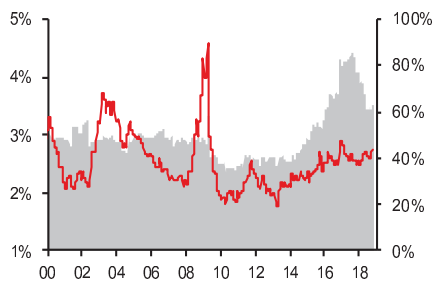
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

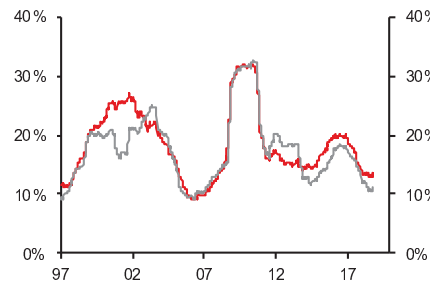


square = current, grey = 10Y history, triangle=10Y average

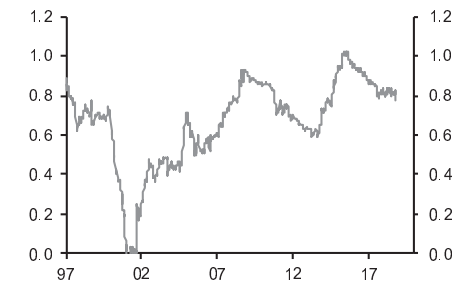
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (72% in total): Diageo (35%), AB Inbev (23%), Heineken (14%).

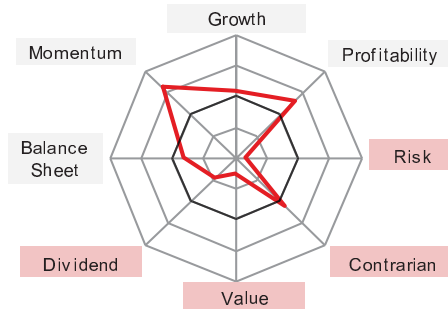
## Food Products (Neutral)

**Defensive but expensive** – While the sector has outperformed the market by 10% over the last quarter, valuation has also increased significantly especially on a relative basis. Trading on 21.5x forward P/E, the sector is back at an historical high on a relative basis. Sector performance is highly dependent on Nestlé (70% of the index), on which we have a Hold rating given our sceptical view of the group’s 2020 organic sales growth target ([link](#)).

### Key indicators

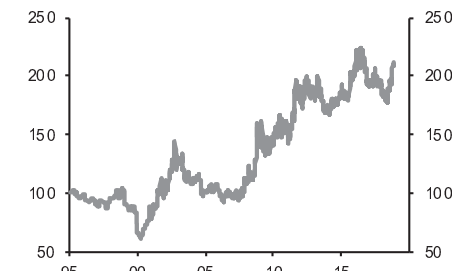
	Food products	Europe
3m performance	5%	-5%
12m performance	7%	-3%
2018 year-end P/E	23.3	13.5
12m forward P/E	21.5	12.4
Price to book value	4.0	1.7
Return on Equity	17%	11%
Dividend Yield	2.7%	3.7%
Payout ratio	63%	57%
2018 EPS growth	8%	8%
2019 EPS growth	9%	9%
2020 EPS growth	9%	8%
Beta	0.58	1.00

### Spider Web



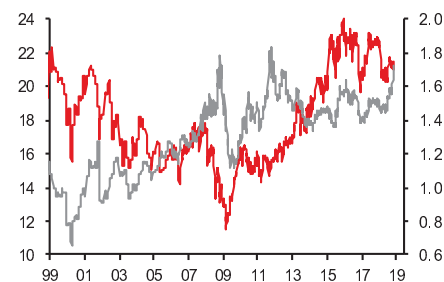
blue = quality, red = value – far from centre = the best

### Relative performance



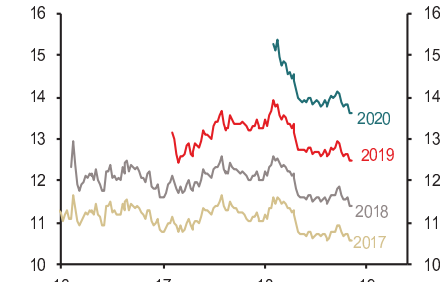
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



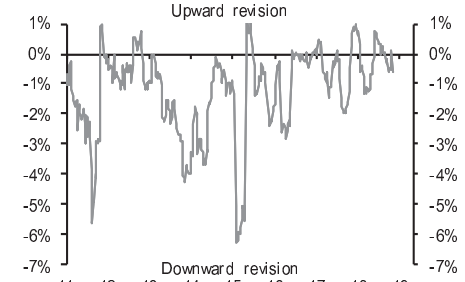
absolute (red) & relative (grey, rhs)

### Earnings per share



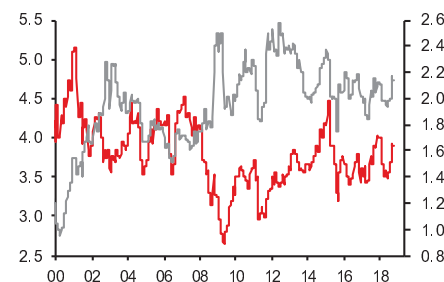
IBES consensus

### Earnings momentum



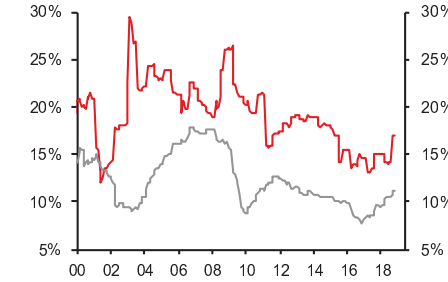
3m change in 12m forward EPS

### Price to book value



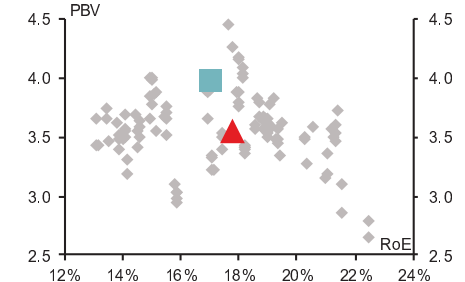
absolute (red) & relative (grey, rhs)

### Return on equity



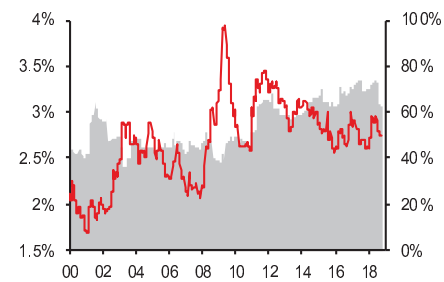
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

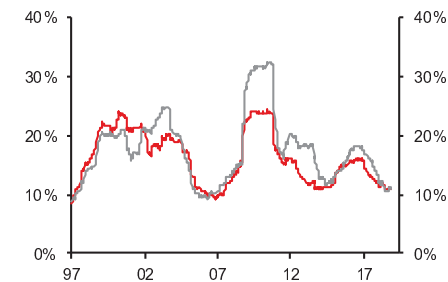


square = current, grey = 10Y history, triangle=10Y average

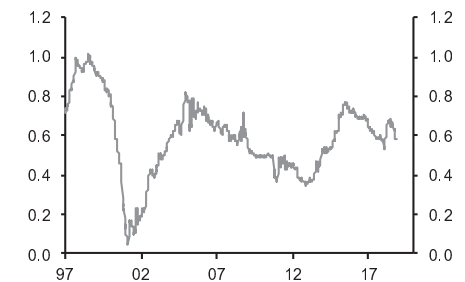
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (87% in total): Nestlé (71%), Danone (12%), Kerry Group (4%).

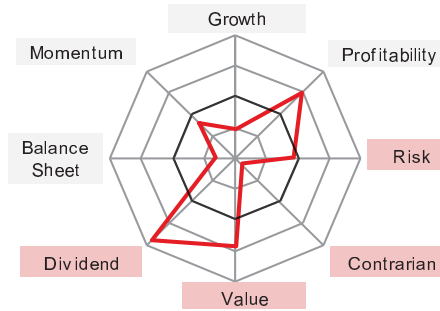
## Tobacco (Neutral)

**Regulatory headwinds** – The sector has materially underperformed the market (-18% over the last 12 months) and may start to look attractive on valuation (11x 12m forward P/E) as well as on the defensiveness of the business (low beta). The main issue is on the regulatory front, such as the FDA's recent announcement on flavoured tobacco (see [link](#)). Neutral weighting reiterated.

### Key indicators

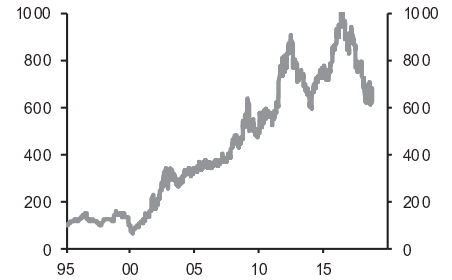
	Tobacco	Europe
3m performance	-13%	-5%
12m performance	-21%	-3%
2018 year-end P/E	11.7	13.5
12m forward P/E	11.0	12.4
Price to book value	1.7	1.7
Return on Equity	14%	11%
Dividend Yield	4.8%	3.7%
Payout ratio	56%	57%
2018 EPS growth	2%	8%
2019 EPS growth	7%	9%
2020 EPS growth	8%	8%
Beta	0.64	1.00

### Spider Web



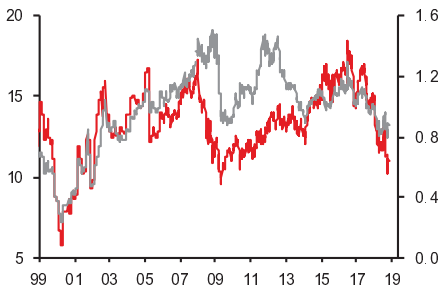
blue = quality, red = value – far from centre = the best

### Relative performance



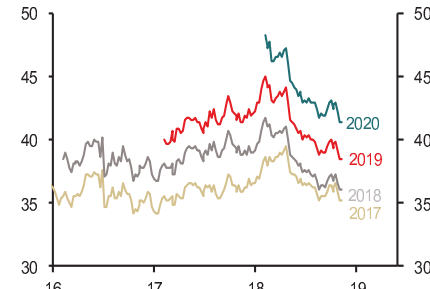
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



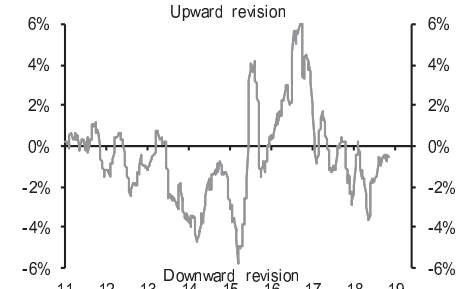
absolute (red) & relative (grey, rhs)

### Earnings per share



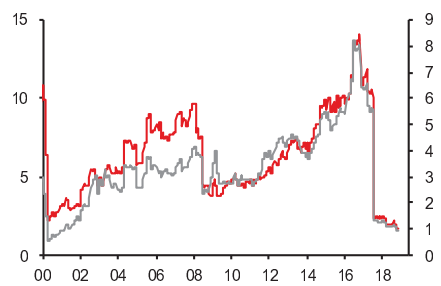
IBES consensus

### Earnings momentum



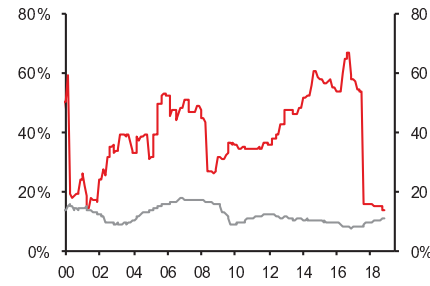
3m change in 12m forward EPS

### Price to book value



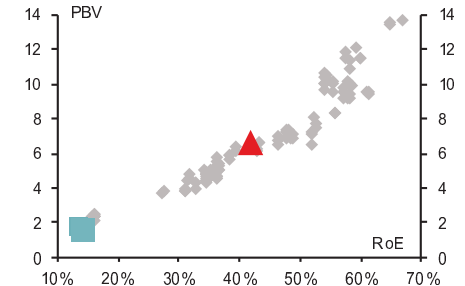
absolute (red) & relative (grey, rhs)

### Return on equity



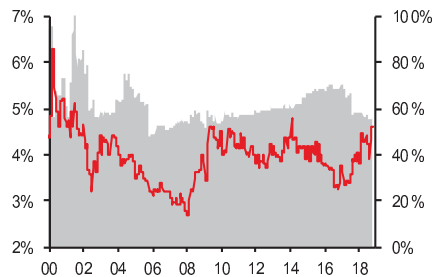
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

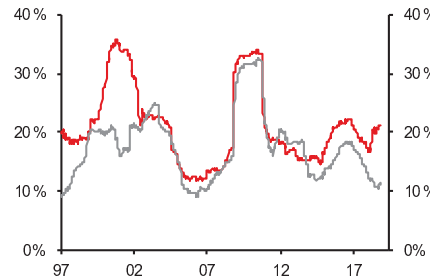


square = current, grey = 10Y history, triangle=10Y average

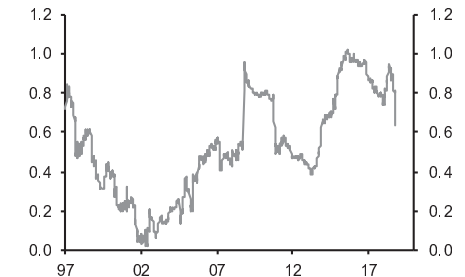
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (100% in total): British American Tobacco (71%), Imperial Brands (23%), Swedish Match (6%).

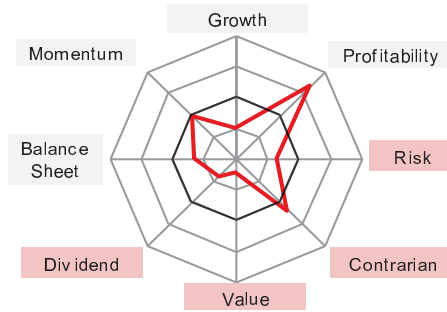
## Household & Personal Products (Overweight)

**Defensive and exposed to Asian growth** – HPC sector earnings proved very resilient during previous recessions. The sector trailing P/E ratio is currently below its long-term average. Most HPC companies have strong balance sheets (Beauty stronger than Household) so should not suffer unduly from rising interest rates. Currently Beauty is enjoying an acceleration in demand, driven in particular by Asia, prestige products and skincare. We upgrade the sector to Overweight from Underweight. We have Buy rating on [Unilever](#), [L'Oréal](#), and [Reckitt Benckiser](#), which combined account for 83% of the MSCI HPC index.

### Key indicators

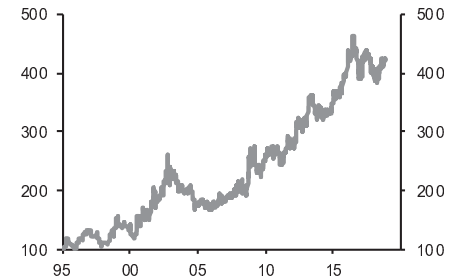
	HPC	Europe
3m performance	-3%	-5%
12m performance	0%	-3%
2018 year-end P/E	20.5	13.5
12m forward P/E	19.1	12.4
Price to book value	5.1	1.7
Return on Equity	25%	11%
Dividend Yield	2.6%	3.7%
Payout ratio	54%	57%
2018 EPS growth	3%	8%
2019 EPS growth	8%	9%
2020 EPS growth	10%	8%
Beta	0.72	1.00

### Spider Web



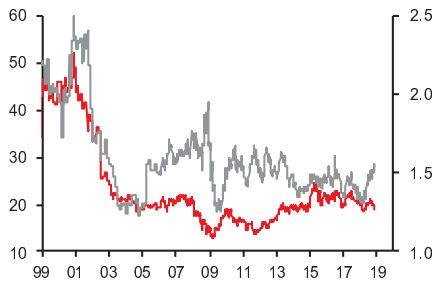
blue = quality, red = value – far from centre = the best

### Relative performance



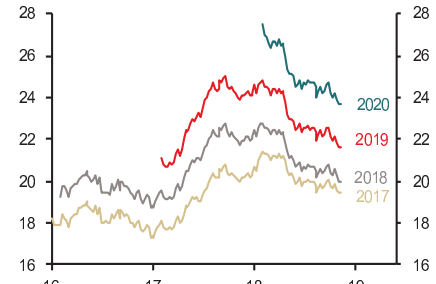
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



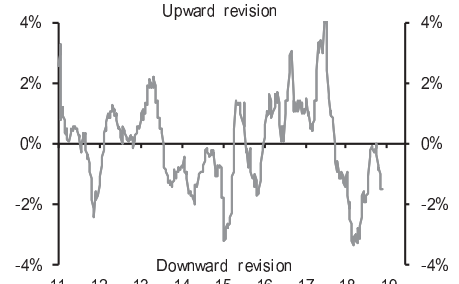
absolute (red) & relative (grey, rhs)

### Earnings per share



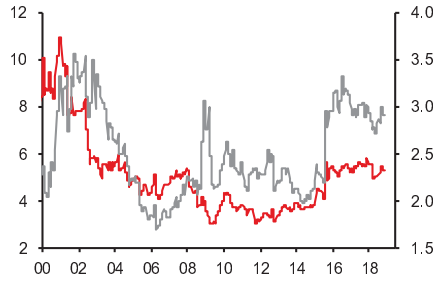
IBES consensus

### Earnings momentum



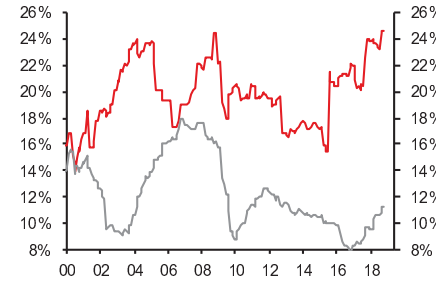
3m change in 12m forward EPS

### Price to book value



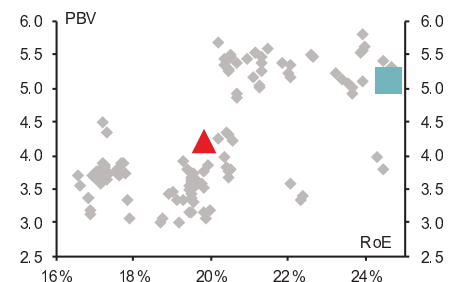
absolute (red) & relative (grey, rhs)

### Return on equity



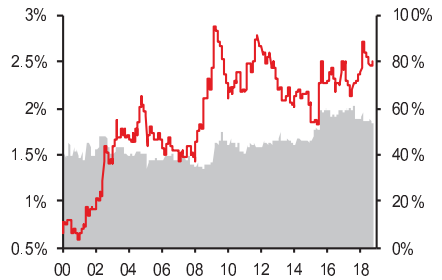
grey = Europe. RoE = 12m trailing earnings/ book value.

### Price to book value/RoE

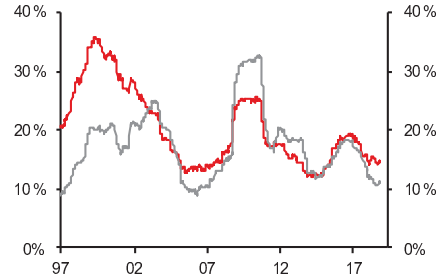


square = current, grey = 10Y history, triangle=10Y average

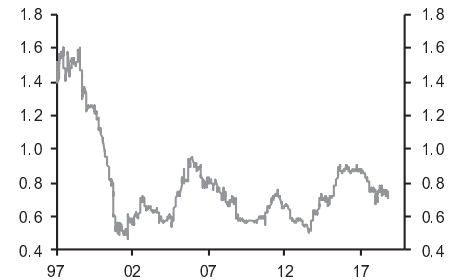
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (83% in total): Unilever (47%), L'Oréal (18%), Reckitt Benckiser (17%).

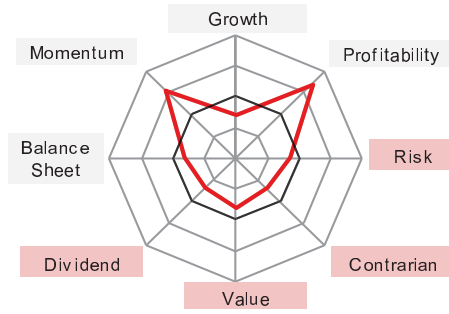
## Pharmaceuticals & Biotechnology (Overweight)

**Strong balance sheets at attractive prices** – Pharmaceuticals is one of our preferred sectors in Europe: strong balance sheets, attractive valuation multiples, defensive characteristics. The sector has performed well this year. The split US congress could be a positive; no news is good news for the sector.

### Key indicators

	Pharma & biotech	Europe
3m performance	1%	-5%
12m performance	10%	-3%
2018 year-end P/E	15.4	13.5
12m forward P/E	14.4	12.4
Price to book value	3.3	1.7
Return on Equity	17%	11%
Dividend Yield	3.2%	3.7%
Payout ratio	62%	57%
2018 EPS growth	1%	8%
2019 EPS growth	8%	9%
2020 EPS growth	9%	8%
Beta	1.01	1.00

### Spider Web



blue = quality, red = value – far from centre = the best

### Relative performance



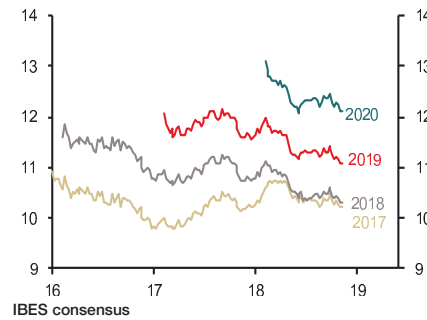
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



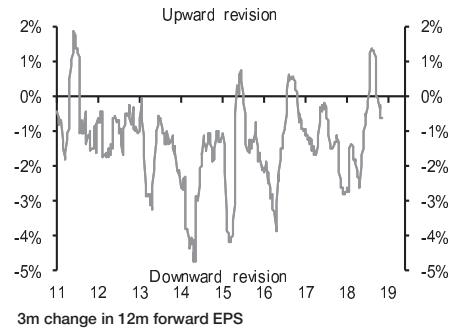
absolute (red) & relative (grey, rhs)

### Earnings per share



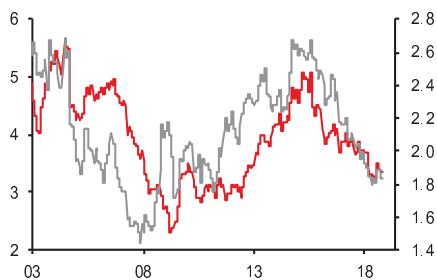
IBES consensus

### Earnings momentum



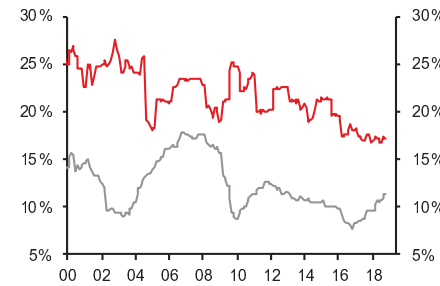
3m change in 12m forward EPS

### Price to book value



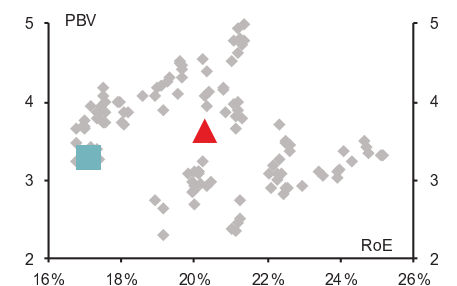
absolute (red) & relative (grey, rhs)

### Return on equity



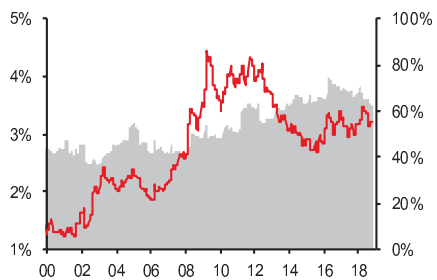
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

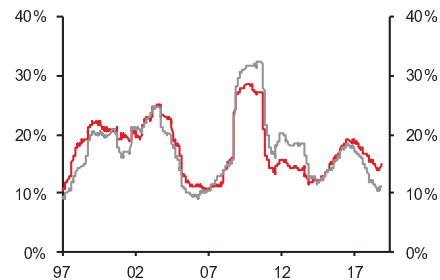


square = current, grey = 10Y history, triangle=10Y average

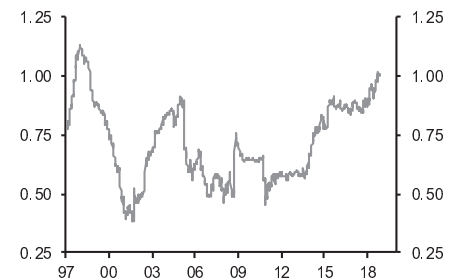
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (48% in total): Novartis (20%), Roche (18%), Sanofi (10%).



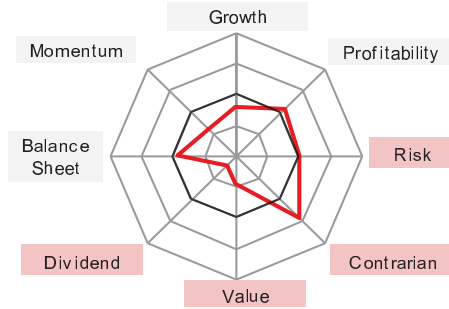
## Health Care Equipment & Services (Underweight)

**Scoring poorly on all metrics** – While Pharmaceuticals & Biotech is our most favoured defensive sector, we remain shy of Health Care Equipment & Services, which has underperformed by 5% over the last quarter as earnings momentum heads south. Valuation multiples have been coming down too, but the sector remains among the most expensive on 19.3x cs forward P/E and 3.1x P/B. We have Hold recommendations on [Philips](#) and [Essilorluxottica](#) (20% and 16% of the index by weight).

### Key indicators

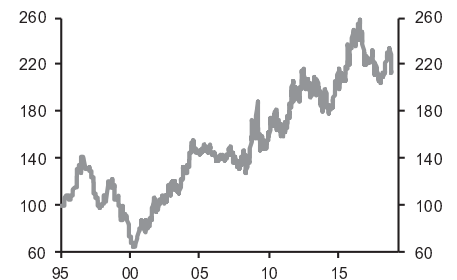
	Health care eqts	Europe
3m performance	-10%	-5%
12m performance	-1%	-3%
2018 year-end P/E	22.0	13.5
12m forward P/E	19.3	12.4
Price to book value	3.1	1.7
Return on Equity	13%	11%
Dividend Yield	1.6%	3.7%
Payout ratio	40%	57%
2018 EPS growth	-1%	8%
2019 EPS growth	15%	9%
2020 EPS growth	12%	8%
Beta	0.98	1.00

### Spider Web



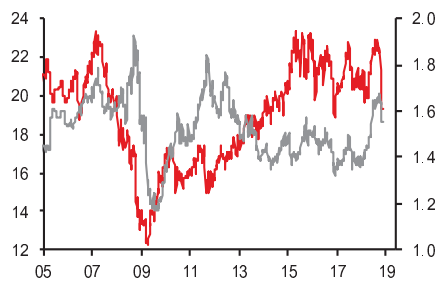
blue = quality, red = value – far from centre = the best

### Relative performance



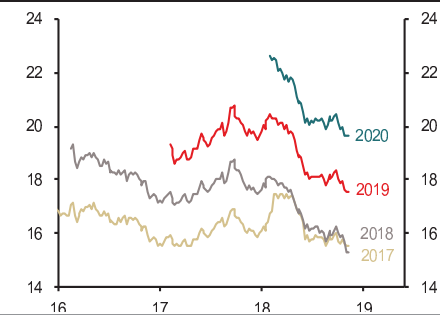
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



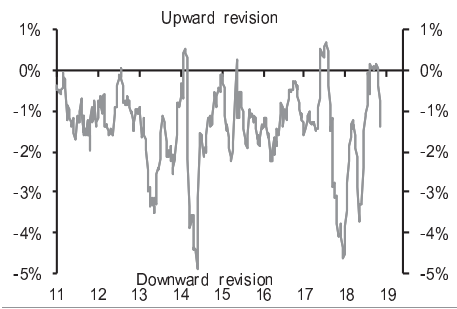
absolute (red) & relative (grey, rhs)

### Earnings per share



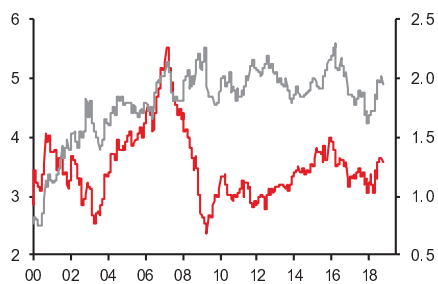
IBES consensus

### Earnings momentum



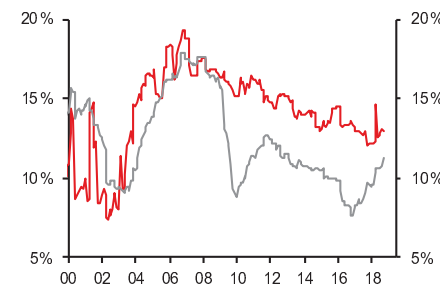
3m change in 12m forward EPS

### Price to book value



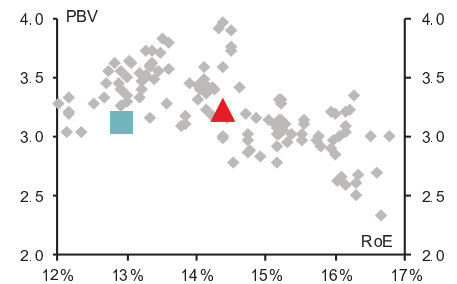
absolute (red) & relative (grey, rhs)

### Return on equity



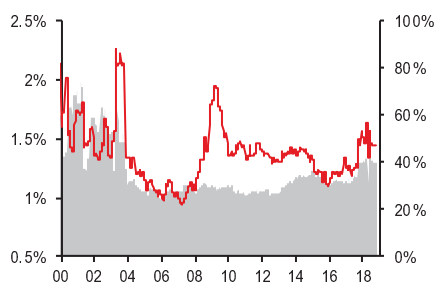
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

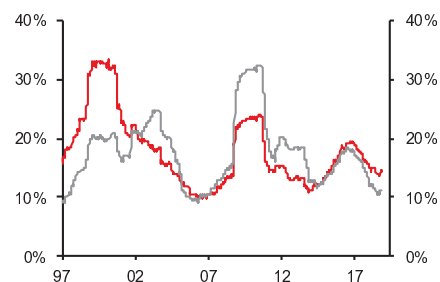


square = current, grey = 10Y history, triangle=10Y average

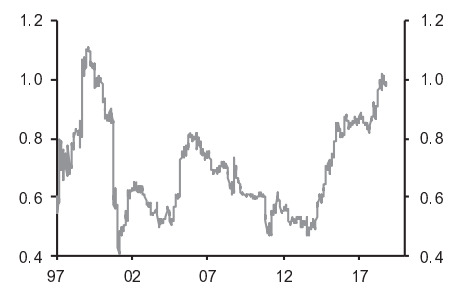
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value.

Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (51% in total): Koninklijke Philips (20%), Essilorluxottica (16%), Fresenius (15%).



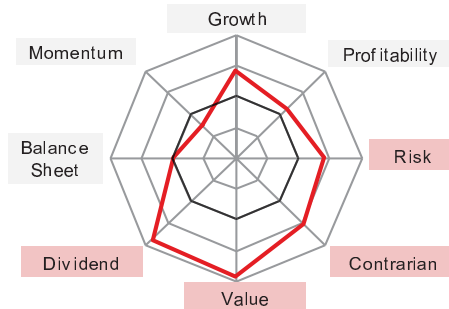
## Banks (Overweight)

**Waiting for the ECB –** The European banking sector has been under pressure from political gridlock (Brexit, Italy...). Any positive news on that front would help the sector to recover from current lows (8.5x 12m P/E). The sector is also still suffering from low interest rates – SG’s scenario is for an ECB hike in September.

### Key indicators

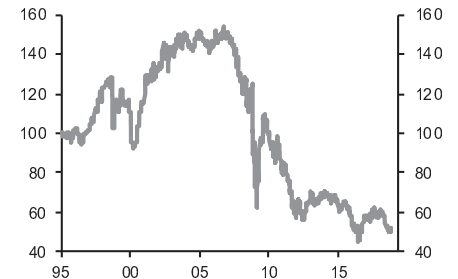
	Banks	Europe
3m performance	-7%	-5%
12m performance	-16%	-3%
2018 year-end P/E	8.9	13.5
12m forward P/E	8.5	12.4
Price to book value	0.7	1.7
Return on Equity	7%	11%
Dividend Yield	5.5%	3.7%
Payout ratio	57%	57%
2018 EPS growth	10%	8%
2019 EPS growth	4%	9%
2020 EPS growth	8%	8%
Beta	1.12	1.00

### Spider Web



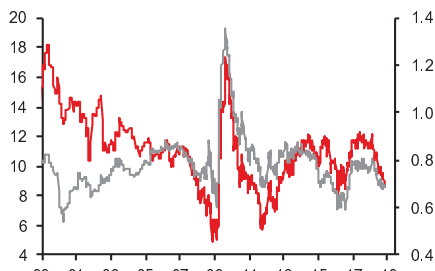
blue = quality, red = value – far from centre = the best

### Relative performance



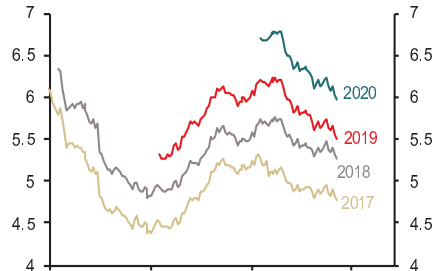
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



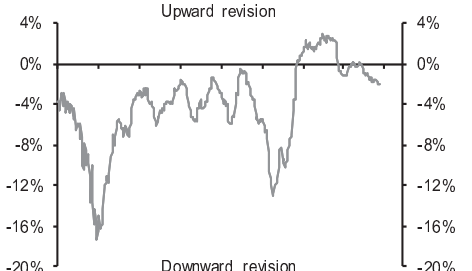
absolute (red) & relative (grey, rhs)

### Earnings per share



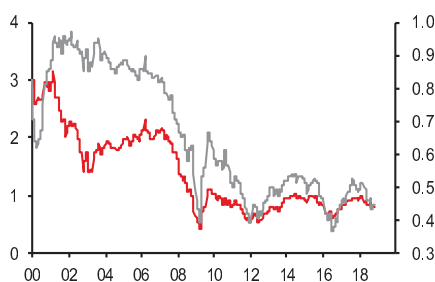
IBES consensus

### Earnings momentum



3m change in 12m forward EPS

### Price to book value



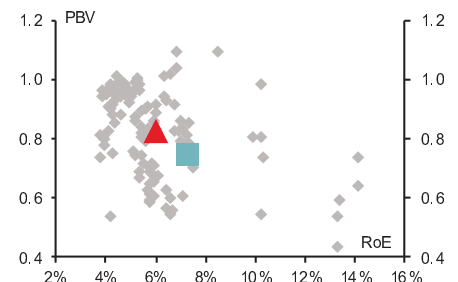
absolute (red) & relative (grey, rhs)

### Return on equity



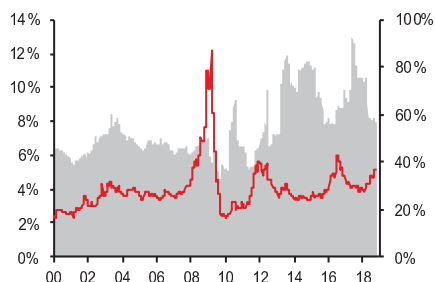
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

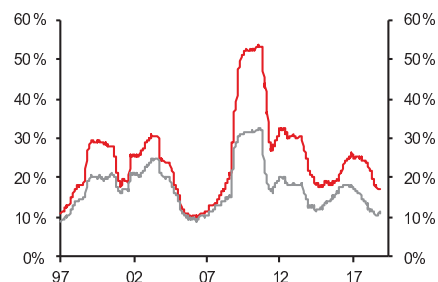


square = current, grey = 10Y history, triangle=10Y average

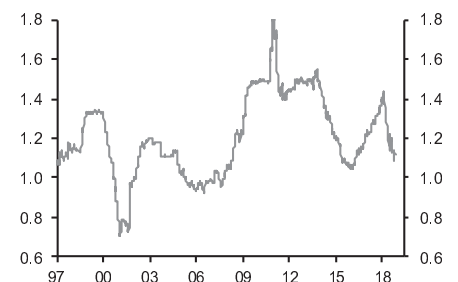
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy Top 3 weight in index (37% in total): HSBC (20%), Banco Santander (9%), BNP Paribas (7%).

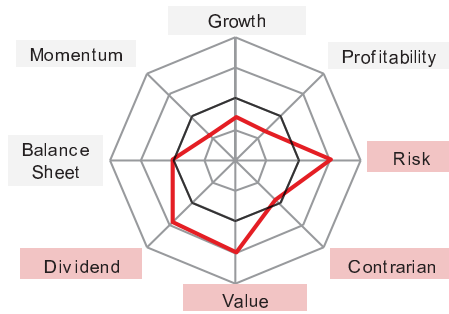
## Diversified Financials and Investment Banks (Neutral)

**Downgrade to Neutral** We downgrade our sector stance from Overweight to Neutral given earnings sensitivity to the cycle and current valuation multiples which are not particularly attractive relative to the past. Earnings momentum remains in negative territory and regulation risk remains an issue.

