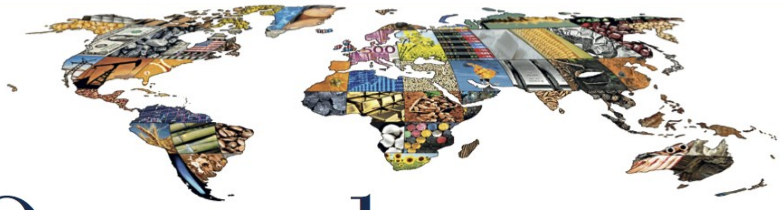
2pm PERSONALIZED PORTFOLIO MANAGEMENT



Quarterly market review

January 2019

Editorial

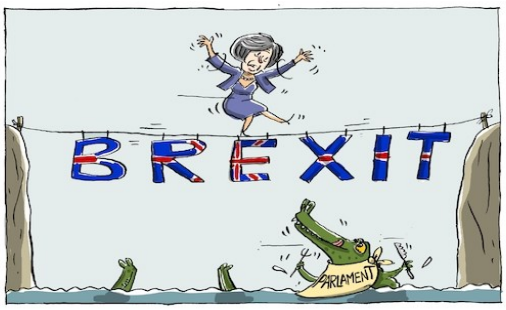
	Q4 2018	FY 2018	Close 31/12/18
DOW JONES	-11.83%	-5.63%	26 327.46
S&P 500	-13.97%	-6.24%	2 506.85
FTSE 100	-10.41%	-12.48%	6 728.13
EUROST.50	-11.70%	-14.34%	3 001.42
CAC 40	-13.89%	-10.95%	4 730.69
FTSE MIB	-11.53%	-16.15%	18 324.03
MSCI EM	-7.85%	-16.64%	965.67
CRUDE OIL	-38.01%	-24.84%	45.41
GOLD	7.54%	-1.58%	1 282.45
EUR/USD			1.1467
EUR/CHF			1.1255
EUR/GBP			0.8989
EURIBOR 1M			-0.363%

Annus horribilis…

2018 ends and the balance sheet is heavy on equity markets: -14.34% for the Eurostoxx50, -6.24% for the S&P500, -16.64% for the MSCI Emerging Markets, -25.31% for the Chinese index…The worst year since the 2008 crisis! We must even go back a hundred years to see negative performance impacting so many assets simultaneously (stocks, bonds, commodities ...). Nothing will have saved us this year, not even gold, despite its catch-up in December. A terrible record, therefore, and even more significant since the majority of economists and strategists planned a 2018 year that was more promising, showing rather fear for 2019. Are we going to observe exactly the opposite? Before answering this question, let's go back quickly to the various reasons that caused the many waves of decline.

The first reason for anxiety and nervousness for operators was the level of US rates, with sometimes contradictory fears between the beginning and the end of the year. Let us recall, almost a year ago, at the end of January 2018, the markets were experiencing their first wave of year-down. A mini-crash could be stated, since in a very short period of time (from 23 January to 9 February), the fall was greater than 10% for the Eurostoxx50. Ditto for the S & P with a decline of nearly 12%. The reasons for this "sell -off" were then directly related to the rapid rise in long-term rates, a symptomatic movement of anticipation of reflation following the success of the US tax reform and the sustained growth figures on both sides of the Atlantic. The yield on the 10-year US government bond rose from 2.40% to 2.84% on February 2nd. A few months later, however, the world stock markets were going down in October for totally opposite reasons. Many operators are now worried that the United States will move into an end-of-life cycle and that the effects of tax cuts and repatriation of profits will fade. In short, we are heading towards less growth in 2019 and 2020. This explains why the 10-year US yield has not managed to break the 3.20% level and that we have even witnessed a few days a mini-inversion of the yield curve between 2-year maturity and 5-year maturity, movement that helped accelerate the purge of December. The back-pedaling in the Fed's speech did not help. J. Powell, who told us at the beginning of October that US short rates were still far from their potential, suddenly changed tone, now estimating that short-term rates are close to their optimal level, closer to the neutral rate that is to terminate the process of monetary tightening. Since then, those investors who were still waiting for just three or four increases in the Fed Funds rate would perhaps have one only in 2019. And that's not all! This sudden turnaround in expectations has clearly been a major driver in the decline of the markets of the last three months in the United States but also in Europe, the old continent seeing its leading indicators crumbling more and more for some months. The ECB has just revised down its growth forecasts for the euro zone, forecasting only 1.7% in 2019 and 2020 with inflation of 1.6% in 2019 and 1.7% in 2020.

