BearBull
Global Investments Group

Investment Strategy

October 2017

Graph sources: Bloomberg/BearBull Global Investments Group

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INTRODUCTION

Letter to Investors – Investment Climate

- The global economic situation has improved, and prospects are good for 2018
- Significant change in sentiment toward the Eurozone and the single currency
- The recovery of the upward cycle on long rates is now more robust in the United States
- Weakening of the Swiss franc is still on the cards
- Donald Trump's tax reform could prove disappointing

The third quarter has been shaped by a wait-and-see approach from investors in the absence of new sentiment to either revitalise current trends or reverse them.

In macro-economic terms, in most regions, the data published have backed up the most optimistic forecasts of economic improvement, particularly in the United States, thanks to second quarter GDP growth coming in at +3.1%. The Eurozone also stood out as more dynamic than expected, with rather pleasing economic growth (nearly +2%). Overall, economic surprises were on the positive side in many regions, and confirmed hopes of the global economy picking up the pace in the second half of the year.

The Eurozone is enjoying the influence of the positive prospect of closer Franco-German ties, and the desire to reform the European project, just as the economy is improving and Brexit no longer seems of such great concern. We believe that the chimera of pro-independence movements will remain localised and will not have any major impact on investor confidence. In the United Kingdom, Brexit negotiations are riddled with confusion, to the growing irritation of the EU, just as its effects are gradually being felt in terms of growth. In the United States, the Trump Presidency remains chaotic, with no clear red thread. It took nine months for his administration to unveil its tax reform plan, which already seems to be very divisive amongst Americans due to the scale of the giveaways planned (US $5.8 trillion) and the lack of countervailing measures. The core hypothesis of sustained growth of +3% is extremely optimistic in many analysts' eyes, and the impact on the US deficit and debt unacceptable to some Republicans. Tensions with North Korea have not had a lasting effect on investor confidence, but the tax reform might well not be considered sufficient grounds for a fresh rise in the valuation of US equities.

In this context, financial markets have been rather patient in awaiting clearer signs of an uptick in growth and the effects thereof on interest rates, as well as on the developments in company profits that should be expected. US policy normalisation is being carried out in an atmosphere of calm, with no surprises, whilst the Eurozone expects a gradual winding-down of the asset purchase programme. A rise in long rates in Europe is also increasingly likely in 2018. In the meantime, after a period of calm on rate markets, the 3rd quarter was more in step with the influx of positive economic news. Broadly speaking, bond markets suffered in September, heading back to a downward trend which should push them even lower than last quarter.

Swiss bonds posted their second consecutive quarter in the red (-0.39%), whilst the bounce-back in rates in the Eurozone and the US dollar in September were not sufficient to push the quarter's performance into negative ground. In Swiss francs, international bond markets posted a rise of +2.9%, largely due to the positive impact of the Swiss franc's depreciation. Over the quarter, the Swiss franc mostly weakened as expected thanks to a +4.5% rise in the Euro, which was its greatest appreciation against the Swiss franc since June 2013. US equities enjoyed a recovery in September, finishing the quarter up +4.3%, just pipping Swiss (+3.1%) and European (+2.9%) equities to the post.

The exchange rate boosted the performance of international equities expressed in Swiss francs (+6%), and the same goes for international real estate (+3%), private equity (+6.5%), and commodities (+8.4%). The macro-economic context as forecast for the coming quarters should show the world economy stepping up the pace. This should go hand in hand with a clearer reversal of the interest rate cycle, and a new phase of long-term forecast revisions for inflation and the long rates demanded. The 3rd quarter's growth in commodities should continue in this context, largely due to the increase in demand, and stable supply. As expected, for several months, the energy market has been showing a clear decrease in inventories, which should be twinned with crude oil prices gradually heading above US $50.

As regards equity markets, the macro-economic context favours approximately +10% company profit growth in 2018. In the United States, tax reform could also considerably buoy up an increase in company profits, and inspire favourable forecasts for equity markets. At 15x 2018 profits, valuation levels are not excessive, but neither are they particularly attractive in past comparison. However, in the short-term, it is possible that the announced tax reforms may not spark any further enthusiasm, given that they have been being spoken of, and perhaps hotly anticipated, for nearly a year now.

Alain Freymond
Chairman
BearBull Global Investments Group

Graph sources: Bloomberg/BearBull Global Investments Group

BIG PICTURE

Key convictions

- The global economic cycle is gathering pace
- Monetary policies are very gradually aligning
- Recovery of the upward cycle on long rates
- Donald Trump's tax programme could prove disappointing
- Improved energy fundamentals
- Ongoing adjustment to valuation of the Swiss franc

The global economic cycle is gathering pace

Global growth seems to have been gathering ever more pace over the last few months, and should be boosted further over the coming quarters if no new political or geopolitical factor gets in the way of this positive trend and the virtuous cycle that is starting to establish itself. In the United States, growth hit +3% in the 2nd quarter, and it is likely that this trend will continue at the end of the year. The recently-announced tax programme will not slow growth's momentum. In Europe, the United Kingdom is perhaps losing momentum, but at the other end of the spectrum, the trend in the Eurozone is picking up the pace. GDP growth is nearly level-pegging with the United States, and we believe prospects of faster growth to be realistic. In Asia, Japan is finally reaping the rewards of Abenomics and the depreciation of the yen; exports are revitalising growth, which could also be propped up by slightly better domestic consumption. This is bolstering prospects of +2% growth over the coming quarters. Not to be outdone, China will certainly achieve its growth target of around +6.5%. In emerging markets, Brazil (+0.3%) and Russia (+2.5%) are enjoying new-found growth, whilst India continues to grow at a fast pace (+5.7%). The global economic cycle is gathering pace, with a broader palette of countries contributing to this growth.

Monetary policies are very gradually aligning

US monetary policy continues to normalise, starting this quarter with a new phase in reducing the Federal Reserve's balance sheet. It is now committed to a new policy, though its lead has not yet been followed by other large central banks. In Europe, the European Central Bank should only gradually come into line with the United States. It is still too early to think of rises in key rates in 2018, but the asset purchase programme could still wind down. In the United Kingdom, we will certainly see a first rise in key rates in an inflationary context which is of concern for the Bank of England. This should not be followed by further hikes. In Japan, the trend is still very much leaning towards maintaining very expansionary policy, until the long-awaited return of inflation.

Recovery of the upward cycle on long rates

After an expected short-term consolidation of long rates in the relatively soft context of the 1st quarter, our forecasts for the 2nd quarter indicated a recovery of the upward trend, propped up by an influx of more robust economic data. Specifically, we underscored the fact that the 10-year Treasury rates' correction from 2.6% to 2.1% did not seem at all compatible with our forecasts of a +3.1% bounce back in economic activity and normalisation of monetary policy. We believed it very likely we would see a further boost to long rates in the second half of the year. This is now in part the case. We are not altering our forecasts, and expect the trend to continue, potentially bringing interest rates up above 2.8%.

The macroeconomic context certainly provides grounds for new tension on long rates, which should be magnified by the announcement of the start of normalisation of the Federal Reserve's balance sheet

Donald Trump's tax programme could prove disappointing

The recovery policy that had been announced aimed to stimulate demand, reduce tax and increase public spending, however, it now seems to be limited to a plan touted as very ambitious, but which has left the country very much divided for a few days now, especially on the associated measures. The argument put forward by the White House that an extra percentage point of growth could generate US $3 trillion over ten years could be considered extremely optimistic and will soon meet with criticism.

In this context, US stocks have benefited from positive macro- and micro-economic fundamentals, as well as forecasts of increasing profits, which were hoped for as a direct result of and promised as part of the change in tax rates. At this juncture, mention is often made of the considerable profits reaped by American multinationals abroad, which could be repatriated and divided up amongst shareholders as dividends. In theory, this should be enough to sustain interest in US equities, but is it really such good news for the stock market trend?

After nearly a year of speculation as to the outlines of this reform, it is finally public and open to analysis. Still hot off the press, it is already dividing observers and politicians before it has even been presented to Congress or the Senate.

A few weeks ago, we were concerned about the weight of the GAFA web giants in overall S&P 500 performance in 2017. We pointed out that this craze had pushed up valuations exponentially, to levels probably unsustainable in the short-term. This suggested there would soon be a change in investor psychology towards them and made sectoral rotations likely. Since then, most of these stocks have entered into consolidation phases, waiting for news catalysts that could justify further increases. Any future rise on the S&P 500 depends on prospects of a profit growth cycle recovery. But the rise on equity markets most probably already incorporates the positive impact of tax reform on profits. Therefore, if Donald Trump's tax program is deemed disappointing, profit-taking may occur.

Graph sources: Bloomberg/BearBull Global Investments Group

Improved energy fundamentals

The acceleration of global economic growth already in 2017 and then in 2018 is expected to support a sustained increase in demand for crude oil. In the United States, production stabilized at around 9.5 million barrels per day, even with the resumption of non-conventional oil exploitation. OPEC and Russia are maintaining reduced production, which should enable supply to remain at a level below overall demand. Crude oil inventories have thus declined for several months and reached their lowest level since February 2016 in the United States.