### Key indicators

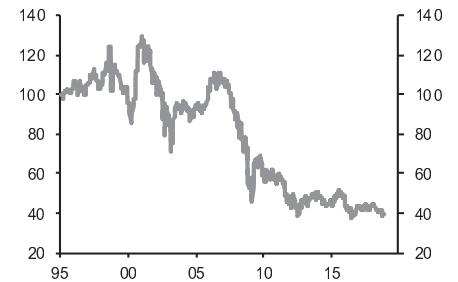
	Div. Fin & IB	Europe
3m performance	-8%	-5%
12m performance	-11%	-3%
2018 year-end P/E	13.3	13.5
12m forward P/E	11.6	12.4
Price to book value	1.0	1.7
Return on Equity	7%	11%
Dividend Yield	3.1%	3.7%
Payout ratio	44%	57%
2018 EPS growth	-1%	8%
2019 EPS growth	16%	9%
2020 EPS growth	15%	8%
Beta	1.30	1.00

### Spider Web



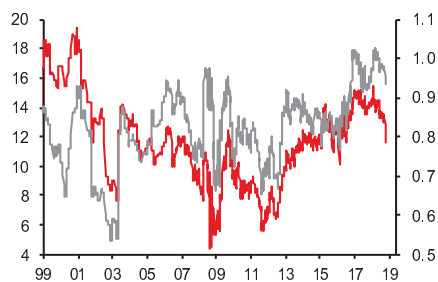
blue = quality, red = value – far from centre = the best

### Relative performance



Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



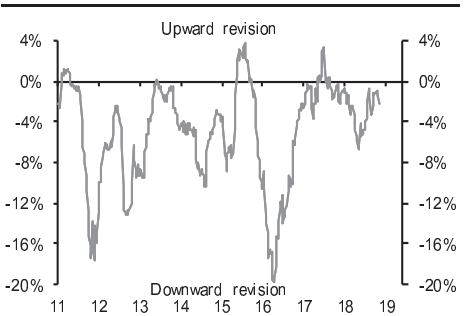
absolute (red) & relative (grey, rhs)

### Earnings per share



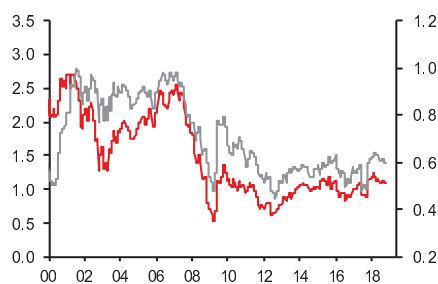
IBES consensus

### Earnings momentum



3m change in 12m forward EPS

### Price to book value



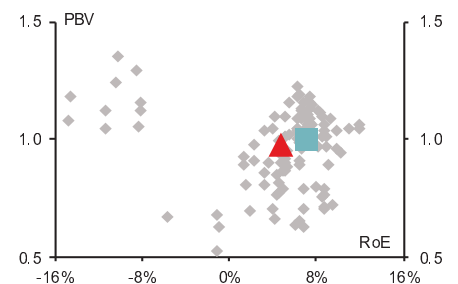
absolute (red) & relative (grey, rhs)

### Return on equity



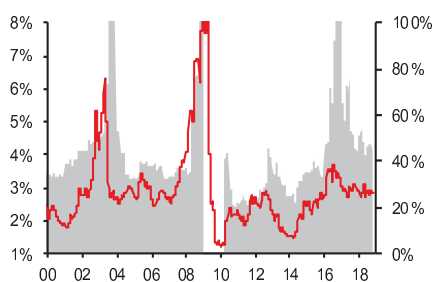
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

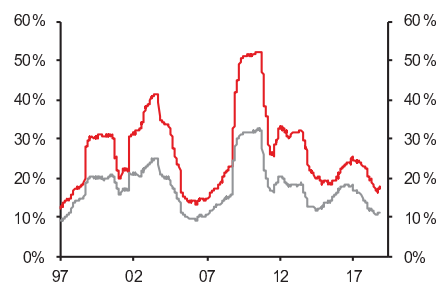


square = current, grey = 10Y history, triangle=10Y average

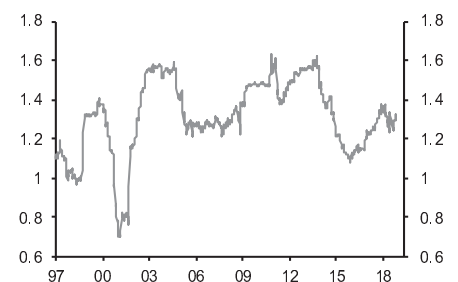
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy Top 3 weight in index (40% in total): UBS (19%), Credit Suisse (12%), Deutsche Boerse (9%).

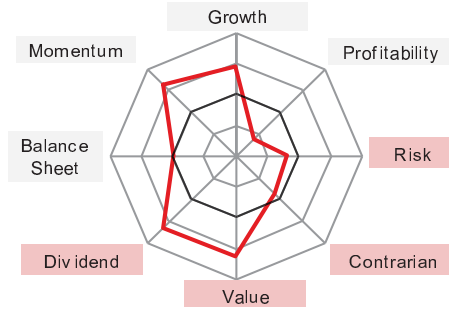
## Insurance (Overweight)

**Our most favoured Financial sub-sector** – Back in September we increased our allocation to the Insurance sector, making it our largest overweight stance (see [link](#)). The sector has continued to outperform over the last three months (+7%), while earnings momentum remains positive. The sector is still trading in deep value territory on 9.5x forward P/E and 1.2x P/B while offering a 5.0% prospective dividend yield. We trim our overweight stance as we shape a more defensive portfolio.

### Key indicators

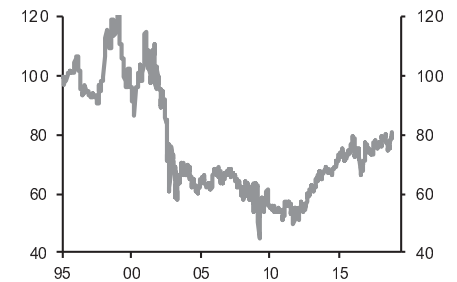
	Insurance	Europe
3m performance	2%	-5%
12m performance	2%	-3%
2018 year-end P/E	10.3	13.5
12m forward P/E	9.5	12.4
Price to book value	1.2	1.7
Return on Equity	9%	11%
Dividend Yield	5.0%	3.7%
Payout ratio	67%	57%
2018 EPS growth	19%	8%
2019 EPS growth	9%	9%
2020 EPS growth	5%	8%
Beta	1.00	1.00

### Spider Web



blue = quality, red = value – far from centre = the best

### Relative performance



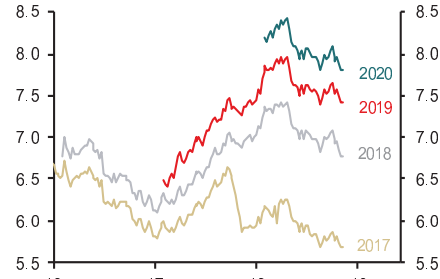
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



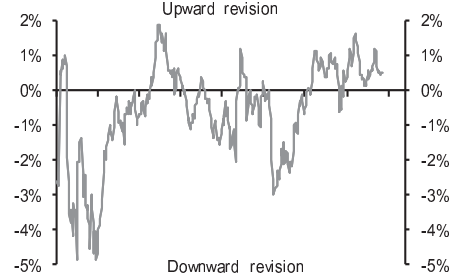
absolute (red) & relative (grey, rhs)

### Earnings per share



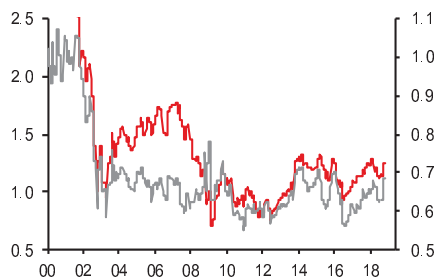
IBES consensus

### Earnings momentum



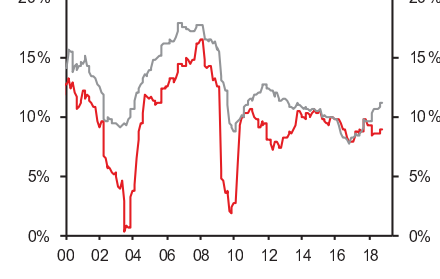
3m change in 12m forward EPS

### Price to book value



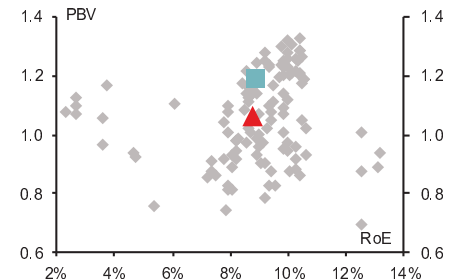
absolute (red) & relative (grey, rhs)

### Return on equity



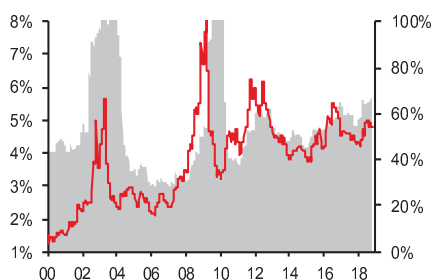
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

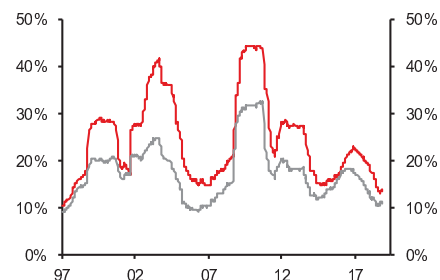


square = current, grey = 10Y history, triangle = 10Y average

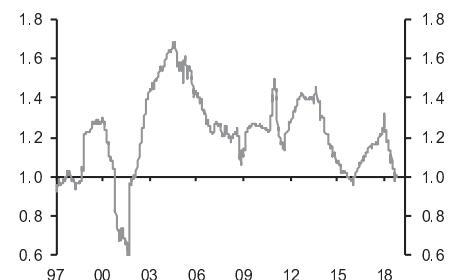
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (40% in total): Allianz (19%), Prudential (11%), Axa (10%).

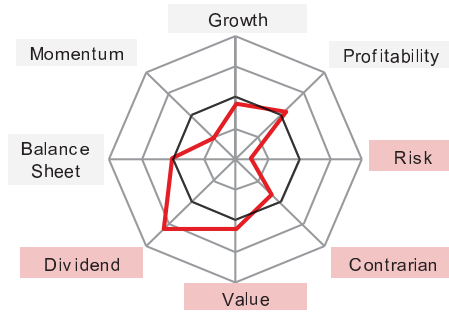
## Real Estate (Underweight)

**At risk from rising bond yields and Brexit** – The sector has outperformed the market modestly YTD (+3%) on the back of lower bond yields. Nonetheless, we still expect a rise in bond yields to put the sector under pressure. Also, an attractive 4.6% dividend yield could be at risk given an increasing payout ratio (currently 76%). Brexit puts the UK Real Estate sector at risk (especially London offices), hence some consolidation could materialise in this market. We reiterate our preference for eurozone names ([details](#)), especially stocks linked to Germany and Spain.

### Key indicators

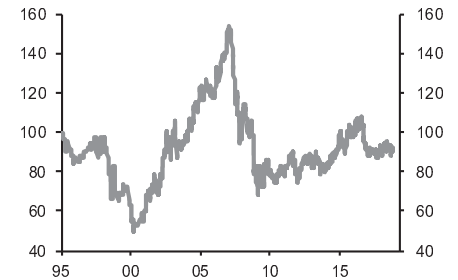
	Real Estate	Europe
3m performance	-5%	-5%
12m performance	0%	-3%
2018 year-end P/E	17.2	13.5
12m forward P/E	16.3	12.4
Price to book value	0.9	1.7
Return on Equity	6%	11%
Dividend Yield	4.6%	3.7%
Payout ratio	75%	57%
2018 EPS growth	7%	8%
2019 EPS growth	6%	9%
2020 EPS growth	5%	8%
Beta	0.72	1.00

### Spider Web



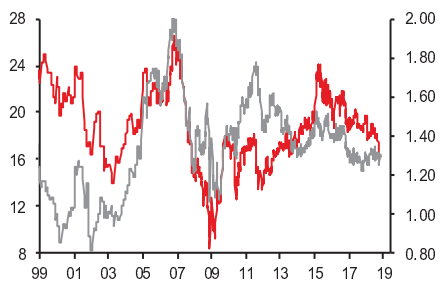
blue = quality, red = value – far from centre = the best

### Relative performance



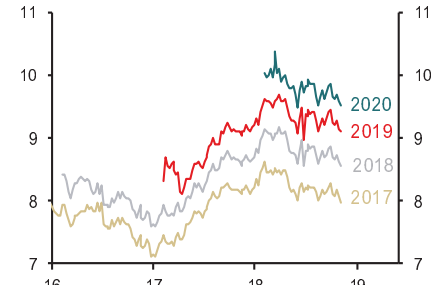
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



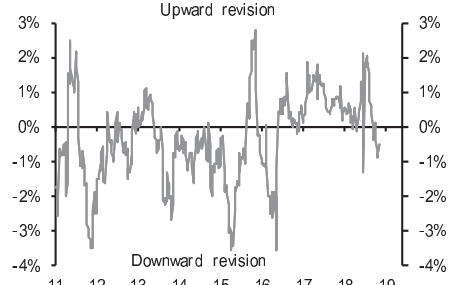
absolute (red) & relative (grey, rhs)

### Earnings per share



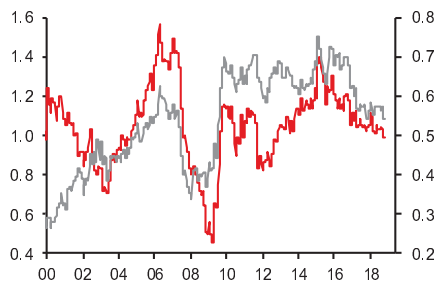
IBES consensus

### Earnings momentum



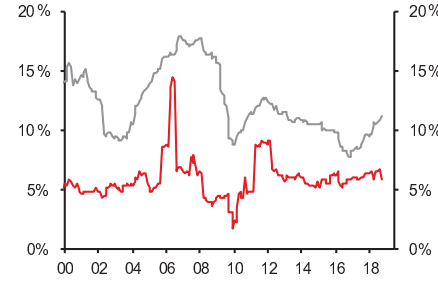
3m change in 12m forward EPS

### Price to book value



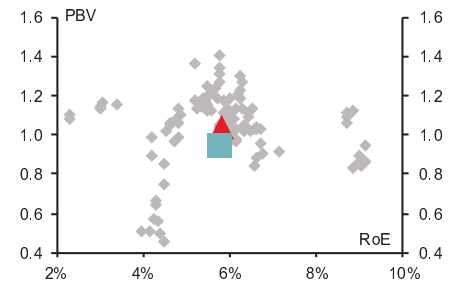
absolute (red) & relative (grey, rhs)

### Return on equity



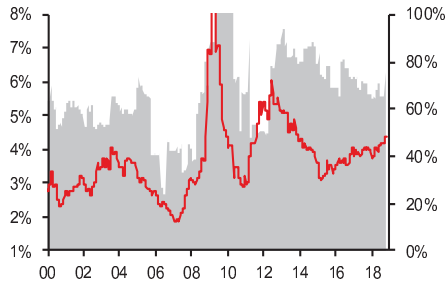
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

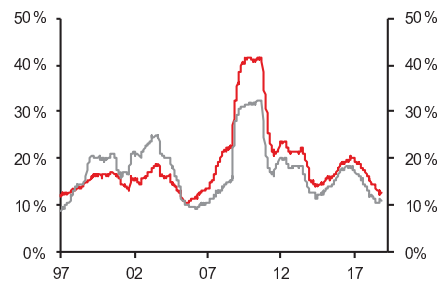


square = current, grey = 10Y history, triangle=10Y average

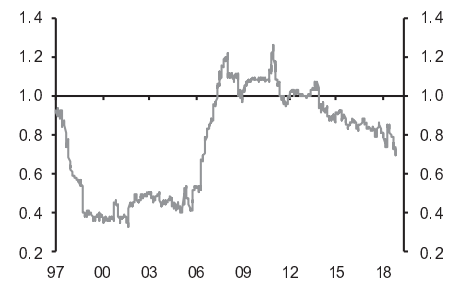
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (54% in total): Unibail-Rodamco (21%), Vonovia (19%), Deutsche Wohnen (14%).

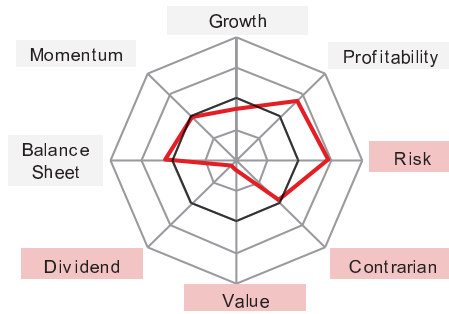
## Software & IT Services (Neutral)

**Some qualities but expensive** – Software & IT Services ranks 27 out of 30 sectors on our scorecard. We like CRM market growth, consolidation in cloud applications and growing cybersecurity, but the sector now appears richly valued on 20x 12m forward P/E. High beta makes the sector vulnerable to any market correction. We move from Overweight to Neutral on the sector.

### Key indicators

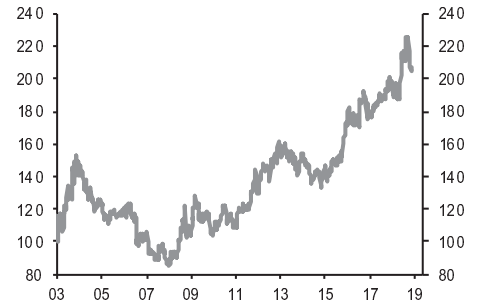
	Software & IT Svs	Europe
3m performance	-7%	-5%
12m performance	2%	-3%
2018 year-end P/E	22.1	13.5
12m forward P/E	19.8	12.4
Price to book value	4.3	1.7
Return on Equity	15%	11%
Dividend Yield	1.4%	3.7%
Payout ratio	41%	57%
2018 EPS growth	4%	8%
2019 EPS growth	12%	9%
2020 EPS growth	10%	8%
Beta	1.13	1.00

### Spider Web



blue = quality, red = value – far from centre = the best

### Relative performance



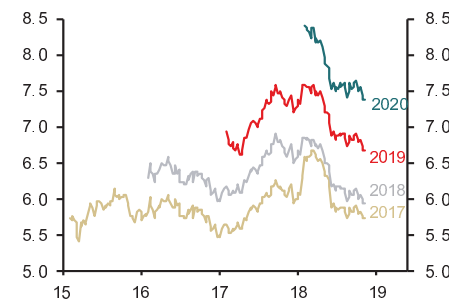
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



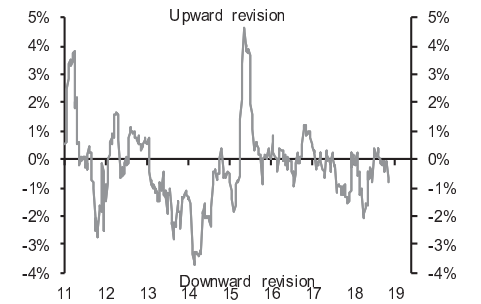
absolute (red) & relative (grey, rhs)

### Earnings per share



IBES consensus

### Earnings momentum



3m change in 12m forward EPS

### Price to book value



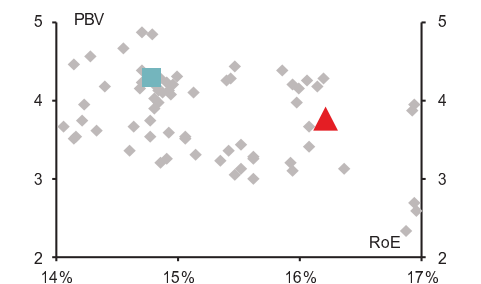
absolute (red) & relative (grey, rhs)

### Return on equity



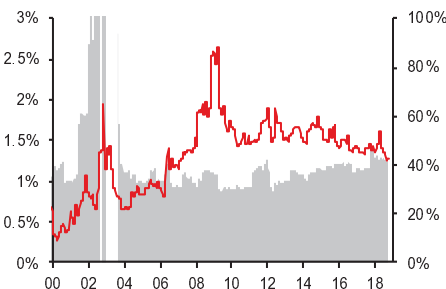
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

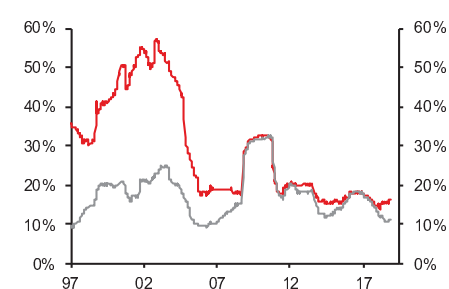


square = current, grey = 10Y history, triangle=10Y average

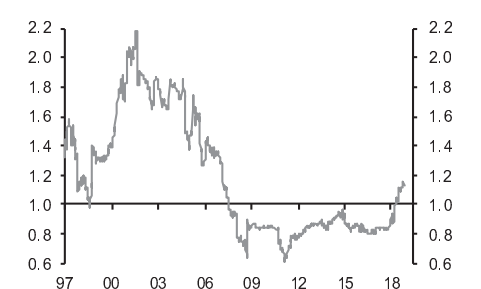
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (65% in total): SAP (42%), Amadeus IT Group (14%), Wirecard (9%).

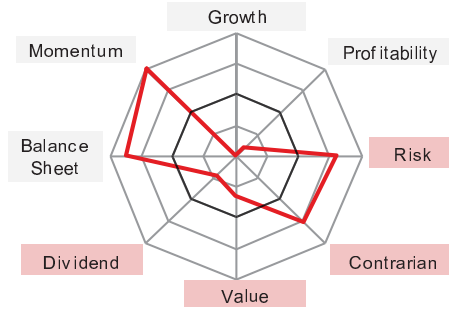
## Technology Hardware & Equipment (Underweight)

**We close our position on the sector –** . We are closing our Overweight stance on Technology Hardware & Equipment, which has been the best performing sector in Europe YTD (+28% outperformance). We realign our sector view, moving to Underweight to reflect our concerns with Nasdaq. SG’s technical analyst thinks the US tech index could see its correction extended and possibly fall by 11% to 6171.

### Key indicators

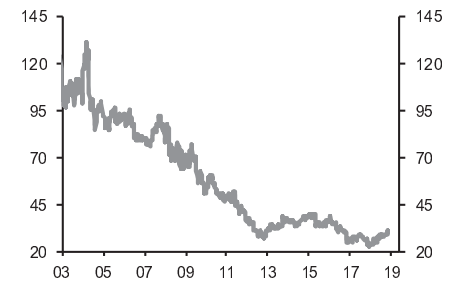
	Tech. Hardware	Europe
3m performance	8%	-5%
12m performance	29%	-3%
2018 year-end P/E	24.9	13.5
12m forward P/E	18.0	12.4
Price to book value	2.3	1.7
Return on Equity	nm	11%
Dividend Yield	2.4%	3.7%
Payout ratio	nm	57%
2018 EPS growth	-12%	8%
2019 EPS growth	42%	9%
2020 EPS growth	22%	8%
Beta	1.14	1.00

### Spider Web



blue = quality, red = value – far from centre = the best

### Relative performance



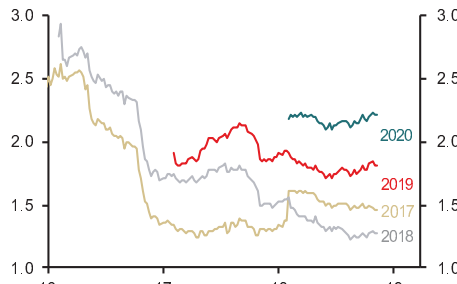
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



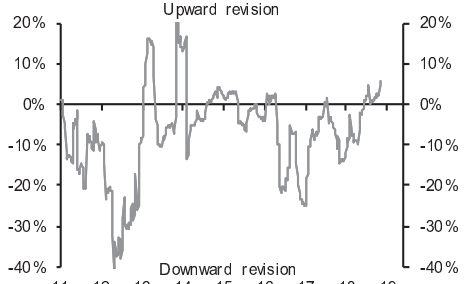
absolute (red) & relative (grey, rhs)

### Earnings per share



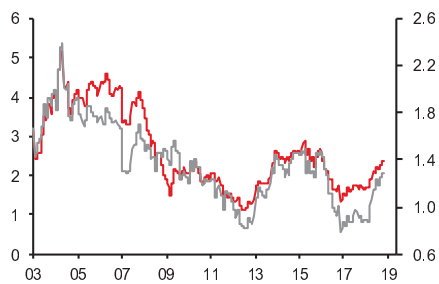
IBES consensus

### Earnings momentum



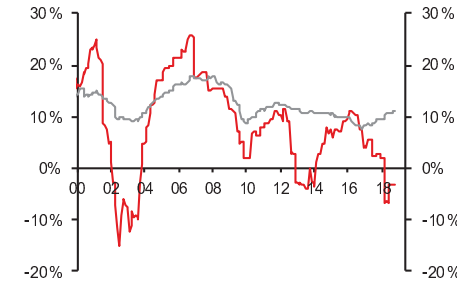
3m change in 12m forward EPS

### Price to book value



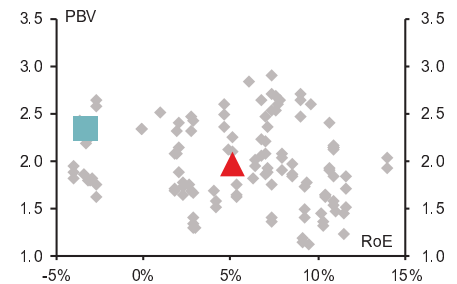
absolute (red) & relative (grey, rhs)

### Return on equity



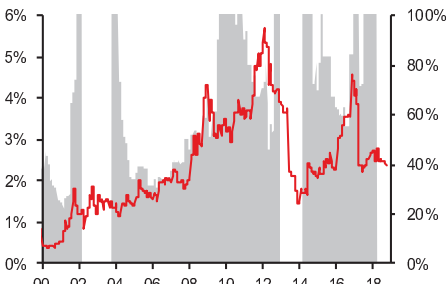
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

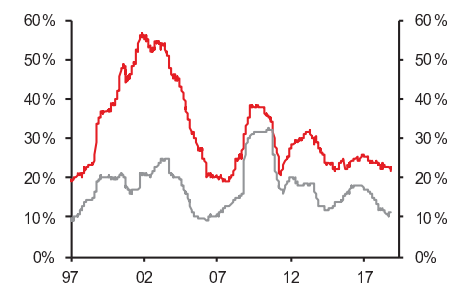


square = current, grey = 10Y history, triangle=10Y average

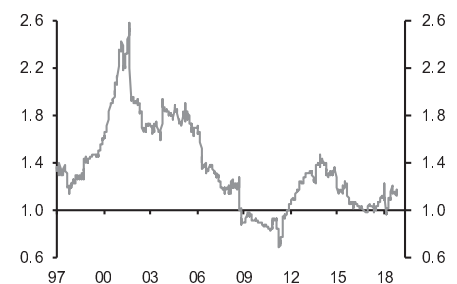
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (94% in total): Nokia (42%), Ericsson (35%), Hexagon (17%).

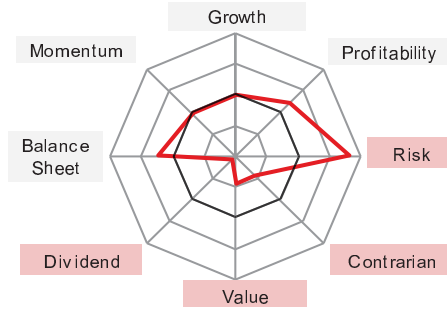
## Semi-conductors (Overweight)

**Under extreme pressure from trade tensions** – Like their Global peers, European Semiconductor stocks have been under extreme pressure this year from escalating trade tension between the US and China. This has pushed the 12month relative forward P/E close to historical lows despite positive earnings momentum. Any easing of trade tensions would support the sector.

### Key indicators

	Semis	Europe
3m performance	-16%	-5%
12m performance	-14%	-3%
2018 year-end P/E	17.1	13.5
12m forward P/E	14.9	12.4
Price to book value	3.3	1.7
Return on Equity	13%	11%
Dividend Yield	1.1%	3.7%
Payout ratio	30%	57%
2018 EPS growth	17%	8%
2019 EPS growth	16%	9%
2020 EPS growth	15%	8%
Beta	1.24	1.00

### Spider Web



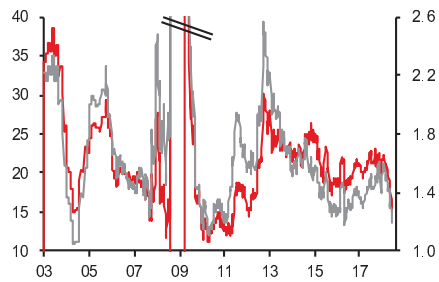
blue = quality, red = value – far from centre = the best

### Relative performance



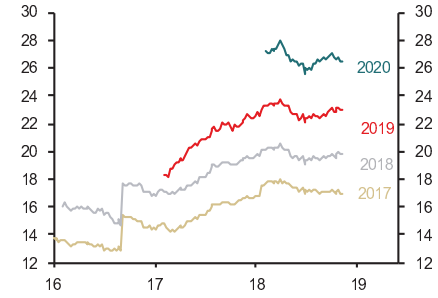
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



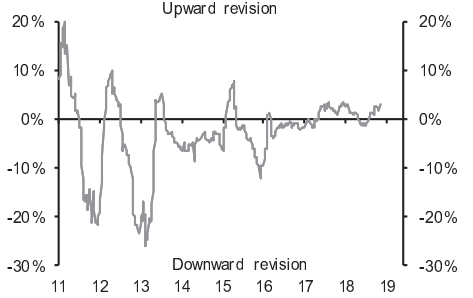
absolute (red) & relative (grey, rhs)

### Earnings per share



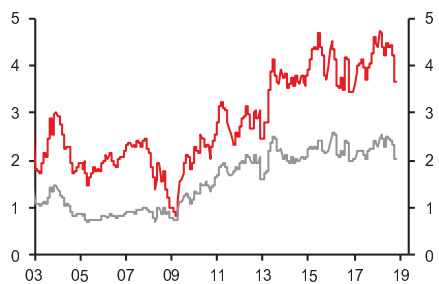
IBES consensus

### Earnings momentum



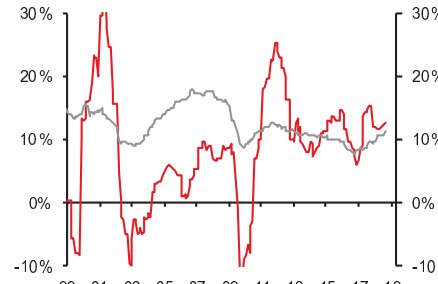
3m change in 12m forward EPS

### Price to book value



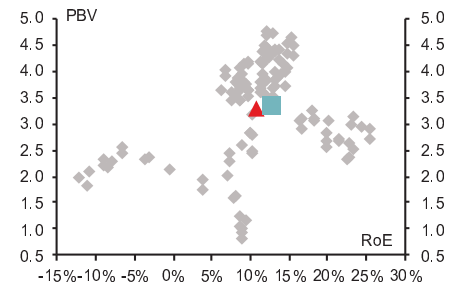
absolute (red) & relative (grey, rhs)

### Return on equity



grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

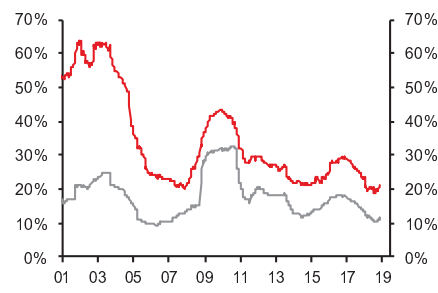


square = current, grey = 10Y history, triangle=10Y average

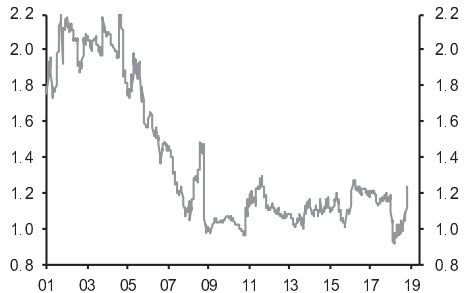
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (92% in total): ASML Holding (54%), NXP Semiconductors (20%), Infineon (18%).



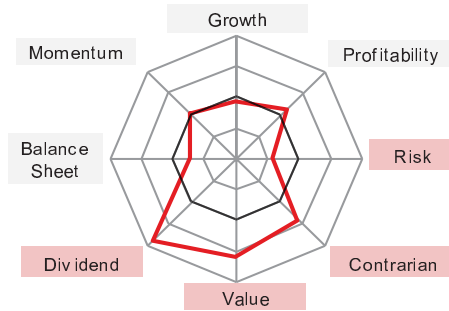
## Telecommunication Services (Underweight)

**One of our least favoured sector** – We remain firm ‘sellers’ of Telecoms (250bp underweight), which continue to score poorly on our metrics. The sector has recently outperformed amid the market sell-off but weak balance sheets and extremely high payout ratios coupled to falling earnings momentum is clearly not an incentive to reweight the sector.

### Key indicators

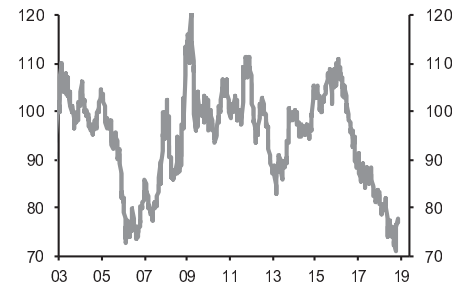
	Telecom	Europe
3m performance	-2%	-5%
12m performance	-8%	-3%
2018 year-end P/E	13.4	13.5
12m forward P/E	12.5	12.4
Price to book value	1.4	1.7
Return on Equity	9%	11%
Dividend Yield	5.7%	3.7%
Payout ratio	90%	57%
2018 EPS growth	-9%	8%
2019 EPS growth	8%	9%
2020 EPS growth	9%	8%
Beta	0.88	1.00

### Spider Web



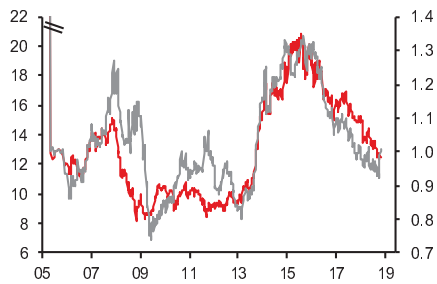
blue = quality, red = value – far from centre = the best

### Relative performance



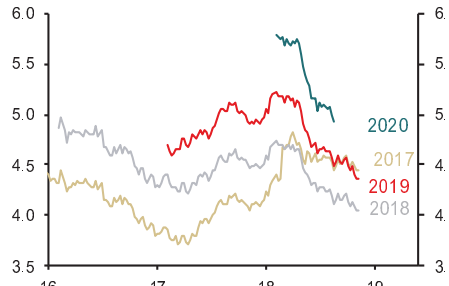
Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



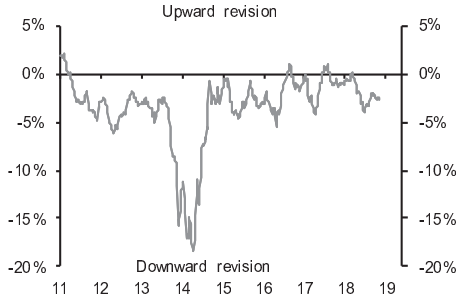
absolute (red) & relative (grey, rhs)

### Earnings per share



IBES consensus

### Earnings momentum



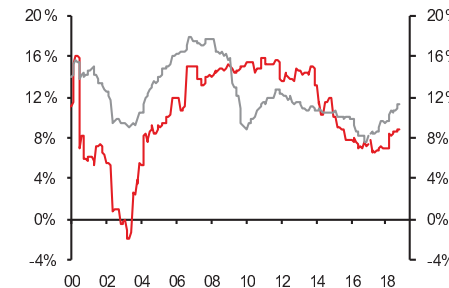
3m change in 12m forward EPS

### Price to book value



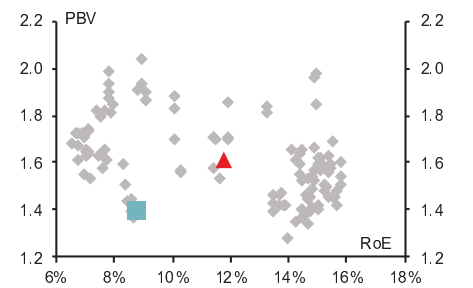
absolute (red) & relative (grey, rhs)

### Return on equity



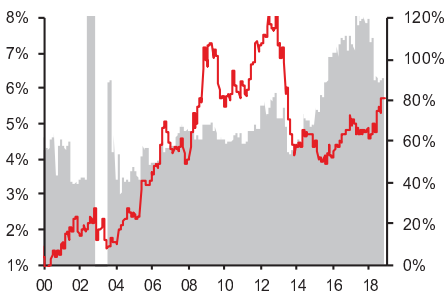
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

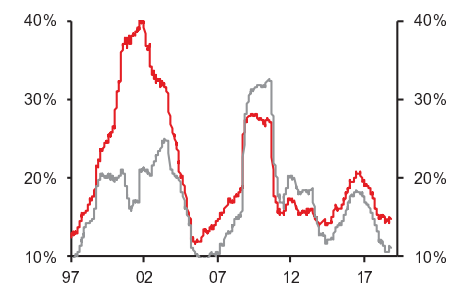


square = current, grey = 10Y history, triangle=10Y average

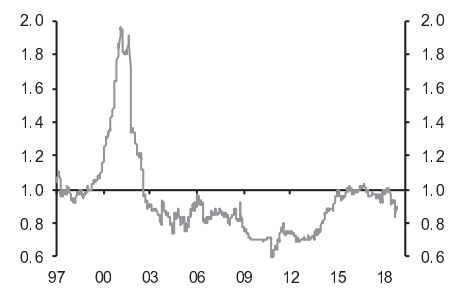
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (51% in total): Deutsche Telekom (19%), Vodafone (18%), Telefonica (14%).