Second reason for concern: trade tensions between China and the United States that have generated questions about the durability of the economic cycle, questions that for certain Cassandra materialized by a fear (not justified in our opinion) of a recession in



the United States and slowing global trade due to protectionism. This last anguish, on the other hand, seems more realistic because in the whole history of the 20th century, more protectionism has never translated into more economic growth at the global level. More broadly, it is the Trump style that is questioning and has destabilized the operators throughout this year 2018. This was true for the Chinese issue, but equally true on the North Korean or Turkish issues, each time producing the same sequence: an American president who flexes his muscles at first, with radical positions and cookie-cut tweets, creating surprise, doubt and thus volatility, and who in the long run joins the "realpolitik" and finds new angles of discussion and points of convergence with his adversaries.

Third reason for concern: Italy. This autumn's standoff between Salvini and the European Commission against the backdrop of the threat of fiscal drift has propelled Italian long-term interest rates to unexpected levels, the spread between the construction industry and the Bund going as high as 325 bp before declining, following the relaxation of the Italian position regarding the projected deficit and the Commission's threat of financial sanctions. Collateral victims of these tensions between Italy and Brussels: banking stocks, Italian of course, but not only; the European economy's whole January 2019 euro banking sector is penalized by the foreseeable difficulties of refinancing and problems in steepening the rate curve. European banks have today reached valuation levels that surprise by their weakness, with an average Price to Book of 0.7x and a P/E 2019 of less than 8x earnings, all with an average dividend of 6.5% (as things stand).

Fourth reason for concern: Brexit. The uncertainty surrounding Britain's exit left open many more or less realistic scenarios, fueling doubts, uncertainties and therefore volatility. Conservative Prime Minister Theresa May is expected in late January to vote on what the Parliament negotiated with Brussels, but nothing says it will succeed given the divisions within her own camp. No majority seems to be in favor of the text. The agreement disappoints both the most bitter "Brexiters", who fear a permanent anchoring of the United Kingdom to the EU, as well as the Europhiles who still hope for a turn around. A first vote on December 11 had been canceled at the last minute by Theresa May to avoid an announced defeat. It was postponed until the third week of January. The Labor Party accuses Theresa May of playing the clock, in order to force elected officials to vote for the negotiated agreement, rather than taking the risk that the United Kingdom leaves the EU without agreement. In short, a beautiful imbroglio to the English who sows doubt among the operators. More generally, it is the old continent that continues to shake the markets. Between the Brexit affair, the trajectory of the Italian public debt diverging from its medium -term objective, thus threatening the financial stability of the other countries of the euro zone, the rise of populisms and anti-European parties, the French psychodrama with its crisis of yellow vests with already tangible consequences on the activity (the composite PMI fell to 49.3 vs 54.2 in November - first contraction of the activity in two and a half years), international investors have no lack of reasons to question the relevance of allocating capital on this very unstable eurozone, with a Franco-German couple who has never been so weak.

In short, markets like our portfolios will have been impacted in 2018 by often exogenous elements that, apart from perhaps the Brexit issue with a possible scenario of exit without agreement, seem temporary. Whether it is social contestation in France, Italian budget risks, trade negotiations between the United States and China, all these risk factors seem to us to be reversible. Moreover, current levels of pessimism are at record levels (the Bull/Bear sentiment indicator is at its third worst level in 20 years after the Greek crisis of 2011 and the Brexit vote in 2016), we seem out of step with the fundamental determinants of the price of risky assets in a medium/long-term perspective. Admittedly, the figures for global economic growth and earnings per share have somewhat slowed compared to the peaks of 2017. But they remain in positive territory. However, the markets are currently anticipating almost a recession! Take a look at the rate of return on the 10-year German government bond to be sure: 0.15 observed in session on January 2nd! Such a figure indicates that the bond market does not expect growth or inflation for the future. Such a view is certainly much too pessimistic, and one is probably not too far from the mark in saying that a lot of bad news is already embedded in current prices. Same with respect for stocks in the automobile sector. Certainly, the trade war between USA and China is not a good thing for this segment of the economy. Admittedly, the introduction of the stricter WLTP certification standard is a constraint for industry players. But does this justify the -60% decline on Valeo, the -40% on Daimler or the -35% decline on Michelin observed since January 2018? Or the fact that the entire sector is currently valued at 0.7 times the value of assets? We do not think so. On the contrary, let us consider that there is in these figures a lot of irrationality, a lot of excessive fears that create so many opportunities for the long-term investor who knows how to keep his cool in the storm. Despite the flattening of the US yield curve, a sign of a mature US cycle, we still do not see the warning signs of a recession (low margins, rapid rise in inflation, hardening credit conditions of banks ...). Although the slowdown, which is a little more pronounced than expected in the second half of the year, particularly in Europe, makes us cautious, but the reassuring factor is that the central banks are managing the situation quite well. In Europe, Mario Draghi had pointed out a few months ago that he would not spend anything on short rates before the end of next summer. As for the United States, the recent slightly more cautious position of the Fed indicates that the future could be a little more stable than in the last two years, which is not a bad thing for equity markets. Only the geopolitical factor, which is the subject of this issue's "special topic", could continue to be a source of uncertainty and therefore of volatility in 2019.

