10th December 2012

The Outlook for Equity Markets

:

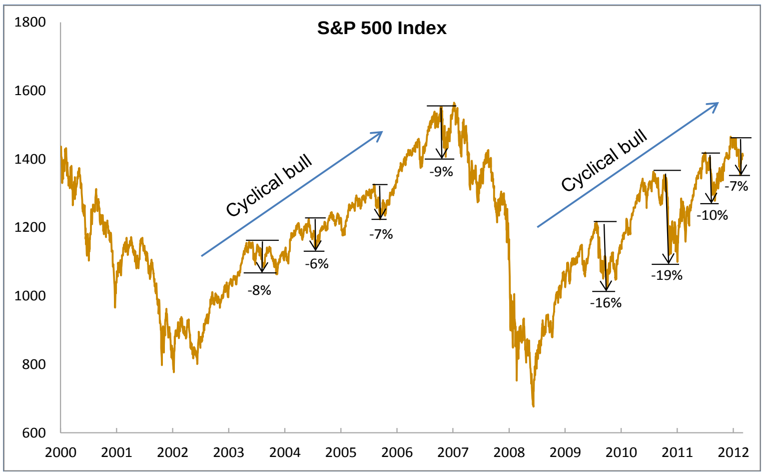
- It seems reasonable to believe that we are still in the aftermath of the last major cyclical downturn rather than the prelude to the next one
- Global cyclical bull market in equities looks set to continue through 2013….
- …….consistent with our view that the global economy will be gradually emerging from a mid-cycle slowdown in 2013
- ….and supported by monetary policy, valuation and a creeping migration in asset preference…
- …..albeit that the drag from earnings disappointment can linger
- Vulnerability to unusually large corrections can continue through 2013…..
- ….but the underlying tendency should nonetheless be towards smaller corrections
- European equity indices can claw back underperformance, albeit erratically…
- …and possibly in the context of further Euro weakness

Author: Bernard McAlinden, ESN, bernard.mcalinden@esnpartnership.eu, +353 87 2414826

The Outlook for Equity Markets

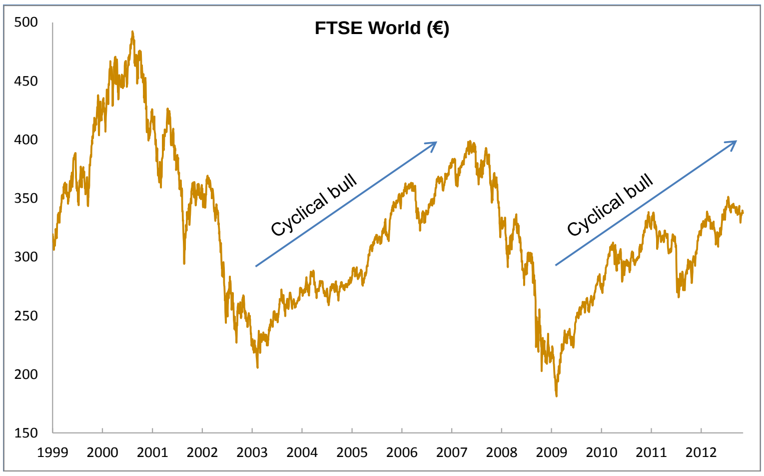
The global cyclical bull market in equities (which started in late 2008 in emerging markets and early 2009 in developed markets) looks set to continue through 2013. This would be consistent with our view that the global economy will be gradually emerging from a mid-cycle slowdown in 2013. It is likely that the pattern of vulnerability to unusually severe corrections can continue through 2013, but it is also reasonable to expect an underlying tendency for the corrections to be getting smaller over time as residual fear in the wake of the "great recession" gradually subsides and as confidence in the durability of the global economic expansion gradually builds.