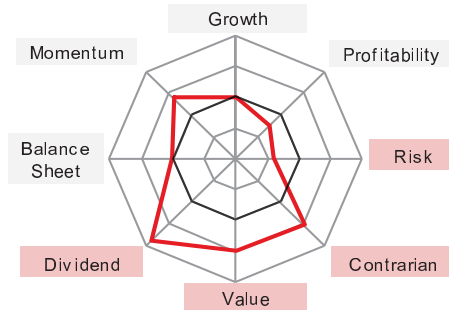
## Utilities (Underweight)

**Time to trim our Underweight** – We trim our Underweight stance on the sector. Sector earnings are proving relatively robust compared to the rest of the market and beta is a healthy 0.8. The sector's defensive appeal has helped it slightly outperform this year. However, it remains highly driven by German bond yield swings, balance sheets are among the most leveraged and earnings momentum remains negative.

### Key indicators

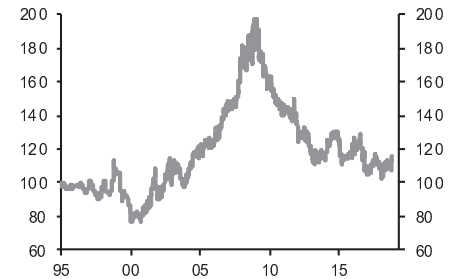
	Utilities	Europe
3m performance	1%	-5%
12m performance	0%	-3%
2018 year-end P/E	13.4	13.5
12m forward P/E	12.8	12.4
Price to book value	1.5	1.7
Return on Equity	11%	11%
Dividend Yield	5.2%	3.7%
Payout ratio	71%	57%
2018 EPS growth	0%	8%
2019 EPS growth	6%	9%
2020 EPS growth	8%	8%
Beta	0.79	1.00

### Spider Web



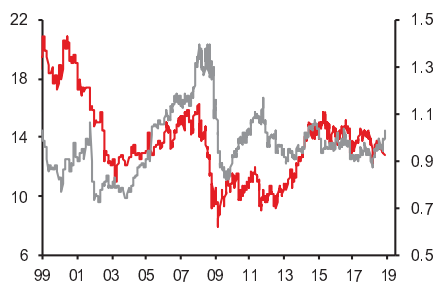
blue = quality, red = value – far from centre = the best

### Relative performance



Relative data= relative to Europe in euro and total return

### 12m forward P/E ratio



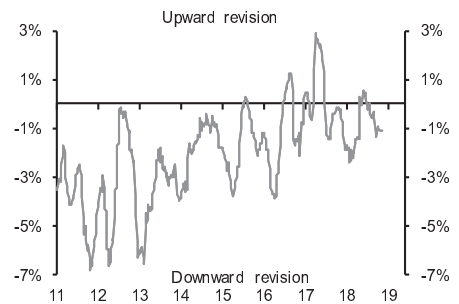
absolute (red) & relative (grey, rhs)

### Earnings per share



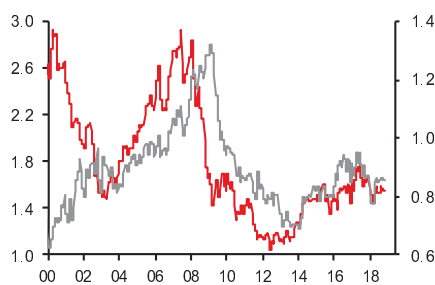
IBES consensus

### Earnings momentum



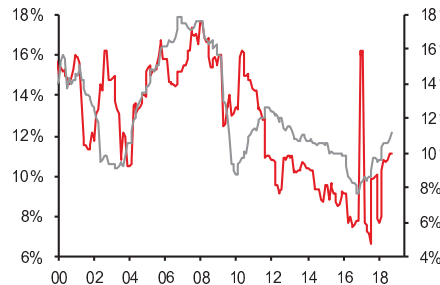
3m change in 12m forward EPS

### Price to book value



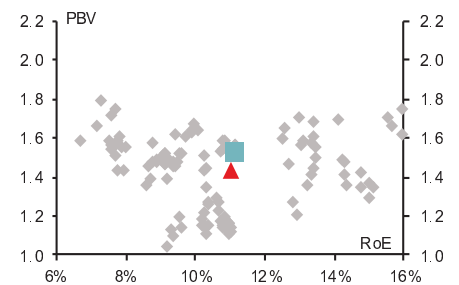
absolute (red) & relative (grey, rhs)

### Return on equity



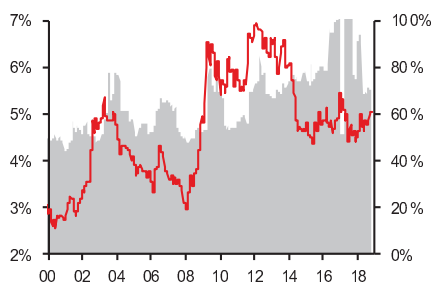
grey = Europe. RoE = 12-month trailing earnings/ book value.

### Price to book value/RoE

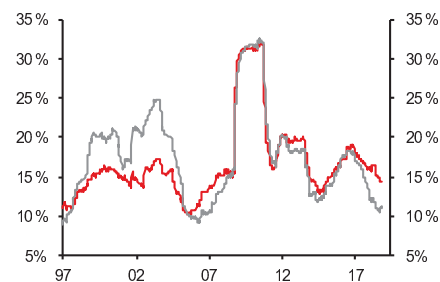


square = current, grey = 10Y history, triangle=10Y average

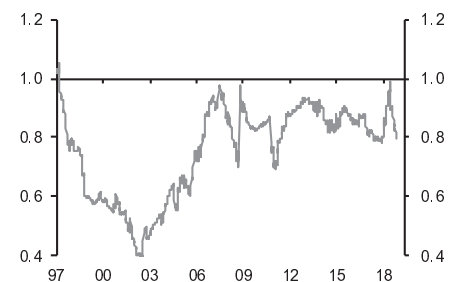
### Dividend yield & payout ratio (shadow)



### Volatility



### Beta



Relative data= relative to European market. Performance in euro and total return (dividend reinvested).100=01/01/1995. Return on equity = 12-month trailing earnings/ book value. Dividend yield= trailing dividend/ share price. Volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy  
Top 3 weight in index (38% in total): Iberdrola (14%), Enel (13%), National Grid (11%).

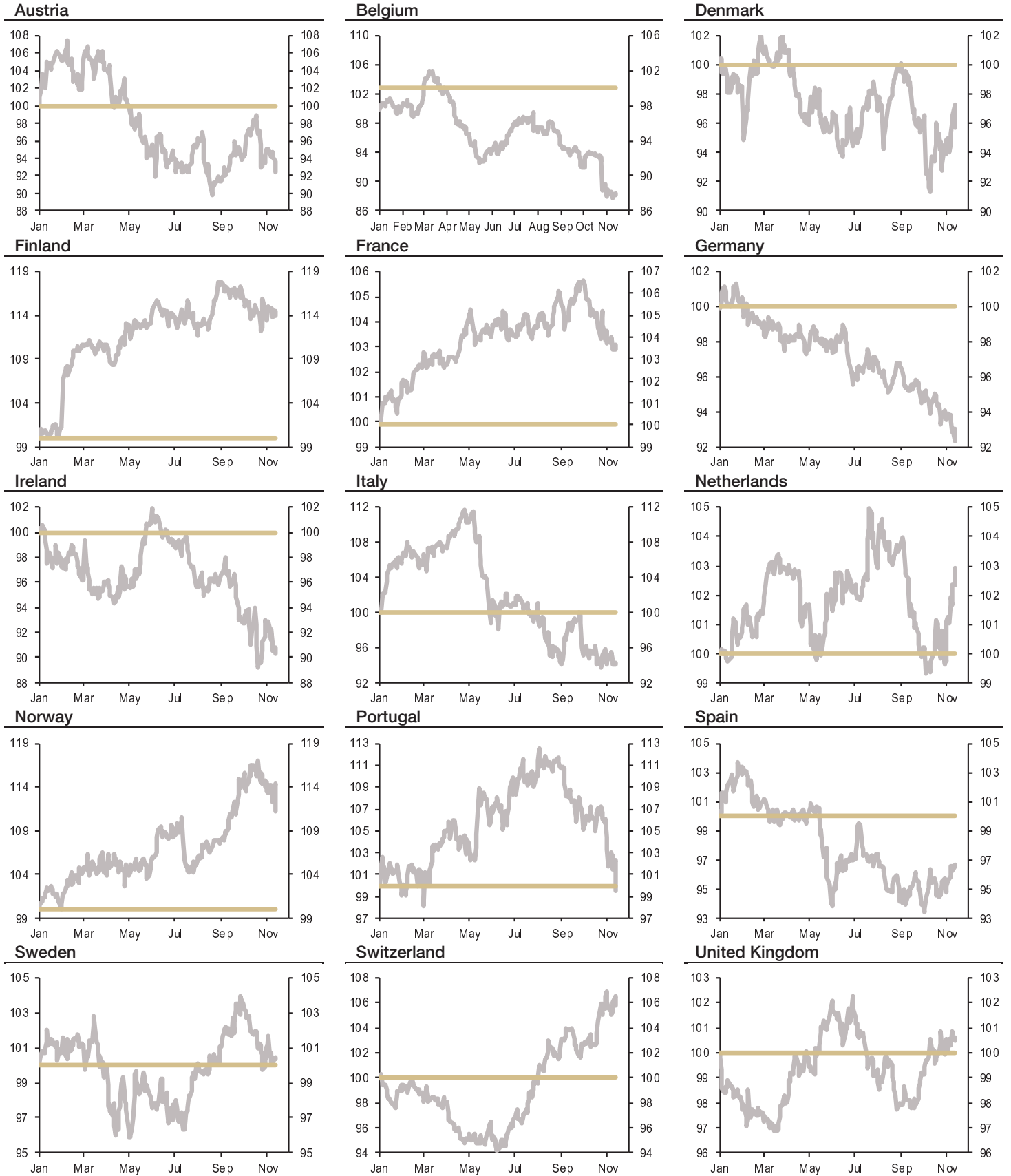
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# European equity countries in pictures


## Relative performance since January 2018

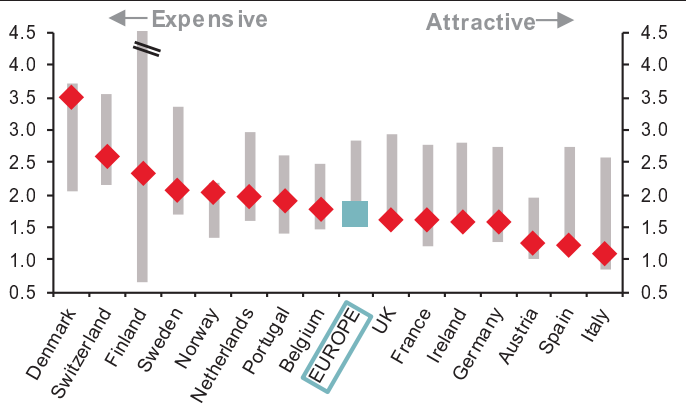


100=01/01/2018, performance relative to the European market in euro and total return. Source: MSCI, Datastream, Cross Asset Research/Equity Strategy

## Key indicators (1)

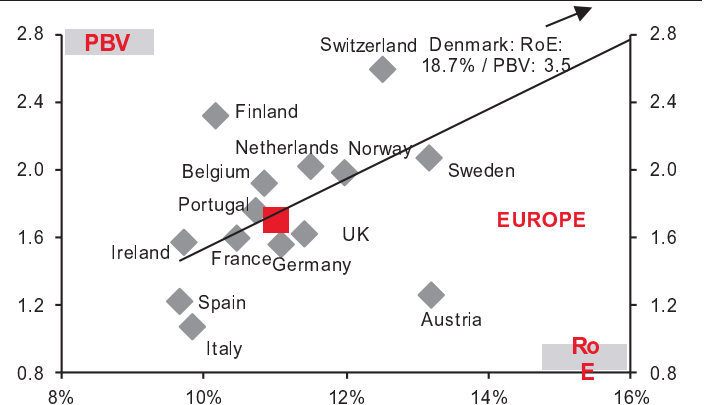
**Which equity markets to favour in Europe?** The tools developed below are designed to indicate optimal positioning across the European countries. In terms of valuation, the euro area appears much more attractive than the rest of Europe (Switzerland, Sweden and Denmark).

Price to book ratio value



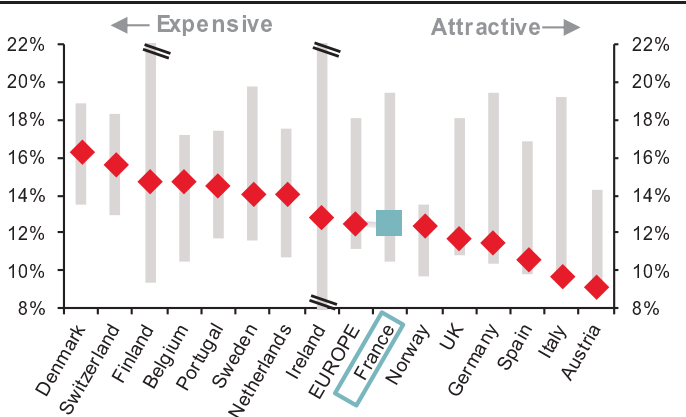
Price to book value = current price / current book value. Blue = current, orange square = Europe, grey high = historical average + 1 standard deviation, grey low = historical average - 1 standard deviation. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

Price to book value versus return on equity



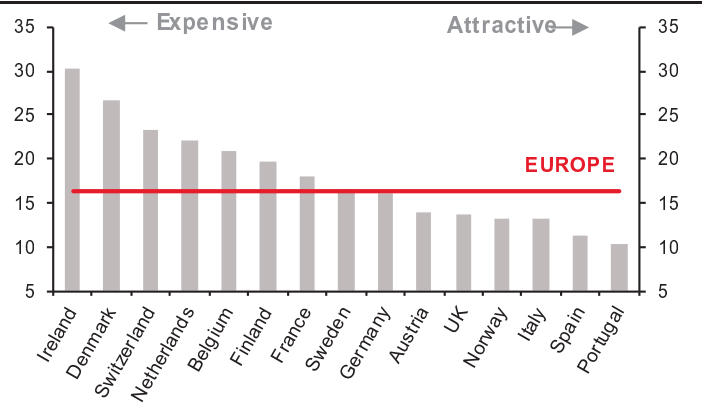
Price to book value = current price / current book value. Return on equity = 12m trailing earnings/ book value; blue = current, orange square = Europe Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

Price-to-earnings ratio – 12 months forward (P/E)



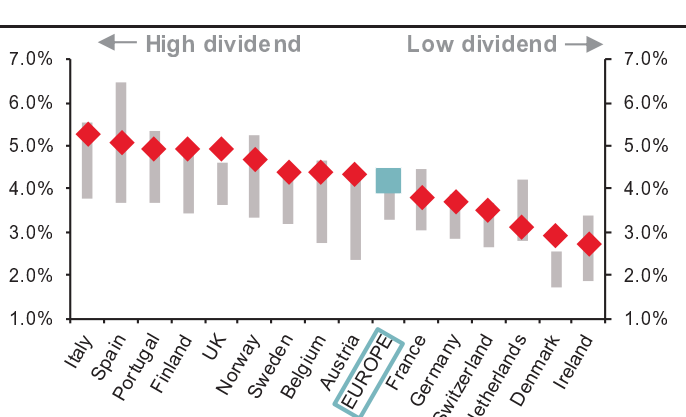
Price-to-earnings ratio = current price / 12m forward earnings, Blue = current, orange square = Europe, grey high = historical average + 1 standard deviation, grey low = historical average - 1 standard deviation. Source: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

Price-to-earnings ratio – 10 years cyclically adjusted (CAPE)



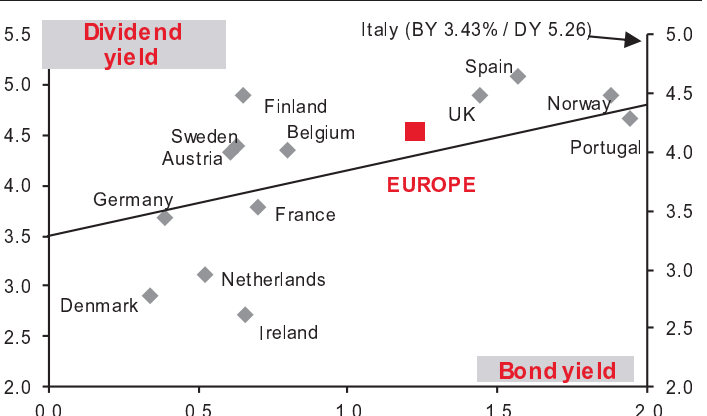
Cyclically adjusted price-to-earnings ratio = current price / 10 years moving average earnings. Blue bars= current, orange line = Europe; Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

Dividend yield – 12 months forward



Dividend yield = current price / 12m forward dividend per share. Blue = current, orange square = Europe, grey high = historical average + 1 standard deviation, grey low = historical average - 1 standard deviation. Source: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

12M forward dividend yield versus 10Y government bond yield

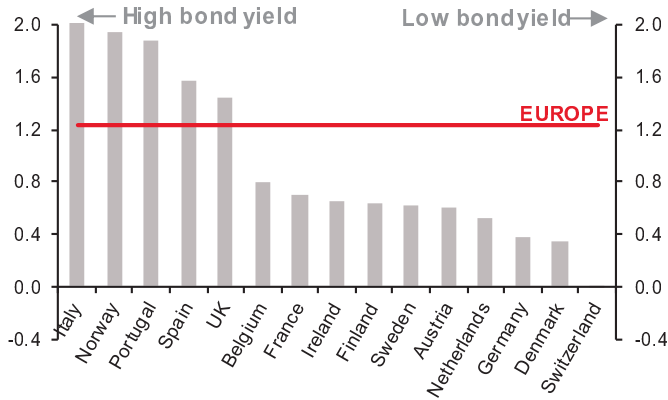


Dividend yield = current price / 12m forward dividend per share. Current 10 years domestic government bond yield. Blue = current, orange square= Europe; Source: IBES, MSCI, Datastream, SG Cross Asset/Equity Strategy

## Key indicators (2)

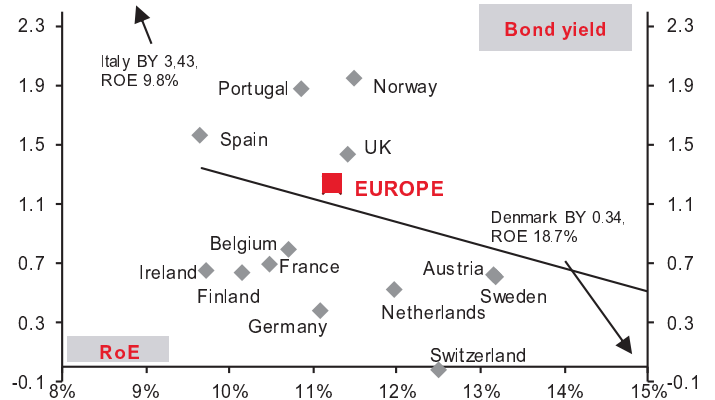
The European crisis has created discrepancy among European assets, both in bonds (obviously) and in equities. At the bottom of page, we highlight SG currency exchange expectations for the next 12 months.

### 10-year government bond yield



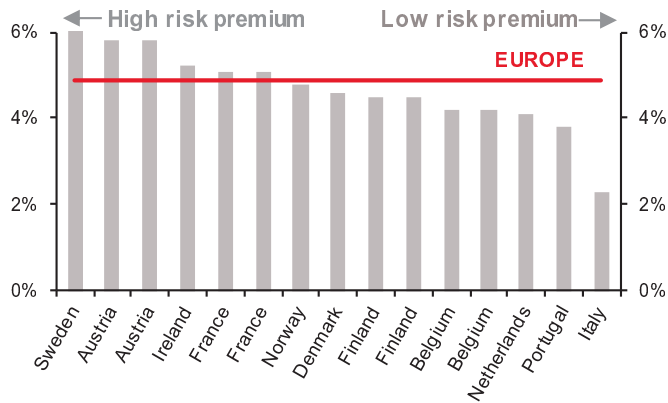
Current 10 years domestic government bond yield. Blue bars= current, orange line = Europe; Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

### 10-year government bond yield vs return on equity



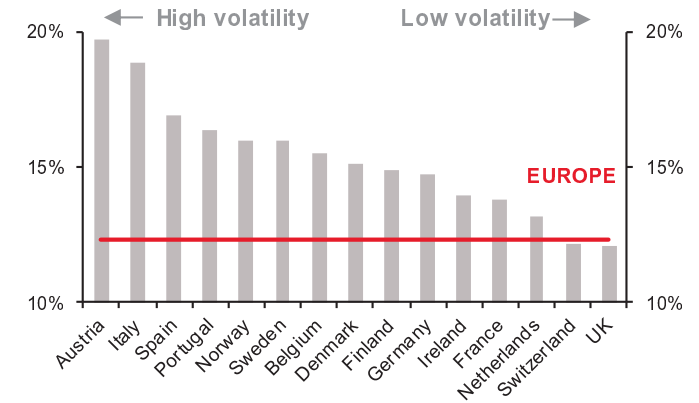
Current 10 years domestic government bond yield. Return on equity = 12m trailing earnings/book value; blue = current, orange square = Europe Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

### Equity risk premium



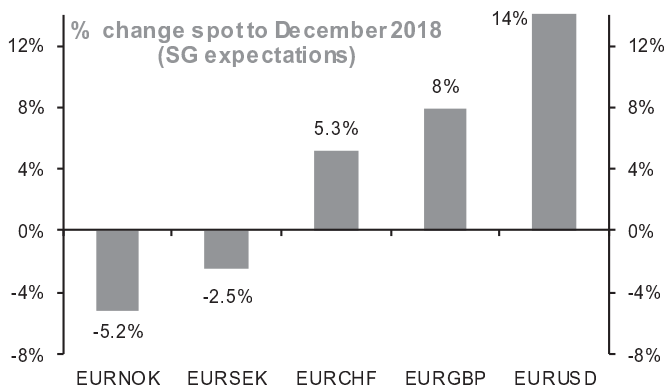
Equity risk premium calculation based on SG proprietary methodology (see [Risk Premium in Pictures](#)). Blue bars = current, orange line = Europe; Source: Datastream, SG Cross Asset Research/Equity Strategy

### Volatility



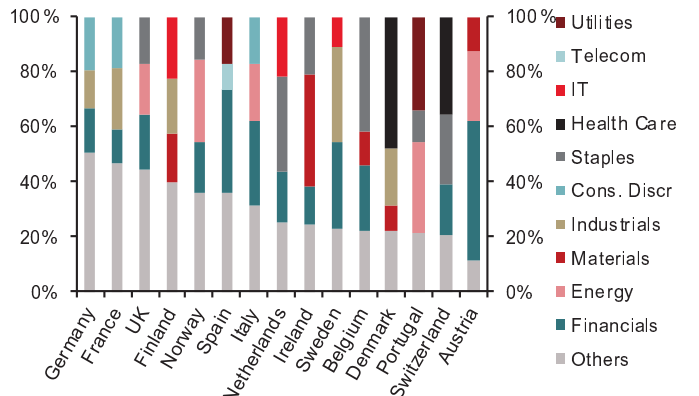
Volatility based on 2 years' weekly data; blue bars= current; orange line = Europe Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

### European currency exchange (SG expectation)



Source: SG Cross Asset Research/Economics

### Sector biases (right = concentrated markets)



Three biggest sector weights and others. On the left, the most diversified equity market (in terms of sector exposure), on the right the most concentrated. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

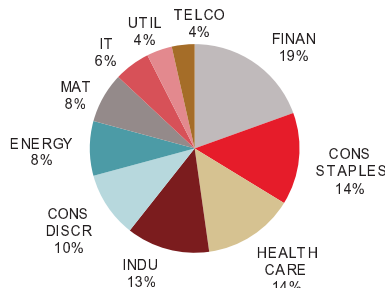


# Europe

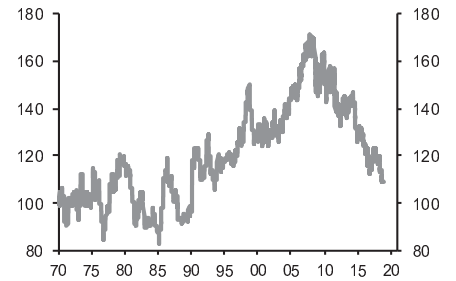
## Key indicators

	Europe	World
3m performance	-4%	-2%
12m performance	-5%	5%
FY2018 P/E	<b>13.5</b>	15.5
12m forward P/E	<b>12.4</b>	14.3
Price to book value	<b>1.7</b>	2.3
Return on Equity	<b>11%</b>	13%
Dividend Yield	<b>3.7%</b>	2.5%
Payout ratio	<b>57%</b>	45%
2018 EPS growth	<b>8%</b>	16%
2019 EPS growth	<b>9%</b>	9%
2020 EPS growth	<b>8%</b>	9%
Volatility	<b>12%</b>	10%

## Sector breakdown (% market cap.)



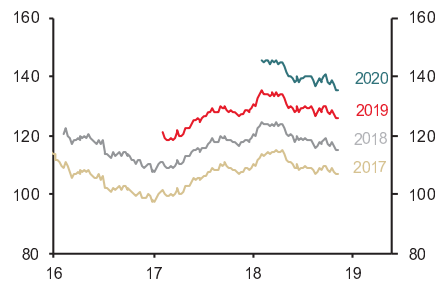
## Relative performance (in total returns)



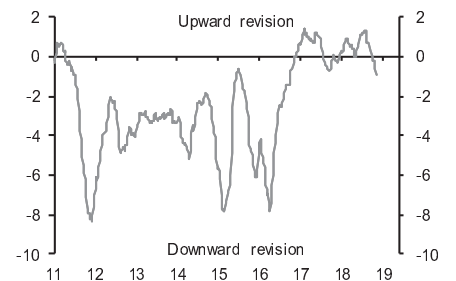
## 12m forward P/E ratio (absolute (blue) & relative (grey,rhs))



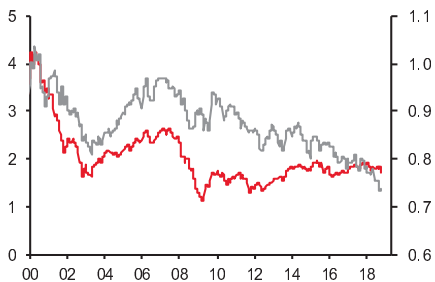
## Earnings per share



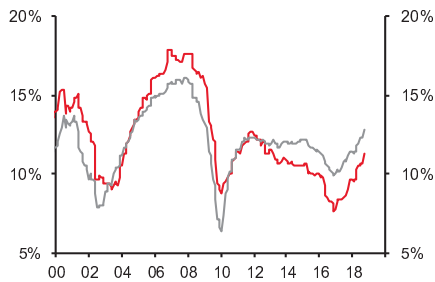
## Earnings momentum (3m change in 12m forward EPS)



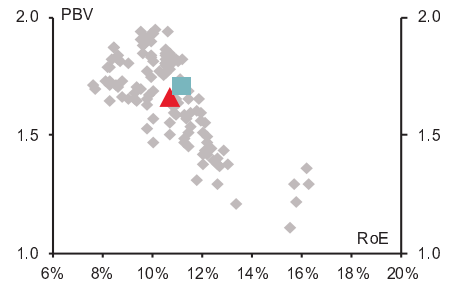
## Price to book value: absolute (blue) & relative (grey, rhs)



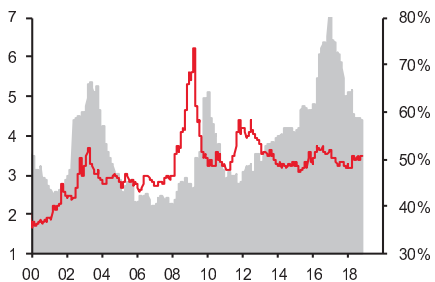
## Return on equity (grey = European market)



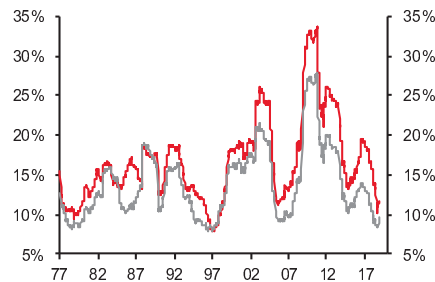
## Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)



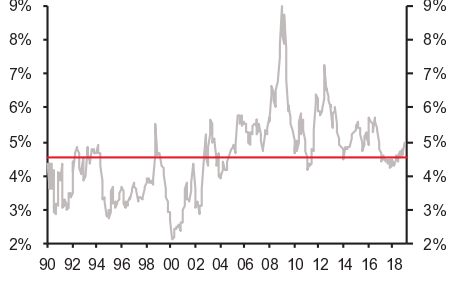
## Dividend yield & payout ratio (shadow)



## Volatility (grey = world market)



## Equity risk premium



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

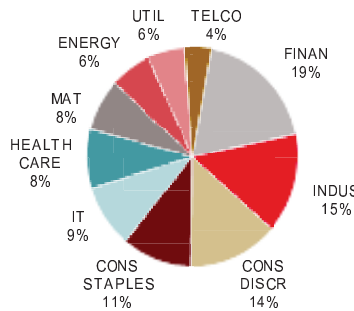
**Eurozone**



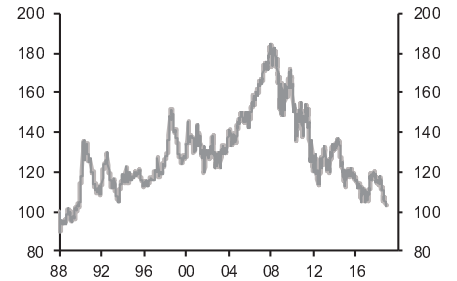
**Key indicators**

	<b>Eurozone</b>	World
3m performance	<b>-6%</b>	-2%
12m performance	<b>-8%</b>	5%
FY2018 P/E	<b>13.1</b>	15.5
12m forward P/E	<b>11.9</b>	14.3
Price to book value	<b>1.5</b>	2.3
Return on Equity	<b>11%</b>	13%
Dividend Yield	<b>3.5%</b>	2.5%
Payout ratio	<b>51%</b>	45%
2018 EPS growth	<b>5%</b>	16%
2019 EPS growth	<b>10%</b>	9%
2020 EPS growth	<b>9%</b>	9%
Volatility	<b>13%</b>	10%

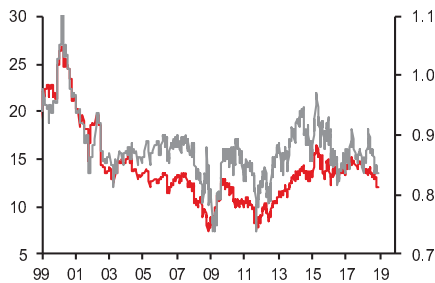
**Sector breakdown (% market cap.)**



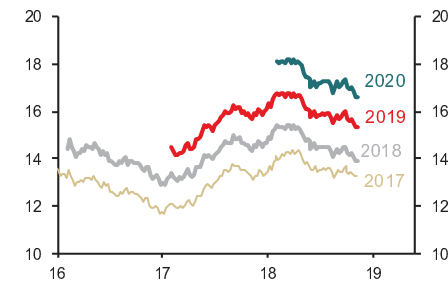
**Relative performance (in total returns)**



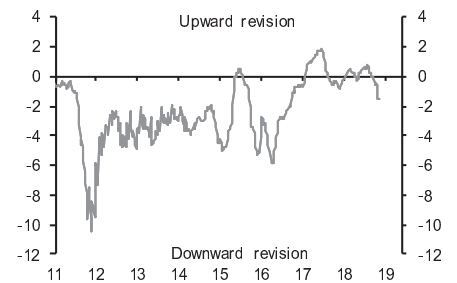
**12m forward P/E ratio (absolute (blue) & relative (grey,rhs))**



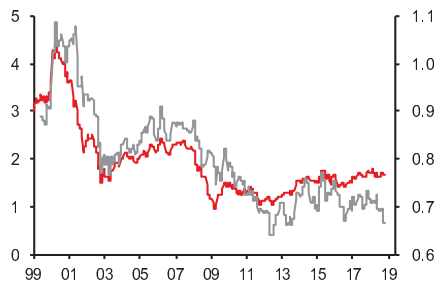
**Earnings per share**



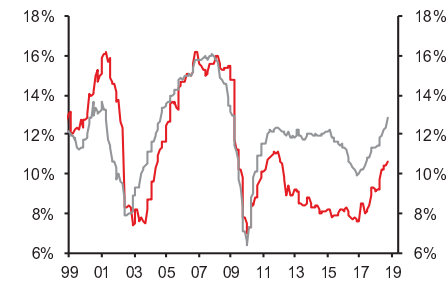
**Earnings momentum (3m change in 12m forward EPS)**



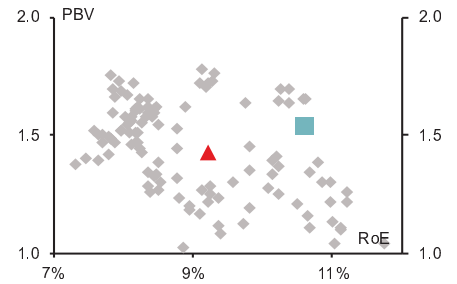
**Price to book value: absolute (blue) & relative (grey, rhs)**



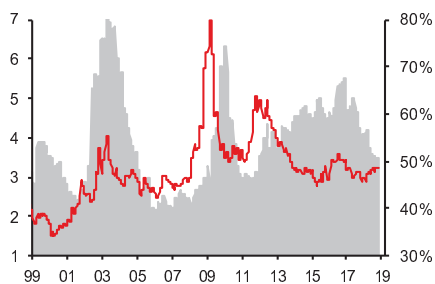
**Return on equity (grey = European market)**



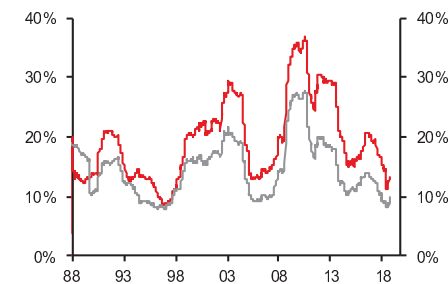
**Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)**



**Dividend yield & payout ratio (shadow)**



**Volatility (grey = world market)**



**Equity risk premium**



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy



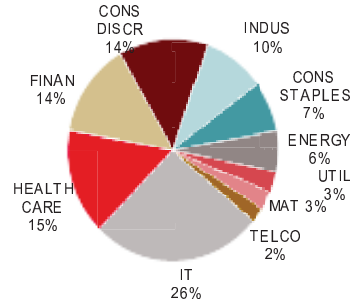
## United States



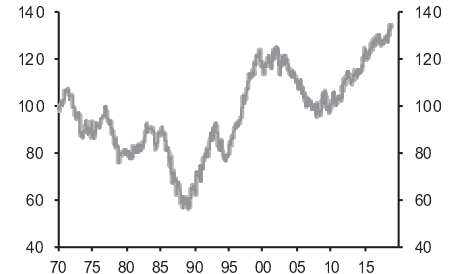
### Key indicators

	US	World
3m performance	-1%	-2%
12m performance	11%	5%
FY2018 P/E	17.1	15.5
12m forward P/E	15.7	14.3
Price to book value	3.2	2.3
Return on Equity	15%	13%
Dividend Yield	2.0%	2.5%
Payout ratio	42%	45%
2018 EPS growth	24%	16%
2019 EPS growth	10%	9%
2020 EPS growth	10%	9%
Volatility	11%	10%

### Sector breakdown (% market cap.)



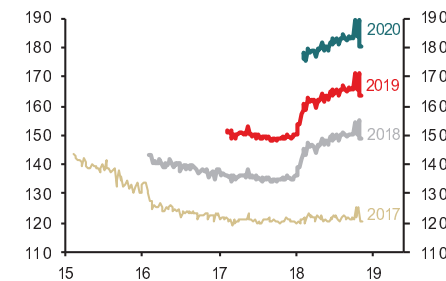
### Relative performance (in total returns)



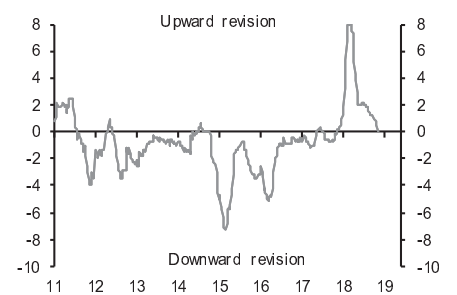
### 12m forward P/E ratio (absolute (blue) & relative (grey,rhs))



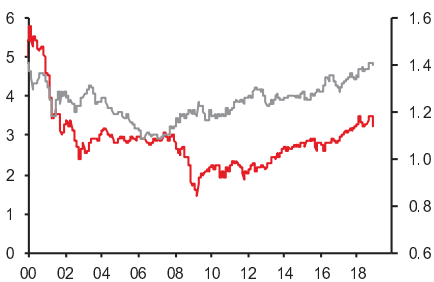
### Earnings per share



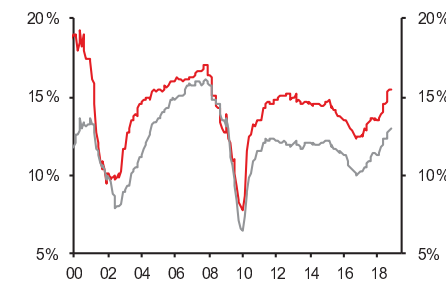
### Earnings momentum (3m change in 12m forward EPS)



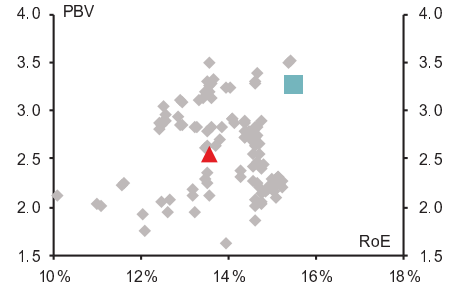
### Price to book value: absolute (blue) & relative (grey, rhs)



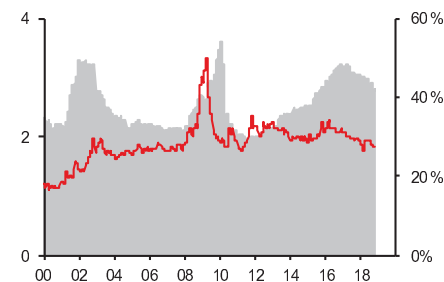
### Return on equity (grey = European market)



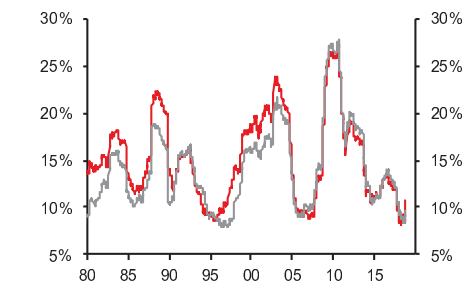
### Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)



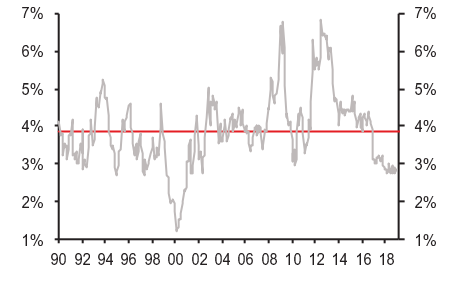
### Dividend yield & payout ratio (shadow)



### Volatility (grey = world market)



### Equity risk premium



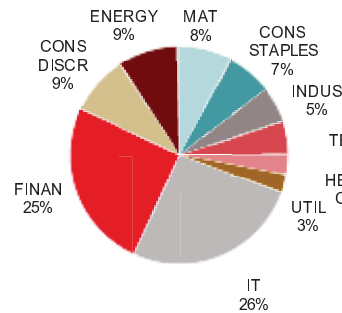
Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

## Global Emerging Markets

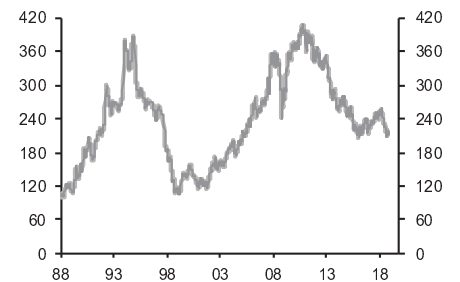
### Key indicators

	EM	World
3m performance	-7%	-2%
12m performance	-10%	5%
FY2018 P/E	11.0	15.5
12m forward P/E	10.0	14.3
Price to book value	1.5	2.3
Return on Equity	12%	13%
Dividend Yield	2.9%	2.5%
Payout ratio	36%	45%
2018 EPS growth	14%	16%
2019 EPS growth	11%	9%
2020 EPS growth	11%	9%
Volatility	15%	10%

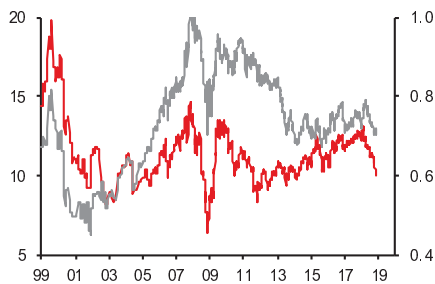
### Sector breakdown (% market cap.)