Given the positive economic context in Europe, the United States, and especially in Asia, we believe the forecast increase in demand is realistic. At that point, we should more clearly see supply and demand balancing out, and especially a more marked decrease in inventories. Of all the key components making up demand, we believe that over the coming months Chinese consumption should be particularly import for the process of rebalancing the markets. In our opinion, crude oil prices are expected to rise above the $50 mark after a period of consolidation at these levels, which has now lasted for more than eighteen months.

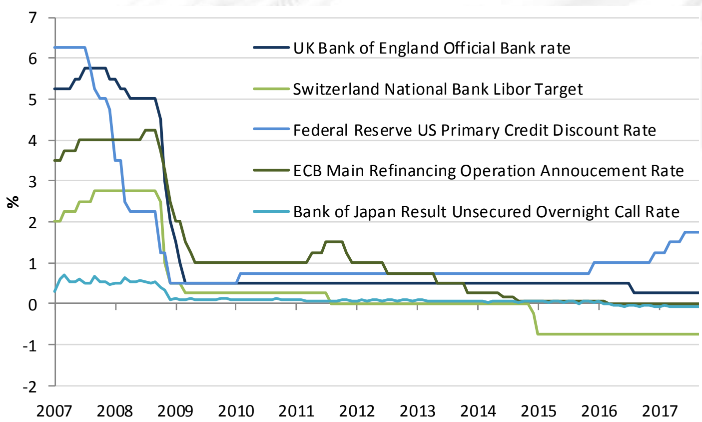
Ongoing adjustment to valuation of the Swiss franc

In spite of the decrease in economic uncertainty in the US and Europe, investor demand for Swiss francs remained relatively high during the first part of the year. Political uncertainty in the Eurozone has receded sharply. Geopolitical risks persist, but the improvement of the economic climate, which should reduce the demand for Swiss francs, will likely affect the euro's exchange rate even more. We are not expecting the SNB to change its monetary policy this year, despite the recent rise in the euro negative interest rates will be maintained. They will stay in place until the European economic cycle exhibits a clear reversal and a highly likely acceleration of growth in 2018. The rate spread is now more and more against the Franc, following the dollar-denominated rate increase, a trend that is expected to continue in 2018 as a result of the monetary normalization cycle undertaken by the Federal Reserve. The spread remains relatively unchanged against the euro at approximately 50 basis points. However, we believe it is now more likely to see rates normalise more quickly in the Eurozone than in Switzerland and thus benefit the European currency in 2018 in the trend already observed during the summer.

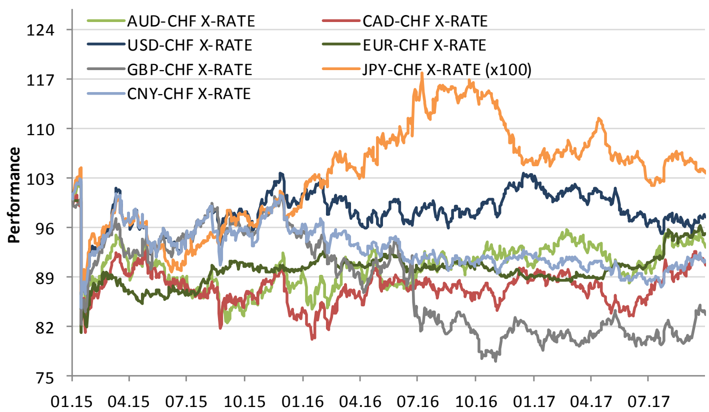
Overall, our exchange rate forecasts are still current and are negative for the Swiss franc. Although economic momentum in the US is at present not yet strong enough to push the dollar higher, it is likely that the last quarter and the year 2018 will be more favorable to the greenback. In Europe, however, a change in perceptions regarding the situation in the Eurozone is clearly favouring a return of investors to the single currency. Our exchange rate forecasts suggest further weakening of the euro to 1.20 against the franc and an uptick of the dollar to 1.05. These predictions also provide us the opportunity to note that we had presented and explained the arguments supporting our forecast at the time of the SNB's introduction of its negative interest rate policy. Our 15 January 2015 post-choc forecast predicting an exchange rate of 1.20 against the euro is materialising. Perhaps even more important for the foreign exchange market is the change in perception that has occurred since the election of Emmanuel Macron and the improvement in the European economic which now supports the euro. This is what we predicted to announce a forthcoming widening of the yield spreads in favor of the euro, essential to the weakening of the Swiss franc.

The strengthening of the European and American conjunctures will lead to an adjustment of exchange rates. We now believe it is more and more likely that the Swiss franc will weaken against these two major currencies in the coming months.

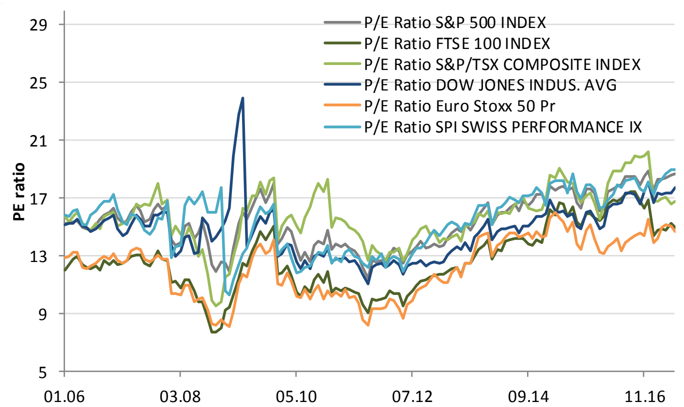
Central Bank rate (EUR, CHF, GBP, USD, JPY)



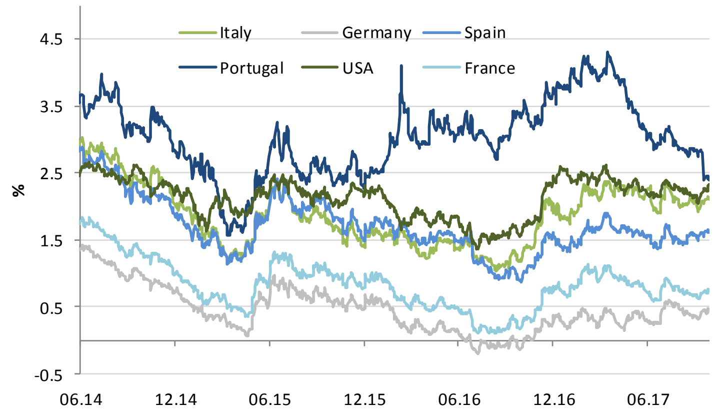
7 Major currencies against CHF (Normalized at 100)



Price/Earning Ratios in developed Markets



Government Bond yield (10 year)



Graph sources: Bloomberg/BearBull Global Investments Group

MACROECONOMIC SCENARIO

Graph sources: Bloomberg/BearBull Global Investments Group

MACROECONOMIC SCENARIO

Global Outlook

- US GDP will likely pick up the pace
- Eurozone and US growth is level pegging
- More pessimistic outlook for UK GDP
- Boom in exports and economic recovery in Japan
- A stronger euro will bolster GDP growth in Switzerland

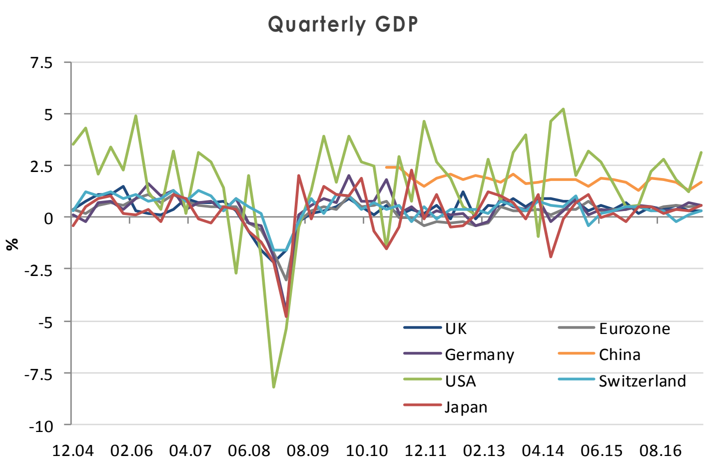
US GDP will likely pick up the pace

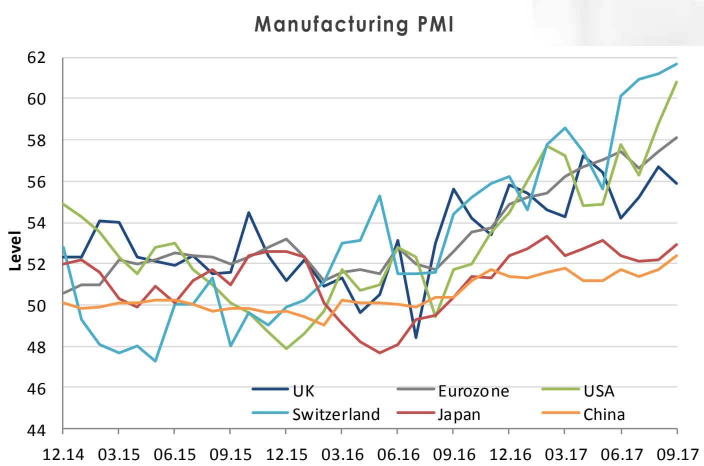
After disappointing growth in the 1st quarter and a drop in the economic surprises indicator in the months that followed, we set out the arguments pointing to an economic recovery in the 2nd quarter, which would contradict the rather more unsteady global sentiment that prevailed at the time. The revision of growth forecasts went hand in hand with fresh uncertainty and the risk of the US economy potentially heading back into recession. At the time, we highlighted the fact that the fall on the economic surprises indicator did not point to any significant erosion of economic conditions in the United States, instead underscoring the perhaps excessive optimism in the short-term on the part of forecasters. As such, we were expecting a recovery in the 2nd quarter, which did indeed materialise in the form of considerable GDP growth of +3.1% year on year. Naturally, this performance came in above consensus forecasts. Thanks to this growth, US economic activity has received a very significant +2.2% boost year on year, which is the best result since 3rd quarter 2015. The Federal Reserve's growth target for 2017 was +2.4%; this target should be hit providing that the economy proves sufficiently robust for GDP to grow +2.6% in the second half of the year. Over the period, growth has been mainly driven by consumption, which made the largest contribution (+2.24%), followed by investments (+0.53%) and net exports (+0.21%). US consumers should take comfort in the influx of positive economic news in the second half of the year.