Ongoing cyclical bull market but with unusually big corrections



Source: Bloomberg, ESN:

Ongoing global cyclical bull market



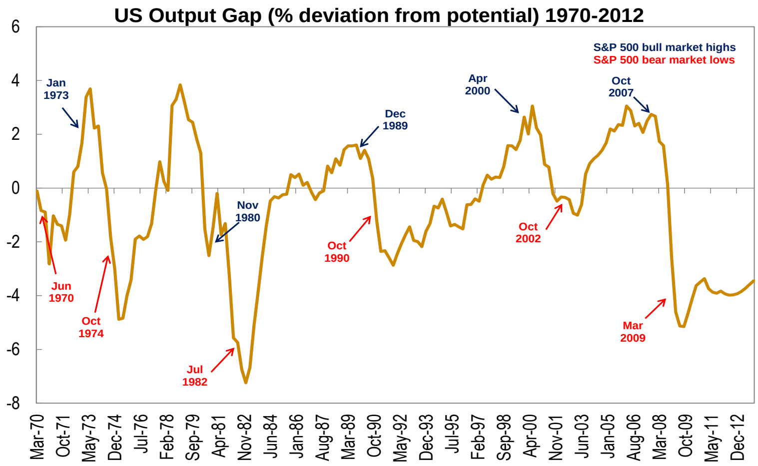
Source: Bloomberg, ESN

Monetary policy looks set to continue as a positive cyclical driver of equity markets in 2013 and valuation is also supportive. The earnings outlook is more ambiguous but we expect the outlook for resumed cyclical growth in earnings to improve in H2 2013.

We do not subscribe to "new normal" type thinking that cyclical expansions in economies and stock markets will henceforth be shorter in duration than the post-WW2 norm due to high debt levels and related de-leveraging. The structural influences tending to lengthen economic cycles over recent decades are unlikely to be reversing. Nor do we subscribe to the view that that the de-leveraging process necessarily dictates a sustained period of sub-par growth over the medium to longer term. The de-leveraging process is essentially about redistributing growth from consumption to net external demand in the indebted economies and vice versa in the creditor economies. After an initial lag during which local labour markets etc must adjust to changing demand patterns, the growth rates in both debtor economies and creditor economies can be expected to increasingly gravitate back towards their respective potential levels. So, rather than being inevitably suppressed for the duration of the ongoing de-leveraging process, actual and potential growth rates in both debtor and creditor economies can be expected to gradually return to being driven by the factors that have always driven them i.e. labour supply, technology / productivity and the availability of energy and other commodities.

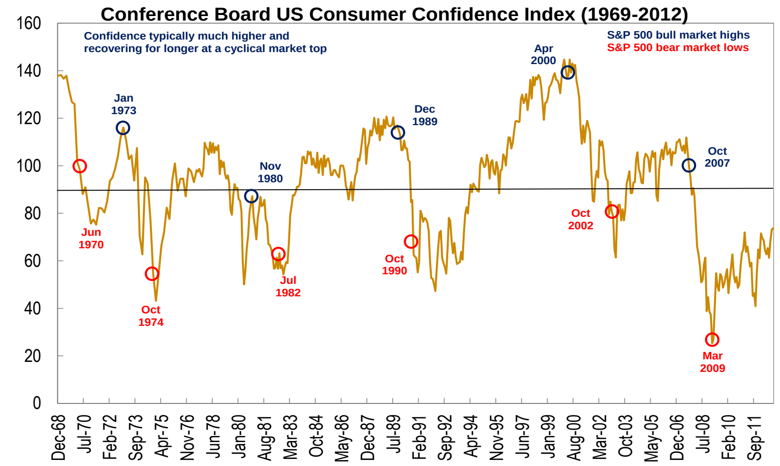
It is inevitable the current cyclical expansion in the global economy and equity market will eventually end in recession and a related cyclical bear market. However, the typical late cycle excesses of confidence, and related investment and above-trend growth, that would set the scene for the next major cyclical downturn do not seem to be present yet (albeit that these are admittedly always difficult to identify before the event). Equity markets have in recent years been struggling through the financial and psychological aftermath of one of the biggest downturns in history. As in previous cycles, the excesses that caused the down-cycle remain unresolved well into the new up-cycle, leaving economies and stock markets vulnerable to ongoing corrections during this aftermath period when events conspire to shake confidence. Although these corrections in confidence and markets can be severe, history suggests that unless they are accompanied by significant policy error, they are unlikely to develop into another major cyclical downturn. They are in fact, more likely to prolong and protract the current economic expansion by interrupting the process by which fear is slowly forgotten and confidence is slowly regained. It seems reasonable to believe that we are still in the aftermath of the last major cyclical downturn rather than the prelude to the next downturn. The collective psyche will have to emerge from this aftermath period before it will have the confidence to start creating the new excesses that will beget the next major cyclical downturn in economies and markets.