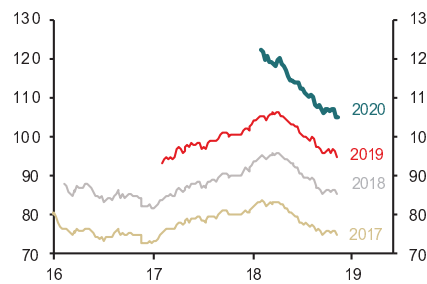
### Relative performance (in total returns)



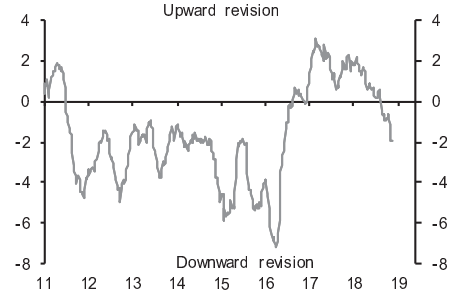
### 12m forward P/E ratio (absolute (blue) & relative (grey,rhs))



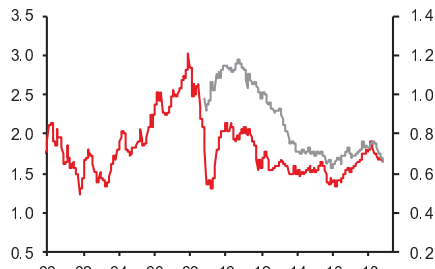
### Earnings per share



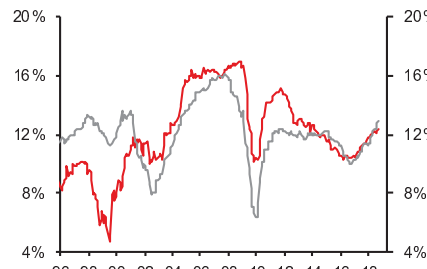
### Earnings momentum (3m change in 12m forward EPS)



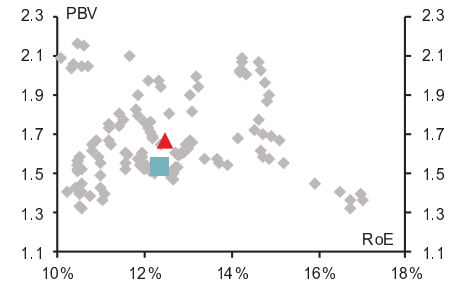
### Price to book value: absolute (blue) & relative (grey, rhs)



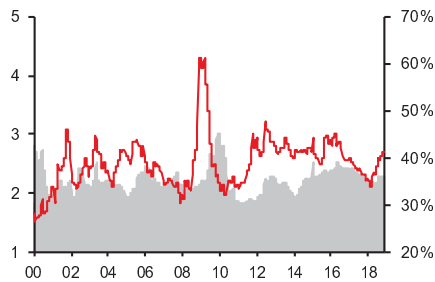
### Return on equity (grey = European market)



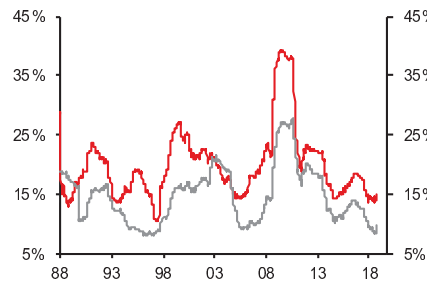
### Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)



### Dividend yield & payout ratio (shadow)



### Volatility (grey = world market)



### Equity risk premium



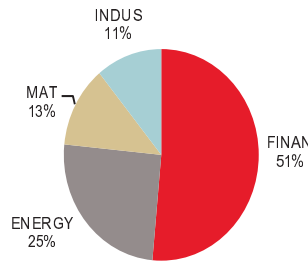
Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

# Austria

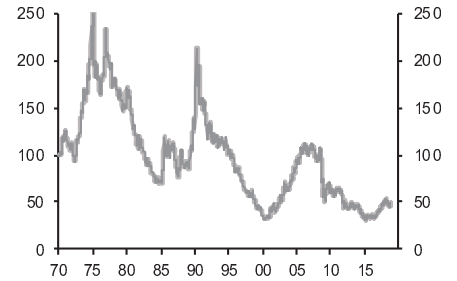
## Key indicators

	Austria	Europe
3m performance	-3%	-4%
12m performance	-10%	-5%
FY2018 P/E	9.4	13.5
12m forward P/E	8.9	12.4
Price to book value	1.3	1.7
Return on Equity	13%	11%
Dividend Yield	3.3%	3.7%
Payout ratio	32%	57%
2018 EPS growth	5%	8%
2019 EPS growth	7%	9%
2020 EPS growth	5%	8%
Volatility	18%	12%

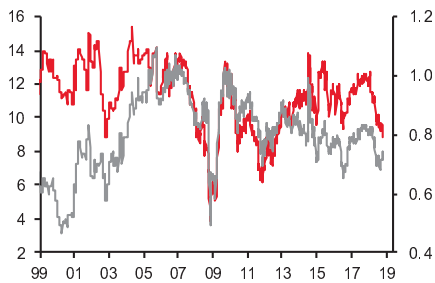
## Sector breakdown (% market cap.)



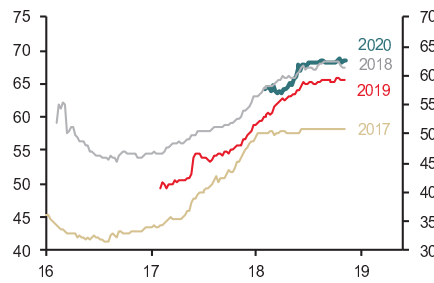
## Relative performance (in total returns)



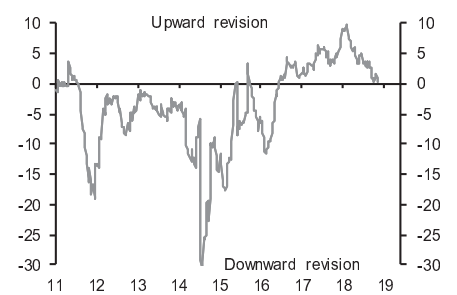
## 12m forward P/E ratio (absolute (blue) & relative (grey,rhs))



## Earnings per share



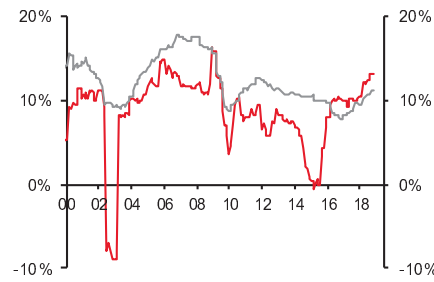
## Earnings momentum (3m change in 12m forward EPS)



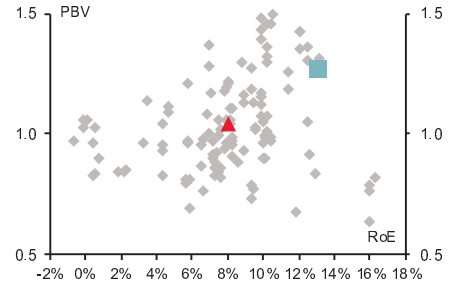
## Price to book value: absolute (blue) & relative (grey, rhs)



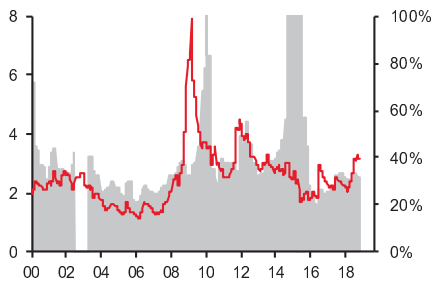
## Return on equity (grey = European market)



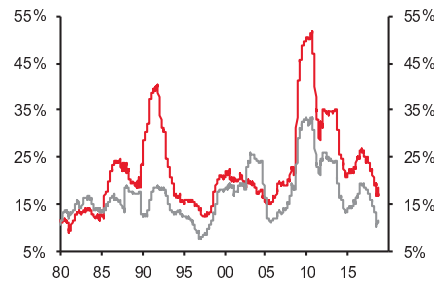
## Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)



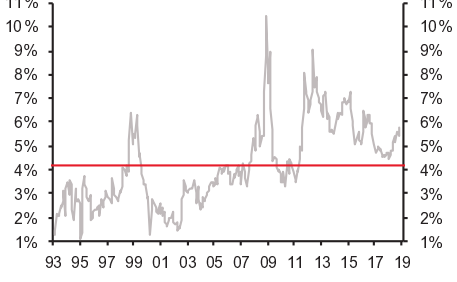
## Dividend yield & payout ratio (shadow)



## Volatility (grey = world market)



## Equity risk premium



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested),100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

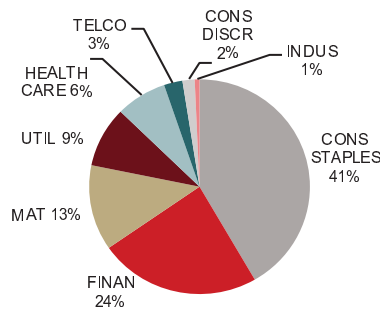
# Belgium



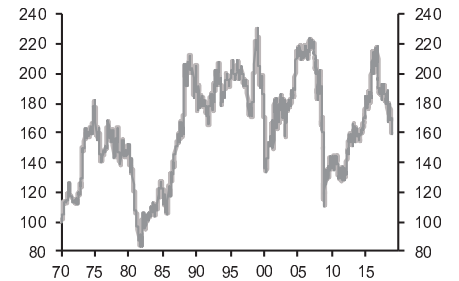
## Key indicators

	Belgium	Europe
3m performance	-12%	-4%
12m performance	-19%	-5%
FY2018 P/E	15.4	13.5
12m forward P/E	14.3	12.4
Price to book value	1.8	1.7
Return on Equity	11%	11%
Dividend Yield	3.8%	3.7%
Payout ratio	63%	57%
2018 EPS growth	2%	8%
2019 EPS growth	9%	9%
2020 EPS growth	8%	8%
Volatility	14%	12%

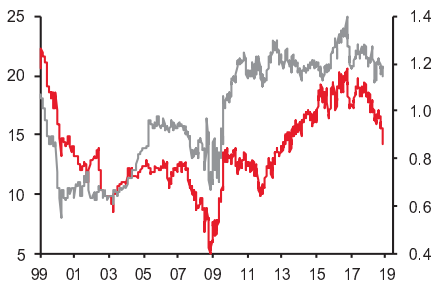
## Sector breakdown (% market cap.)



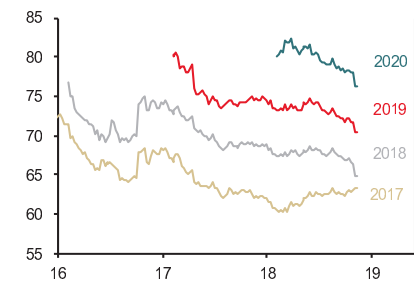
## Relative performance (in total returns)



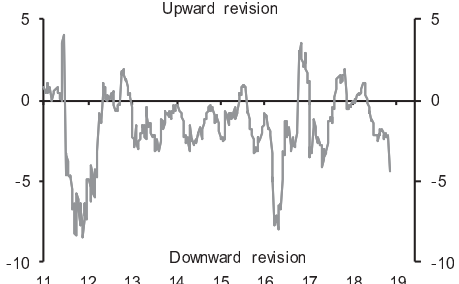
## 12m forward P/E ratio (absolute (blue) & relative (grey,rhs))



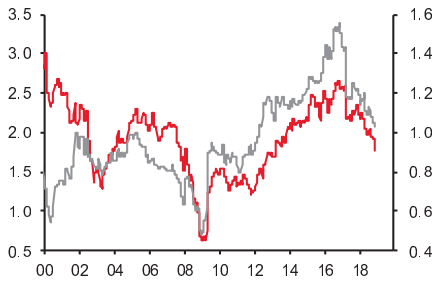
## Earnings per share



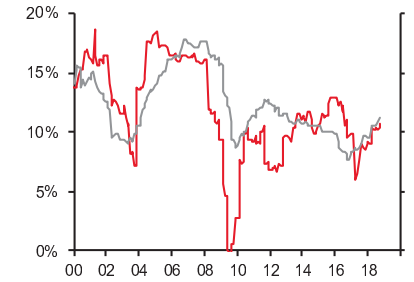
## Earnings momentum (3m change in 12m forward EPS)



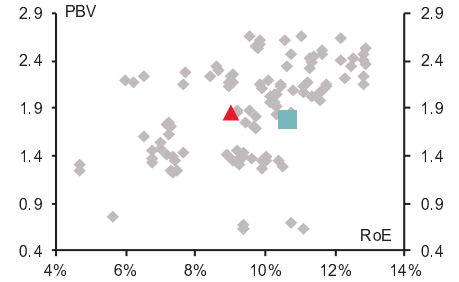
## Price to book value: absolute (blue) & relative (grey, rhs)



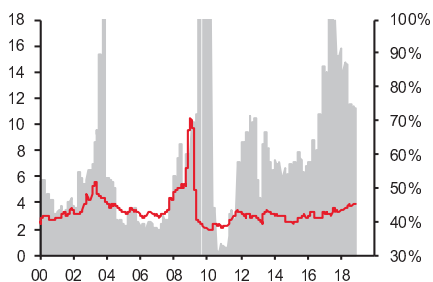
## Return on equity (grey = European market)



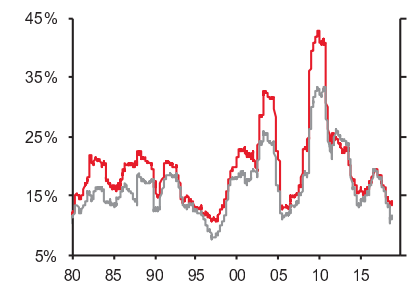
## Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)



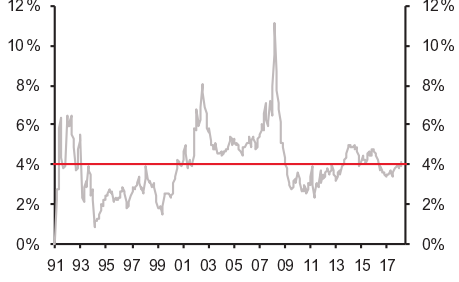
## Dividend yield & payout ratio (shadow)



## Volatility (grey = world market)



## Equity risk premium



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

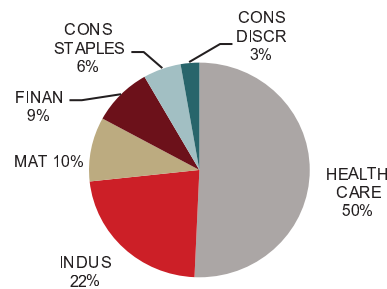
# Denmark



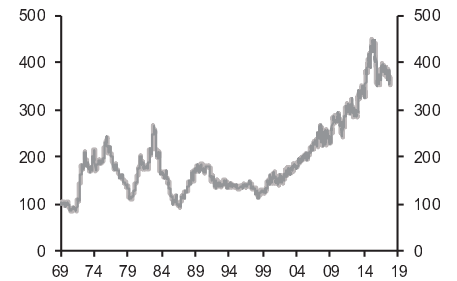
## Key indicators

	Denmark	Europe
3m performance	-3%	-4%
12m performance	-6%	-5%
FY2018 P/E	17.2	13.5
12m forward P/E	16.3	12.4
Price to book value	3.5	1.7
Return on Equity	19%	11%
Dividend Yield	2.5%	3.7%
Payout ratio	47%	57%
2018 EPS growth	1%	8%
2019 EPS growth	6%	9%
2020 EPS growth	11%	8%
Volatility	16%	12%

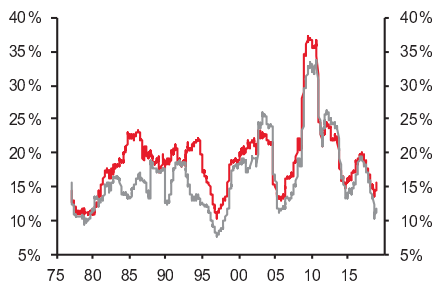
## Sector breakdown (% market cap.)



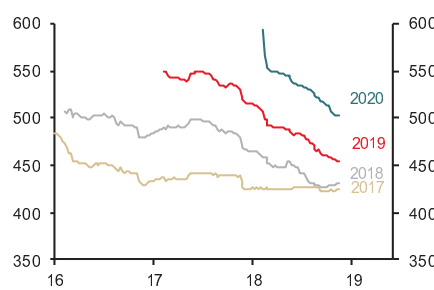
## Relative performance (in total returns)



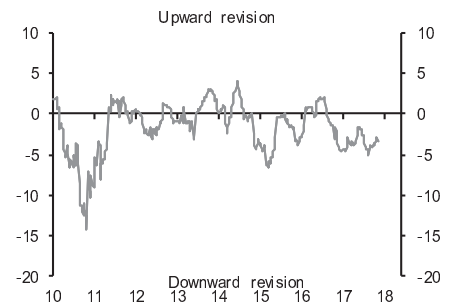
## 12m forward P/E ratio (absolute (blue) & relative (grey,rhs))



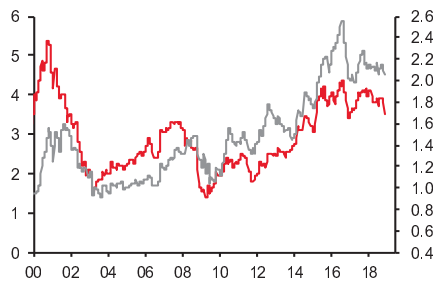
## Earnings per share



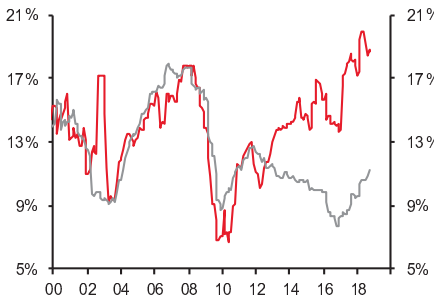
## Earnings momentum (3m change in 12m forward EPS)



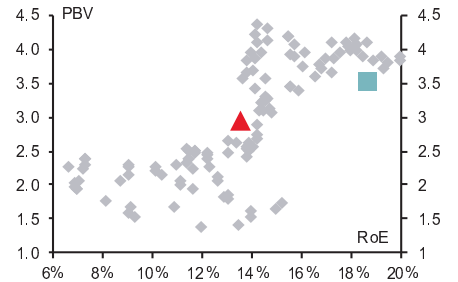
## Price to book value: absolute (blue) & relative (grey, rhs)



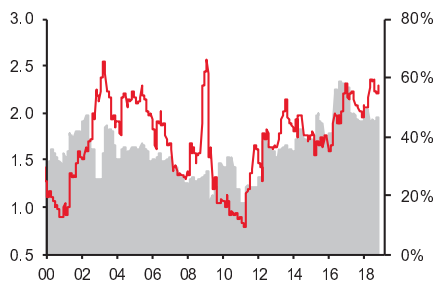
## Return on equity (grey = European market)



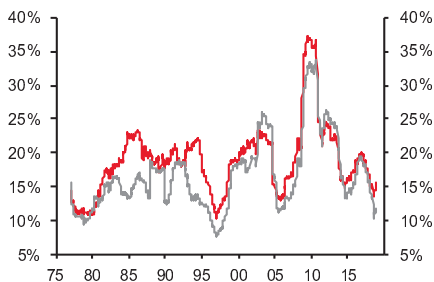
## Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)



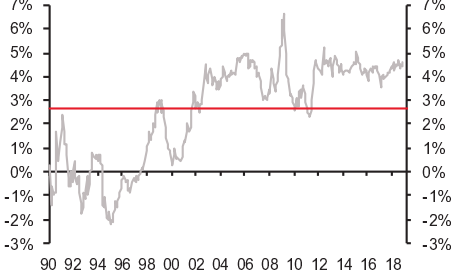
## Dividend yield & payout ratio (shadow)



## Volatility (grey = world market)



## Equity risk premium



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested),100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

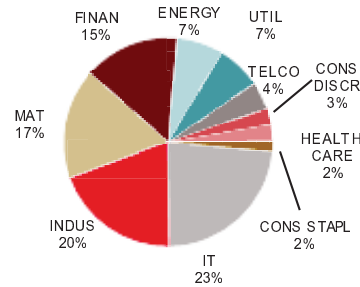


# Finland

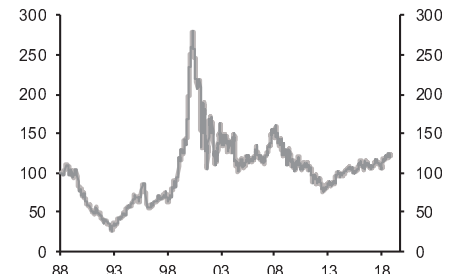
## Key indicators

	Finland	Europe
3m performance	-3%	-4%
12m performance	5%	-5%
FY2018 P/E	16.6	13.5
12m forward P/E	14.9	12.4
Price to book value	2.3	1.7
Return on Equity	10%	11%
Dividend Yield	4.3%	3.7%
Payout ratio	98%	57%
2018 EPS growth	-4%	8%
2019 EPS growth	13%	9%
2020 EPS growth	9%	8%
Volatility	16%	12%

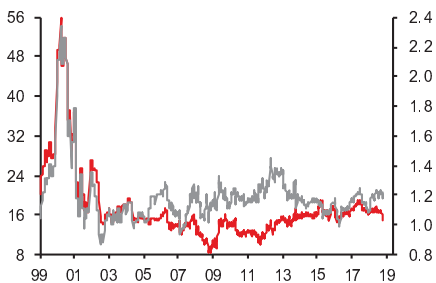
## Sector breakdown (% market cap.)



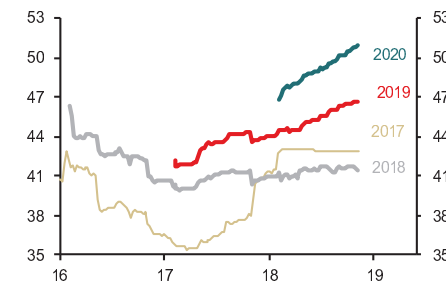
## Relative performance (in total returns)



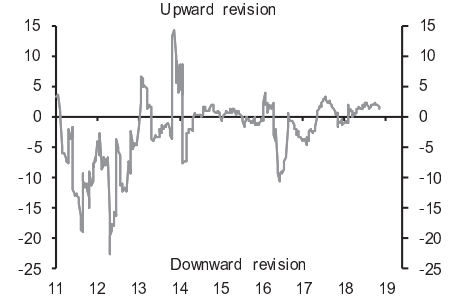
## 12m forward P/E ratio (absolute (blue) & relative (grey,rhs))



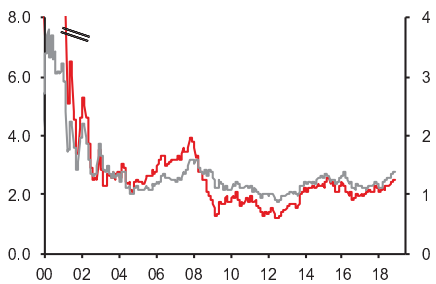
## Earnings per share



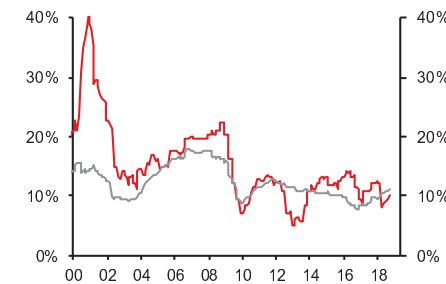
## Earnings momentum (3m change in 12m forward EPS)



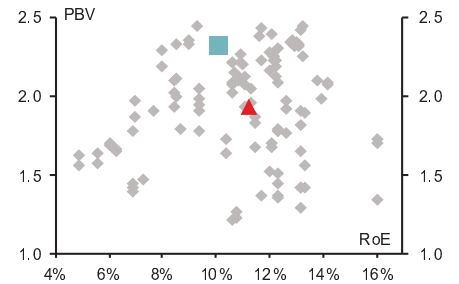
## Price to book value: absolute (blue) & relative (grey, rhs)



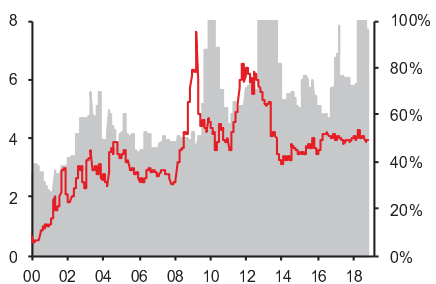
## Return on equity (grey = European market)



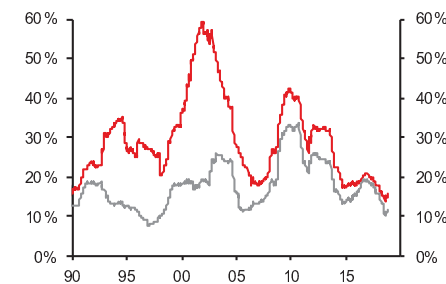
## Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)



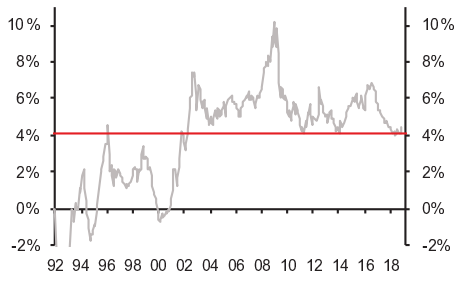
## Dividend yield & payout ratio (shadow)



## Volatility (grey = world market)



## Equity risk premium

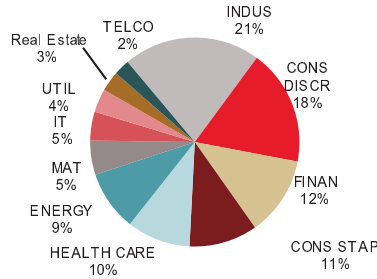


Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

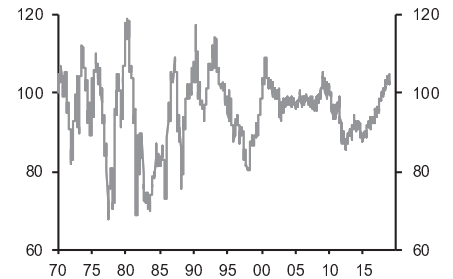
**France**



**Sector breakdown (% market cap.)**



**Relative performance (in total returns)**

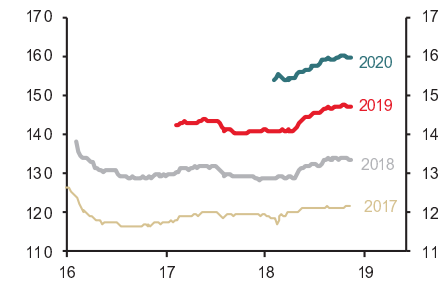


	France	Europe
3m performance	-5%	-4%
12m performance	-3%	-5%
FY2018 P/E	13.6	13.5
12m forward P/E	12.4	12.4
Price to book value	1.6	1.7
Return on Equity	10%	11%
Dividend Yield	3.3%	3.7%
Payout ratio	51%	57%
2018 EPS growth	10%	8%
2019 EPS growth	10%	9%
2020 EPS growth	9%	8%
Volatility	14%	12%

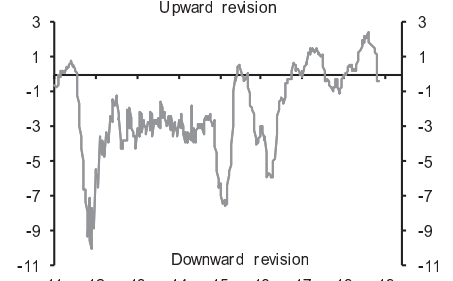
**12m forward P/E ratio (absolute (blue) & relative (grey,rhs))**



**Earnings per share**



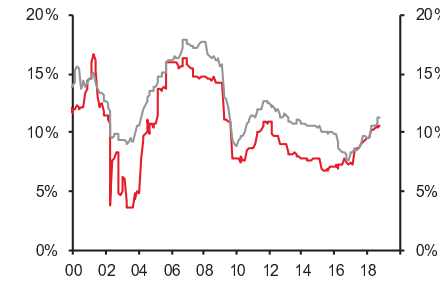
**Earnings momentum (3m change in 12m forward EPS)**



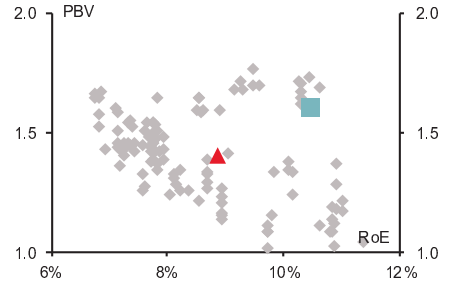
**Price to book value: absolute (blue) & relative (grey,rhs)**



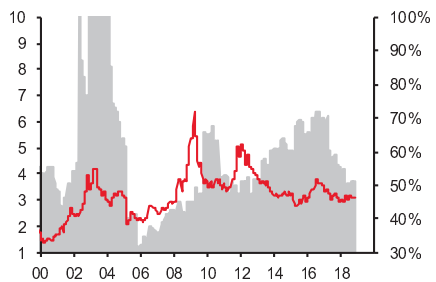
**Return on equity (grey = European market)**



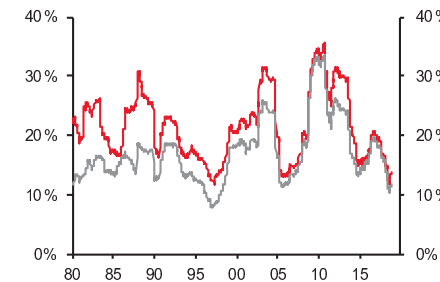
**Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)**



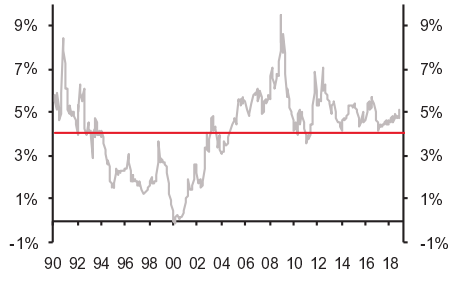
**Dividend yield & payout ratio (shadow)**



**Volatility (grey = world market)**



**Equity risk premium**



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

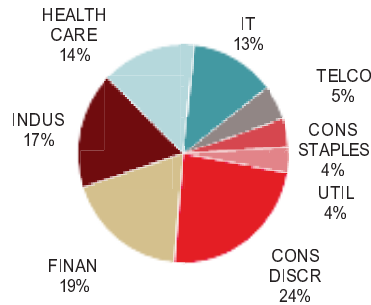
# Germany



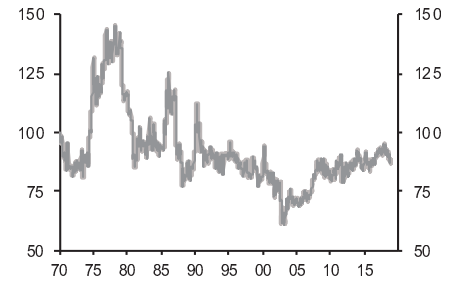
## Key indicators

	Germany	Europe
3m performance	-6%	-4%
12m performance	-12%	-5%
FY2018 P/E	12.7	13.5
12m forward P/E	11.4	12.4
Price to book value	1.6	1.7
Return on Equity	11%	11%
Dividend Yield	3.2%	3.7%
Payout ratio	45%	57%
2018 EPS growth	-2%	8%
2019 EPS growth	11%	9%
2020 EPS growth	9%	8%
Volatility	14%	12%

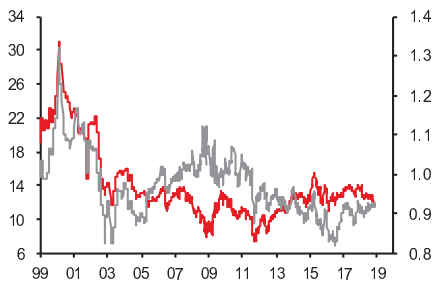
## Sector breakdown (% market cap.)