We therefore remain invested, ignoring short-term epidermal factors and even taking advantage of current levels to supplement our equity positions in the three zones, Europe and the United States (the fall in US technology stocks this autumn is certainly a great opportunity) and Emergents, the latter zone being treated at decent prices compared to developed countries. In terms of bonds, discernment is essential, and we continue to favor global flexible funds, which are best able to evolve serenely in a very fluid world, as shown by the widening of spreads observed on corporate bonds since a few months. Gold and the dollar are still attractive safe havens, which are good to hold at the margins in a diversified portfolio. Finally, on the front of asset allocation funds, we remain well invested, after this difficult year for all our specialists, who fall all between -5 and -10% in 2018, with a particular benevolence for the most diversified managers, able to invest in correlated assets such as real estate or infrastructure, compared to more traditional managers, focused only on equity / bond issues.

C. Carrafang

The Big Picture

Three men and a barrel ...

Donald Trump, Vladimir Putin and Mohammed Ben Salman (MBS) are the three most influential men on oil prices. The United States, Russia and Saudi Arabia are the only 3 countries that can produce more than 11 million barrels a day. They account for one-third of world production and, more than all, of OPEC's. Their often unpredictable personality and frequently conflicting goals have caused trouble rarely seen in the oil market. Moreover, this occurs in an international environment largely disoriented by dramatic reversals of analysis about the health of the US economy and its implications for interest rates.Yet until the end of the third quarter, crude oil prices (WTI) continued their steady

upward trend from $ 60 at the beginning of the year to $ 75, justified by the growth of the world economy and the adjustments in the US dollar, relatively well orchestrated by the producing countries. At that time, some even expected a barrel at USD 100. Suddenly after the peak of October 3, there is a complete reversal of the face of the market. In the days following this high point, it was reported that Saudi journalist Jamal Khashoggi, known for his anti-regime stance, was assassinated on 2 October by the special services of the Saudi Kingdom. Immediately the international community was alarmed and the spotlight shines on the probable sponsor, Prince M. Ben Salman, young heir to the Crown and new strongman of the country.

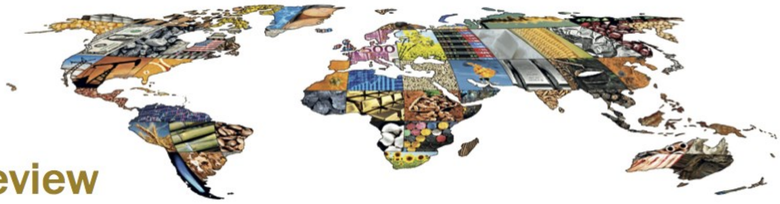
Yet a man will show a great moderation not always consistent with his image. President Trump has never hidden his desire to see energy prices fall in the United States and especially on the eve of mid-term elections. While the United States has become the world's largest producer through the exploitation of shale oil, low prices are not necessarily in the interest of all Americans. But President Trump does not care. His priority goes to the consumer especially since the votes of the states from which shale oil is extracted (Texas and North Dakota) are acquired.

He will act in two ways. By easing the sanctions that he himself had imposed on Iran and then putting pressure directly on Saudi Arabia. Clearly, purchase his moderation in the chorus of international reactions against MBS in exchange for the opening of Saudi oil taps. In November, oil production in the Wahhabi kingdom will increase by 0.5 Mbj to reach a record of 11 Mbj against an average of 10 Mbj at the beginning of the year, i.e. 0.5% of world demand.

