PERSONALIZED PORTFOLIO MANAGEMENT

Quarterly marketreview

April 2014

Editorial

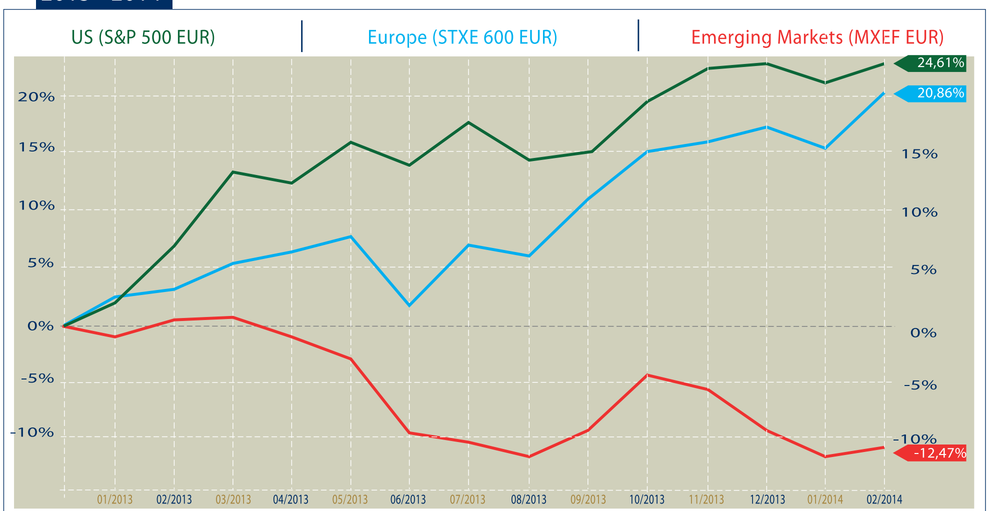
In January, global equity indices had fallen sharply because of growing concerns about the implementation of Fed tapering and the financial and economic health of certain emerging economies. In February, however, investors turned back to fundamentals and reacted positively to accelerating global growth publications (+2.2% in 2014 vs. 1.3% in 2013, for developed countries, +5.1% in 2014 vs. +4.7% in 2013 for emerging markets). The Eurozone's recovery was confirmed as its GDP grew by +0.3% qoq in Q4. There were smaller disparities in growth rates between the 4 biggest economies and the Southern European countries have started to catch up with their Northern counterparts, led by Spain and Portugal. Advanced indicators were encouraging overall, apart from in France, which remains the only one of the 4 biggest European economies to have a PMI index below 50 and falling, signalling a less attractive business environment. Although these figures reassured investors about the overall positive trend in February, it is important to remain cautious because these increases come from very low starting points and tend to obscure the persistence of important structural problems in certain countries, such as high budget deficits and unemployment rates. Data publications were more mitigated in the U.S. as retail sales fell, partly because of the unprecedented cold front, and the ISM Manufacturing figure retreated. But employment figures were encouraging, which, combined with the housing recovery and rising stock markets, should continue to support consumer confidence. In emerging markets, doubts about China's ability to maintain its growth rate around +7.5% led to weakness in the whole zone, especially after PMI Composite data continued to fall in February. The Chinese authorities have remained vigilant and recently took unprecedented measures to allow more volatility in the exchange rate of the Yuan and combat the excesses of the shadow banking sector. The current valuation of Chinese stocks constitutes an interesting long-term investment opportunity. We are less positive about Japanese stocks at current valuations as long as the Abe Administration fails to implement important reforms. Brazilian fundamentals deteriorated further. Measures taken to improve competitiveness have not yet had any visible effects and growth is expected to reach only +2.3% in 2014. The Russian authorities also expect a +2.5% growth rate this year, supported by domestic consumption. But markets are very anxious about the crisis in Ukraine and potential international sanctions against Russia following its intervention in Crimea. Short-term interest rates have been raised to 7% in order to fight the depreciation of the Ruble and could hinder growth in the long-term. India should grow by +5.4% in 2014. It is the only BRIC country to have seen its PMI composite index evolve positively since October 2013 despite elevated inflation levels and unfavourable monetary conditions.

Central bankers have been busy so far this year attempting to support growth in developed markets and support local currencies and fight inflation in emerging economies. The Federal Reserve will maintain its tapering measures while trying to keep interest rates low, which should be supported by capital flows away from emerging markets. The 10-year Treasury rate should remain within the 2.60% to 2.90% over the next 3 months. The ECB has not changed its policy, but with inflation continuing to weaken Mr Draghi could decide to intervene. The 10-year Bund rate should therefore remain between 1.40% and 1.80% during the coming 3 months. In credit markets, risk premiums have continued to fall since the beginning of the year and stock selection is becoming increasingly important. We favour BBB and BB rated issuers with intermediate maturities, as the higher quality issuers no longer offer sufficient remuneration.