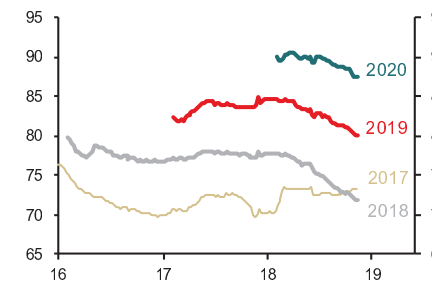
## Relative performance (in total returns)



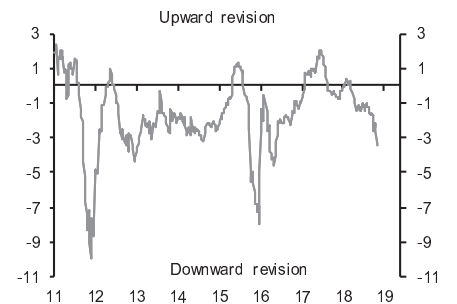
## 12m forward P/E ratio (absolute (blue) & relative (grey,rhs))



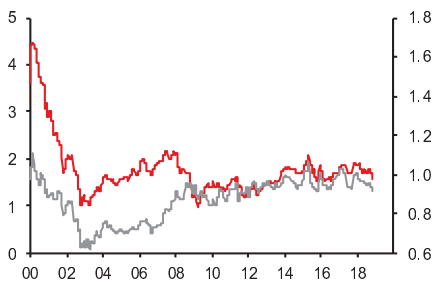
## Earnings per share



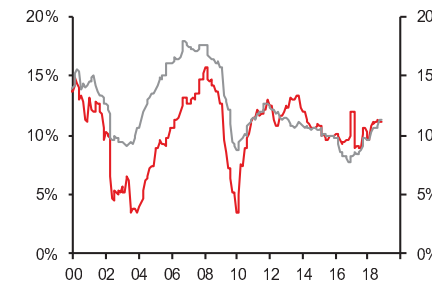
## Earnings momentum (3m change in 12m forward EPS)



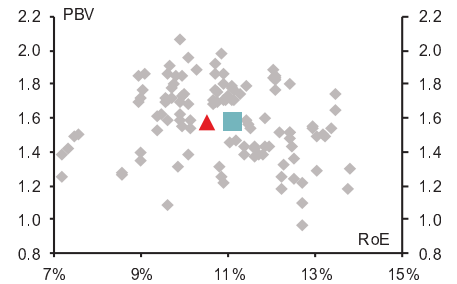
## Price to book value: absolute (blue) & relative (grey, rhs)



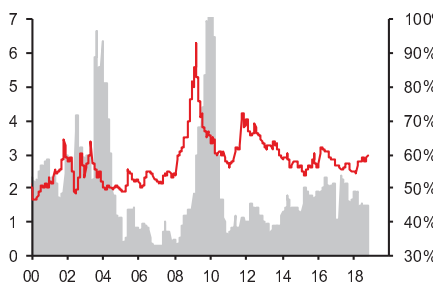
## Return on equity (grey = European market)



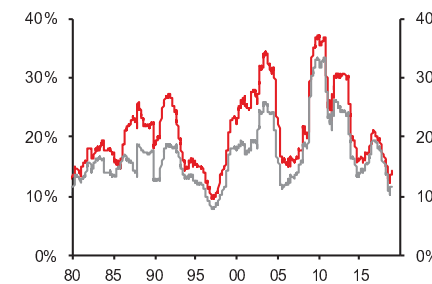
## Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)



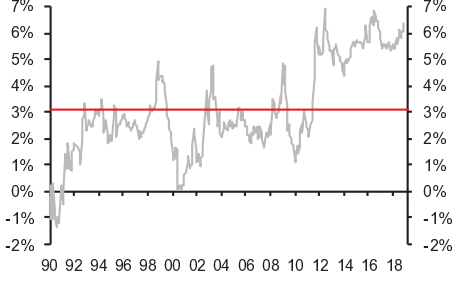
## Dividend yield & payout ratio (shadow)



## Volatility (grey = world market)



## Equity risk premium



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy



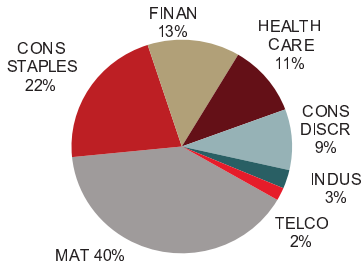
**Ireland**



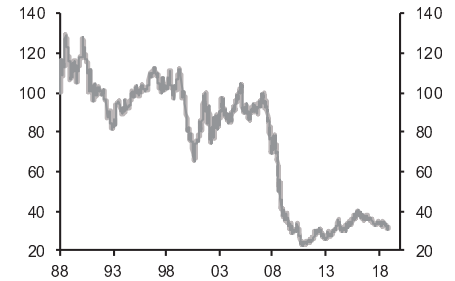
**Key indicators**

	Ireland	Europe
3m performance	-9%	-4%
12m performance	-11%	-5%
FY2017 P/E	14.0	13.5
12m forward P/E	13.3	12.4
Price to book value	1.6	1.7
Return on Equity	10%	11%
Dividend Yield	2.1%	3.7%
Payout ratio	34%	57%
2018 EPS growth	-2%	8%
2019 EPS growth	6%	9%
2020 EPS growth	11%	8%
Volatility	15%	12%

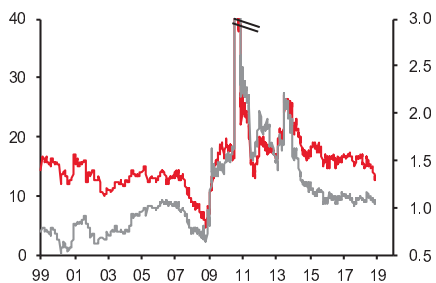
**Sector breakdown (% market cap.)**



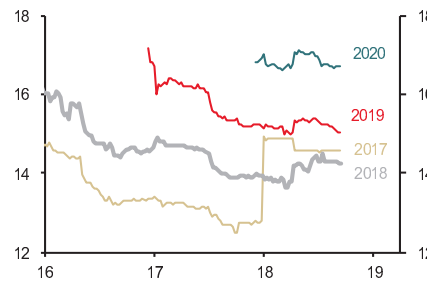
**Relative performance (in total returns)**



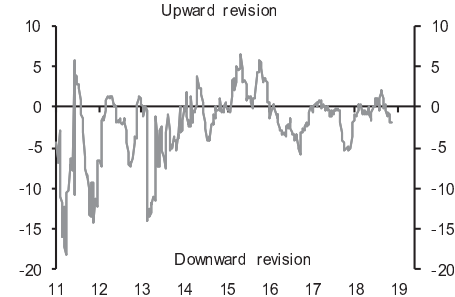
**12m forward P/E ratio (absolute (blue) & relative (grey,rhs))**



**Earnings per share**



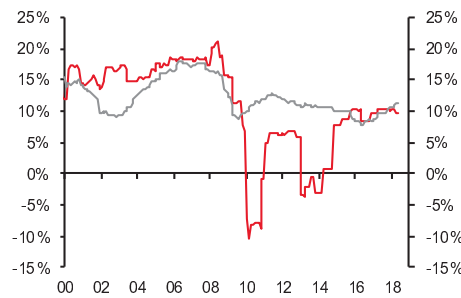
**Earnings momentum (3m change in 12m forward EPS)**



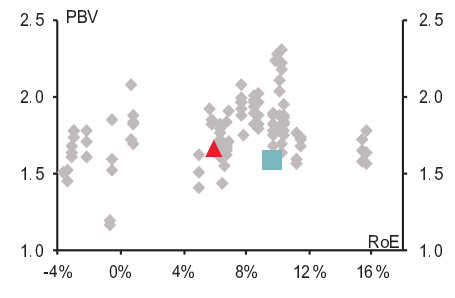
**Price to book value: absolute (blue) & relative (grey, rhs)**



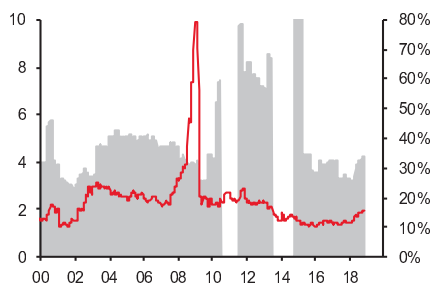
**Return on equity (grey = European market)**



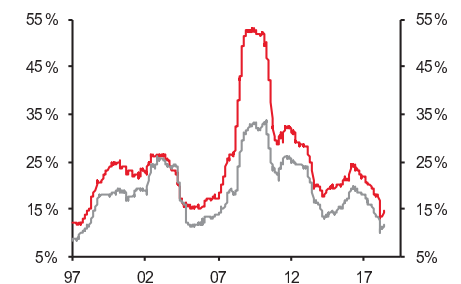
**Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)**



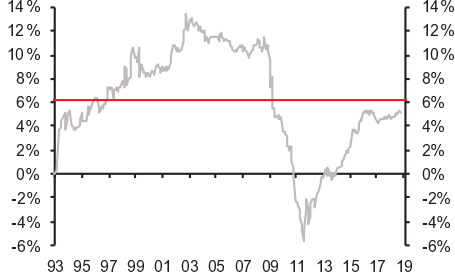
**Dividend yield & payout ratio (shadow)**



**Volatility (grey = world market)**



**Equity risk premium**



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested),100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

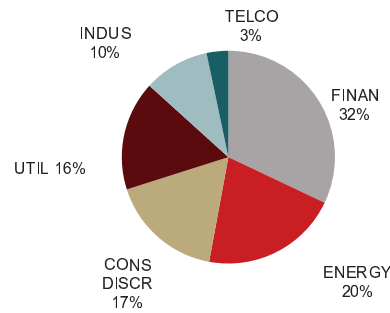
**Italy**



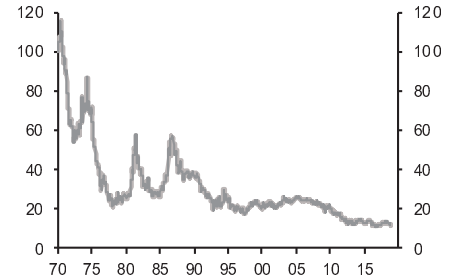
**Key indicators**

	Italy	Europe
3m performance	-7%	-4%
12m performance	-14%	-5%
FY2017 P/E	10.6	13.5
12m forward P/E	9.6	12.4
Price to book value	1.1	1.7
Return on Equity	10%	11%
Dividend Yield	4.4%	3.7%
Payout ratio	48%	57%
2018 EPS growth	na	8%
2019 EPS growth	12%	9%
2020 EPS growth	7%	8%
Volatility	17%	12%

**Sector breakdown (% market cap.)**



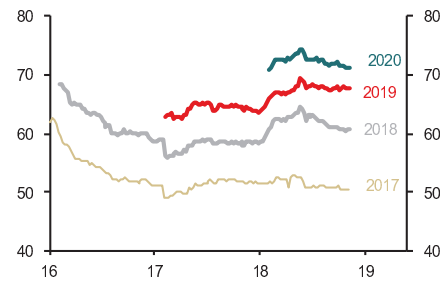
**Relative performance (in total returns)**



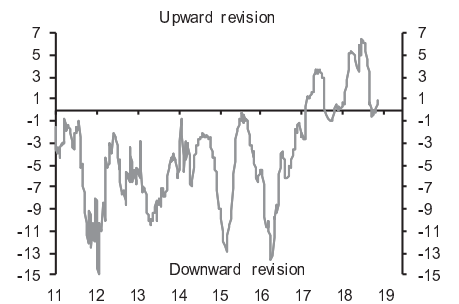
**12m forward P/E ratio (absolute (blue) & relative (grey,rhs))**



**Earnings per share**



**Earnings momentum (3m change in 12m forward EPS)**



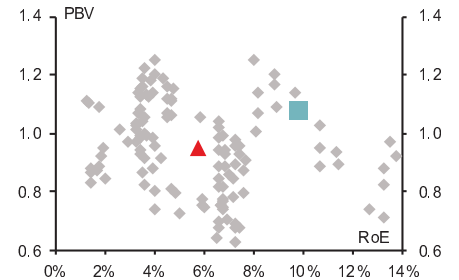
**Price to book value: absolute (blue) & relative (grey, rhs)**



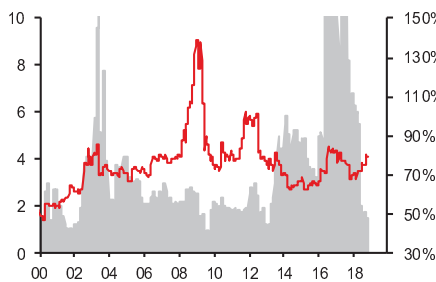
**Return on equity (grey = European market)**



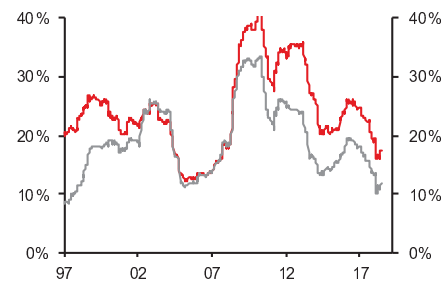
**Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)**



**Dividend yield & payout ratio (shadow)**



**Volatility (grey = world market)**



**Equity risk premium**



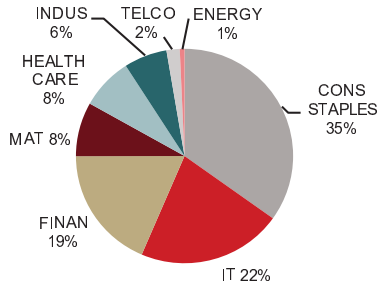
Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

# Netherlands

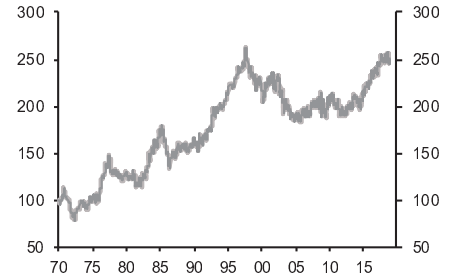
## Key indicators

	Netherlands	Europe
3m performance	-5%	-4%
12m performance	-4%	-5%
FY2017 P/E	15.1	13.5
12m forward P/E	13.9	12.4
Price to book value	2.0	1.7
Return on Equity	12%	11%
Dividend Yield	3.0%	3.7%
Payout ratio	50%	57%
2018 EPS growth	4%	8%
2019 EPS growth	9%	9%
2020 EPS growth	11%	8%
Volatility	13%	12%

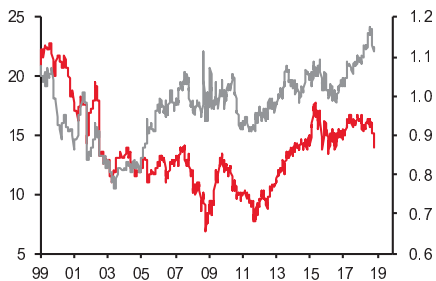
## Sector breakdown (% market cap.)



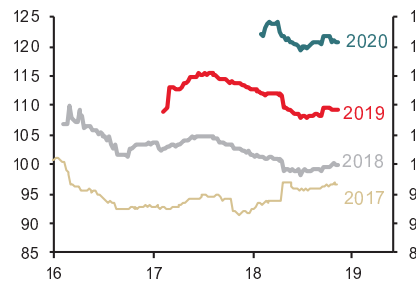
## Relative performance (in total returns)



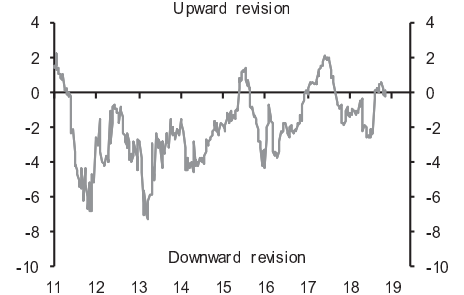
## 12m forward P/E ratio (absolute (blue) & relative (grey,rhs))



## Earnings per share



## Earnings momentum (3m change in 12m forward EPS)



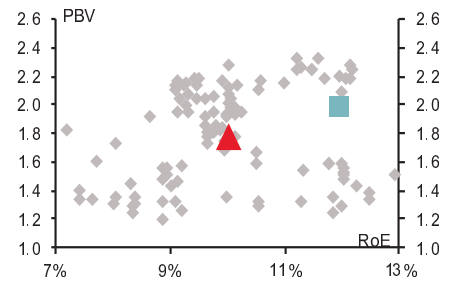
## Price to book value: absolute (blue) & relative (grey, rhs)



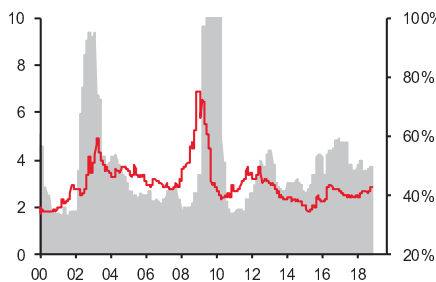
## Return on equity (grey = European market)



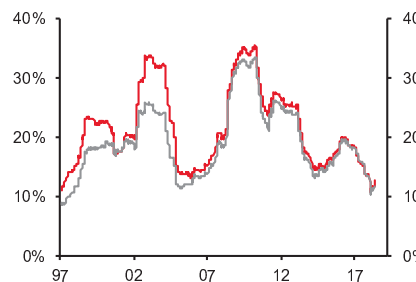
## Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)



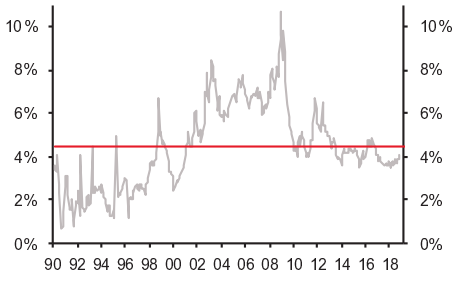
## Dividend yield & payout ratio (shadow)



## Volatility (grey = world market)



## Equity risk premium



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested),100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

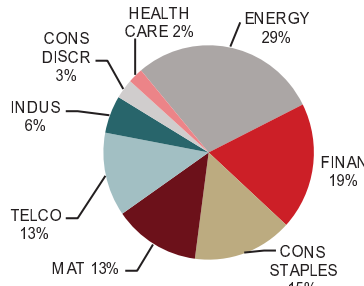
# Norway



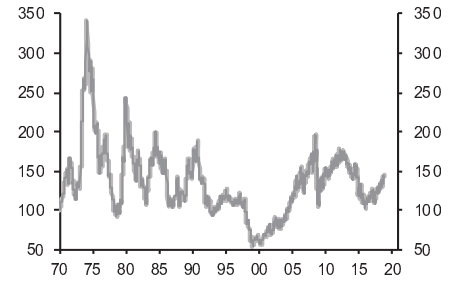
## Key indicators

	Norway	Europe
3m performance	-1%	-4%
12m performance	2%	-5%
FY2017 P/E	13.9	13.5
12m forward P/E	12.1	12.4
Price to book value	2.0	1.7
Return on Equity	11%	11%
Dividend Yield	4.0%	3.7%
Payout ratio	70%	57%
2018 EPS growth	11%	8%
2019 EPS growth	16%	9%
2020 EPS growth	7%	8%
Volatility	15%	12%

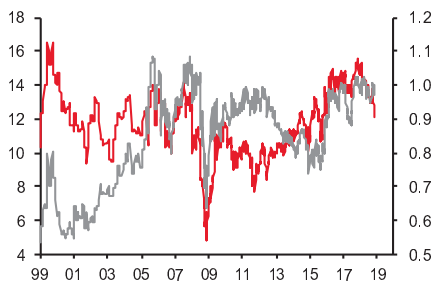
## Sector breakdown (% market cap.)



## Relative performance (in total returns)



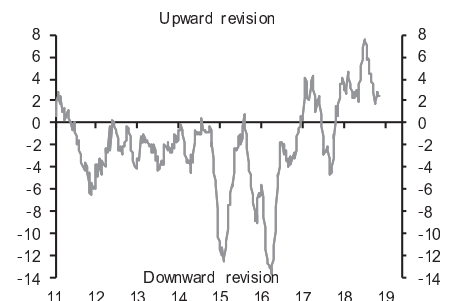
## 12m forward P/E ratio (absolute (blue) & relative (grey,rhs))



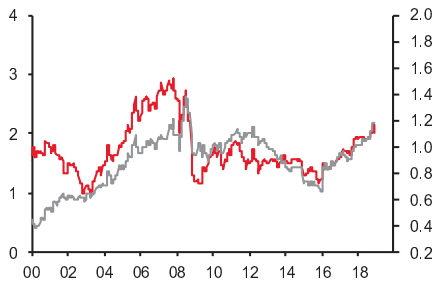
## Earnings per share



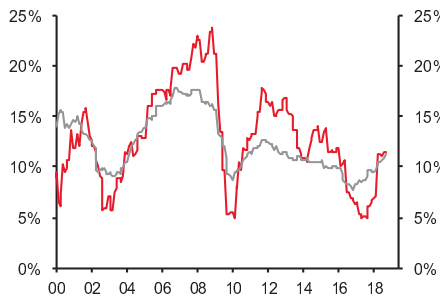
## Earnings momentum (3m change in 12m forward EPS)



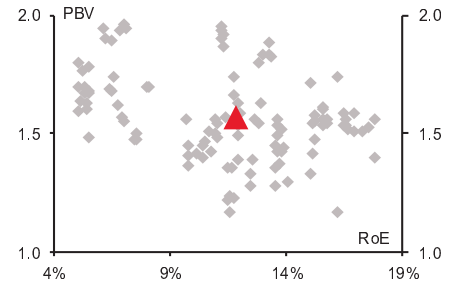
## Price to book value: absolute (blue) & relative (grey, rhs)



## Return on equity (grey = European market)



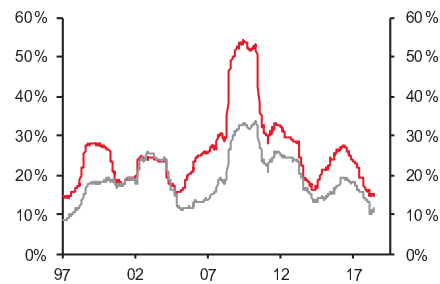
## Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)



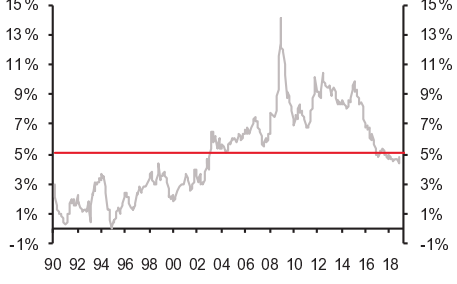
## Dividend yield & payout ratio (shadow)



## Volatility (grey = world market)



## Equity risk premium



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

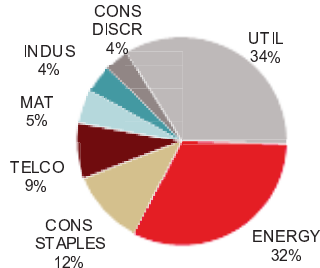
# Portugal



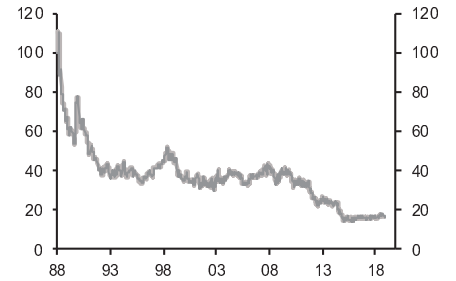
## Key indicators

	Portugal	Europe
3m performance	-13%	-4%
12m performance	-8%	-5%
FY2017 P/E	16.0	13.5
12m forward P/E	14.4	12.4
Price to book value	1.9	1.7
Return on Equity	11%	11%
Dividend Yield	5.0%	3.7%
Payout ratio	89%	57%
2018 EPS growth	-13%	8%
2019 EPS growth	12%	9%
2020 EPS growth	6%	8%
Volatility	16%	12%

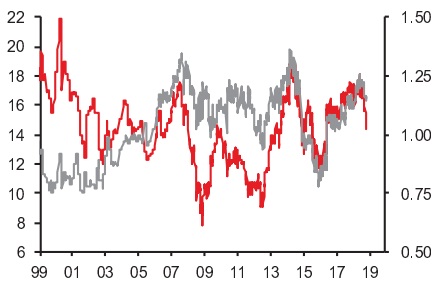
## Sector breakdown (% market cap.)



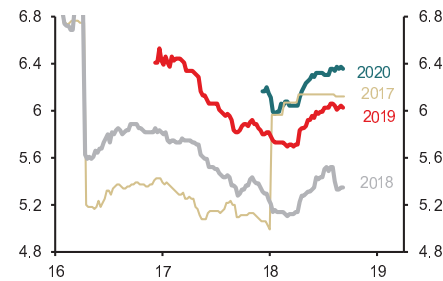
## Relative performance (in total returns)



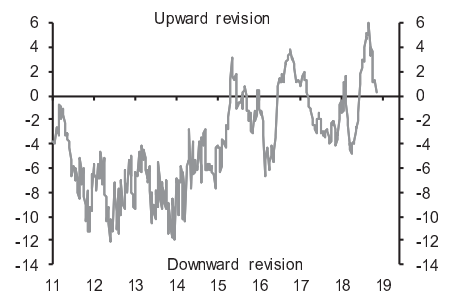
## 12m forward P/E ratio (absolute (blue) & relative (grey,rhs))



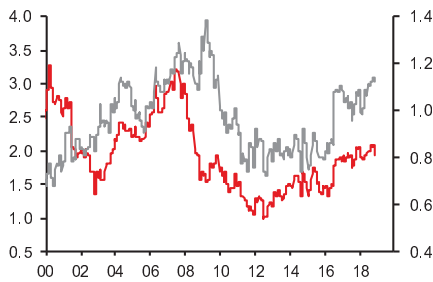
## Earnings per share



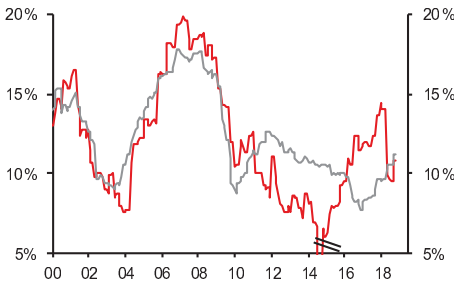
## Earnings momentum (3m change in 12m forward EPS)



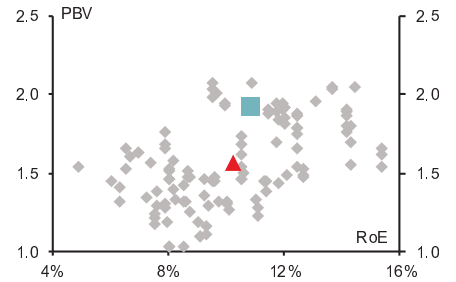
## Price to book value: absolute (blue) & relative (grey, rhs)



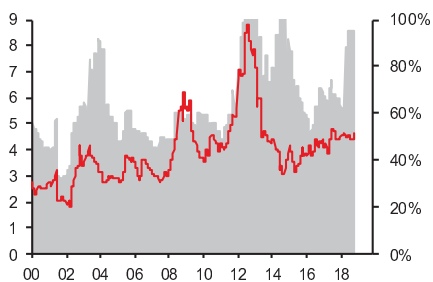
## Return on equity (grey = European market)



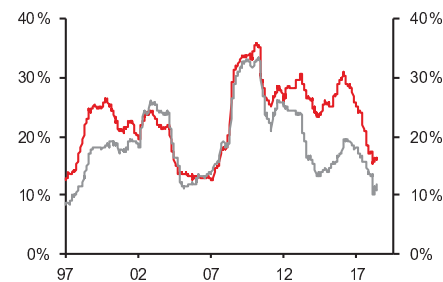
## Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)



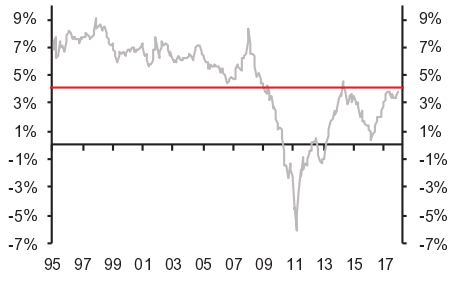
## Dividend yield & payout ratio (shadow)



## Volatility (grey = world market)



## Equity risk premium



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

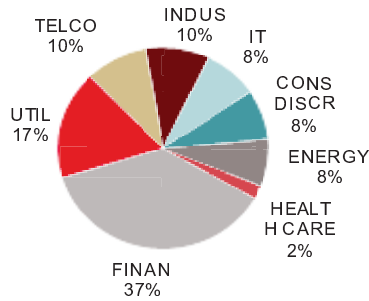
**Spain**



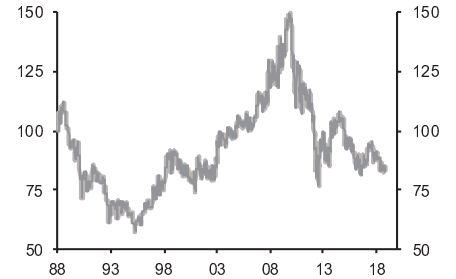
**Key indicators**

	Spain	Europe
3m performance	-3%	-4%
12m performance	-9%	-5%
FY2017 P/E	11.4	13.5
12m forward P/E	10.6	12.4
Price to book value	1.2	1.7
Return on Equity	10%	11%
Dividend Yield	4.5%	3.7%
Payout ratio	57%	57%
2018 EPS growth	7%	8%
2019 EPS growth	8%	9%
2020 EPS growth	8%	8%
Volatility	16%	12%

**Sector breakdown (% market cap.)**



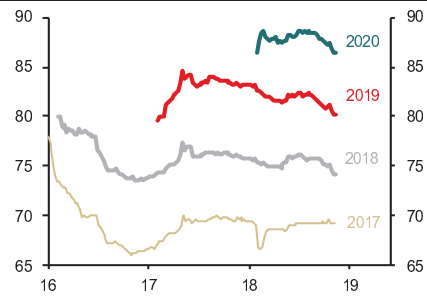
**Relative performance (in total returns)**



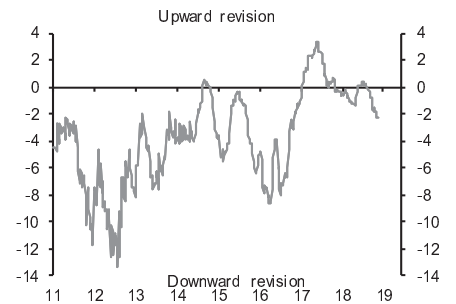
**12m forward P/E ratio (absolute (blue) & relative (grey,rhs))**



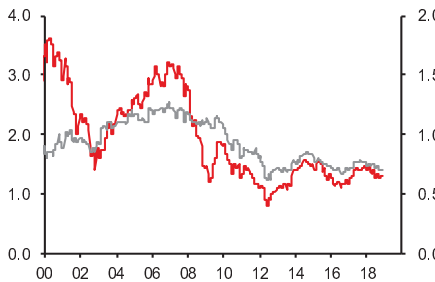
**Earnings per share**



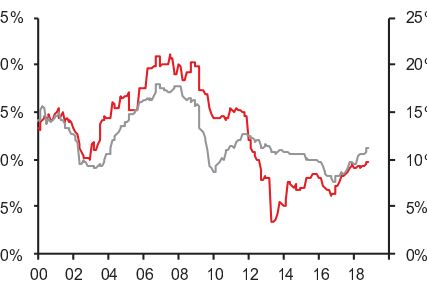
**Earnings momentum (3m change in 12m forward EPS)**



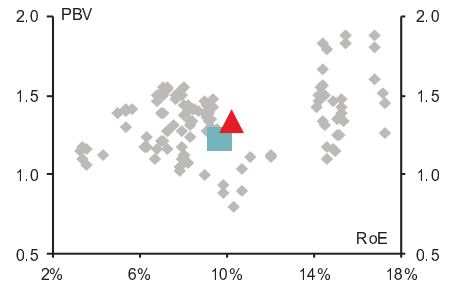
**Price to book value: absolute (blue) & relative (grey, rhs)**



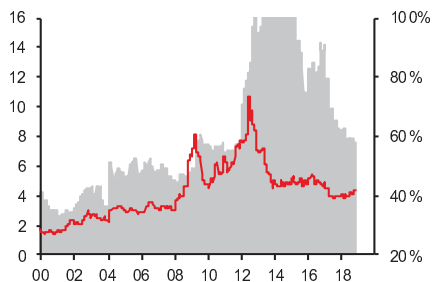
**Return on equity (grey = European market)**



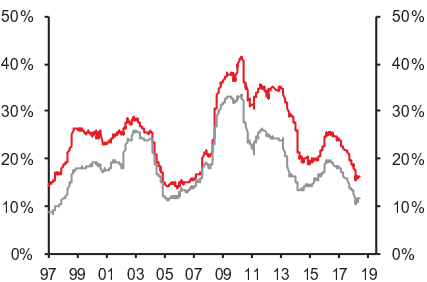
**Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)**



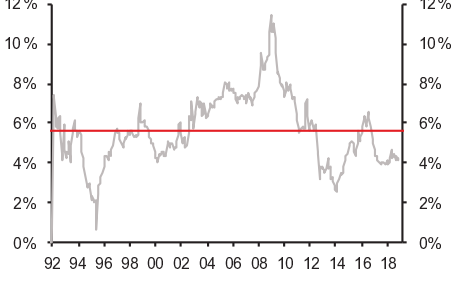
**Dividend yield & payout ratio (shadow)**



**Volatility (grey = world market)**



**Equity risk premium**



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

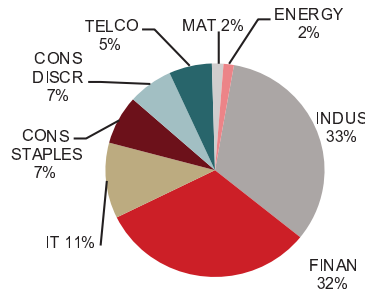
# Sweden



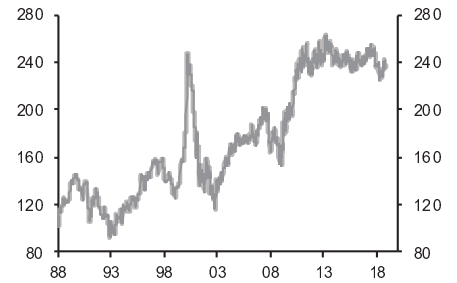
## Key indicators

	Sweden	Europe
3m performance	-4%	-4%
12m performance	-10%	-5%
FY2017 P/E	14.8	13.5
12m forward P/E	14.1	12.4
Price to book value	2.1	1.7
Return on Equity	13%	11%
Dividend Yield	3.9%	3.7%
Payout ratio	62%	57%
2018 EPS growth	5%	8%
2019 EPS growth	5%	9%
2020 EPS growth	7%	8%
Volatility	14%	12%

## Sector breakdown (% market cap.)



## Relative performance (in total returns)



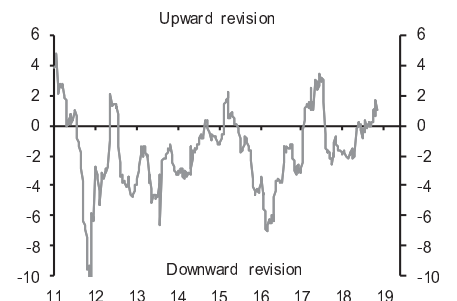
## 12m forward P/E ratio (absolute (blue) & relative (grey,rhs))



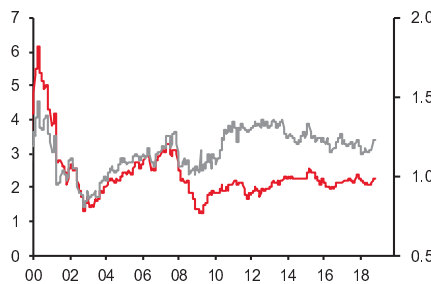
## Earnings per share



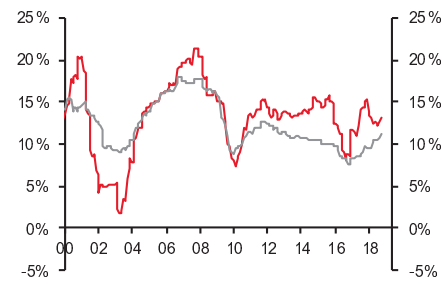
## Earnings momentum (3m change in 12m forward EPS)



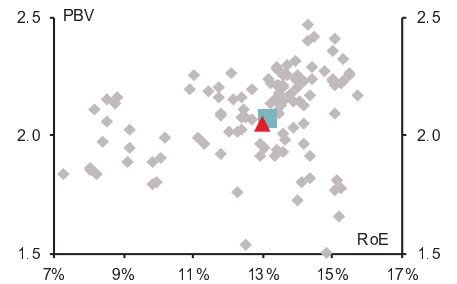
## Price to book value: absolute (blue) & relative (grey, rhs)



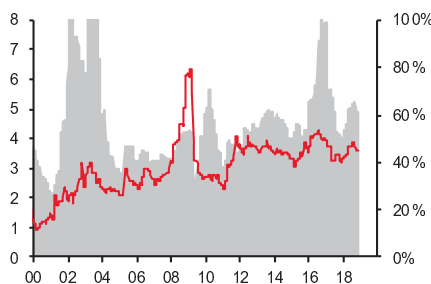
## Return on equity (grey = European market)



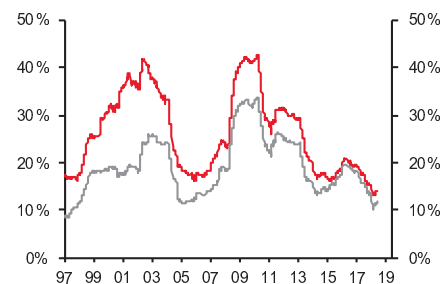
## Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)