In this context, we believe that +2.6% GDP growth is likely and supported by leading indicators very much pointing towards a stepping up of economic activity in the second half of the year. The +2.8% rise in personal income certainly helped to boost household spending, which was up +3.3%. The labour market remains in good shape and continues to improve, with unemployment rates close to full employment at 4.4%. Disposable household income should rise again over the coming quarters. In the longer term, the recovery policy that had been announced aimed to stimulate demand, reduce tax and increase public spending, however, it now seems to be limited to a plan touted as very ambitious, but which has left the country very much divided for a few days now. The total cost of these tax breaks of 5.8 trillion would be paid for with the extra growth achieved by GDP growth above +3% over the coming years, as mentioned by the White House's economic adviser who argues that an extra percentage point of growth could generate US $3 trillion over ten years.

Eurozone and US growth is level pegging

Our forecasts of the European trend stepping up are being borne out in the 3rd quarter. The OECD is also revising its forecasts for 2017 upwards, whilst aggregated Eurozone GDP moved above +2% in June (+2.3%). German growth should gain in strength and breadth, propped up in particular by domestic spending, which will pick up some of the slack from exports. In France, GDP will certainly exceed +1.7%, whilst in Spain the trend remains robust, and could push GDP above +3%. The end of the year could bring even better news if leading indicators are to be believed.





Graph sources: Bloomberg/BearBull Global Investments Group

Indeed, PMI indices for September confirm a clear recovery in activity in Europe. Composite PMI improved further in September (56.7), and now sits at its highest level since 2011; similar movements can be seen on manufacturing leading indices (58.2). The sub-index for production even hit 59.5, and underscores an industrial recovery which could well accelerate at the end of the year. The private sector is doing better, and does not seem to have been penalised by the Euro's appreciation. This means that GDP has posted its seventeenth consecutive quarter of growth, and we believe that it could pick up the pace in the second half of 2017.

Relatively speaking, and in light of forecasts, we believe that the Eurozone's economic, political, and financial situation shows clearer improvement than that of the United States. Growth rates for the two economies are neck and neck, suggesting that the Eurozone is doing a better job of catching up. Political and economic risks in the Eurozone have beaten a considerable retreat, as is also shown by CDS (Credit Default Swap) levels for the Eurozone, which have dropped considerably since the start of the year. This is very important in supporting the single currency. The European economy seems to be on the right path, even though the recent rise in the Euro represents a new source of concern.

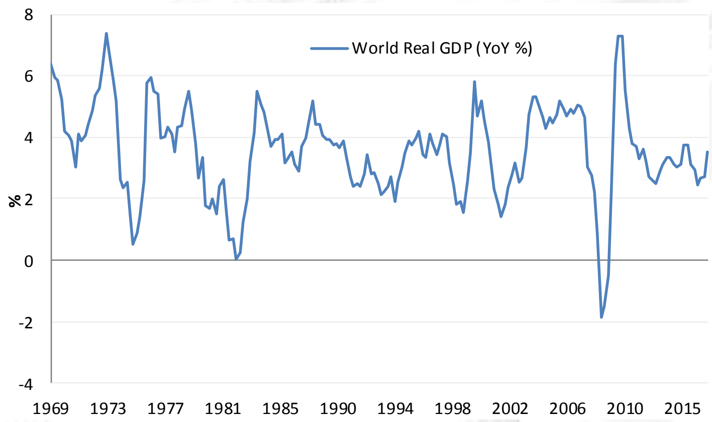
With regard to the ECB, the asset purchase programme, which was to be kept until at least the start of 2018, will undoubtedly be tweaked, but retained beyond this date in order to make the most of the programme's flexibility and ensure the Central Bank can take action if required to do so. The ECB will remain prudent in its approach and should refrain from any policy which could threaten the economic recovery and the improvement in economic operators' confidence, given that the macro-economic context may already have been shaken by the the recent appreciation of the euro. But the European consumer should support growth as suggested by the clear improvement in sentiment linked to better conditions in the labor market.

The Eurozone unemployment rate is falling very gradually. At current rates, although the drop seen between 2013 (12%) and today (9%) is continuing, it will take until 2020 to reach the 7.5% of the previous cycle seen before the financial crisis of 2008. Household confidence is now higher than the average of the last twenty years, and at its highest since 2008. The consumer and business confidence survey also shows renewed optimism, posting its highest score since the start of the financial crisis. Whilst perhaps not yet euphoric, this positive trend is propping up consumption, which increased +2.6% year on year.

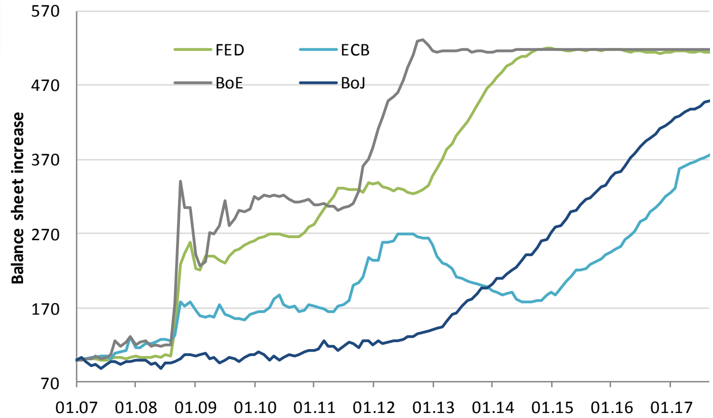
More pessimistic outlook for UK GDP

Q2 GDP figures confirm the previously detected slowdown in the UK's economic momentum, which seems to be settling into a quarterly pace of +0.3%. Yoy growth fell to +1.5%, which reinforces our prediction of lower growth for FY2017. Exports contributed positively, progressing +1.7%. Consumption, up +0.2%, remains key to GDP growth, while public spending advanced +0.1%. Leading indicators also support the argument of a resilient economy, with GDP growth remaining positive in 2017, albeit at a reduced rate. The Composite PMI ticked up slightly to 54.1 in September, while the Manufacturing PMI posted a slight decline (55.9). The Services PMI, stable at 53.6, also seems relatively resilient. Growth prospects for the British economy are thus increasingly less optimistic.

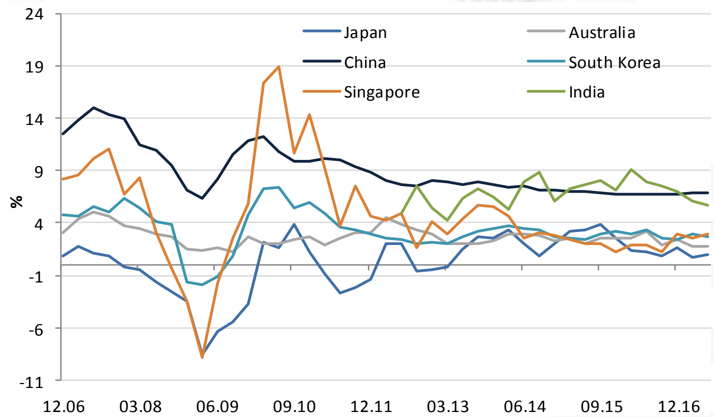
World Real GDP Growth



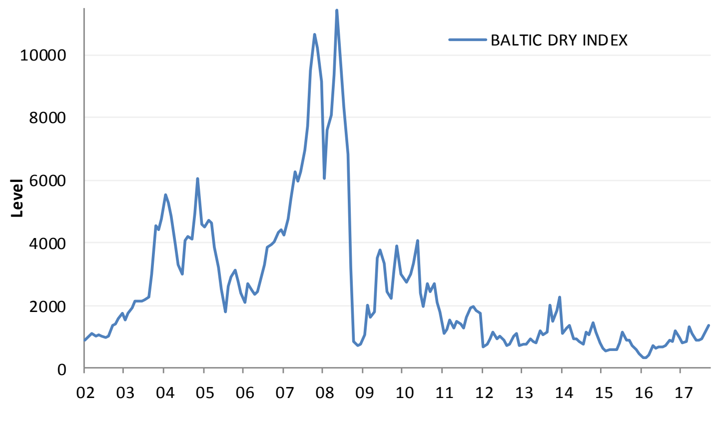
Balance sheet increase



GDP Growth rates in Asia



Baltic Dry Index



Graph sources: Bloomberg/BearBull Global Investments Group

Boom in exports and economic recovery in Japan

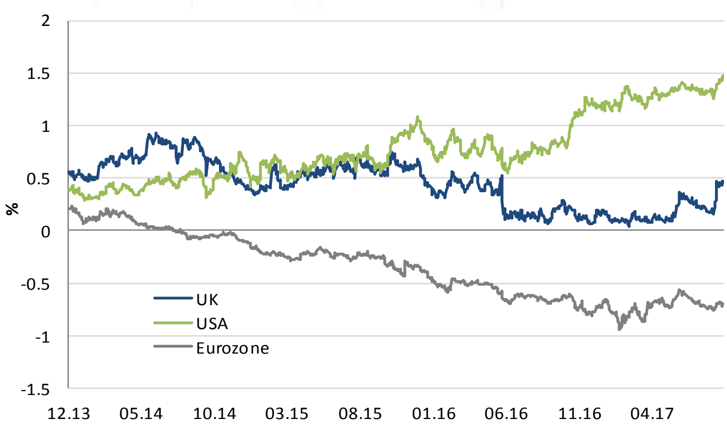
GDP growth is thus strengthening further after having already advanced +1.7% and +2.2% over the past two quarters. Japan is currently posting its sixth consecutive quarter of GDP growth, its longest expansion phase in 10 years.