In summary, as long as the Ukrainian crisis does not escalate dramatically, we remain moderately positive about equity markets for the remainder of the year, although we cannot rule out the possibility of an upcoming correction in the current context of geopolitical tensions. We favour European stock markets because of their low valuations and positive growth environment. In bond markets we are cautious about longer-dated bonds as American and European interest rate curves will gradually normalise. Commodities, and gold in particular, could constitute an interesting diversification strategy at current levels.

Product	YTD %	Close
DOW JONES	-1.65	16,276.69
S&P500	+0.98	1,857.44
FTSE	-3.39	6,520.39
BEL20	+4.39	3,052.28
AEX	-3.37	388.23
MXEF	-4.87	953.90
IBEX	-0.04	9,973.20
CRUDE OIL	-3.60	106.81
EURIBOR		0.22
GOLD	+8.57	1,309.20
EUR/USD	+0.58	1.38
EUR/CHF	-0.70	1.22
EUR/GBP	+1.04	0.84

2013 - 2014



Comparative returns of US, European and Emerging Markets since 2013

2pm PERSONALIZED PORTFOLIO MANAGEMENT

Quarterly marketreview

The Chinese residential real estate market

The current situation in China is worrying for many observers, with some comparing it to the U.S. or, even worse, Spain in 2007. The truth is very different. Until recently, in late 2011, the Chinese housing market was unbalanced, with far greater demand than offer. Since 2012, the situation has changed, with relative overcapacity directly linked to the period of easy credit.

The Chinese real estate market, like most others, is highly fragmented. In the biggest cities the situation has already improved thanks to falling prices and rising salaries. The housing stock has fallen from 18 to 11 months of sales. Demand remains well supported and there is a definite shortage in affordable housing for the middle classes.

The problem lies in smaller towns, where overcapacity is higher. In addition, the whole country suffers from the disparity between the overabundant offer in high-end goods and the demand for cheaper products. On the one hand, the rise in income coupled with lower housing prices should, over time, erase a part of these excesses. On the other hand, the reform of residency permit laws should give the migrant population better access to the housing market: only 1% are currently homeowners. From a more global perspective, another support factor is that only 60% of the urban population are homeowners. Combined with a high savings rate, this enables financing without the need for excessive debt.

In the medium-term, the demographic dynamic should further support the real estate sector as urbanisation is set to continue. It is estimated that some 300 million people will move to urban areas from rural areas over the next 15 years, or 10 to 15 million people every year. This is after some 500 people migrated to cities over the past 30 years. The government's aim will be to fill these second and third tier cities.

In summary, the situation in China is far from dramatic. After the strong growth of recent years, China will have to concentrate on improving the allocation of resources and capital in order to support the next phase of its growth. This will require a period of financial liberalisation and more room for market mechanisms to take place, as the Chinese authorities have clearly indicated.

Macroeconomy

Europe

- The U.K. is currently the leading developed economy in terms of growth. The +3% rate has been buoyed by the strength of the British real estate and manufacturing sectors.
- Economic activity has continued to improve in the services and manufacturing industries in the North as well as the South of the Eurozone. Only France remains in negative territory, despite recent improvements.
- We have therefore raised our growth forecast for the Eurozone to between +0.7% and +1% in 2014. Inflation remains subdued at +0.7%, but the ECB is not worried. Mr Draghi believes that prices should rise in the second half of the year following the recent macroeconomic improvements. The Euro remains strong relative to the USD, having nearly reached 1.40 in March.

US

- Economic activity was severely disrupted by the harsh winter conditions and data publications have consequently been disappointing this year.
- Since the beginning of March we have witnessed a catch up effect that should continue in coming weeks.
- Since the beginning of her mandate as Chair of the Federal Reserve, Mrs Yellen has continued in the footsteps of her predecessor. The asset purchasing program will likely continue to be reduced at its current pace and reach an end in Q4. The first interest rate hike could take place next year.
- The agreement between Republicans and Democrats about the debt ceiling and the budget is reassuring and should avoid any detrimental effects on the economy.
- We believe that economic growth will be close to +3% in 2014.

Emerging Markets

- Q1 was particularly busy on the economic front (China), the political front (Turkey) and the geopolitical front (Ukraine/Russia).
- Various countries are suffering from current account deficits and have been at the centre of recent tensions, of which Indonesia, Turkey, Brazil and South Africa.
- Investors have been concerned by the manufacturing slowdown against a backdrop of financial liberalisation in China. The Chinese authorities' fight against credit excesses and excess capacity in certain manufacturing sectors are hindering economic activity. Chinese economic growth will probably reach +6.5% to +7% rather then the government's previous +7.5% target.

Japan

- Data publications reflect an undoubted macroeconomic improvement and inflation is now firmly anchored.
- The absence of reforms has raised investors' doubts about the success of the country's recovery, especially as the VAT rate is about to be increased.