Cyclical Bull Markets Don't End until after Output Gap Closes



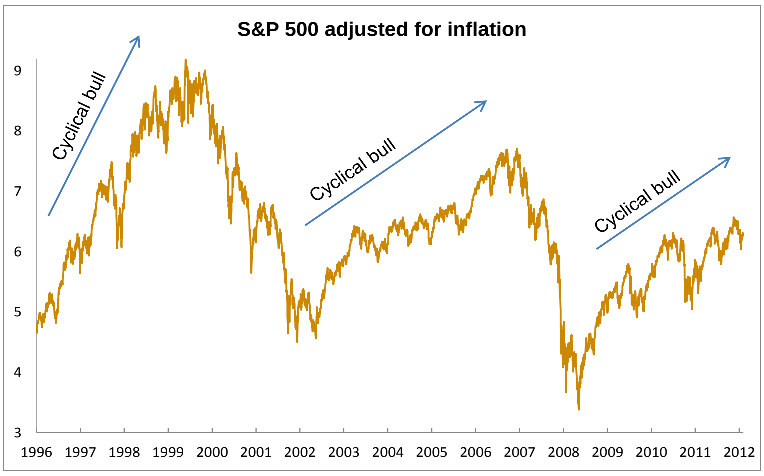
Source: Bloomberg, ESN:

Confidence Still far too Low for a Cyclical High to be Anywhere Close



Source: Bloomberg, ESN

Equity markets not stretched in real terms



Source: Bloomberg, ESN:

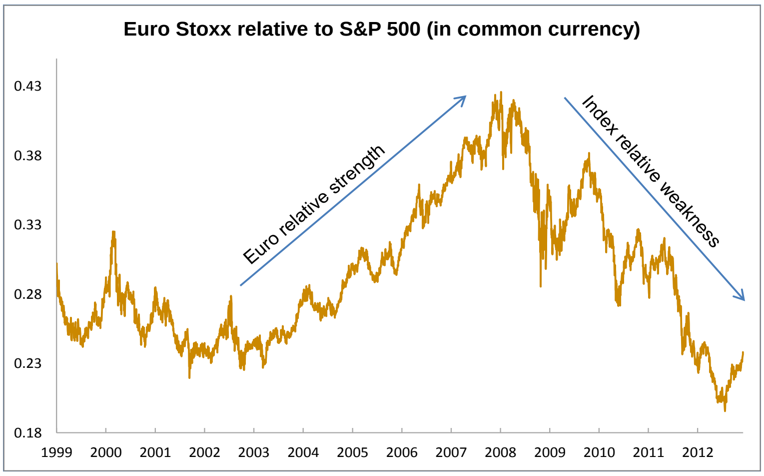
The corrections we have seen in the current cyclical bull market have clearly been very big by comparison with the corrections seen in previous bull markets and this reflects the extent of residual fear and financial stress in the aftermath of one of the biggest downturns in history.

It is likely that this pattern of intermittent large corrections can continue through 2013 given the potential for worries about renewed recession and financial crisis stemming from fiscal retrenchment in Europe and the US, further iterations of the Euro zone debt crisis, elections in Italy and Spain and any geo-political events that threaten global trade and/or energy supplies. It is interesting to note that the most recent correction in the S&P500 index (reflecting post-election fears about the "fiscal cliff") was about as big at the biggest corrections seen over the entire course of the previous cyclical bull market between 2003 and 2007. It is nonetheless reasonable to expect that the pattern will be for the corrections to be getting smaller over time as the residual fear gradually subsides and as confidence in the durability of the global economic expansion gradually builds.