The Japanese economy has been given a boost by the continued recovery in exports and is now benefitting from increasing momentum in domestic demand. We expect the Japanese economy to continue to improve and potentially post growth in excess of +2.5% for FY2017. In August, exports registered their highest growth rate since 2013, surging +18.1% (annualized). We expected export growth to continue gaining momentum, which indeed it seems to have done in Q3. Even if the yen has risen slightly against the dollar (+3.6%) year-to-date, it has nonetheless depreciated -11.5% yoy. Japan's trade balance thus expanded, posting a surplus of 113.6 billion yen. Japan's current account balance also improved, growing from 1.5 to 2.03 trillion yen in June. Leading indicators are now suggesting that production will continue to increase in Q3, which will no doubt boost GDP figures for the same period. Inventories are down, indicating a forthcoming increase in production. The services PMI confirms this advance, progressing to 52.6, which is an encouraging result in the medium term given new orders have also risen to 52.5. The optimism of companies in the industrial sector in Japan has reached a 10-year high. The trend is similar for companies in the services sector. These elements are moreover particularly timely from a political standpoint, as they strengthen the perception that the plan implemented by Prime Minister Shinzo Abe has been effective, just as he has launched his parliamentary election campaign. In Q2, Japan posted its sixth consecutive quarter of GDP growth, which is its longest growth streak since 2005. The success of Abenomics is thus perceptible at the GDP level but has yet to have a real impact on inflation and purchasing power.

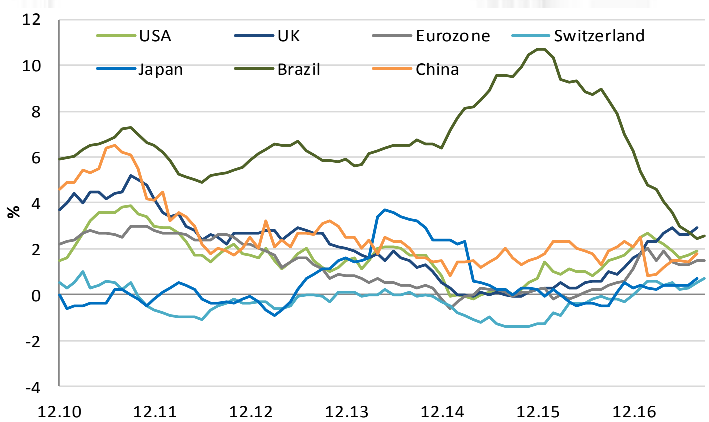
A stronger euro will bolster GDP growth in Switzerland

The latest growth figures released by the Swiss State Secretariat for Economic Affairs (SECO) show real GDP growth of +0.3% in Q2. Q1 growth was revised down from +0.3% to +0.1%, however, reviving worries regarding the quality of the recovery in our country. The SNB, scarcely more optimistic, reduced its growth forecast for the same period down from +1.5% to +1%. We believe that, while the downward revision of Q1 results obviously affects the FY outlook, the Swiss economy should nevertheless experience growth in excess of 1% in FY2017 given that a significant acceleration in Q2 is increasingly likely. The weakness of the franc against the euro, witnessed with relief by numerous economic actors over the summer, will very likely have a positive impact on economic outcomes in Switzerland over the next several quarters. For 2018, GDP growth forecasts remain somewhat more optimistic, predicting potential growth of +2%, mainly due to the improvement in the global economic outlook expected over the next several quarters as well as to a stronger boost from the domestic economy and an upswing in exports. The latest leading indicators published for the industrial sector show that the manufacturing sector has regained a measure of cautious optimism. The manufacturing PMI has indeed reached its highest level since 2011 and has made a sharp recovery since its January 2015 tumble. The manufacturing PMI indicator climbed to 60.9 in August, well above its low in May 2015 (47.3). Hesitations in Q2 have now made way to stronger confidence, as indicated by the satisfactory level of the KOF's leading index. We maintain our optimistic forecast with regard to Swiss economic activity and anticipate a gradual improvement in economic conditions. We had also expected the monetary factor to provide a boost, and the appreciation of the euro, which we had been anticipating and is in fact intensifying, will contribute to these developments.

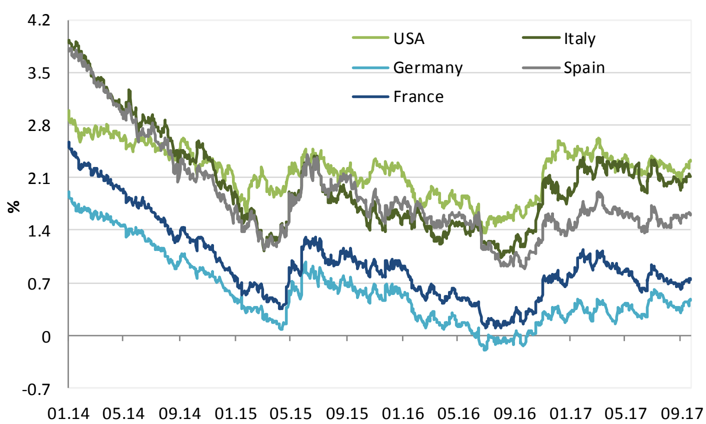
2-year Government Bond yield



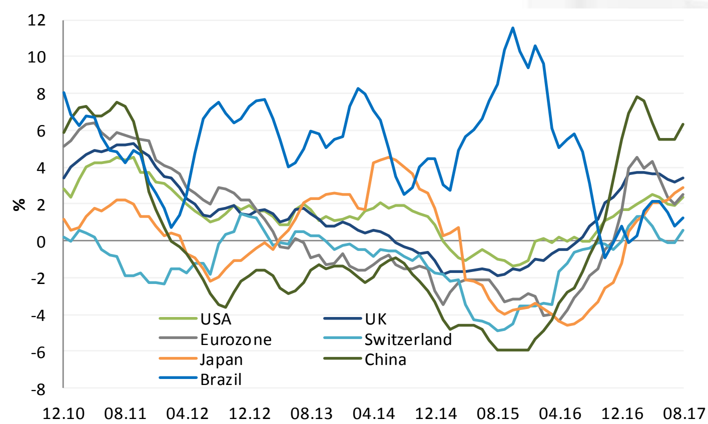
Inflation - CPI Indices



10-year Government Bond yield



Inflation - PPI Indices



Graph sources: Bloomberg/BearBull Global Investments Group

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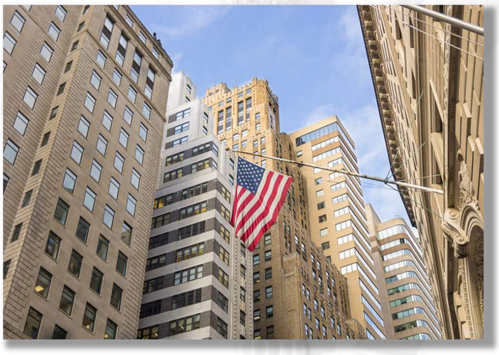
MACROECONOMIC SCENARIO

United States



- Donald Trump's tax reform could cost the state US $5.8 trillion
- GDP growth showed the trend picked up in the 2nd quarter
- Inflation will soon surpass the Fed's target
- Long rates recover to upward trend, favouring the US dollar
- Could the S&P 500 benefit from the announced tax reform?

Donald Trump's tax reform could cost the state US $5.8 trillion

In the end it will be 20% instead of 35%. Donald Trump needed nine months in the White House before being able to announce a plan setting out a historic tax cut. The recovery policy that had been announced aimed to stimulate demand, reduce tax and increase public spending, however, it now seems to be limited to a plan touted as very ambitious, but which has left the country very much divided for a few days now.

The aim behind the tax reform was to rekindle purchase power and create jobs. The plan, concocted by a working group exclusively made up of six White House and Congress representatives, has two pillars. The first is corporation tax, with the rate dropping from 35% to 20% in the end, bringing it close to that of many other industrialised countries. The second pillar is income tax, rates of which have been reduced, mainly by increasing tax allowances and reducing tax brackets. The top bracket is dropping from 39.6% to 35%. A flat rate of 25% has also been introduced for entrepreneurs.