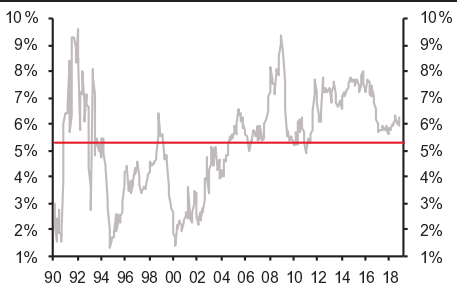
## Dividend yield & payout ratio (shadow)



## Volatility (grey = world market)



## Equity risk premium



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested),100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

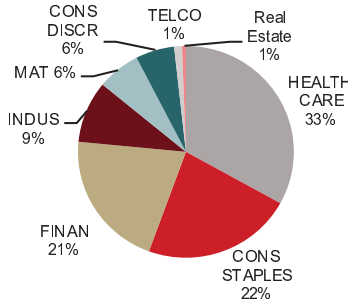
**Switzerland**



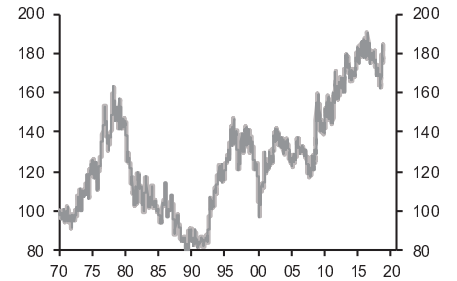
**Key indicators**

	Switzerland	Europe
3m performance	0%	-4%
12m performance	2%	-5%
FY2017 P/E	17.2	13.5
12m forward P/E	15.7	12.4
Price to book value	2.6	1.7
Return on Equity	13%	11%
Dividend Yield	3.2%	3.7%
Payout ratio	66%	57%
2018 EPS growth	14%	8%
2019 EPS growth	11%	9%
2020 EPS growth	8%	8%
Volatility	11%	12%

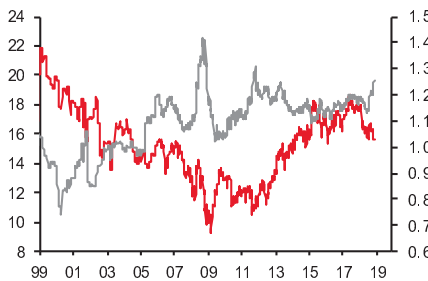
**Sector breakdown (% market cap.)**



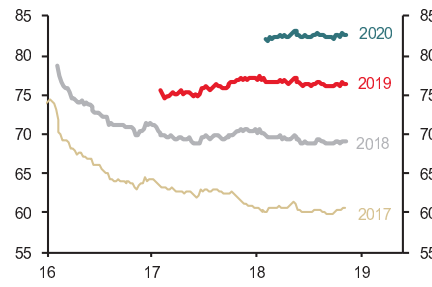
**Relative performance (in total returns)**



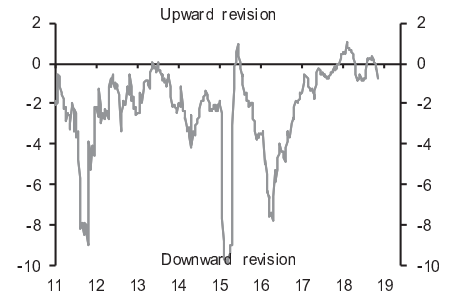
**12m forward P/E ratio (absolute (blue) & relative (grey,rhs))**



**Earnings per share**



**Earnings momentum (3m change in 12m forward EPS)**



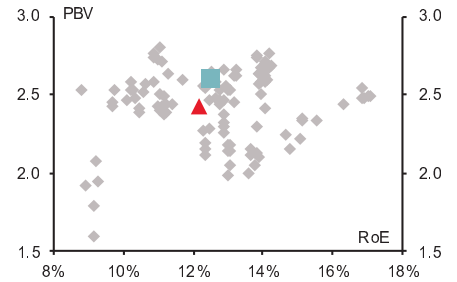
**Price to book value: absolute (blue) & relative (grey, rhs)**



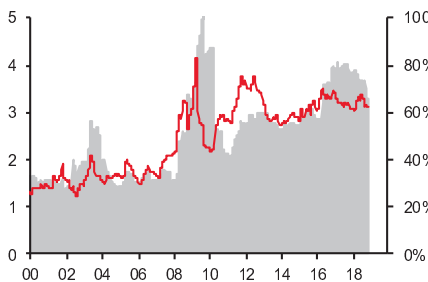
**Return on equity (grey = European market)**



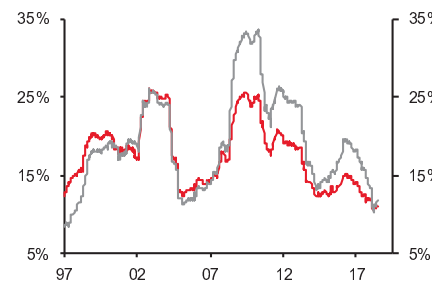
**Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)**



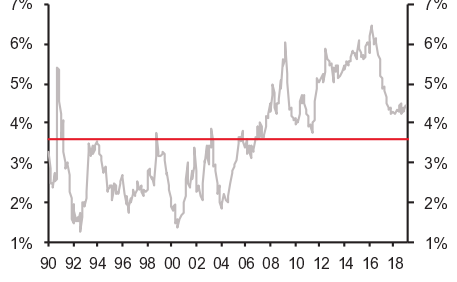
**Dividend yield & payout ratio (shadow)**



**Volatility (grey = world market)**



**Equity risk premium**



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy



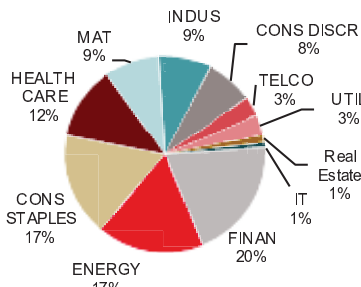
# United Kingdom



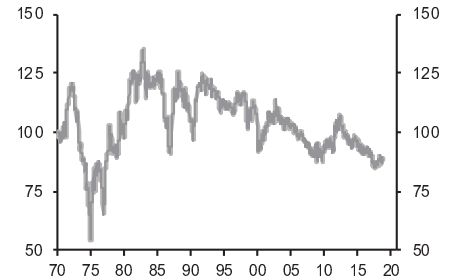
## Key indicators

	UK	Europe
3m performance	-4%	-4%
12m performance	-2%	-5%
FY2017 P/E	12.5	13.5
12m forward P/E	11.6	12.4
Price to book value	1.6	1.7
Return on Equity	11%	11%
Dividend Yield	4.5%	3.7%
Payout ratio	64%	57%
2018 EPS growth	10%	8%
2019 EPS growth	8%	9%
2020 EPS growth	6%	8%
Volatility	11%	12%

## Sector breakdown (% market cap.)



## Relative performance (in total returns)



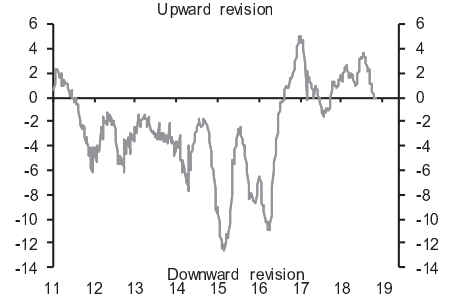
## 12m forward P/E ratio (absolute (blue) & relative (grey,rhs))



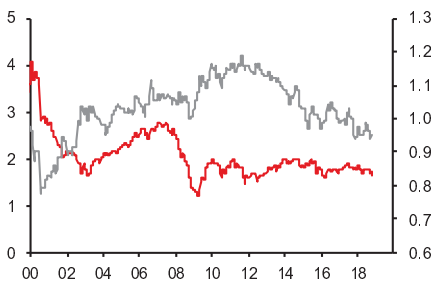
## Earnings per share



## Earnings momentum (3m change in 12m forward EPS)



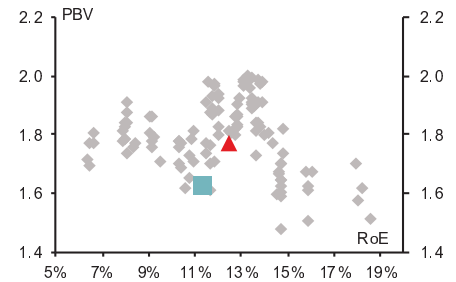
## Price to book value: absolute (blue) & relative (grey, rhs)



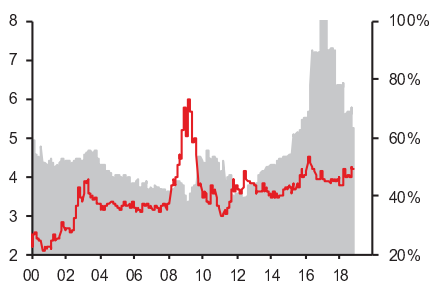
## Return on equity (grey = European market)



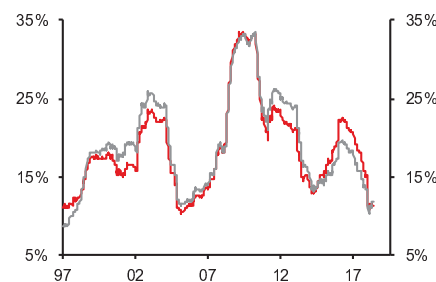
## Price to book value / RoE (blue = current grey = 10Y history, orange=10Y average)



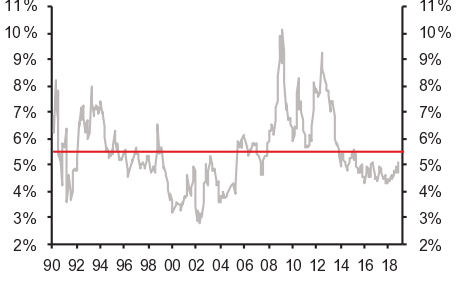
## Dividend yield & payout ratio (shadow)



## Volatility (grey = world market)




## Equity risk premium



Relative data= relative to world equity market; performance in euro and total return (dividend reinvested).100=01/01/1970; return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years of weekly data. Source for all charts: IBES, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

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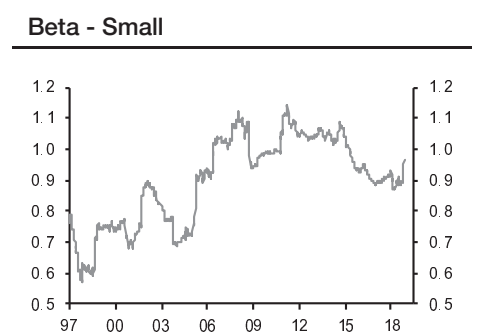
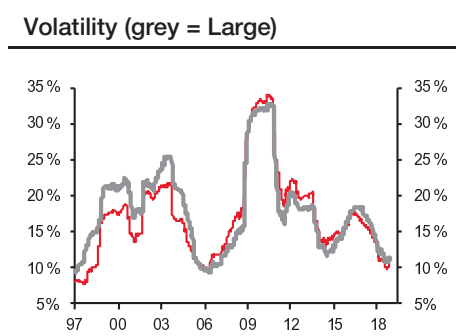
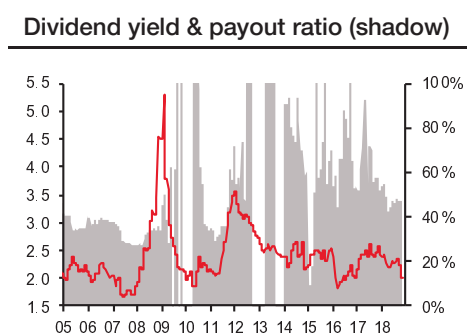
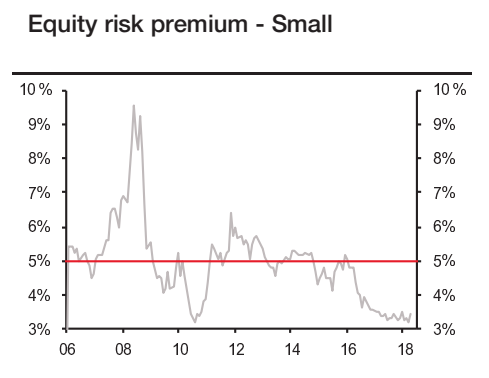
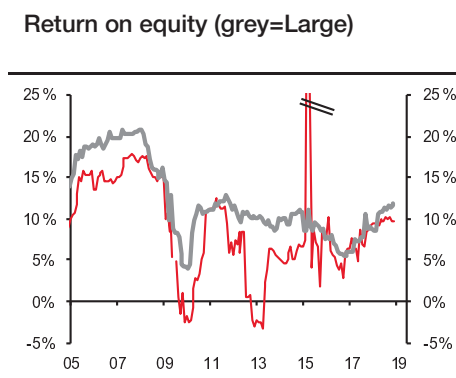
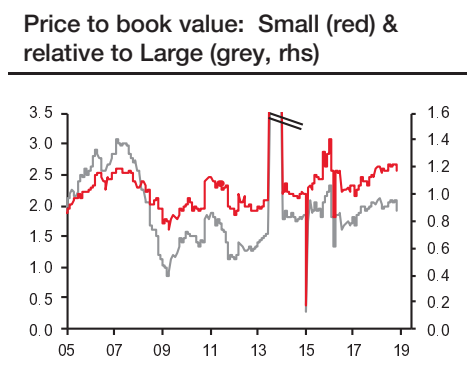
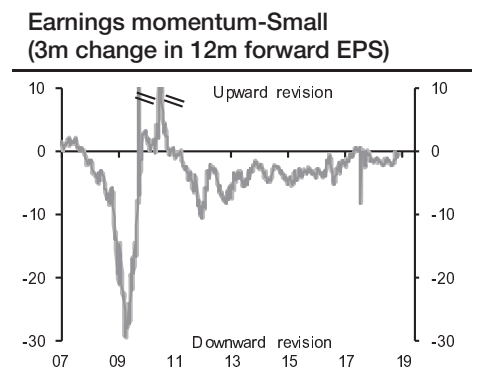
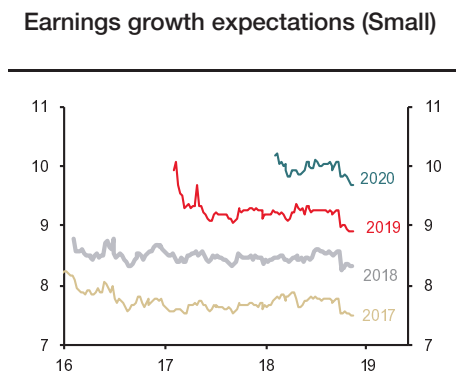
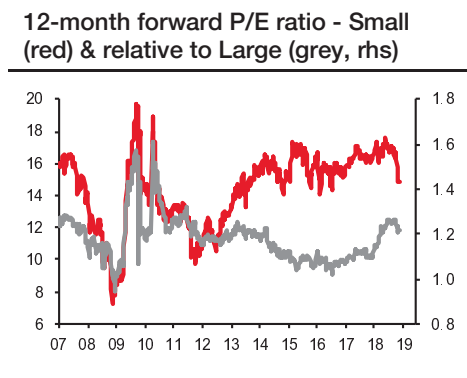
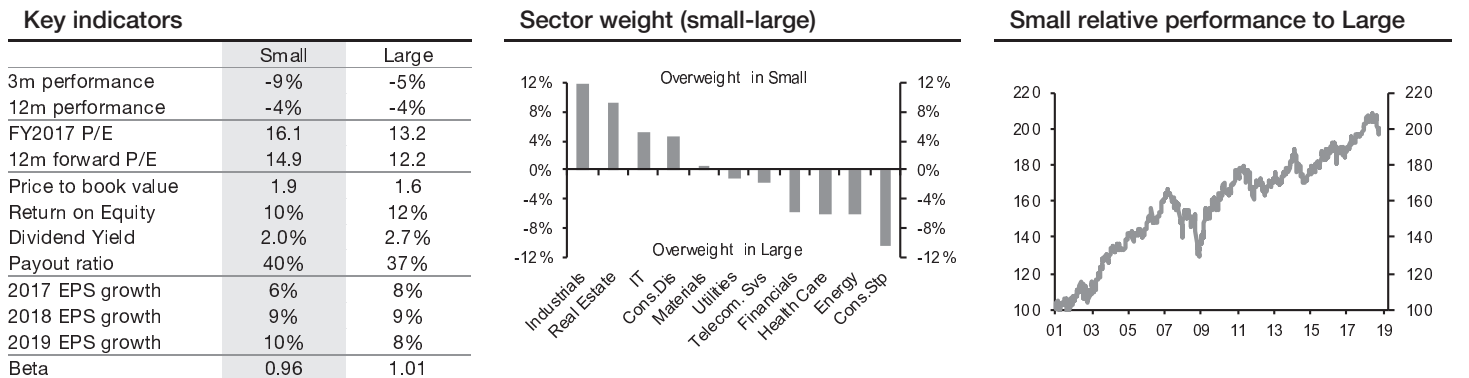
  

# European equity styles in pictures


## Small caps versus Large caps

**A more challenging environment for small caps** – Small caps have benefited from ample liquidity since the end of 2008. With the end of ECB QE and anticipating a first rate hike in Sept 2019, liquidity could again become an issue for the segment. Nonetheless, we note that eurozone small caps benefit from strong fundamentals (high margins/low leverage) and are therefore Neutral on Eurozone Small Caps vs Large Caps. In UK, we stick to our Underweight stance on small caps at risk from Brexit.



Relative data= STOXX Europe Small 200 relative to Large 200; performance in euro and total return (dividend reinvested); return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years' weekly data. Beta calculated based on Stoxx 600. Source for all charts: IBES, Dow Jones, Datastream, SG Cross Asset Research/Equity Strategy

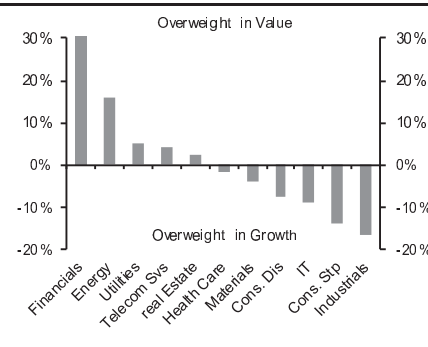
## Value versus Growth

**Time to reallocate to Growth** – We have been long in favour of Value over Growth on the back of higher bond yields. However, given our downward revision of 10Y bond yields to 0.80% in June 2019e (from 1.20%), along with our expectations of lower equity market prices, we are starting to shift out of Value (Financials) and into Growth (Staples).

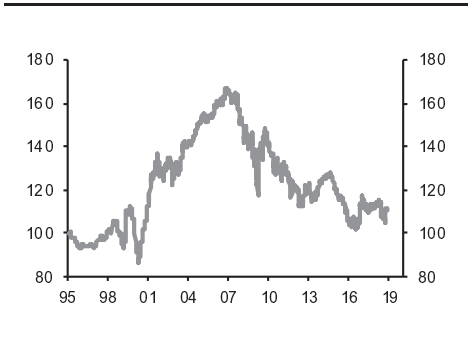
### Key indicators

	Value	Growth
3m performance	-4%	-7%
12m performance	-4%	-3%
FY2017 P/E	12.7	18.8
Price to book value	1.2	2.9
Return on Equity	9%	15%
Dividend Yield	5.0%	2.5%
Payout ratio	63%	47%
Beta	1.03	0.97
Volatility	13%	12%

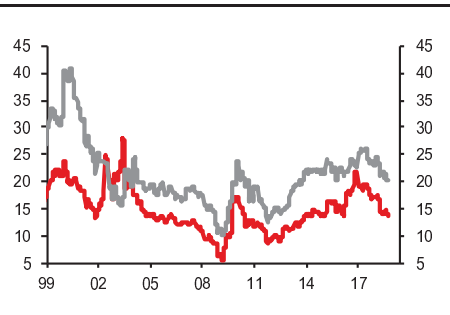
### Sector weight (Value-Growth)



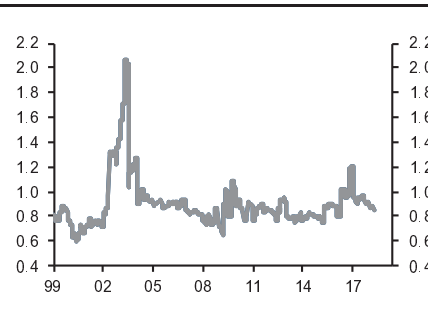
### Value relative to Growth



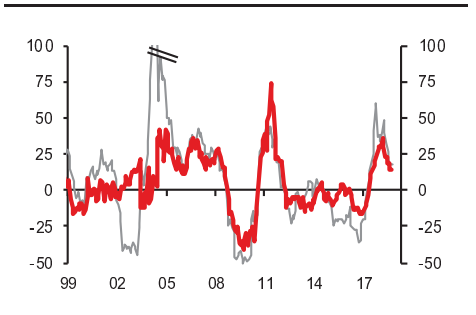
### Price-to-earnings ratio Value (red) & Growth (brown)



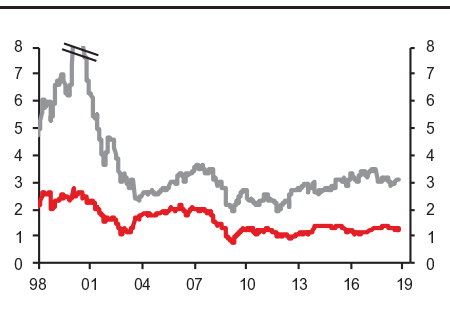
### Relative price-to-earnings ratio (Value to Growth)



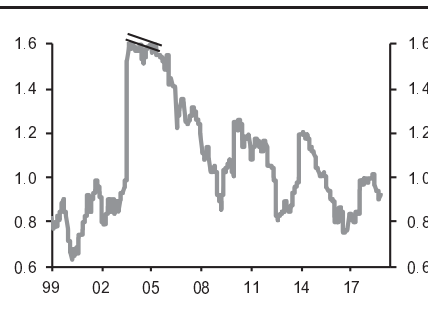
### 12month absolute growth Value (red) & Growth (brown)



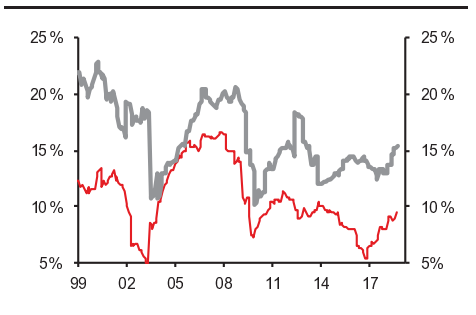
### Price to book value: Value (red) & Growth (brown)



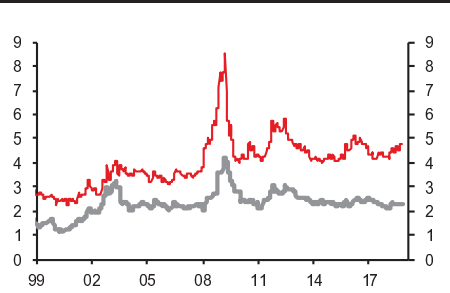
### Relative Price to book value (Value to Growth)



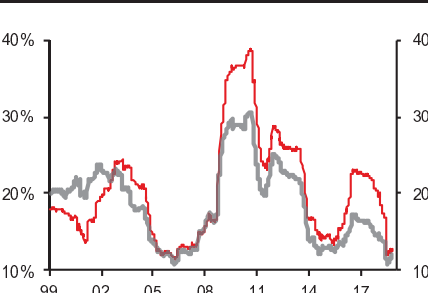
### Return on equity Value (red) & Growth (brown)



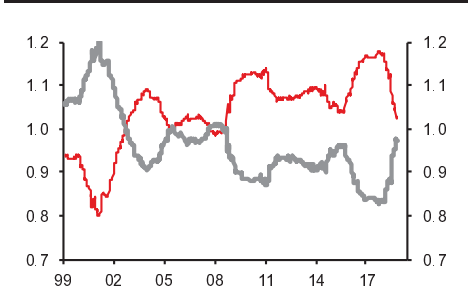
### Dividend yield : Value (red) & Growth (brown)



### Volatility Value (red) & Growth (brown)



### Beta Value (red) & Growth (brown)



Relative data= MSCI Value Index relative to Growth Index; performance in euro and total return (dividend reinvested); return on equity = 12-month trailing earnings/ book value; dividend yield= trailing dividend/ share price; volatility and beta based on two years' weekly data. Source for all charts: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

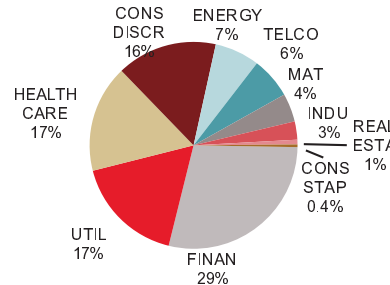
## High dividend yield stocks

**Yield is not enough, low Beta is helping**– The MSCI high dividend yield index outperformed the market by 5% over the last quarter on the back of a lower Beta (0.88x). The index is strongly tilted toward Utilities on which we have trimmed our Underweight stance.

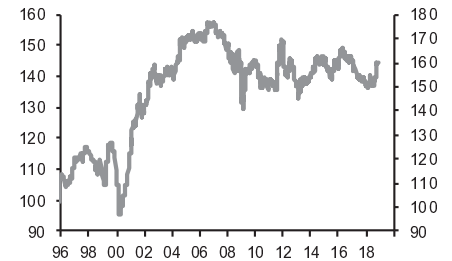
### Key indicators

	High yield	Europe
3m performance	0%	-5%
12m performance	1%	-4%
12m trailing P/E	11.8	15.2
Price to book value	1.6	1.7
Return on Equity	14%	11%
Dividend Yield	5.5%	3.7%
Payout ratio	65%	57%
Beta	0.88	1.00
Volatility	12%	12%

### Sector breakdown (% market cap.)



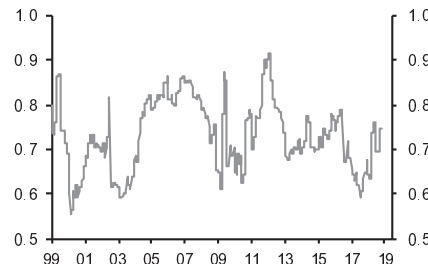
### High dividend yield relative to market



### Trailing P/E ratio - High dividend yield (red) & market (grey)



### Relative price-to-earnings ratio (High dividend yield to market)



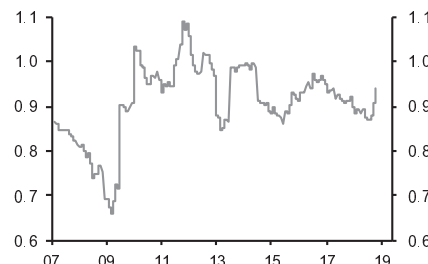
### 12-month EPS growth - High dividend yield (red) & market (grey)



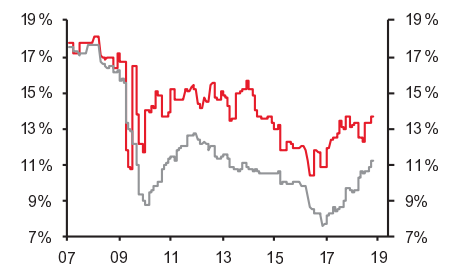
### Price to book value: High dividend yield (red) & market (grey)



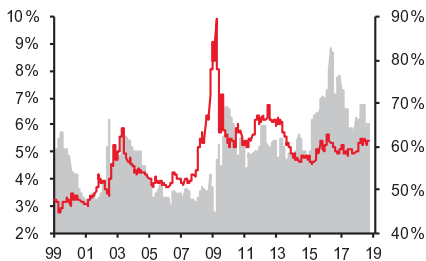
### Relative price to book value



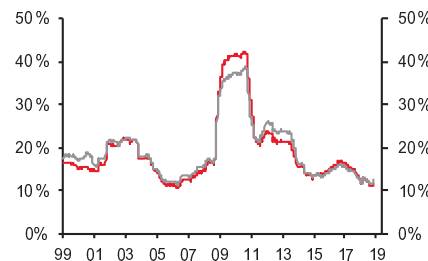
### Return on equity - High dividend yield (red) & market (grey)



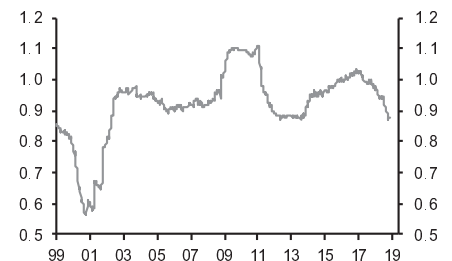
### Dividend yield Value (red) & Growth (brown)



### Volatility Value (red) & Growth (brown)



### Beta Value (red) & Growth (brown)



Relative data= MSCI High Dividend yield Index relative to European equity market; performance in euro and total return (dividend reinvested); return on equity = 12-month trailing earnings/ book value;  
dividend yield= trailing dividend/ share price; volatility and beta based on two years' weekly data. Source for all charts: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

**Environmental, Social & Governance (ESG)** (Yannick Ouaknine, [yannick.ouaknine@sgcib.com](mailto:yannick.ouaknine@sgcib.com), +33 1 58 98 23 50)

SG's view is that Environmental, Social & Governance (ESG) issues are now more easily quantifiable and should be seen as an integral part of any corporate assessment. Together with financial and macroeconomic considerations, they have become important performance drivers.

We provide ESG quantitative ratings across all sectors, countries and market capitalisations. This proprietary toolbox is provided for 450+ stocks covered by SG.

**For more information on ESG rating**

March 2014

The ESG rating process assesses three main categories:

- Corporate governance
- Environmental issues
- Social issues

**SRI: BEYOND INTEGRATION**

Quantitative ESG ratings / Controversies & qualitative sector analysis

Yannick Ouaknine  
Carole Crozat, CFA  
Rabah Whoolley  
Robin Magagnoli

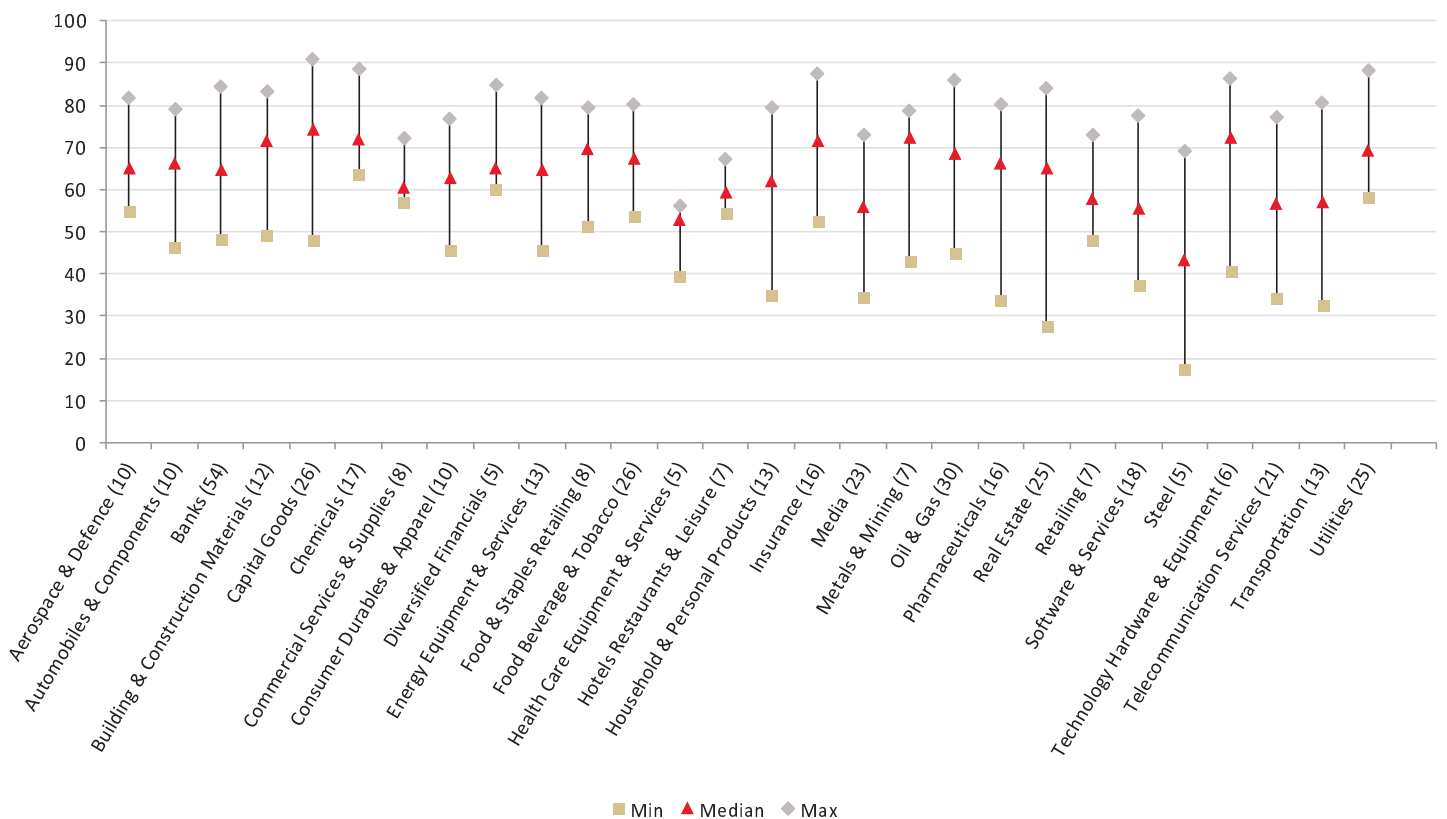
Phone: +33 (0) 1 58 98 23 50  
Phone: +33 (0) 1 42 13 62 84  
Phone: +44 (0) 20 7762 5084  
Phone: +41 (0) 40 3087 8039

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**SOCIETE GENERALE**  
Cross Asset Research

The weight of each category is sector-specific, and defined according to selected key performance indicators (KPIs) on the basis of "materiality" (defined as impact on share price).