If we consider the range $50 and $70 as the level likely to reach consensus, we can try to define the objectives of the big three. The United States under D. Trump want a relatively moderate price at the bottom of the range. Putin's Russia is in a median position. Less dependent on oil than Saudi Arabia, it is looking for a relatively firm price. Taking advantage of the US-Saudi dispute to consolidate its position in the Middle East sheds no tears from their eyes. Finally, they do not want the arrival of new entrants too rapidly and have repeatedly said through their Minister of Energy that a barrel at $ 60 was a good level. Saudi Arabia is targeting a strong oil price to finance MBS modernization program.

It is very difficult in such an environment to make predictions. All we know is that, at the turn of the year, Saudi Arabia closed down the oil pipeline like never before in two years. Suffice to say that we are not at the end of our surprises, nor with the price of crude, nor with those who influence it!

G. de Villaines



Macro-economy

EUROZONE

- The activity of the Euro Zone has been slowed by exogenous elements:
  - Anti-pollution regulations in the automotive sector.
  - Slow negotiations on the Italian budget and Brexit.
  - Social movements in France.
- The ECB has thus revised downward (twice in three months) growth; + 1.9% for 2018 and + 1.7% for 2019.
- At the same time, the inflation rate has declined. From a peak at 2% this summer, it is now + 1.6% at the end of 2018.
- Consumer and business confidence has been declining since mid-year record levels.
- Fiscal stimulus policies in France and Italy, as well as the return to normalcy in Germany's auto industry, should boost activity in the first part of 2019.

UNITED STATES

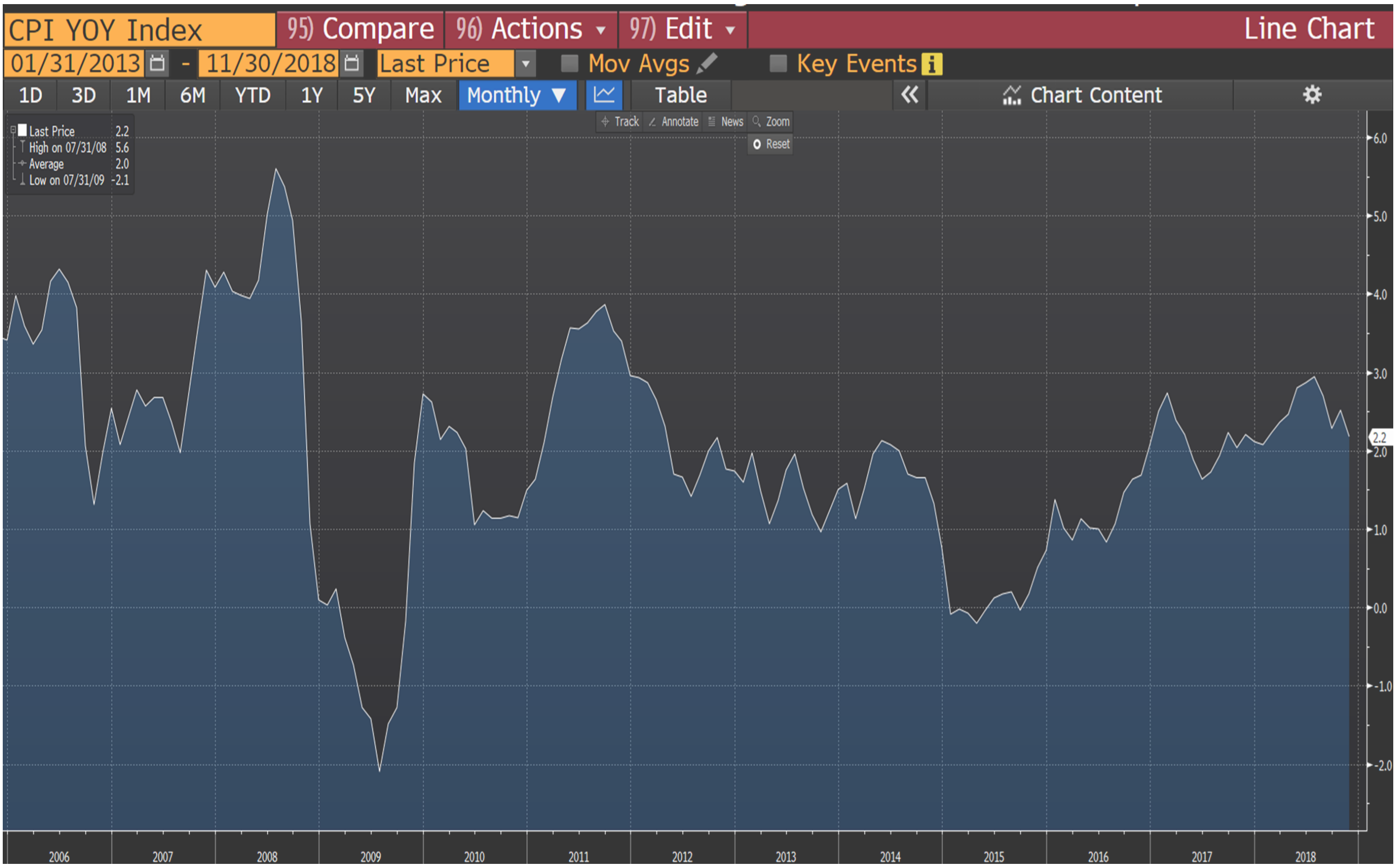
- Despite a decline in the growth of manufacturing activity at the end of the year (linked to the sharp fall in oil prices), fears of recession do not materialize.
- The labor market is very robust: In 2018, the US economy created 2.64m of jobs, against 2.19m in 2017, of which 312 000 for the month of December alone. The unemployment rate rises slightly with the participation rate, while wages continue to rise.
- Inflation remains under control. After a peak at + 3% during the summer, price growth slows to + 2.2% in December.
- Growth remains strong: + 3.4% in the third quarter of 2018, which should lead to 2018 growth above + 3%, compared to + 2.2% in 2017.