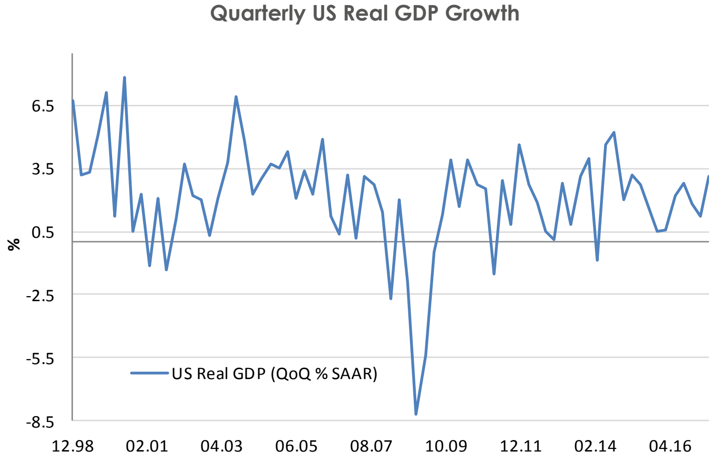
With this, Donald Trump has announced measures that will cost the state around US $5.8 trillion dollars, without including countervailing measures. The US deficit would increase government debt by that same amount without such measures.

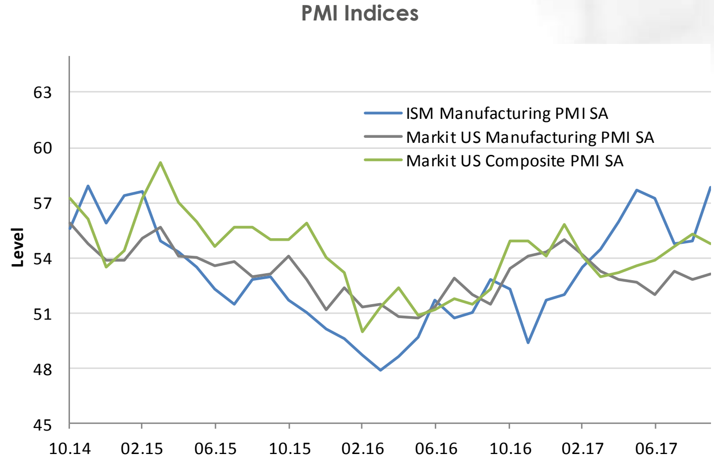
The US Senate Committee on the Budget had agreed on a US $1.5 trillion increase over ten years, which is a very far cry from the Committee's estimate of the US $5.8 trillion cost over twenty years for this project. For the time being, the official version given by the White House's economic adviser explains that these tax breaks would be paid for with the extra growth achieved by GDP growth above +3% over the coming years. Gary Cohn stated that an extra percentage point of growth could generate US $3 trillion over ten years. This argument will undoubtedly be considered extremely optimistic and will soon meet with criticism from the US Congress, despite Republicans holding a majority. Notwithstanding a Republican majority in both Congress and the Senate, Donald Trump has not managed to repeal Obamacare or pass any major draft bill since being elected.

The hotly anticipated tax reform bill is already very divisive in terms of the potential social and economic consequences of the reform, which is the first since the last amendment to the tax code in 1986.

GDP growth showed the trend picked up in the 2nd quarter

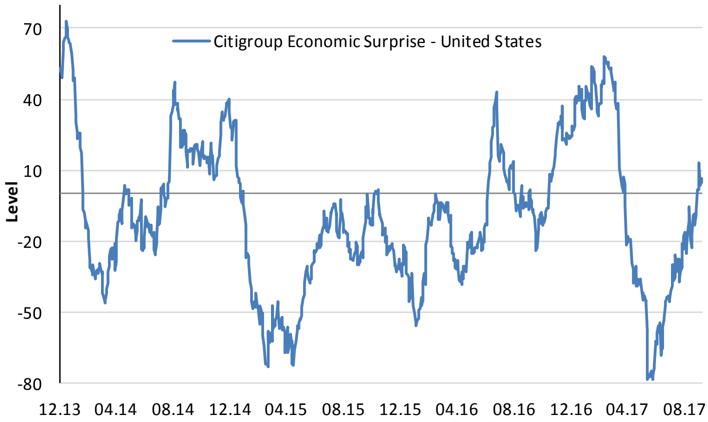
After disappointing growth in the 1st quarter and a drop in the economic surprises indicator in the months that followed, we set out the arguments pointing to an economic recovery in the 2nd quarter, which would contradict the rather more unsteady global sentiment that prevailed at the time. The revision of growth forecasts went hand in hand with fresh uncertainty and the risk of the US economy potentially heading back into recession.



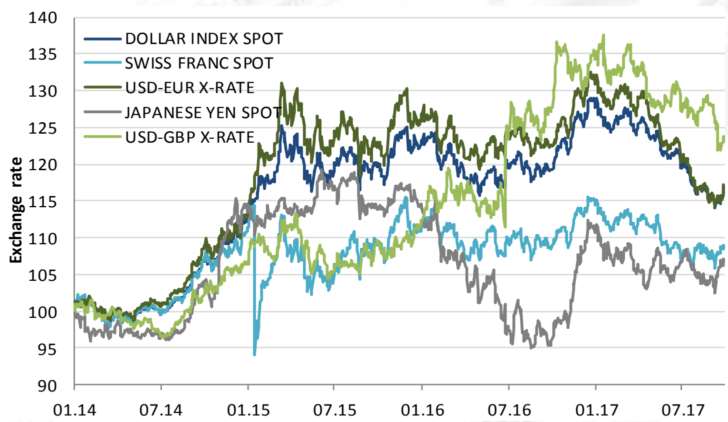


Graph sources: Bloomberg/BearBull Global Investments Group

Citigroup economic surprise index USA



Dollar trade-weighted index and currencies



At the time, we highlighted the fact that the fall on the economic surprises indicator did not point to any significant erosion of economic conditions in the United States, instead underscoring the perhaps excessive optimism in the short-term on the part of forecasters.

As such, we were expecting a recovery in the 2nd quarter, which did indeed materialise in the form of considerable GDP growth of +3.1% year on year. Naturally, this performance came in above consensus forecasts. Thanks to this growth, US economic activity has received a very significant +2.2% boost year on year, which is the best result since 3rd quarter 2015. The Federal Reserve's growth target for 2017 was +2.4%; this target should be hit providing that the economy proves sufficiently robust for GDP to grow +2.6% in the second half of the year. Over the period, growth has been mainly driven by consumption, which made the largest contribution (+2.24%), followed by investments (+0.53%) and net exports (+0.21%).

US consumers should take comfort in the influx of positive economic news in the second half of the year. In this context, we believe that +2.6% GDP growth is likely.

Leading indicators confirm that consumption is doing well

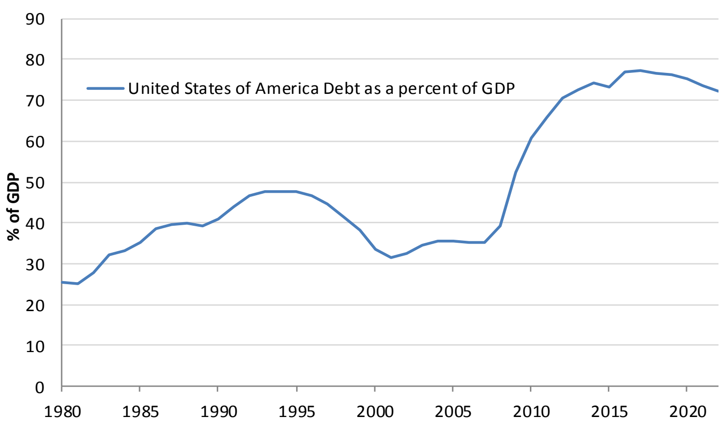
The Chicago Purchasing Manager Index is heading towards its highest level for ten years. The ISM Manufacturing Indicator hit a new record of 60.8 in September – its highest level for ten years – and was mirrored by the indicator for new orders (64.6). American consumers are optimistic; Conference Board data still showed high levels of consumer confidence in September, despite the fact that prospects were considered slightly less favourable. The same story was reflected in the University of Michigan sentiment indicator.

Leading indicators are taking off, very much pointing towards a stepping up of economic activity in the second half of the year.

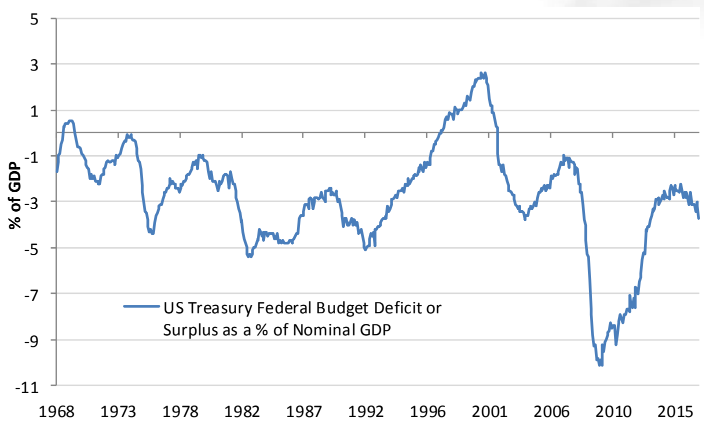
The +2.8% rise in personal income certainly helped to boost household spending, which was up +3.3%. The labour market remains in good shape and continues to improve, with unemployment rates close to full employment at 4.4%. Disposable household income should rise again over the coming quarters, along with labour costs.