With earnings unlikely to be clearly supportive of equity markets for much of 2013 and with the ongoing potential for corrections of significant severity, it would be unwise to predict a particularly strong performance from global equity markets in 2013. However, we believe that the total return from ample dividend yields plus moderate underlying capital appreciation should at least be in line with our estimate of the long run required total real return from equity markets of about 6% (say 8% nominal). This would represent a significant excess over the negative prospective real return on offer from "risk free" cash and bonds currently. Depending on the rate at which global growth re-accelerates and the timing of any corrections within the calendar year, there is potential for yet more generous returns from equity markets in 2013. In the aftermath of the "great recession" risk aversion has been exceptionally high, but as yields on "risk free" assets have plummeted into negative territory, there has nonetheless been a gradual and erratic underlying migration from cash and government bonds into corporate bonds and then towards equities. This slow migration in asset preference is likely to continue in 2013.

The European equity market has been a major underperformer since the Euro zone debt crisis erupted. On the assumption that the Euro zone debt crisis has passed its peak, the more recent trend towards regaining this underperformance can continue through 2013, albeit very erratically if we are nonetheless likely to see some further iterations of the crisis. When looking at the performance of the Euro Stoxx equities index relative to the S&P500 index in common currency terms, it should be noted that the earlier significant outperformance by the Euro Stoxx index between 2002 and 2008 was mostly due to currency outperformance (Euro appreciating against the Dollar), whereas the more recent period of significant underperformance since 2008 was mostly due to index underperformance (Euro Stoxx index underperforming S&P500 index). Although the Euro Stoxx index can continue to play catch-up with the S&P500 index, the potential for further Euro weakness means that some of the outperformance can be offset by currency effects.

Eurozone a big recent underperformer



Source: Bloomberg, ESN

Strategy co-ordinator

Bernard McAlinden	ESN	Dublin	+353 87 241 4826	bernard.mcalinden@esnpartnership.eu

Strategy team

Benoit Rodriguez	CM – CIC Securities	Paris	+33 1 45 96 81 56	Benoit.rodriguez@cmcics.com
Camille de Williencourt	CM – CIC Securities	Paris	+331 45 967 731	camille.dewilliencourt@cmcics.com
Etienne de Callatay	Bank Degroof	Brussels	+32 2 287 91 09	etienne.decallatay@degroof.be
Damien Petit	Bank Degroof	Luxembourg	+352 453545 2242	damien.petit@degroof.lu
Francesco Previtera	Banca Akros	Milan	+39 02 4344 4302	francesco.previtera@bancaakros.it
Francois Duhen	CM – CIC Securities	Paris	+33 1 4596 7942	francois.duhen@cmcics.com
Holger Schmidt	Equinet Bank	Frankfurt	+49 69 5899 7432	holger.schmidt@equinet-ag.de
Jarkko Soikkeli	Pohjola Bank	Helsinki	+358 10 252 8685	Jarkko.soikkeli@pohjola.fi
Joao Lourenco	Caixa BI	Lisbon	+351 21 389 6841	joao.lourenco@caixabi.pt
Konstantinos Manolopoulos	Investment Bank of Greece	Athens	+30 210 817 3388	kmanolopoulos@ibg.gr
Sophie Mametz	CM – CIC Securities	Paris	+33 1 45 96 77 57	sophie.mametz@cmcics.com
Victor Peiro Perez	Bankia Bolsa	Madrid	+34 91 436 7812	vpeirope@bankia.com
Yann Belvisi	CM-CIC Securities	Paris	+331 45 968 646	yann.belvisi@cmcics.com

ESN Recommendation system

The ESN Recommendation System is **Absolute**. It means that each stock is rated on the basis of a **total return**, measured by the upside potential (including dividends and capital reimbursement) over a **12 month time horizon**.