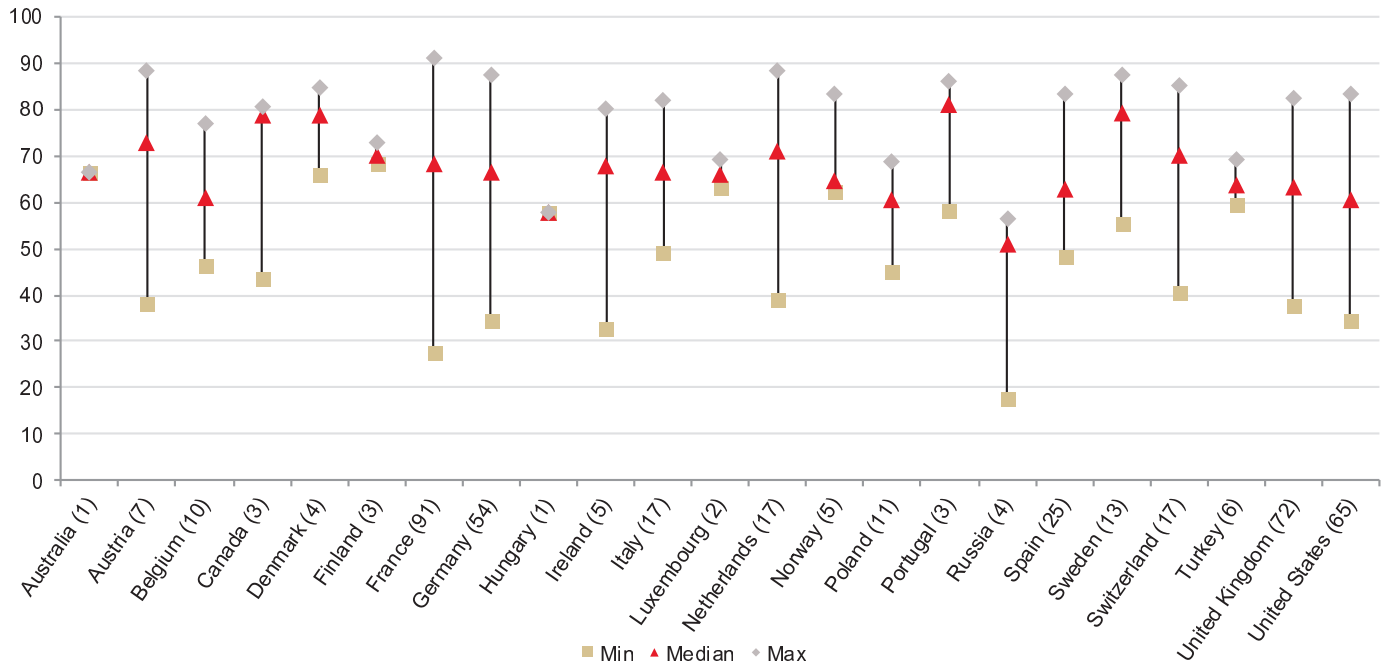
**Breakdown by sector**



Source: SG Cross Asset Research/SRI, Sustainalytics, Company data

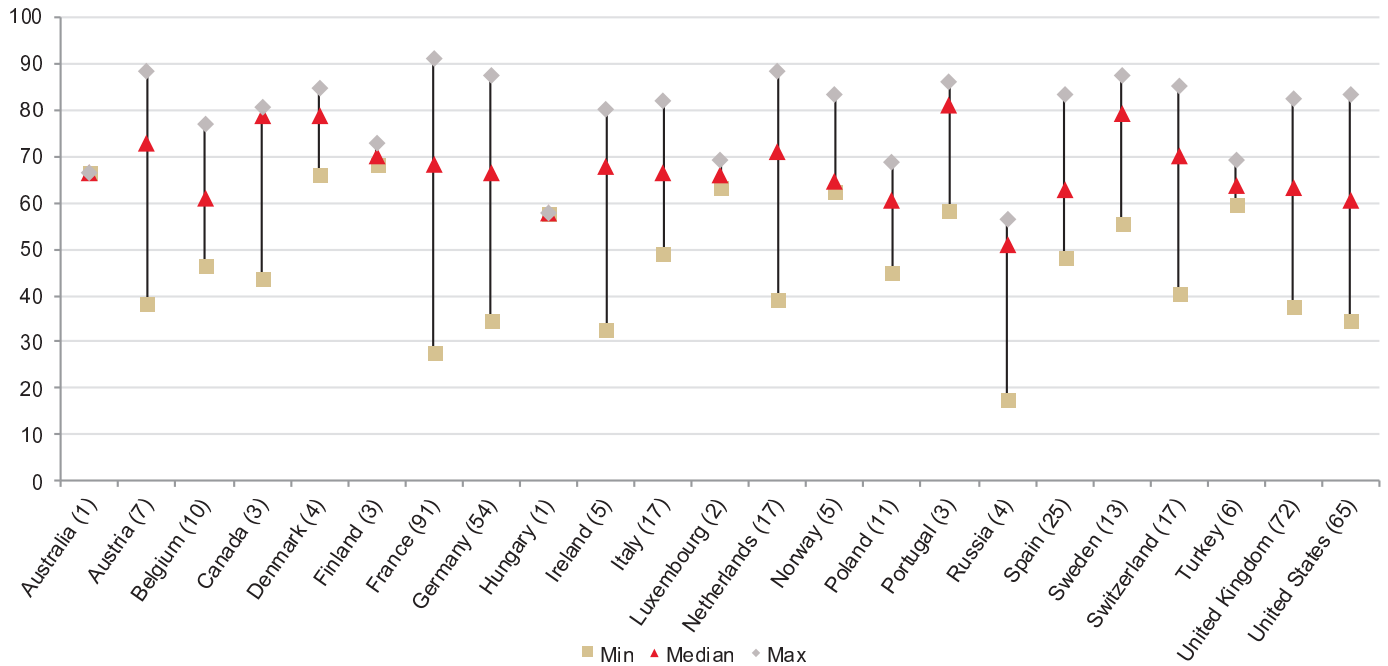
## Environmental, Social & Governance (ESG) ratings

### Breakdown by country



Source: SG Cross Asset Research/SRI, Sustainalytics, Company data

### Breakdown by size (market capitalisation)



Source: SG Cross Asset Research/SRI, Sustainalytics, Company data



# Sensitivity analysis


## Sector sensitivity to EUR/USD rate

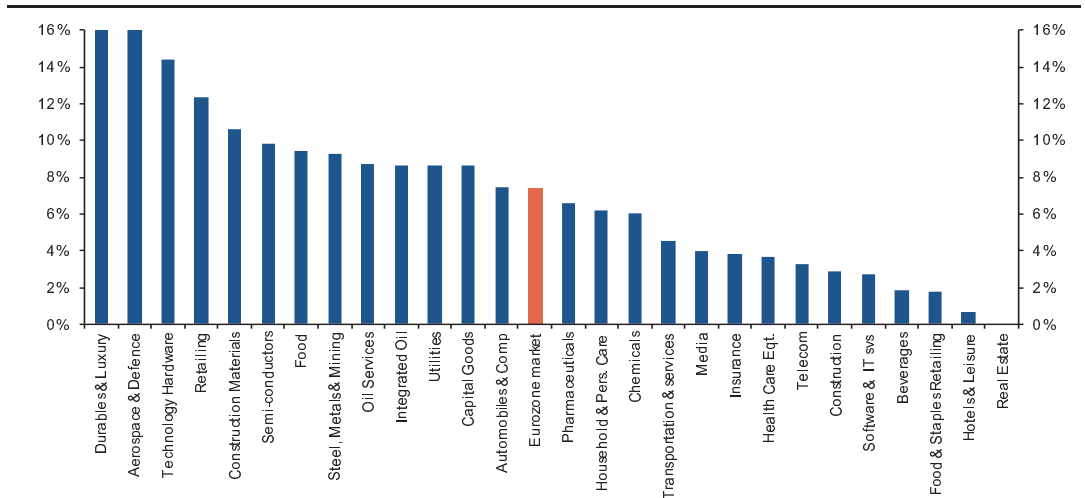
Sectors	10Y correlation with EUR/USD	2Y correlation with EUR/USD	Average performance when EUR weakens	Average performance when EUR strengthens
Oil Services	78%	-87%	-5%	-11%
Steel, Metals & Mining	77%	52%	11%	-5%
Food & Staples Retailing	71%	-70%	-10%	-3%
Banks	70%	15%	-5%	-7%
Oil & Gas	67%	17%	2%	0%
Div. Financials & Investment Banks	64%	6%	-2%	-6%
Utilities	59%	11%	-4%	-4%
Technology Hardware & Equipment	56%	-13%	-10%	-9%
Construction Materials	30%	-64%	-9%	-2%
Telecommunication Services	22%	-56%	-3%	-1%
Retailing (specialized)	-28%	-78%	-5%	4%
Chemicals	-38%	59%	13%	4%
Capital Goods	-40%	43%	5%	2%
Construction	-46%	79%	5%	2%
Durables, Apparel & Luxury	-52%	67%	18%	8%
Automobiles & Components	-54%	49%	13%	3%
Transportation & Other services	-57%	88%	6%	2%
Aerospace & Defense	-66%	43%	3%	6%
Semi-conductors	-67%	77%	16%	12%
Tobacco	-71%	-65%	-5%	7%
Software & IT Services	-71%	41%	5%	8%
Beverages	-71%	29%	3%	8%
Real Estate	-71%	3%	5%	-1%
Insurance	-73%	61%	3%	3%
Food Products	-74%	-45%	0%	7%
Pharmaceutical & biotechnology	-74%	-77%	-4%	7%
Media	-75%	-87%	-9%	4%
Household & Personal Care	-82%	-19%	-2%	9%
Health care equipment & services	-84%	-56%	-2%	6%
Hotels, Restaurants & Leisure	-86%	-48%	-3%	5%
<b>MARKET</b>	<b>-74%</b>	<b>62%</b>	<b>10%</b>	<b>-4%</b>

Sectors that tend to underperform when EUR weakens

Sectors that tend to outperform when EUR weakens

Sector: correlation of weekly relative performance to European equity market with weekly change of EUR/USD exchange rate; Market: correlation in absolute performance; performance in total return (dividend reinvested). Average of relative performance of each sector when EUR weakens / strengthens versus USD by more than 10% in one year. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

### Automobiles sector relative to Media sector and EUR/USD



Base 1 = 01/01/12. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

## Sector sensitivity to emerging markets

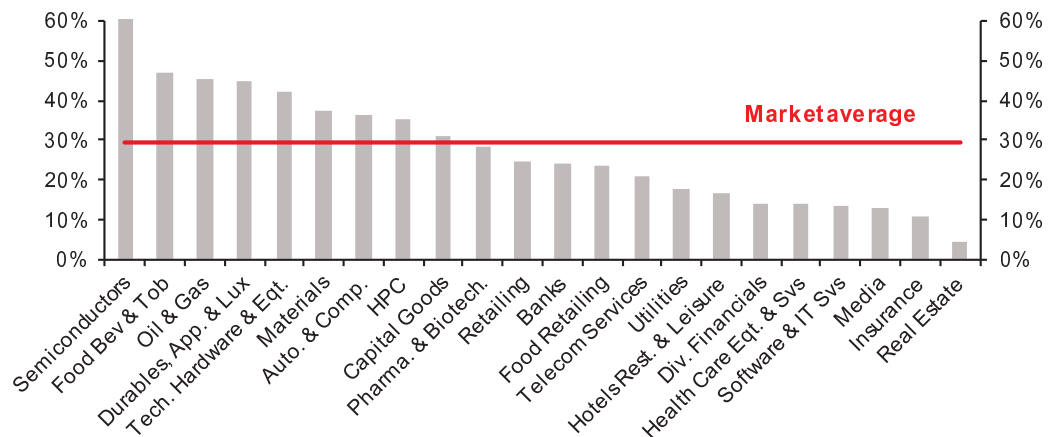
Sector	10Y correlation with emerging equities	2Y correlation with emerging equities	10Y correlation with emerging currencies	2Y correlation with emerging currencies
Steel, Metals & Mining	96%	25%	89%	-4%
Oil Services	91%	-54.4%	96%	-23%
Food & Staples Retailing	81%	-72%	82%	-44%
Banks	70%	73%	69%	82%
Oil & Gas	68%	-46%	68%	-71%
Div. Financials & Investment Banks	67%	54%	64%	59%
Utilities	59%	-3%	61%	-6%
Technology Hardware & Equipment	56%	-51%	57%	-47%
Telecommunication Services	30%	12%	37%	45%
Construction Materials	28%	7%	26%	39%
Retailing (specialized)	-28%	-21%	-13%	16%
Chemicals	-33%	3%	-38%	-33%
Capital Goods	-39%	18%	-50%	-7%
Construction	-54%	43%	-70%	13%
Durables, Apparel & Luxury	-54%	10%	-60%	-29%
Tobacco	-57%	4%	-58%	39%
Food Products	-67%	-50%	-67%	-26%
Beverages	-69%	26%	-70%	15%
Transportation & Other services	-70%	84%	-79%	55%
Automobiles & Components	-73%	72%	-65%	59%
Real Estate	-73%	-23%	-75%	-23%
Semi-conductors	-74%	48%	-81%	9%
Software & IT Services	-77%	-31%	-84%	-62%
Health care equipment & services	-77%	-71%	-81%	-48%
Media	-80%	-47%	-73%	-7%
Aerospace & Defense	-84%	-31%	-83%	-60%
Pharmaceutical & biotechnology	-85%	-59%	-74%	-25%
Household & Personal Care	-87%	-19%	-90%	-9%
Hotels, Restaurants & Leisure	-88%	-30%	-90%	-11%
Insurance	-91%	18%	-91%	-8%
<b>MARKET</b>	<b>-81%</b>	<b>29%</b>	<b>-85%</b>	<b>3%</b>

**Sectors that  
tend to  
outperform  
when  
EM equities  
rise**

**Sectors that  
tend to  
underperform  
when  
EM equities  
rise**

Sector: correlation of weekly relative performance of sectors to European market and weekly change of MSCI Global Emerging Index and JP Morgan EM FX Index (basket of EM currencies in USD); market correlation in absolute performance; performance in total return (dividend reinvested). Source: Bloomberg, MSCI, Datastream, SG Cross Asset Research/Equity Strategy

### Sector exposure to emerging countries (ranked by % sales in EM)



Market capitalisation weighted average based on SG coverage and SG analysts' data. Source: SG Cross Asset Research/Equity Strategy

In coordination with SG analysts, we have highlighted each sector's sales exposure to emerging markets.

## Sector sensitivity to 10-year bond yield

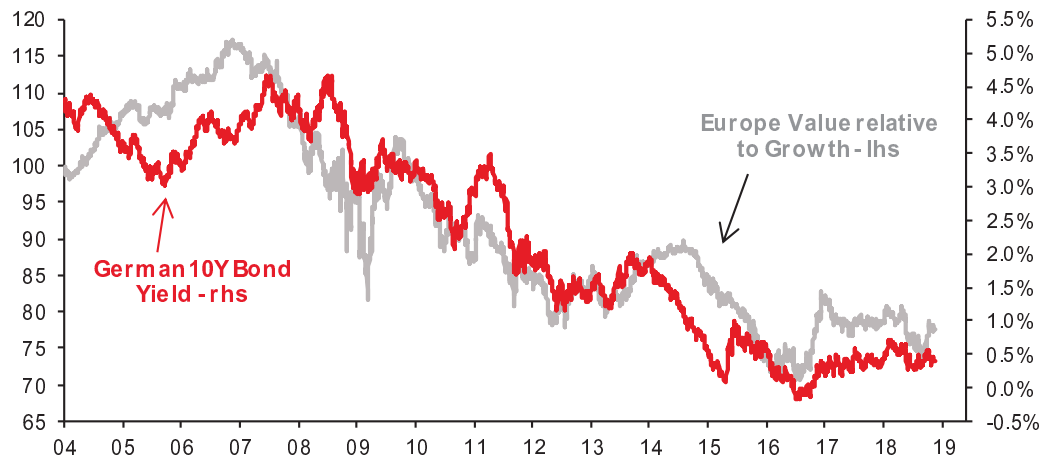
Sectors that  
tend to  
outperform  
when  
bond yields  
rise

Sector	10Y correlation with US 10Y treasury	2Y correlation with US 10Y treasury	10Y correlation with German 10Y treasury	2Y correlation with German 10Y treasury
Banks	72%	-64%	88%	24%
Div. Financials & Investment Banks	71%	-48%	87%	23%
Technology Hardware & Equipment	60%	40%	85%	3%
Construction Materials	53%	-74%	53%	-40%
Utilities	50%	-19%	84%	-30%
Steel, Metals & Mining	48%	64%	83%	48%
Food & Staples Retailing	44%	19%	91%	-44%
Oil & Gas	37%	88%	74%	10%
Oil Services	20%	-19%	76%	-51%
Construction	19%	33%	-40%	46%
Transportation & Other services	0%	2%	-64%	58%
Telecommunication Services	-8%	-81%	40%	-41%
Capital Goods	-10%	26%	-57%	36%
Semi-conductors	-27%	51%	-83%	48%
Insurance	-27%	61%	-84%	60%
Aerospace & Defence	-30%	81%	-82%	27%
Automobiles & Components	-34%	9%	-74%	49%
Durables, Apparel & Luxury	-40%	72%	-78%	44%
Software & IT Services	-41%	66%	-86%	17%
Chemicals	-45%	72%	-67%	35%
Household & Personal Care	-52%	-37%	-94%	-30%
Hotels, Restaurants & Leisure	-52%	-7%	-94%	-30%
Media	-54%	-45%	-77%	-55%
Real Estate	-55%	28%	-81%	-35%
Retailing (specialized)	-63%	-75%	-45%	-62%
Pharmaceutical & biotechnology	-66%	-43%	-86%	-57%
Health care equipment & services	-67%	-2%	-92%	-44%
Beverages	-72%	-18%	-92%	-17%
Food Products	-78%	-33%	-90%	-43%
Tobacco	-84%	-83%	-81%	-45%
<b>MARKET</b>	<b>-30%</b>	<b>33%</b>	<b>-88%</b>	<b>41%</b>

Sectors that  
tend to  
underperform  
when  
bond yields  
rise

Sector: correlation of weekly relative performance by sector to European equity market and weekly change in yield of US 10Y treasury and German 10Y bund; market: correlation of weekly absolute performance to US 10Y treasury and German 10Y bund; performance in total return (dividend reinvested). Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

### Favour Value over Growth stocks when US 10Y treasury yields rise



Performance in total return (dividend reinvested), 100=01/01/03. Source: MSCI, Datastream, SG Cross Asset Research

## Sector sensitivity to cyclical indicators

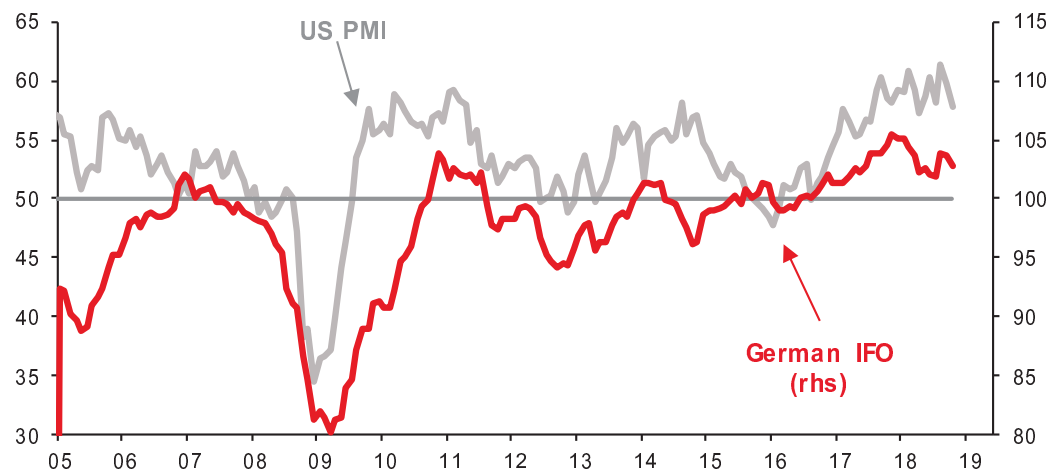
Sector	10Y correlation with US ISM	2Y correlation with US ISM	10Y correlation with German IFO	2Y correlation with German IFO
Capital Goods	68%	65%	81%	45%
Durables, Apparel & Luxury	57%	73%	83%	29%
Chemicals	54%	61%	80%	41%
Semi-conductors	49%	75%	70%	43%
Transportation & Other services	42%	70%	54%	78%
Software & IT Services	33%	62%	60%	29%
Aerospace & Defense	32%	62%	57%	20%
Construction	28%	66%	30%	61%
Beverages	27%	-14%	64%	-5%
Insurance	26%	55%	53%	49%
Household & Personal Care	26%	-11%	62%	11%
Automobiles & Components	26%	31%	65%	26%
Hotels, Restaurants & Leisure	20%	-31%	59%	-46%
Food Products	13%	-50%	59%	-5%
Health care equipment & services	13%	-41%	57%	-54%
Steel, Metals & Mining	9%	60%	-29%	23%
Real Estate	1%	-25%	42%	-32%
Retailing (specialized)	1%	-79%	34%	-50%
Tobacco	1%	-68%	47%	-26%
Media	-3%	-80%	40%	-73%
Pharmaceutical & biotechnology	-5%	-69%	37%	-49%
Oil Services	-8%	-78%	-32%	-77%
Banks	-16%	6%	-61%	34%
Div. Financials & Investment Banks	-18%	2%	-56%	29%
Construction Materials	-26%	-72%	-62%	-44%
Oil & Gas	-28%	25%	-60%	-16%
Food & Staples Retailing	-41%	-67%	-70%	-82%
Technology Hardware & Equipment	-48%	7%	-80%	-35%
Utilities	-54%	-9%	-83%	4%
Telecommunication Services	-57%	-75%	-46%	-34%
<b>MARKET</b>	<b>48%</b>	<b>76%</b>	<b>73%</b>	<b>55%</b>

Sectors that  
tend to  
outperform  
when  
ISM rises

Sectors that  
tend to  
underperform  
when  
ISM rises

Sectors: correlation of monthly relative performance of sectors to European market and monthly change in US and German IFO Business Climate Index; Market: correlation of weekly absolute performance to US 10Y treasury and German 10Y bund; performance in total return (dividend reinvested). Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

### US PMI (Purchasing Management Indicator) and the German IFO: two leading indicators



US PMI = Purchasing Managers Index. German IFO = German Institute of Economic Research, Business Climate Index. Source: Datastream, SG Cross Asset Research

## Sector sensitivity to Commodities & Oil price

**Sectors that  
tend to  
outperform  
when  
commodities  
prices rise**

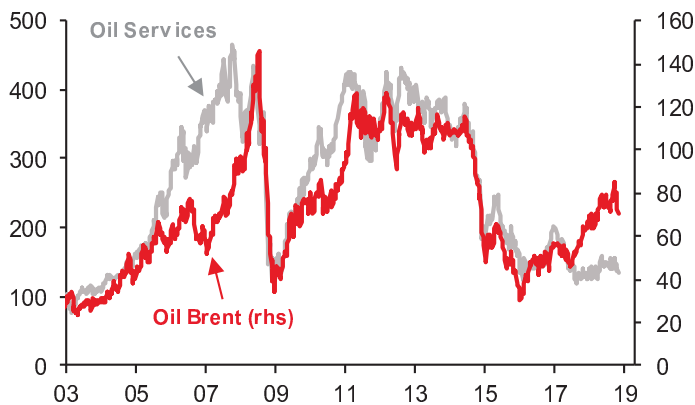
**Sectors that  
tend to  
outperform  
when  
commodities  
prices rise**

Sector	10Y correlation with commodities	2Y correlation with commodities	10Y correlation with oil price	2Y correlation with oil price
Oil Services	92%	-26%	76%	-37%
Steel, Metals & Mining	74%	74%	57%	70%
Oil & Gas	64%	93%	46%	91%
Food & Staples Retailing	64%	5%	28%	-5%
Banks	50%	-63%	12%	-65%
Div. Financials & Investment Banks	44%	-47%	7%	-52%
Utilities	40%	-12%	-4%	-3%
Technology Hardware & Equipment	36%	17%	-8%	21%
Telecommunication Services	24%	-84%	-10%	-90%
Construction Materials	7%	-76%	-24%	-84%
Retailing (specialized)	2%	-79%	13%	-85%
Chemicals	-20%	83%	27%	87%
Durables, Apparel & Luxury	-40%	78%	6%	84%
Capital Goods	-42%	31%	-1%	38%
Automobiles & Components	-44%	20%	-15%	15%
Tobacco	-50%	-85%	-24%	-89%
Beverages	-53%	-5%	-16%	1%
Food Products	-55%	-44%	-21%	-39%
Pharmaceutical & biotechnology	-55%	-58%	-36%	-57%
Aerospace & Defense	-61%	79%	-25%	84%
Media	-62%	-59%	-49%	-67%
Semi-conductors	-68%	64%	-29%	67%
Real Estate	-68%	36%	-49%	36%
Software & IT Services	-70%	71%	-30%	79%
Health care equipment & services	-71%	-11%	-39%	-11%
Insurance	-75%	54%	-49%	55%
Hotels, Restaurants & Leisure	-76%	-19%	-49%	-24%
Transportation & Other services	-77%	15%	-54%	21%
Household & Personal Care	-78%	-42%	-45%	-32%
Construction	-78%	47%	-65%	56%
MARKET	-69%	46%	-35%	54%

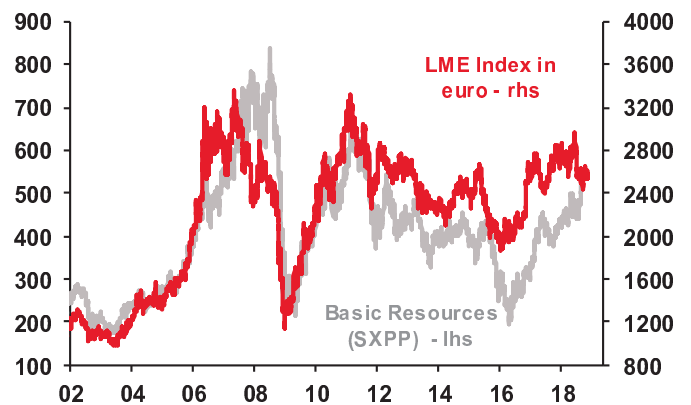
Sectors: correlation of weekly relative performance of sectors to European market and weekly change in S&P Goldman Sachs Commodity Index and Crude oil Brent price (in USD/barrel); Markets: correlation of weekly absolute performance to S&P Goldman Sachs Commodity Index and crude oil (Brent) price; performance in total return (dividend reinvested). Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

**Oil Services: highly sensitive to oil price swings**

**Basic industries already discounting low base metal prices**



Oil price = Crude oil Brent price (in USD/barrel). Oil & Services performance in total return (dividend reinvested). 100=01/01/03. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy



LME Index = London Metal Exchange Index. Basic industry performance in total return (dividend reinvested). Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

## European sectors versus global sectors

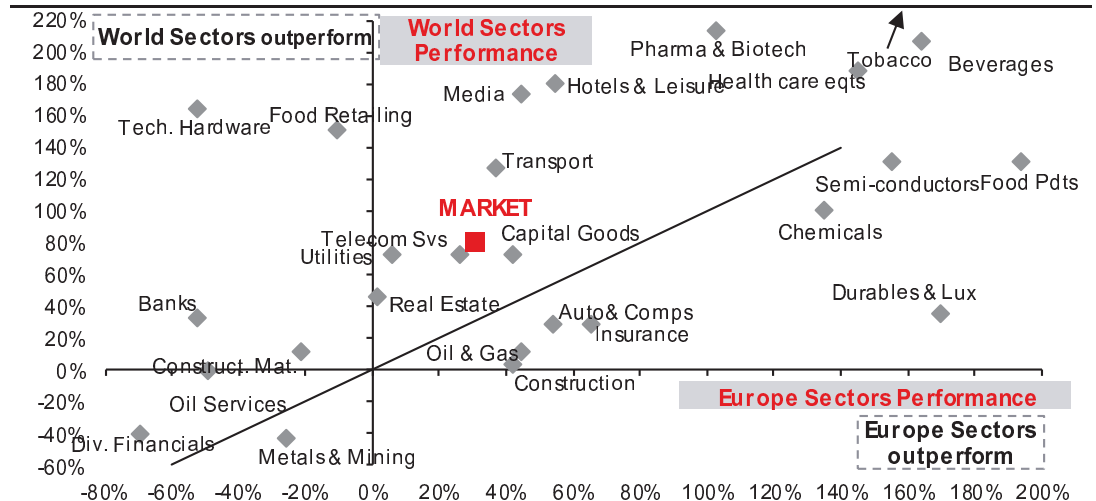
Sector	10Y correlation with global sector	2Y correlation with global sector	European sector perf. since July 07	Global sector perf. since July 07
Semi-conductors	97%	92%	155%	131%
Household & Personal Care	96%	40%	200%	127%
Insurance	94%	60%	65%	28%
Software & IT Services	93%	88%	189%	262%
Aerospace & Defense	92%	84%	141%	243%
Steel, Metals & Mining	88%	86%	-26%	-44%
Transportation & Other services	86%	76%	37%	127%
Capital Goods	83%	61%	42%	72%
Beverages	82%	4%	164%	207%
Durables, Apparel & Luxury	82%	63%	170%	35%
Hotels, Restaurants & Leisure	82%	-34%	55%	179%
Automobiles & Components	81%	23%	54%	28%
Health care equipment & services	79%	-6%	103%	213%
Chemicals	78%	84%	135%	99%
Food Products	77%	-27%	194%	130%
Real Estate	75%	21%	1%	46%
Pharmaceutical & biotechnology	73%	-36%	145%	187%
Construction	70%	67%	42%	3%
Tobacco	66%	-19%	107%	259%
Media	55%	-91%	45%	173%
Oil Services	49%	79%	-69%	-40%
Retailing (specialized)	33%	-29%	30%	321%
Construction Materials	-13%	34%	-21%	10%
Oil & Gas	-30%	89%	44%	11%
Telecommunication Services	-48%	-9%	26%	72%
Banks	-51%	8%	-53%	32%
Div. Financials & Investment Banks	-52%	-7%	-49%	-1%
Technology Hardware & Equipment	-71%	33%	-53%	164%
Utilities	-76%	58%	6%	72%
Food & Staples Retailing	-89%	-8%	-10%	150%
<b>MARKET</b>	<b>98%</b>	<b>72%</b>	<b>31%</b>	<b>79%</b>

European sectors that are more global

European sectors that are less global

Sectors: correlation of weekly relative performance of sectors to European market and weekly sector performance of world excluding Europe; Markets: correlation of weekly absolute performance to world excluding Europe performance; performance in total return (dividend reinvested). Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

### Sector performance: Europe versus the rest of the world since July 2007



Performance of European sectors and world (excluding Europe) sectors performance since 16/07/07. Performance in local currency and in total return. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

## European equity markets sensitivity to bond market

Markets that tend to drop when domestic government bond yields rise

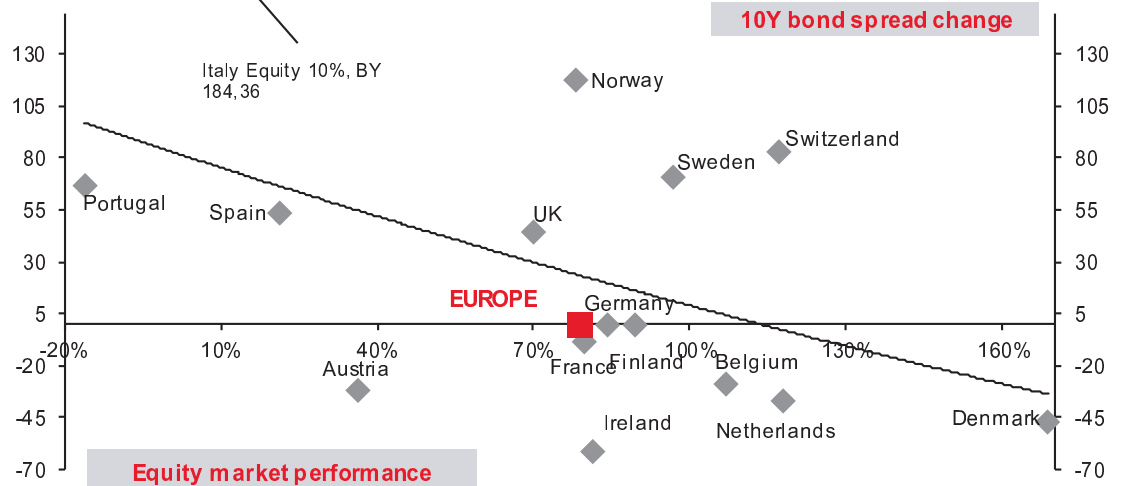
Markets that tend to rise when domestic government bond yields drop

Country	10Y correlation with domestic bonds	2Y correlation with domestic bonds	Equity market perf. Since April 2010	Change in bond yield spread over last 10Y
Portugal	12%	-77%	-16%	66
Austria	-44%	48%	37%	-32
Norway	-67%	62%	78%	118
Italy	-74%	-18%	10%	184
United Kingdom	-80%	4%	70%	44
Finland	-81%	30%	80%	-8
Spain	-81%	-9%	21%	53
Sweden	-84%	6%	97%	71
Germany	-87%	40%	90%	0
France	-87%	-49%	84%	0
Netherlands	-88%	29%	118%	-37
Denmark	-88%	4%	169%	-48
Ireland	-88%	-10%	81%	-62
Switzerland	-89%	9%	117%	83
Belgium	-96%	-27%	107%	-29
<b>EUROPE</b>	<b>-88%</b>	<b>41%</b>	<b>79%</b>	<b>0</b>

Sectors: correlation of weekly equity market performance by country and weekly change in 10Y government bond by country; 10Y bond spread compared to German bunds; start of Europe crisis 01/04/10; performance in total return (dividend reinvested); German bunds as proxy for Europe bond. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

### Equity performance and 10Y bond spread change since the beginning of the euro crisis (04/10)

In the euro area, the less the country's spread widens, the stronger the domestic equity market performance.



10Y bond yield spread compared to German bunds; Europe crisis since 01/04/10. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy



# What the charts say


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**S&P500: The beginning of the end?** (Stephanie Aymes, [stephanie.aymes@sgcib.com](mailto:stephanie.aymes@sgcib.com), +44 20 77 62 58 98)

S&P500, quarterly chart (log)



Source: SG Cross Asset Research/Technicals, Reuters

S&P500, weekly chart (log)



Source: SG Cross Asset Research/Technicals, Reuters

Yet again, in the last quarter, we saw a sudden halt in the bullish momentum near the upper band of the perennial channel (then at 2941 pts, now at 2953 pts), just shy of the initial target for the fifth wave of the bullish cycle in play since the 2009 trough. As in 1Q18 and 1Q16, the index sold off sharply, giving up 25-30% of the previous up-move (from the 2016 low) and breaching its 200-day moving average. As a result, the monthly Stochastic indicator rolled over after testing a perennial ceiling and is now at its lowest level since 2015. This suggests that the index is close to pivotal support levels, which if broken, would indicate the beginning of a deep and prolonged correction. According to the Dow Theory, this is the final stage, during which the S&P 500 would reach its cyclical peak, opening the way for a significant correction to come.

Recently, the S&P 500 has stabilised somewhat, above a mildly upsloping channel at 2603 pts, which is near the February low of 2532/2508 pts. This level is also the lower band of the multi-year up-channel and the 38.2% retracement of the uptrend since the early 2016 low.

Whilst a short-term corrective rebound may develop to 2862/72 pts and perhaps even to 2941/2953 pts, this could be the beginning of the long-awaited distribution phase in the S&P 500. Indeed, at the end of past cycles, e.g. in 2007 and in 2009 (also in 2000 and in 2002), the index has always formed a reversal pattern (Head and Shoulder or Double Top) and it could be tracing here the second shoulder of a broad Head and Shoulder pattern that started to form in 1Q18.

### **Nasdaq Composite: a textbook case**

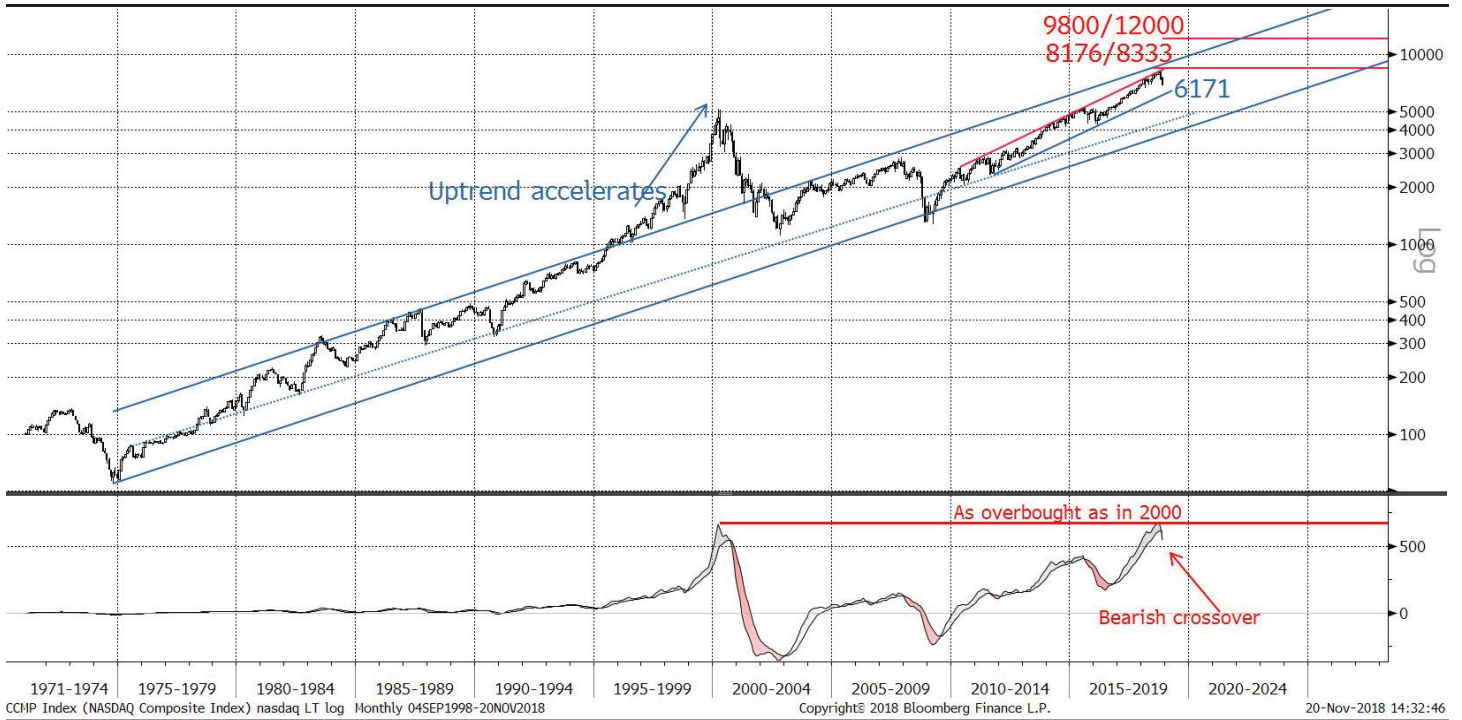
The Nasdaq Composite has also encountered broad resistance at the intersection point of the upper band of its perennial trend (8176/333 pts) and the cyclical trend in force since 2009/2010. As highlighted in the previous Big Picture, 8133/8176 pts also represents the projected target according to Elliott Principles for the up-cycle that began in 2009.

The monthly MACD, which at 8133pt was as overbought as at the 2000 peak, recently posted a bearish crossover – indicating that the tide may be beginning to turn. It is also worth noting that the Advance/Decline indicator failed to rise above the 2014 peak (horizontal red line) and recently breached its moving average. This means that fewer stocks have helped the Nasdaq Composite to score new highs and reveals cracks in the underlying uptrend.

Nasdaq has sharply reversed since its August high at 8133 pts and could continue its slide towards February lows of 6630 pts, which is the 38.2% retracement of the up-move since early 2016. In the event that the 6630 pt level were to give way, the correction would extend further, possibly to the multi-year channel support at 6171 pts.

## Nasdaq Composite: a text book case

Nasdaq Composite, monthly chart (log)



Source: SG Cross Asset Research/Technicals, Reuters

Nasdaq Composite, weekly chart (log)



Source: SG Cross Asset Research/Technicals, Reuters

## Euro Stoxx 50: reeling after another failed attempt to break the 18-year triangle

EURO STOXX 50, monthly chart (log)



Source: SG Cross Asset Research/Technicals, Reuters

Yet again, the most recent up-move in the Euro Stoxx 50 was not vigorous enough to overcome the 18y triangle resistance and the two last highs of 3530/3670 pts. The index rolled over that resistance and embarked on a steady slide, which has led to a break below the support line drawn since the 2011 low (blue dashed line, at 3263 pts). The correction is framed by a mildly descending channel (3460-3068 pts), with the channel's lower band being a multi-year level and representing a 61.8% retracement of the up-move since the early 2016 low.