In the short-term, employment figures have been rather skewed by the consequences of hurricanes, but the situation on the labour market is fundamentally positive. The unemployment rate has stabilised (4.4%), and now sits at below pre-2008 crisis levels. In time, this should provide stronger support for increases in wages and household spending.

Debt (% GDP)

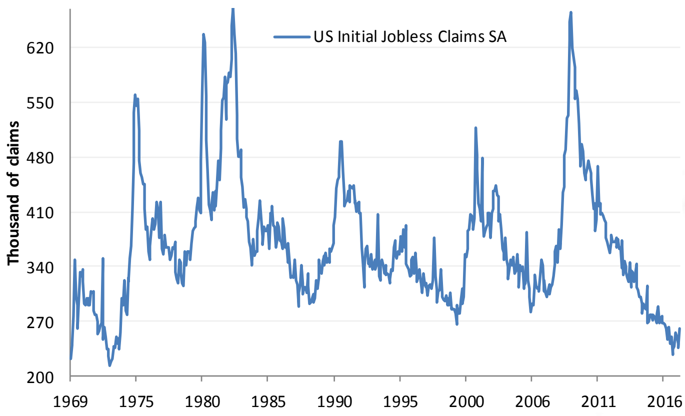


Deficit/Surplus

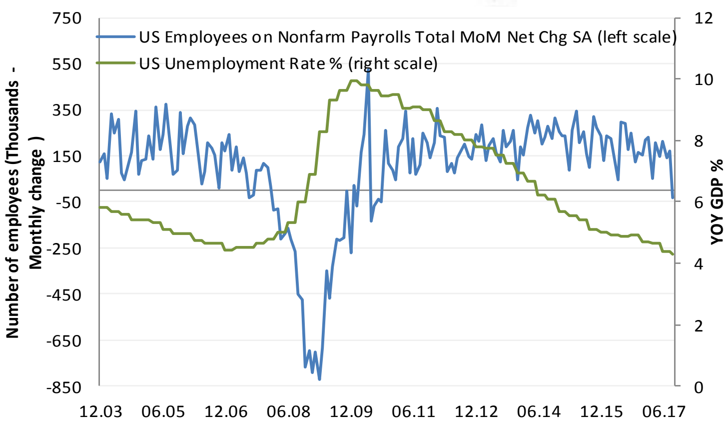


Graph sources: Bloomberg/BearBull Global Investments Group

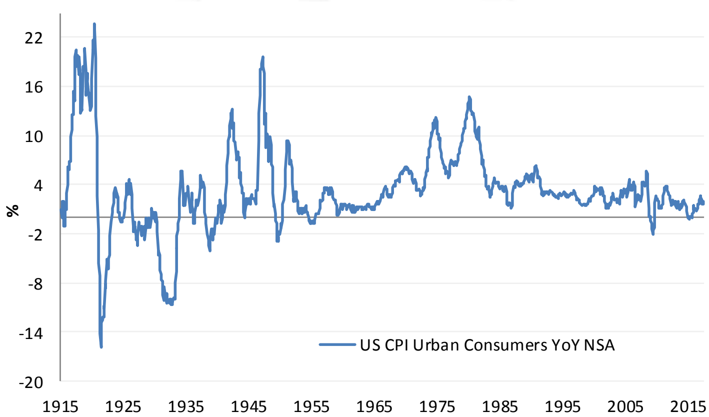
US Jobless Claims



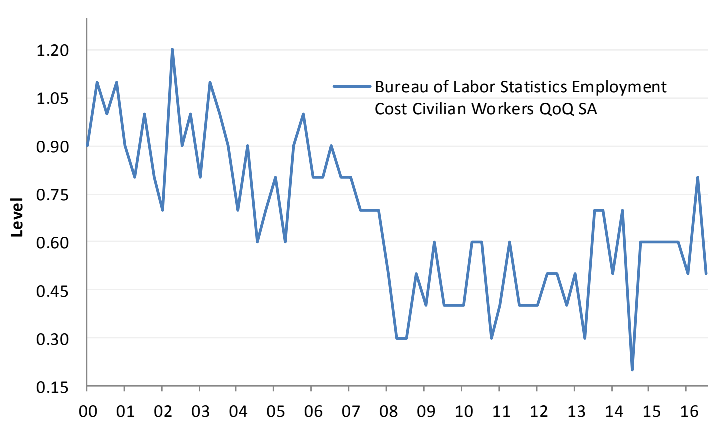
Non-farm Payrolls (MoM) and Unemployment rate



US Inflation (1914-2016)



Employment Cost Index



Graph sources: Bloomberg/BearBull Global Investments Group

Inflation will soon surpass the Fed's target

Pressure on salaries is struggling to make itself felt despite a constantly improving labour market. Contrary to theory, inflationary pressures are still weak, although the unemployment rate is falling regularly, and heading towards 4% and therefore full employment. These observations are of concern for investors and the central bank. However, the Fed remains relatively calm and convinced that there is still a link between employment and inflation, even though the Phillips curve seems much flatter for the time being than before.

In August, inflation came in slightly under the +2% target (+1.9%), while import prices gained +2.1% year on year, which is significantly less than in February, when the yardstick had been considerably affected by crude oil prices. It is likely that the fall of the US dollar in the first half of the year has had some positive consequences for imported inflation. Equally, future inflation at between 1 and 10 years remains close to 2.7%. Inflation should soon head back above +2%.

Long rates recover to upward trend, favouring the US dollar

After an expected short-term consolidation of long rates in the relatively soft context of the 1st quarter, our forecasts for the 2nd quarter indicated a recovery of the upward trend, propped up by an influx of more robust economic data. Specifically, we underscored the fact that the 10-year Treasury rates' correction from 2.6% to 2.1% did not seem at all compatible with our forecasts of a +3.1% bounce back in economic activity and normalisation of monetary policy. We believed it very likely we would see a further boost to long rates in the second half of the year. This is now in part the case, with long rates increasing to 2.6% at the end of the quarter.

We are not altering our forecasts, and expect the trend to continue, potentially bringing interest rates up above 2.8% by the end of the year.

The macroeconomic context certainly provides grounds for new tension on long rates, which should be magnified by the announcement of the start of normalisation of the Federal Reserve's balance sheet. In this context, we can find no grounds to justify the weakness of the US dollar over the past nine months. The roughly -8% depreciation of the trade weighted USD index against a basket of currencies should correct relatively quickly, unless prospects of a deterioration of public finances linked to tax reform pull the US dollar down.

The US dollar should find favour with investors again and bounce back above parity with the Swiss franc.

The Fed is taking a softly-softly approach to normalising its balance sheet, and will increase rates in December

The latest Federal Reserve meeting provided an opportunity to unveil the balance sheet normalisation policy which should begin in October. Unsurprisingly, the Fed announced a programme to reduce its balance sheet that is so extremely restrained as to be almost imperceptible. Indeed, the monthly caps initially set at US $6 billion for Treasury Bonds and US $4 billion for MBS are symbolic sums given the current size of the balance sheet (4.5 trillion). However, these caps will be gradually increased within a year, up to definitive limits of US $30 billion (Treasury Bonds) and US $20 billion (MBS). In parallel, the key rate target (Fed Funds) remains unmodified at 1-1.25%; this situation will undoubtedly change in December. The bank is thus declaring the start of the second phase of its monetary policy normalisation.

Could the S&P 500 benefit from the announced tax reform?

After nine months waiting and a +20% rise in US equities, the hotly anticipated announcement of tax reform came at long last. Since the election of Donald Trump, US stocks have benefited from positive macro- and micro-economic fundamentals, as well as forecasts of increasing profits, which were hoped for as a direct result of and promised as part of the change in tax rates.

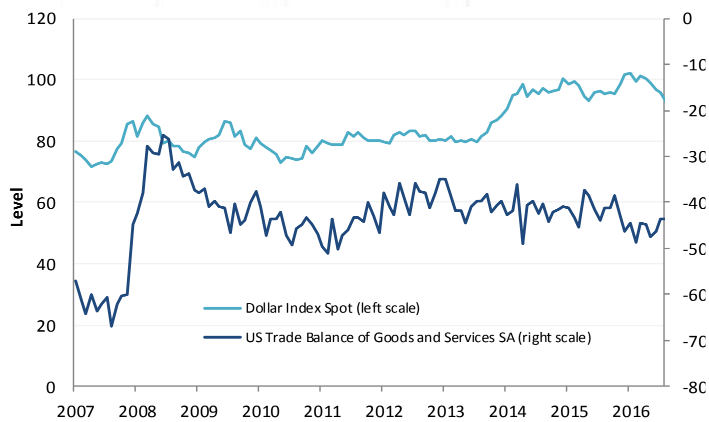
For now, published profits are rather positive and could very much stand to benefit from this tax change in 2018. At this juncture, mention is often made of the considerable profits reaped by American multinationals abroad, which could be repatriated and divided up amongst shareholders as dividends if this tax measure is adopted.