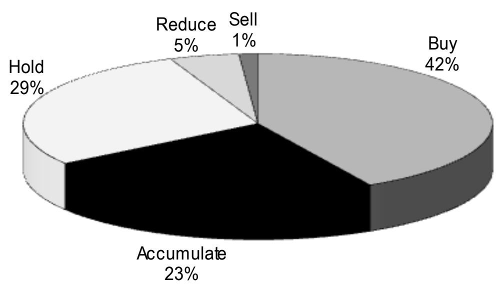
The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy, Accumulate (or Add), Hold, Reduce and Sell (in short: B, A, H, R, S)**.

Furthermore, in specific cases and for a limited period of time, the analysts are allowed to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR)**, as explained below.

Meaning of each recommendation or rating:

- **Buy**: the stock is expected to generate total return of **over 20%** during the next 12 months time horizon
- **Accumulate:** the stock is expected to generate total return of **10% to 20%** during the next 12 months time horizon
- **Hold**: the stock is expected to generate total return of **0% to 10%** during the next 12 months time horizon.
- **Reduce**: the stock is expected to generate total return of **0% to -10%** during the next 12 months time horizon
- **Sell**: the stock is expected to generate total return **under -10%** during the next 12 months time horizon
- **Rating Suspended**: the rating is suspended due to a capital operation (take-over bid, SPO, …) where the issuer of the document (a partner of ESN) or a related party of the issuer is or could be involved or to a change of analyst covering the stock
- **Not Rated**: there is no rating for a company being floated (IPO) by the issuer of the document (a partner of ESN) or a related party of the issuer

ESN Ratings Breakdown

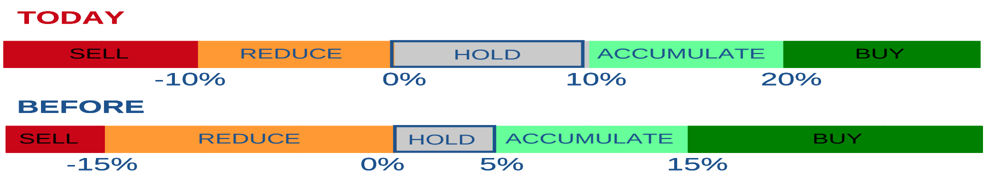


History of ESN Recommendation System

Since 18 October 2004, the Members of ESN are using an Absolute Recommendation System (before was a Relative Rec. System) to rate any single stock under coverage.

Since 4 August 2008, the ESN Rec. System has been amended as follow.

- Time horizon changed to 12 months (it was 6 months)
- Recommendations Total Return Range changed as below:



Disclaimer:

These reports have been prepared and issued by the Members of European Securities Network LLP ('ESN'). ESN, its Members and their affiliates (and any director, officer or employee thereof), are neither liable for the proper and complete transmission of these reports nor for any delay in their receipt. Any unauthorised use, disclosure, copying, distribution, or taking of any action in reliance on these reports is strictly prohibited. The views and expressions in the reports are expressions of opinion and are given in good faith, but are subject to change without notice. These reports may not be reproduced in whole or in part or passed to third parties without permission. The information herein was obtained from various sources. ESN, its Members and their affiliates (and any director, officer or employee thereof) do not guarantee their accuracy or completeness, and neither ESN, nor its Members, nor its Members' affiliates (nor any director, officer or employee thereof) shall be liable in respect of any errors or omissions or for any losses or consequential losses arising from such errors or omissions. Neither the information contained in these reports nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities ('related investments'). These reports are prepared for the clients of the Members of ESN only. They do not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive any of these reports. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in these reports and should understand that statements regarding future prospects may not be realised. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in these reports. In addition, investors in securities such as ADRs, whose value are influenced by the currency of the underlying security, effectively assume currency risk.