CHINE

- The necessary policies of financial consolidation, pollution control and the first effects of trade tensions with the Trump administration affect manufacturing production figures, which fell below the 50 level in December.
- Activity in services and consumption, on the other hand, remains very correct and even offers a rebound in the last two months of the year.
- The Chinese authorities, as announced, have confirmed the implementation of support measures:
  - Lower Bank reserve requirement rates to boost credit.
  - Reduction of the taxation of households and businesses.
  - Provision to revive the real estate and automotive sector.
- Over the year as a whole, growth should be + 6.5% and probably + 6.3% for 2019.

D.Liegeois

Evolution of the US Consumer Price Index since 2006



Special Topic

2018: Geopolitical Year !

Usually, the evolution of financial markets is punctuated by macroeconomic figures as well as by company results. Climatic or geopolitical events can interfere but often to a lesser extent. The year 2018 will have been exceptional in this respect since it is the latter that will have marked and influenced, for the most part, the evolution of the value of many assets this year.

Regarding the financial markets, they can be defined as disruptive events with an uncertain probability of occurrence (usually low), unpredictable and whose economic consequences are difficult to quantify and foresee. If one has to try to categorize these disruptive events, they are of several types: At the level of a country, this can take the form of elections (Brazil, Mexico, Italy), social movements (Brazil, France). Internationally, this can be border conflicts, global terrorist attacks. The questioning of an existing financial architecture is also a source of uncertainty: the Euro Zone with Italy, the European Union with Brexit, the World Trade Organization with the American trade tensions with China, Europe, Canada, Mexico... Not to mention the impact of the disruptive regimes (North Korea, Iran), the sanctions policy (Turkey, Russia, Saudi Arabia ...), and more recently, since the election of Mr. Trump, we can also add the unilateral questioning of basic rules of diplomacy.

If each year these tensions exist, two aggravating factors marked the year 2018: The simultaneity of the occurrence of these geopolitical tensions (see our editorial) and the duration of their resolution.

Financial markets do not like uncertainty, and neither do players in the global economy. The Italian problem that began in March with the elections was solved only at the end of December. The Sino-US trade negotiations are not over, let alone the British political class entangled in the Brexit imbroglio! All this ended up having real economic consequences for the countries concerned and contributed to the weakening of world growth in the second half of the year, in an economic context shared between fears of rate increases and recession.

For financial market participants, the difficulty is that these events are based on a political rationality that eludes them. Brexit is not good for the economy, yet many politicians support it. Similarly, the consequences of protectionism are well known to economists and have never been positive in economic history, but in the short-term politicians see it as an electoral interest. We are therefore faced with two opposite rationalities that make mutual understanding complex; an economist will often underestimate the occurrence of a geopolitical risk, just as politicians will underestimate the economic consequences of their actions. For an economist, harming the economy for electoral reasons does not make sense.

This misunderstanding will persist and the study of geopolitics in an ever more complex world is becoming more and more common in the design offices of financial strategists. However, issuing medium-term assumptions about the economy and the direction of the markets is already extremely complicated, but the integration of geopolitical factors makes this exercise almost impossible.

D. Liegeois