The OECD estimates them at US $2.6 trillion. In theory, this should be enough to sustain interest in US equities, but is it really such good news for the stock market trend?

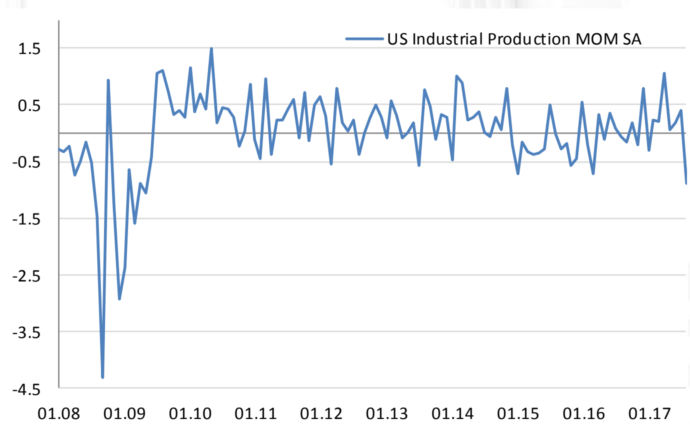
After nearly a year of speculation as to the outlines of this reform, it is finally public and open to analysis. Still hot off the press, it is already dividing observers and politicians before it has even been presented to Congress or the Senate. A few weeks ago, we were concerned about the weight of the GAFA web giants in overall S&P 500 performance in 2017. We pointed out that this craze had pushed up valuations exponentially, to levels probably unsustainable in the short-term. This suggested there would soon be a change in investor psychology towards them and made sectoral rotations likely. Any future rise on the S&P 500 was therefore dependent on prospects of a profit growth cycle recovery.

The rise on equity markets most probably already incorporates the positive impact of tax reform on profits. We have chosen a cautious approach at a time at which profit taking could cast a shadow over the announcement of reform, recalling the adage "buy the rumour, sell the news".

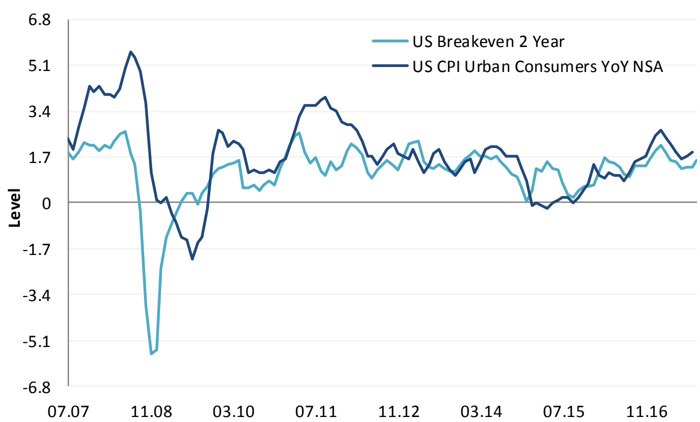
US Trade Balance of Goods and Services



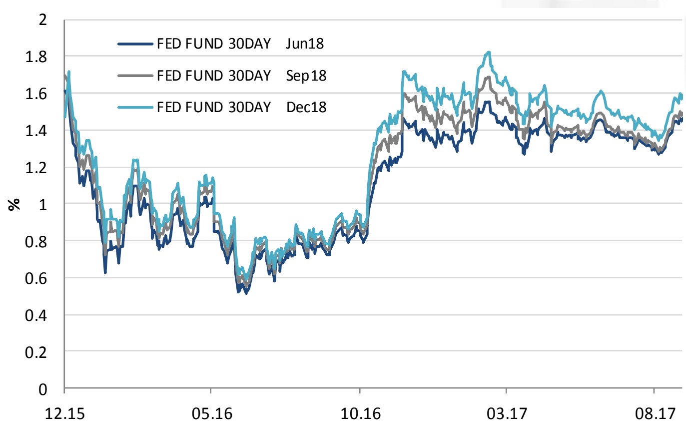
US Industrial Production



US Expected Inflation and CPI

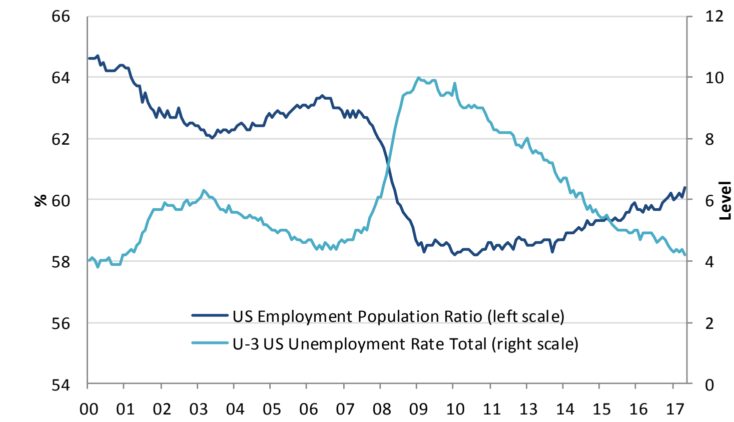


Fed Funds Futures

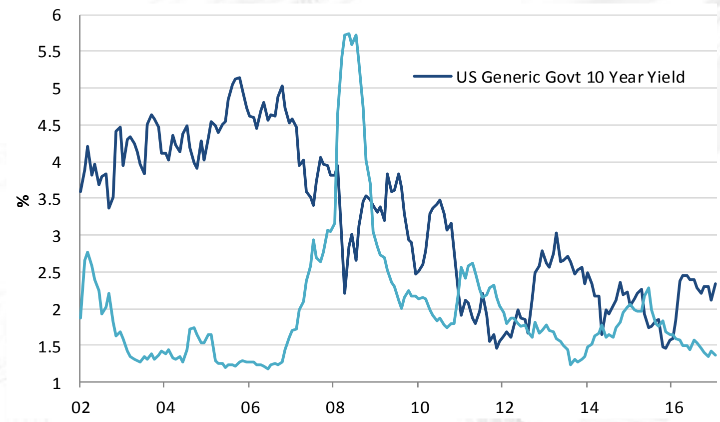


Graph sources: Bloomberg/BearBull Global Investments Group

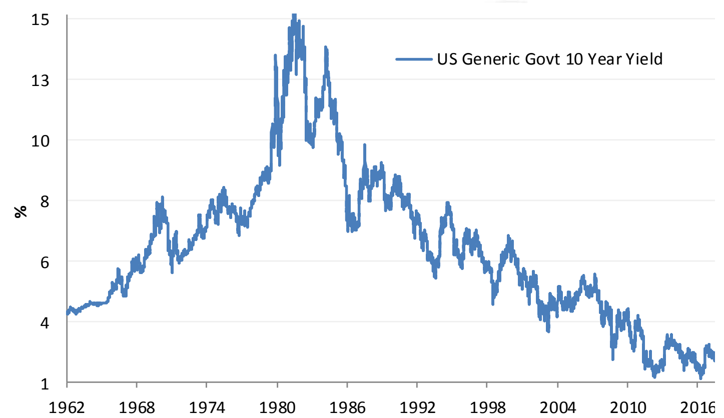
US Unemployment rate and Employment Population Ratio



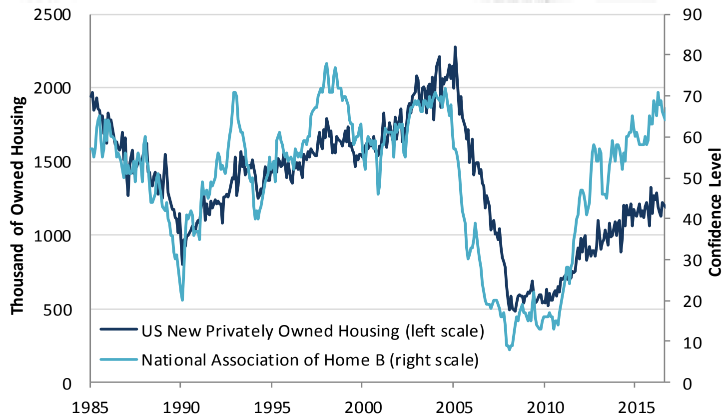
Yield spread Us Treasury - BBB 10 year



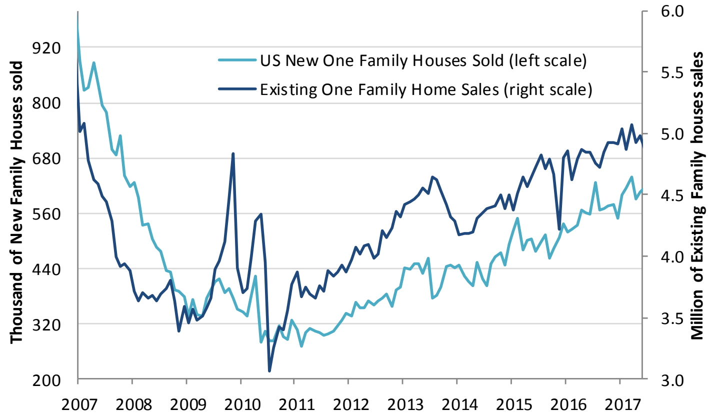
US Government Bonds 10 year yield



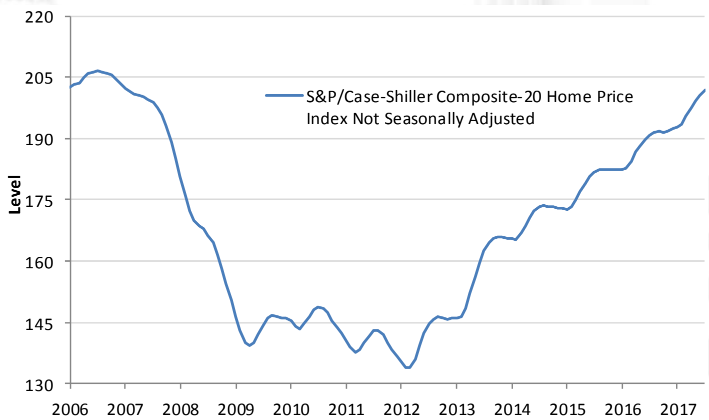
US New Privately Owned Housing and NAHB USA