ESN, its Members and their affiliates may submit a pre-publication draft (without mentioning neither the recommendation nor the target price/fair value) of its reports for review to the Investor Relations Department of the issuer forming the subject of the report, solely for the purpose of correcting any inadvertent material inaccuracies. Like all members employees, analysts receive compensation that is impacted by overall firm profitability For further details about the specific risks of the company and about the valuation methods used to determine the price targets included in this report/note, please refer to the latest relevant published research on single stock or contact the analyst named on the front of the report/note. Research is available through your sales representative. ESN will provide periodic updates on companies or sectors based on company-specific developments or announcements, market conditions or any other publicly available information. Unless agreed in writing with an ESN Member, this research is intended solely for internal use by the recipient. Neither this document nor any copy of it may be taken or transmitted into Australia, Canada or Japan or distributed, directly or indirectly, in Australia, Canada or Japan or to any resident thereof. This document is for distribution in the U.K. Only to persons who have professional experience in matters relating to investments and fall within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (the "order") or (ii) are persons falling within article 49(2)(a) to (d) of the order, namely high net worth companies, unincorporated associations etc (all such persons together being referred to as "relevant persons"). This document must not be acted on or relied upon by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

The distribution of this document in other jurisdictions or to residents of other jurisdictions may also be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. By accepting this report you agree to be bound by the foregoing instructions. You shall indemnify ESN, its Members and their affiliates (and any director, officer or employee thereof) against any damages, claims, losses, and detriments resulting from or in connection with the unauthorized use of this document.

For disclosure upon "conflicts of interest" on the companies under coverage by all the ESN Members and on each "company recommendation history", please visit the ESN website (www.esnpartnership.eu) **For additional information and individual disclaimer please refer to www.esnpartnership.eu and to each ESN Member websites:**

www.bancaakros.it regulated by the CONSOB - Commissione Nazionale per le Società e la Borsa

www.bankiabolsa.es regulated by CNMV - Comisión Nacional del Mercado de Valores

www.caixabi.pt regulated by the CMVM - Comissão do Mercado de Valores Mobiliários

www.cmcics.com regulated by the AMF - Autorité des marchés financiers

www.degroof.be regulated by the FSMA - Financial Services and Markets Authority

www.equinet-ag.de regulated by the BaFin - Bundesanstalt für Finanzdienstleistungsaufsicht

www.ibg.gr regulated by the HCMC - Hellenic Capital Market Commission

www.ncb.ie regulated by the Central Bank of Ireland

www.pohjola.com regulated by the Financial Supervision Authority

www.snssecurities.nl regulated by the AFM - Autoriteit Financiële Markten

Members of ESN (European Securities Network LLP)

Banca Akros S.p.A.
Viale Eginardo, 29
20149 Milano
Italy
Phone: +39 02 43 444 389
Fax: +39 02 43 444 302

Equinet Bank AG
Gräfstraße 97
60487 Frankfurt am Main
Germany
Phone:+49 69 – 58997 – 410
Fax:+49 69 – 58997 – 299

Bank Degroof
Rue de l'Industrie 44
1040 Brussels
Belgium
Phone: +32 2 287 91 16
Fax: +32 2 231 09 04

Investment Bank of Greece
24B, Kifisias Avenue
151 25 Marousi
Greece
Phone: +30 210 81 73 000
Fax: +30 210 68 96 325

Bankia Bolsa
Serrano, 39
28001 Madrid
Spain
Phone: +34 91 436 7813
Fax: +34 91 577 3770

NCB Stockbrokers Ltd.
3 George Dock,
Dublin 1
Ireland
Phone: +353 1 611 5611
Fax: +353 1 611 5781

Caixa-Banco de Investimento
Rua Barata Salgueiro, 33-5
1269-050 Lisboa
Portugal
Phone: +351 21 389 68 00
Fax: +351 21 389 68 98

Pohjola Bank plc
P.O.Box 308
FI- 00013 Pohjola
Finland
Phone: +358 10 252 011
Fax: +358 10 252 2703

CM - CIC Securities
6, avenue de Provence
75441 Paris
Cedex 09
France
Phone: +33 1 4596 7940
Fax: +33 1 4596 7748

SNS Securities N.V.
Nieuwezijds Voorburgwal 162
P.O.Box 235
1000 AE Amsterdam
The Netherlands
Phone: +31 20 550 8500
Fax: +31 20 626 8064