The monthly RSI also broke through the ascending trend line in force since 2009 and the 50% mark, thereby confirming recent negative signals. The indicator is tentatively holding at the 2016 low (blue line), suggesting 3068 pts is a pivotal level. Indeed, a break below would exemplify a resurgence in bearish momentum and be likely to extend the ongoing correction to the following retracement level at 2922/17 pts and perhaps even all the way down to the up-channel support in force since 2009 at 2789 pts.

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# Equity portfolio management tools

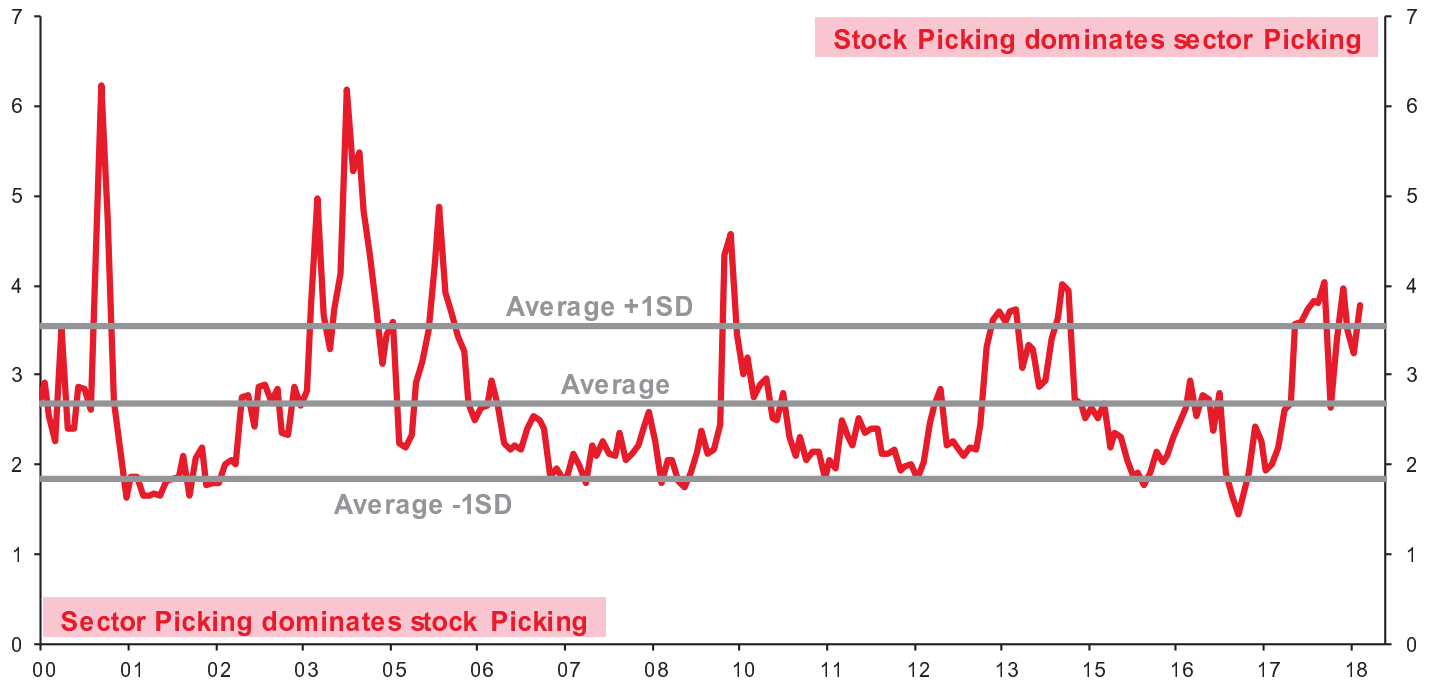
  




## Country, sector and stock-picking

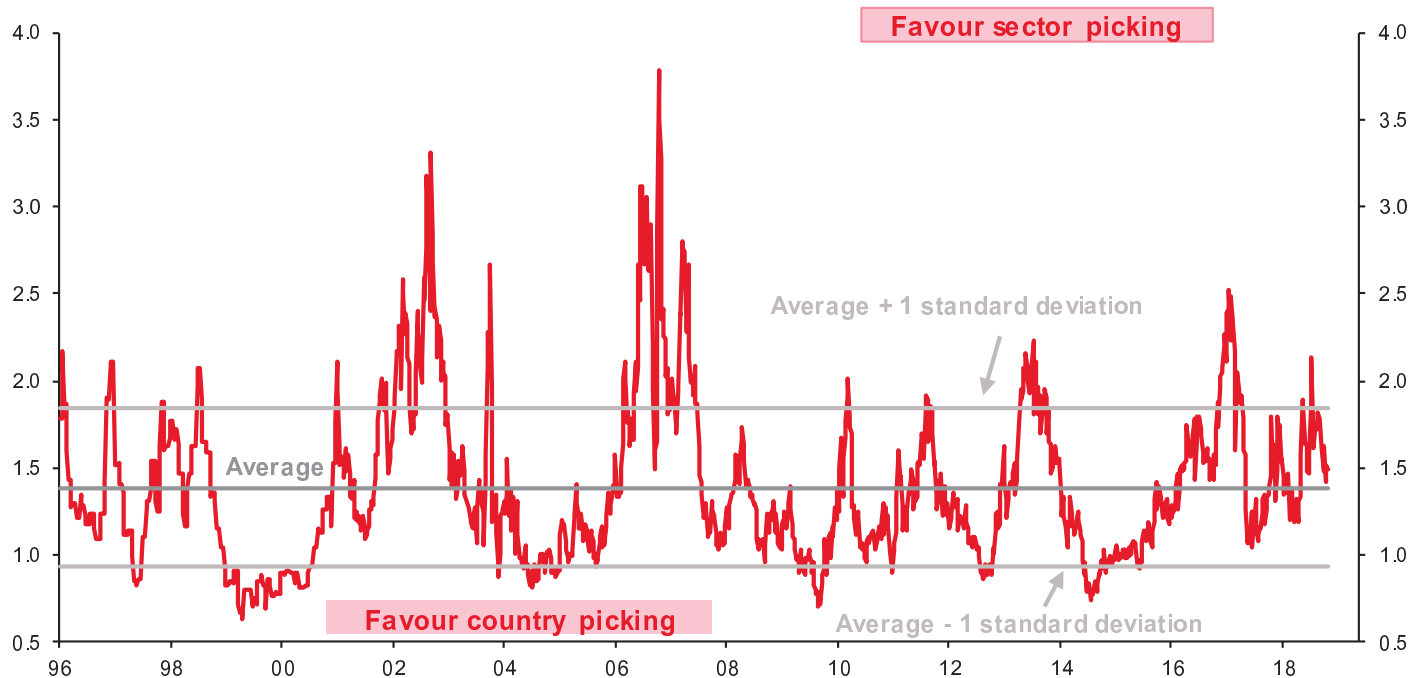
**Proprietary tools** – SG has developed proprietary portfolio management tools to help investors in their decision-making process. The SP2i compares the potential alpha that could be generated through stock-picking versus sector-picking in Europe. When the SP2i is high, stock-picking should be favoured. The SC2i compares the potential alpha that could be generated through sector-picking versus country-picking in Europe. When the SC2i is high, sector-picking should be favoured.

SG SP2i: Stock-picking versus sector-picking indicator



Stock-picking versus sector-picking index, designed to quantify stock-picking opportunities versus sector allocation opportunities. SP2i based on the ratio of standard deviation of stocks' 1-year relative performance divided by standard deviation of sectors' 1-year relative performance. We use here Stoxx 600 for Europe. Source: Datastream, SG Cross Asset Research/Global Asset Allocation

SG SC2i: Sector-picking versus country-picking Indicator



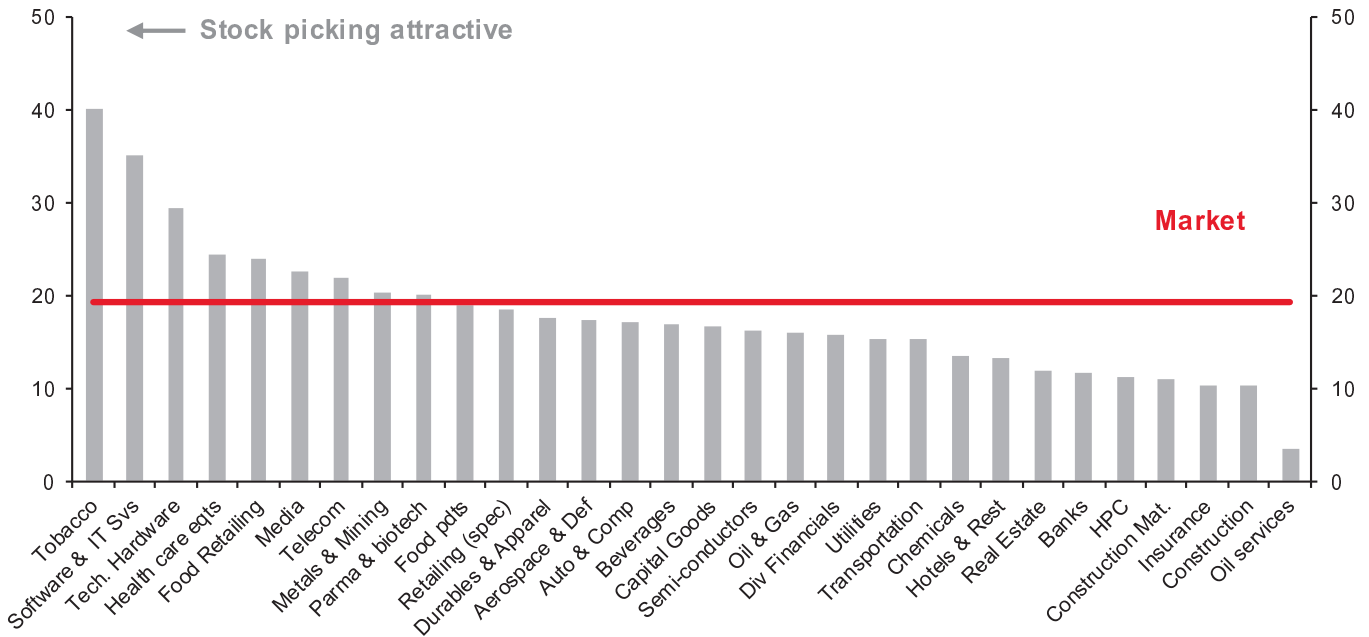
Standard deviation of 12-month performance (in total return) of the 30 sectors divided by the standard deviation of 12-month performance (in total return) of the 15 countries. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy



## Stock-picking potential

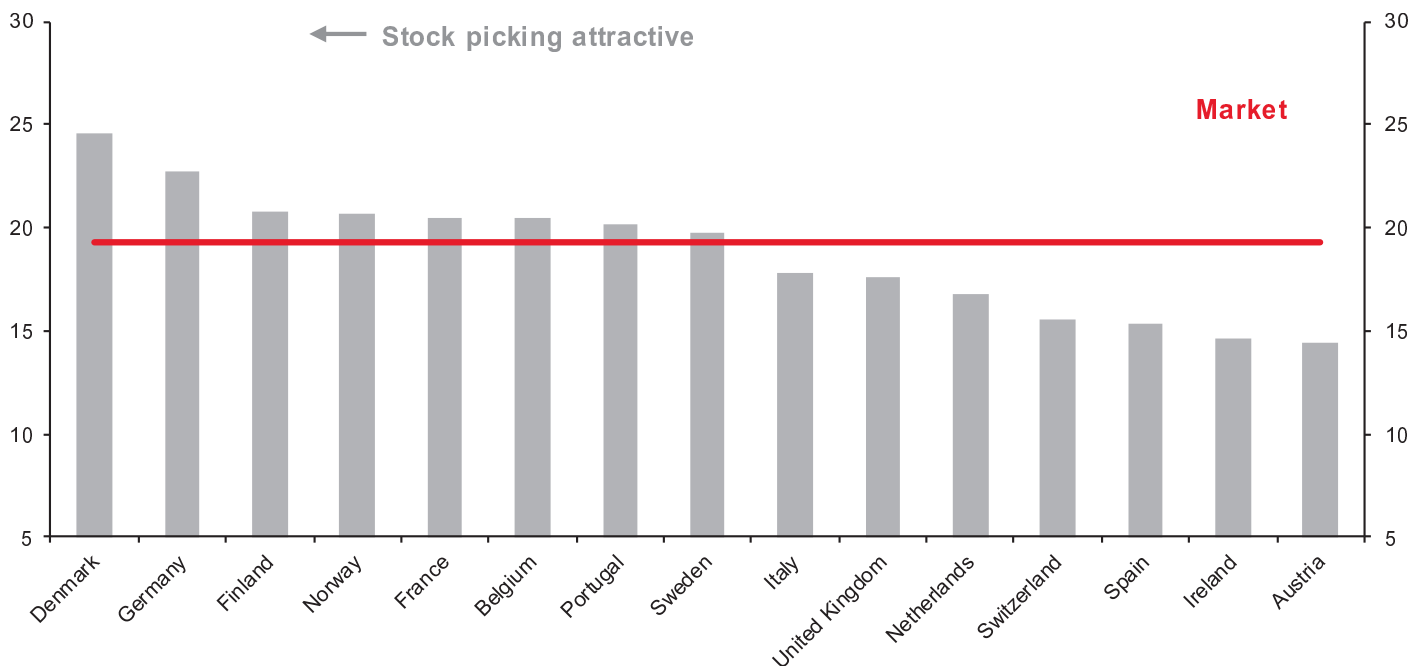
**Proprietary tools** – SG has developed proprietary portfolio management tools to help investors in their decision-making process. The tools below highlight the stock-picking potential within European sectors and European countries. When the indicator is high, there is a significant dispersion of performance within the sector/country and stock-picking is therefore attractive. This is the case with Technology Hardware, Automobile, Food and Banks. The tools also suggest investors should be selective when investing in Finland, Portugal, France and Italy.

### Stock-picking potential in European sectors



Standard deviation of 12-month performance (in total return) within each European sector. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

### Stock-picking in European countries



Standard deviation of 12-month performance (in total return) within each European country. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

**Correlation matrix – sectors**

	Oil & Gas	Oil services	Chemicals	Construction Mat.	Metals & Mining	Aerospace & Defense	Construction	Capital Goods	Transportation	Auto & Comp	Durables & Apparel	Hotels & Rest	Media	Retailing (spec)	Food Retailing	Beverages	Food pdts	Tobacco	HPC	Pharma & Biotech	Health care eqts	Banks	Div Financials	Insurance	Real Estate	Software & IT Svs	Tech Hardware	Semi-conductors	Telecom	Utilities
Oil & Gas		43%	13%	-2%	15%	-13%	-11%	-19%	-11%	-6%	7%	-6%	-2%	10%	2%	-17%	-20%	-17%	-12%	-30%	-2%	-10%	-33%	-14%	-4%	-8%	-8%	-7%	0%	8%
Oil services	43%		27%	18%	31%	0%	-5%	13%	-18%	14%	-9%	-9%	-4%	18%	-5%	-37%	-33%	-23%	-26%	-20%	-3%	9%	13%	10%	-29%	-12%	-14%	-6%	-15%	-23%
Chemicals	13%	27%		17%	13%	14%	7%	40%	-6%	31%	25%	-6%	-25%	-14%	-31%	-19%	-35%	-13%	-20%	-21%	15%	-15%	6%	-12%	-25%	18%	-3%	33%	-31%	-17%
Construction Mat.	-2%	18%	17%		29%	18%	6%	38%	-24%	14%	2%	-7%	-16%	8%	-6%	-44%	-43%	-19%	-46%	-14%	20%	28%	24%	27%	-40%	-17%	-12%	-9%	-20%	-37%
Metals & Mining	15%	31%	13%	29%		-12%	-26%	11%	-19%	3%	-1%	-26%	-18%	-9%	0%	-26%	-47%	-26%	-35%	-25%	-21%	21%	24%	26%	-33%	-31%	-10%	-7%	-14%	-34%
Aerospace & Def	-13%	0%	14%	18%	-12%		12%	65%	-3%	3%	7%	6%	2%	-7%	-28%	-4%	-23%	-11%	-13%	7%	4%	-16%	17%	15%	-16%	17%	17%	-3%	-33%	-9%
Construction	-11%	-5%	7%	6%	-26%	12%		34%	34%	28%	10%	10%	-13%	3%	-8%	-5%	2%	0%	0%	-16%	23%	-12%	-19%	-19%	17%	16%	-11%	3%	18%	27%
Capital Goods	-19%	13%	40%	38%	11%	65%	34%		4%	35%	19%	5%	-23%	-9%	-39%	-30%	-45%	-27%	-34%	-19%	18%	2%	24%	16%	-35%	12%	6%	8%	-52%	-31%
Transportation	-11%	-18%	-6%	-24%	-19%	-3%	34%	4%		20%	12%	15%	-6%	-3%	10%	14%	13%	1%	8%	-14%	1%	-9%	-24%	-18%	30%	13%	6%	-7%	23%	20%
Auto & Comp	-6%	14%	31%	14%	3%	3%	28%	35%	20%	13%	-2%	-25%	1%	1%	-14%	-37%	-37%	-4%	-26%	-33%	-3%	19%	8%	-4%	-35%	3%	-14%	10%	-2%	-17%
Durables & Apparel	7%	-9%	25%	2%	-1%	7%	10%	19%	12%	13%	26%	-13%	8%	8%	-9%	-4%	-13%	1%	12%	-28%	19%	-24%	-16%	-21%	-2%	16%	-5%	25%	-20%	-15%
Hotels & Rest	-6%	-9%	-6%	-7%	-26%	6%	10%	5%	15%	-2%	26%	15%	22%	22%	10%	20%	28%	15%	29%	1%	28%	-33%	-31%	-26%	15%	23%	-6%	4%	-10%	2%
Media	-2%	-4%	-25%	-16%	-18%	2%	-13%	-23%	-6%	-25%	-13%	15%	6%	6%	16%	14%	9%	10%	-2%	14%	-6%	-2%	-2%	-9%	7%	2%	15%	-14%	14%	12%
Retailing (spec)	10%	18%	-14%	8%	-9%	-7%	3%	-9%	-3%	1%	8%	22%	6%		30%	-7%	-1%	7%	2%	-15%	13%	9%	-19%	-13%	1%	-3%	-23%	-14%	8%	5%
Food Retailing	2%	-5%	-31%	-6%	0%	-28%	-8%	-39%	10%	-14%	-9%	10%	16%	30%		3%	14%	-1%	5%	4%	-5%	7%	-22%	-10%	22%	-23%	-1%	-19%	30%	21%
Beverages	-17%	-37%	-19%	-44%	-26%	-4%	-5%	-30%	14%	-37%	-4%	20%	14%	-7%	3%	47%	22%	44%		15%	-2%	-43%	-36%	-27%	45%	38%	20%	17%	11%	49%
Food pdts	-20%	-33%	-35%	-43%	-47%	-23%	2%	-45%	13%	-37%	-13%	28%	9%	-1%	14%	47%	41%	62%	62%	35%	7%	-44%	-40%	-31%	54%	12%	8%	-10%	22%	50%
Tobacco	-17%	-23%	-13%	-19%	-26%	-11%	0%	-27%	1%	-4%	1%	15%	10%	7%	-1%	22%	41%	44%		8%	5%	-26%	-20%	-34%	25%	7%	-28%	0%	15%	24%
HPC	-12%	-26%	-20%	-46%	-35%	-13%	0%	-34%	8%	-26%	12%	29%	-2%	2%	5%	44%	62%	44%		19%	11%	-52%	-47%	-42%	58%	21%	-12%	6%	15%	42%
Pharma & Biotech	-30%	-20%	-21%	-14%	-25%	7%	-16%	-19%	-14%	-33%	-28%	1%	14%	-15%	4%	15%	35%	8%	19%		3%	41%	0%	-12%	21%	5%	21%	-5%	-6%	3%
Health care eqts	-2%	-3%	15%	20%	-21%	4%	23%	18%	1%	-3%	19%	28%	6%	13%	-5%	-2%	7%	5%	11%		3%	-25%	-28%	-38%	6%	28%	-4%	-3%	-8%	10%
Banks	-10%	9%	-15%	28%	21%	-16%	-12%	2%	-9%	19%	-24%	-33%	-2%	9%	7%	-43%	-44%	-26%	-52%	-41%	-25%		55%	55%	-47%	-48%	-15%	-23%	8%	-43%
Div Financials	-33%	13%	6%	24%	24%	17%	-19%	24%	-24%	8%	-16%	-31%	-2%	-19%	-22%	-36%	-40%	-20%	-47%	0%	-28%	55%		59%	-42%	-25%	-3%	-4%	-21%	-61%
Insurance	-14%	10%	-12%	27%	26%	15%	-19%	16%	-18%	-4%	-21%	-26%	-9%	-13%	-10%	-27%	-31%	-34%	-42%	-12%	-38%	55%	59%	-38%	-43%	-43%	-2%	-26%	-22%	-36%
Real Estate	-4%	-29%	-25%	-40%	-33%	-16%	17%	-35%	30%	-35%	-2%	15%	7%	1%	22%	45%	54%	25%	58%	21%	6%	-47%	-42%	-38%		19%	0%	-1%	22%	55%
Software & IT Svs	-8%	-12%	18%	-17%	-31%	17%	16%	12%	13%	3%	16%	23%	2%	-3%	-23%	38%	12%	7%	21%	5%	28%	-48%	-25%	-43%	19%	17%	40%	-9%	9%	
Tech. Hardware	-8%	-14%	-3%	-12%	-10%	17%	-11%	6%	6%	-14%	-5%	-6%	15%	-23%	-1%	20%	8%	-28%	-12%	21%	-4%	-15%	-3%	-2%	0%	17%	8%	-5%	1%	
Semi-conductors	-7%	-6%	33%	-9%	-7%	-3%	3%	8%	-7%	10%	25%	4%	-14%	-14%	-19%	17%	-10%	0%	6%	-5%	-3%	-23%	-4%	-26%	-1%	40%	8%	-17%	-6%	
Telecom	0%	-15%	-31%	-20%	-14%	-33%	18%	-52%	23%	-2%	-20%	-10%	14%	8%	30%	11%	22%	15%	15%	-6%	-8%	8%	-21%	-22%	22%	-9%	-5%	-17%	34%	
Utilities	8%	-23%	-17%	-37%	-34%	-9%	27%	-31%	20%	-17%	-15%	2%	12%	5%	21%	49%	50%	24%	42%	3%	10%	-43%	-61%	-36%	55%	9%	1%	-6%	34%	
Average	-5%	-3%	-1%	-4%	-9%	1%	4%	0%	2%	-2%	1%	4%	-2%	0%	-2%	1%	-1%	-1%	0%	-5%	2%	-11%	-9%	-10%	2%	3%	-2%	-1%	-2%	

Correlation of relative performance (in total return) between sectors, and relative performance to European equity market based on 2 years' weekly data. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy

## Correlation matrix – countries

	Austria	Belgium	Denmark	Finland	France	Germany	Ireland	Italy	Netherlands	Norway	Portugal	Spain	Sweden	Switzerland	United Kingdom
<b>Austria</b>	1%	8%	2%	0%	-35%	-27%	-12%	-38%	2%	21%	0%	-25%	1%	29%	30%
<b>Belgium</b>	8%		9%	19%	-7%	-10%	-10%	-4%	28%	-3%	12%	10%	-2%	2%	-17%
<b>Denmark</b>	2%	9%		3%	-19%	-6%	-24%	-10%	5%	-6%	25%	5%	-1%	8%	-13%
<b>Finland</b>	0%	19%	3%		10%	-2%	-2%	-4%	11%	-6%	2%	-3%	22%	-4%	-21%
<b>France</b>	-35%	-7%	-19%	10%		26%	13%	35%	3%	-21%	5%	32%	0%	-40%	-56%
<b>Germany</b>	-27%	-10%	-6%	-2%	26%		2%	17%	-7%	-23%	-16%	7%	4%	-29%	-50%
<b>Ireland</b>	-12%	-10%	2%	-2%	13%	2%		-4%	-6%	-21%	-30%	-7%	4%	2%	-1%
<b>Italy</b>	-38%	-10%	-10%	-4%	35%	17%	4%		-6%	2%	10%	54%	-10%	42%	-43%
<b>Netherlands</b>	2%	28%	5%	11%	-6%	-7%	-6%	-6%		-14%	4%	14%	-17%	4%	-28%
<b>Norway</b>	21%	-3%	-6%	-6%	-21%	-23%	-21%	2%	-14%		31%	-6%	15%	-28%	32%
<b>Portugal</b>	0%	12%	25%	2%	-16%	-16%	-30%	10%	4%	31%		23%	2%	-28%	1%
<b>Spain</b>	-25%	10%	5%	-3%	32%	7%	-7%	54%	14%	-6%	23%		-5%	-31%	-56%
<b>Sweden</b>	1%	-2%	-1%	22%	0%	4%	-5%	-10%	-14%	15%	2%	-5%		-14%	-14%
<b>Switzerland</b>	29%	2%	8%	1%	-14%	-17%	-17%	-10%	4%	-28%	2%	-5%	-14%		1%
<b>United Kingdom</b>	30%	-17%	-13%	-21%	-50%	-50%	-1%	-43%	4%	-28%	-28%	-31%	-14%	1%	
<b>Average</b>	-3%	3%	-2%	2%	-4%	-8%	-7%	-3%	0%	-2%	3%	1%	-1%	-12%	-17%

Correlation of relative performance (in total return) between countries and relative performance to European equity market based on 2 years' weekly data. Source: MSCI, Datastream, SG Cross Asset Research/ Equity Strategy

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Premium List  
&  
Stock picks



## Preferred and least preferred stocks

	Preferred stocks	Least preferred stocks
<b>Oil &amp; Gas</b>		
Integrated Oil Companies	BP	Galp
Oil Services	TechnipFMC	Bourbon
<b>Basic Industries</b>		
Chemicals	Linde, EVK, Solvay	DSM, Givaudan
Construction Materials	CRH, Geberit, Ferguson	LafargeHolcim
Steel, Metals & Mining	BHP Billiton, ArcelorMittal	Rio Tinto
Paper, Packaging		
<b>Industry</b>		
Aerospace & Defence	Airbus	Cobham
Construction	Ferrovial	
Capital Goods	Schneider	Vestas Wind Systems
Transportation & Other Services	Wizz Air (Airlines), Fraport (other Trans Infra), Deutsche Post (Air Freight & Logistics)	AF-KLM (Airlines), Aena (other Trans Infra), Royal Mail (Air Freight & Logistics)
<b>Consumer Discretionary</b>		
Automobiles & Components	Porsche SE, PSA Group, VW/Faurecia	BMW/Valeo
Durables, Apparel & Luxury	Kering	Salvatore Ferragamo
Hotels, Restaurants & Leisure	Melia Hotels International (Hotels), Eilor (Restaurants)	IHG (Hotels), Sodexo (Restaurants)
Media	WPP	Facebook
Retailing (specialised)	Asos	M&S
<b>Consumer Staples</b>		
Food & Staples Retailing	Casino, Carrefour	Ocado
Beverages	Diageo, Heineken	Carlsberg, Brown Forman
Food	Danone, Unilever	Kraft Heinz
Tobacco	BAT, Imperial Brands	
Household & Personal Care	Henkel, RB	Colgate
<b>Health Care</b>		
Health Care Equipment & Services	Fresenius SE, Eos Imaging	
Pharma, Biotech & Life Sciences	AstraZeneca, Shire, Sanofi, Novartis, ABB Vie, Merck&Co, Ipsen	Novo Nordisk, Roche, Bristol-Myers Squibb
<b>Financials</b>		
Banks	ABN, CASA, DNB, ERSTE, LLOY	DBK, BKIA
Div. Financials & Investment Banks		
Insurance	Assic Generali spa, Axa	Zurich
Real Estate	Klépierre	Lar Espanã
<b>Information Technology</b>		
Software & IT Services	Altran Technologies	Software AG
Technology Hardware & Eqpt.	Nokia	Ericsson
Semi-conductors	STMicroelectronics	
<b>Telecommunication Services</b>		
	Deutsche Telekom	Telenor
<b>Utilities</b>		
	RWE, Fortum, VerBund	REN, Enagas, EDP

Source: SG Cross Asset Research/Equity Strategy

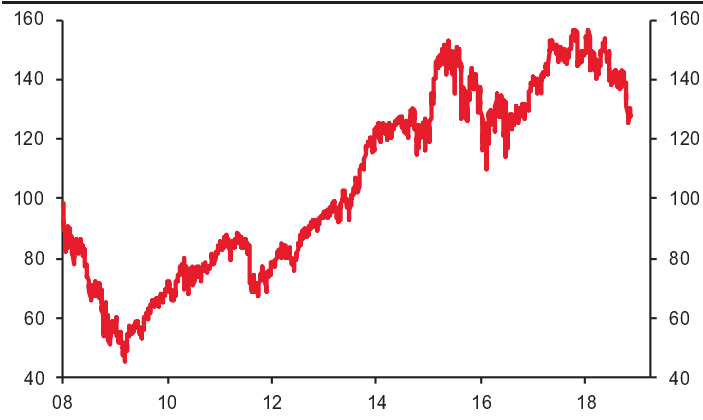
## SG Premium List

The SG Global Research and Strategy team selects stocks that are deemed to be the most promising by evaluating the investment case, 12-month forward target price and rating (Buy, Hold, Sell) of the European stocks that we cover.

Company	Sector	Currency	Price (20/11/18)	Target Price	TSR (%)
ABN Amro	Banks	EUR	22.3	29	37
Accor	Hotels	EUR	38.5	50.4	33
Allianz SE	Insurance	EUR	185	215	21
ArcelorMittal	Metals & Mining	EUR	20.7	44.4	119
Axa	Insurance	EUR	21.2	30	48
BP	Oil & Gas	GBP	5.2	6.8	37
Crédit Agricole SA	Banks	EUR	10.6	16	57
CRH PLC	Construction Materials	GBP	21.3	30	44
Deutsche Post AG	Transportation	EUR	27.9	41	51
Evonik	Chemicals	EUR	24.5	40	68
Henkel	HPC	EUR	98.1	115	19
Novartis AG	Pharmaceuticals	CHF	88.1	100	17
Publicis Groupe	Media	EUR	52.4	73	43
SAP	Software & IT Services	EUR	88	117	35
STMicroelectronics	Technology Hardware	USD	13.6	30	122
TechnipFMC	Oil & Gas	USD	23.1	45	97
Volkswagen	Automobiles	EUR	145.8	208	47

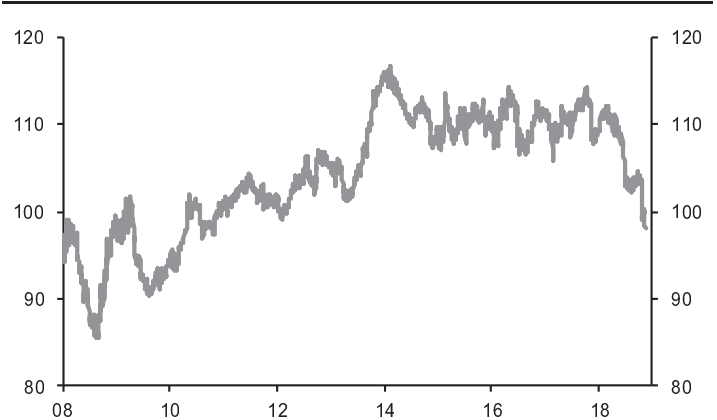
Data as of 20/11/2018, Source: SG Cross Asset Research/Equity Strategy

### SG Premium List absolute performance



100 = 01/01/08. Source: Bloomberg, SG Cross Asset Research/Equity Strategy

### SG Premium List relative performance to Eurostoxx 50



100 = 01/01/08. Source: Bloomberg, SG Cross Asset Research/Equity Strategy

## Premium list – Mid & Small caps

Company	Sector	Currency	Price (20/11/18)	Target price	TSR (%)
CFE	Construction & Building Materials	EUR	92.4	140	54
Europcar Mobility Group	Commercial services & Supplies	EUR	8.27	12.6	56
Kaufman & Broad	Real estate	EUR	33.56	48.2	50
Maisons du Monde	Non Food Retail	EUR	19.36	40	109
Prosiebensat1 Media	Media	EUR	17.37	25	50
Rubis	Oil & Gas	EUR	43.74	70	63
Trigano	Consumer Durables	EUR	82.7	158	92

Data as of 20/11/18. Source: SG Cross Asset Research/Equity Strategy

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## APPENDIX

### ANALYST CERTIFICATION

The following named research analyst(s) hereby certifies or certify that (i) the views expressed in the research report accurately reflect his or her or their personal views about any and all of the subject securities or issuers and (ii) no part of his or her or their compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report: **Roland Kaloyan, Charles de Boissezon, Kevin Redureau, Makhdoom Muteeb Raina, Frank Benzimra, Rajat Agarwal, Sophie Huynh, Vincent Cassot, Jitesh Kumar, Yannick Ouaknine, Stephanie Aymes, Praveen Singh, Alain Bokobza**

[Roland Kaloyan's historical MAD2MAR recommendations over the past 12 months.](#)

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### SG EQUITY RESEARCH RATINGS on a 12 month period

**BUY:** absolute total shareholder return forecast of 15% or more over a 12 month period.

**HOLD:** absolute total shareholder return forecast between 0% and +15% over a 12 month period.

**SELL:** absolute total shareholder return forecast below 0% over a 12 month period.

Total shareholder return means forecast share price appreciation plus all forecast cash dividend income, including income from special dividends, paid during the 12 month period. Ratings are determined by the ranges described above at the time of the initiation of coverage or a change in rating (subject to limited management discretion). At other times, ratings may fall outside of these ranges because of market price movements and/or other short term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by research management.

### Sector Weighting Definition on a 12 month period:

The sector weightings are assigned by the SG Equity Research Strategist and are distinct and separate from SG equity research analyst ratings. They are based on the relevant MSCI.

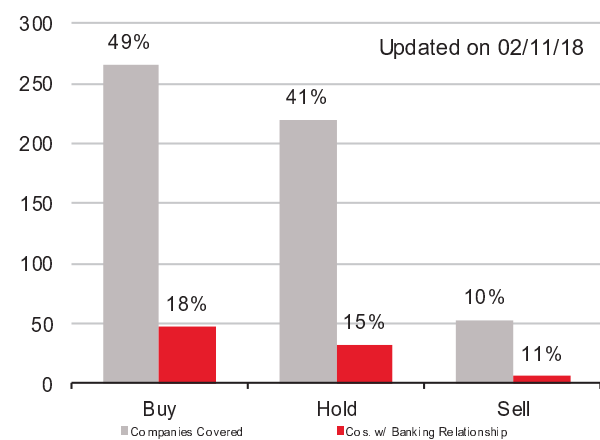
**OVERWEIGHT:** sector expected to outperform the relevant broad market benchmark over the next 12 months.

**NEUTRAL:** sector expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**UNDERWEIGHT:** sector expected to underperform the relevant broad market benchmark over the next 12 months.

The Preferred and Least preferred stocks are selected by the covering analyst based on the individual analyst's coverage universe and not by the SG Equity Research Strategist.

### Equity rating and dispersion relationship



Source: SG Cross Asset Research/Equity

All pricing information included in this report is as of market close, unless otherwise stated.

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Global Head of Research  
**Brigitte Richard-Hidden**  
(33) 1 42 13 78 46  
brigitte.richard-hidden@sgcib.com

Head  
**Alain Bokobza**  
+33 (0)1 42 13 84 38  
alain.bokobza@sgcib.com

**CROSS ASSET RESEARCH**  
**ASSET ALLOCATION & EQUITY STRATEGY & EQUITY DERIVATIVES**

Deputy Head  
**Charles de Boissezon**  
+33 (0)1 42 13 58 41  
charles.de-boissezon@sgcib.com

**GLOBAL ASSET ALLOCATION**

**Paris**  
**Arthur van Slooten**  
+33 (0)1 42 13 45 06  
arthur.van-slooten@sgcib.com

**Paris**  
**Gaëlle Blanchard**  
+33 (0)1 57 29 20 66  
gaëlle.blanchard@sgcib.com

**Bangalore**  
**Praveen Singh**  
+91 80 2802 4232  
praveen.singh@sgcib.com

**London**  
**Sophie Huynh**  
+44 20 7676 7471  
sophie.huynh@sgcib.com

**EQUITY STRATEGY**

**Head of European Equity Strategy - Paris**  
**Roland Kaloyan**  
+33 (0)1 58 98 04 88  
roland.kaloyan@sgcib.com

**Paris**  
**Kevin Redureau**  
+33 (0)1 58 98 02 30  
kevin.redureau@sgcib.com

**Head of Asian Equity strategy - Hong Kong**  
**Frank Benzmira**  
+852 2166 4309  
frank.benzmira@sgcib.com

**Bangalore**  
**Rajat Agarwal**  
+91 80 6731 5184  
rajat.agarwal@sgcib.com

**Bangalore**  
**Makhdoom M. Raina**  
+91 80 6731 1232  
makhdoom-muteeb.raina@sgcib.com

**EQUITY DERIVATIVES STRATEGY**

**Head of Equity Derivatives**  
**Vincent Cassot**  
+33 (0)1 42 13 59 55  
vincent.cassot@sgcib.com

**Paris**  
**Jitesh Kumar**  
+33 1 42 13 55 07  
jitesh.kumar@sgcib.com

**Bangalore**  
**Gaurav Tiwari**  
+918067319225  
gaurav.tiwari@sgcib.com