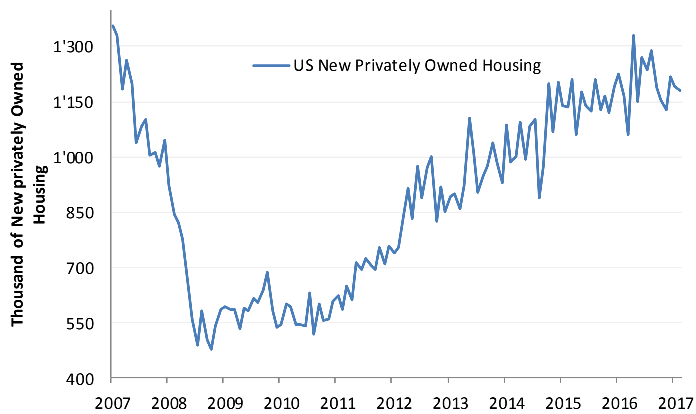
Sale of US New and Existing Family Houses



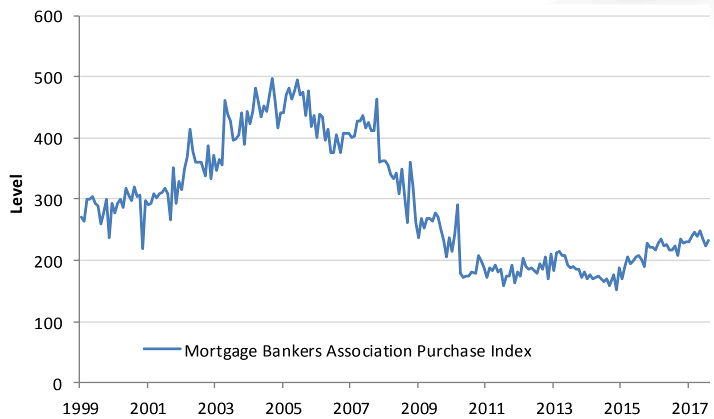
Real Estate Prices - S&P Case-Shiller Index



Housing Starts



New Mortgage Applications - MBA



Graph sources: Bloomberg/BearBull Global Investments Group

MACROECONOMIC SCENARIO

SWITZERLAND

- Real GDP growth up +0.3% in Q2
- Final demand still clearly sustaining GDP growth
- The trade balance is not yet benefitting from the weaker franc or the European recovery
- Our 15 January 2015 post-choc forecast predicting an exchange rate of 1.20 against the euro is materialising

Real GDP growth up +0.3% in Q2

The latest growth figures released by the Swiss State Secretariat for Economic Affairs (SECO) show real GDP growth of +0.3% in Q2. Q1 growth was revised down from +0.3% to +0.1%, however, reviving worries regarding the quality of the recovery in our country. The revision of Q1 results also caused adjustments to FY2017 growth forecasts. The SECO thus reduced its economic growth forecast for the current year for the third time, revising it downward to +0.9%. The SNB, scarcely more optimistic, reduced its growth forecast for the same period down from +1.5% to +1%. The forecast of the KOF Swiss Economic Institute (+1.3%), slightly more optimistic in spite of similar adjustments, is not unfounded in our view, in particular given developments in the currency markets.

We believe that, while the downward revision of Q1 results obviously affects the FY outlook, the Swiss economy should nevertheless experience growth in excess of 1% in FY2017 given that a significant acceleration in Q2 is increasingly likely. The weakness of the franc against the euro, witnessed with relief by numerous economic actors over the summer, will very likely have a positive impact on economic outcomes in Switzerland over the next several quarters. At its current exchange rate of 1.16 (at time of writing), the euro has already regained over 75% of the losses it suffered on 15 January 2015. Let us also note that the forecast we published on 15 January 2015 and have since reiterated on several occasions is materialising, namely, that the franc would weaken and return to a level of 1.20 thanks to the SNB's negative interest rate policy.

For 2018, GDP growth forecasts remain somewhat more optimistic, predicting potential growth of +2%, mainly due to the improvement in the global economic outlook expected over the next several quarters as well as to a stronger boost from the domestic economy and an upswing in exports.

Final demand still clearly sustaining GDP growth

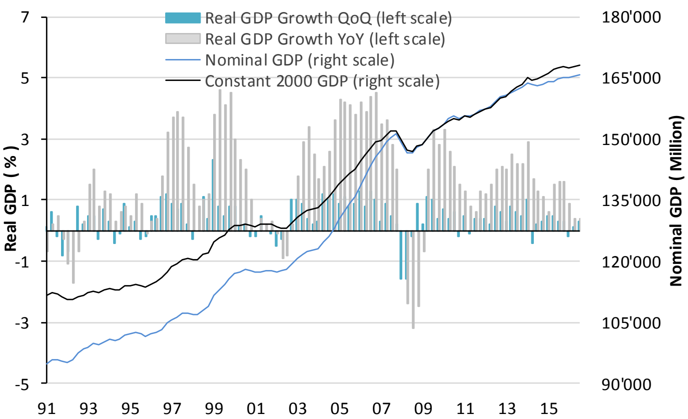
1H2017 still turned out positively for our economy, in particular due to the economic upturn in the Eurozone and among Switzerland's main trading partners more generally. In Q2, private consumption improved slightly (+0.2%), with public spending also delivering a moderately positive contribution (+0.3%). We note a clear slowdown in investment spending on capital goods, which is up only +0.3% after rising +1.7% in the previous quarter. In contrast, construction is on the rebound, growing +0.7% after posting a +0.4% rise in the prior quarter. Manufacturing progresses by +0.9%, exhibiting unexpected vigour.

On the other hand, the contribution of the trade balance in goods and services was rather negative. Merchandise exports inched up +0.5%, while service exports declined by -0.3%. Merchandise imports posted a large increase (+5.5%) driven by the growth in the demand for chemical and pharmaceutical products. Service imports also increased (+1.7%), in particular with regard to telecommunication and IT services.

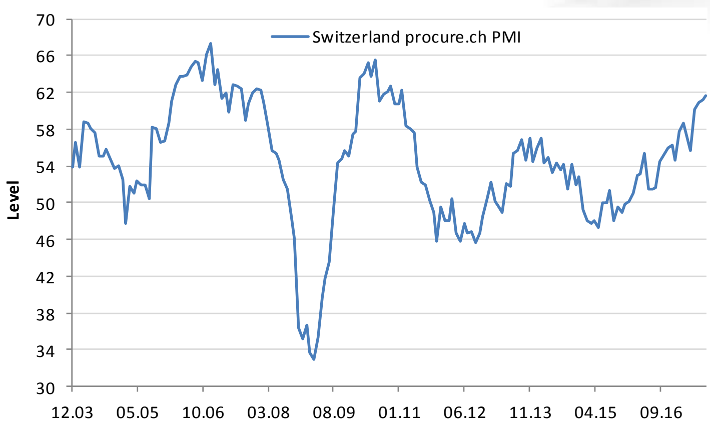
The trade balance is not yet benefitting from the weaker franc or the European recovery

Switzerland's trade balance reached a peak in January, attaining its highest level ever at over 4.77 billion francs. Since then, a rising euro and stronger economic momentum in the Eurozone have prevented it from reaching new heights.

Nominal GDP - Nominal and Real GDP Growth rate

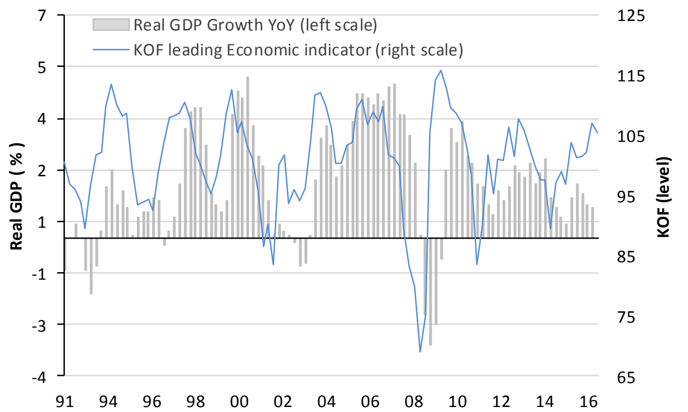


Swiss Purchasing Manager Index (PMI)

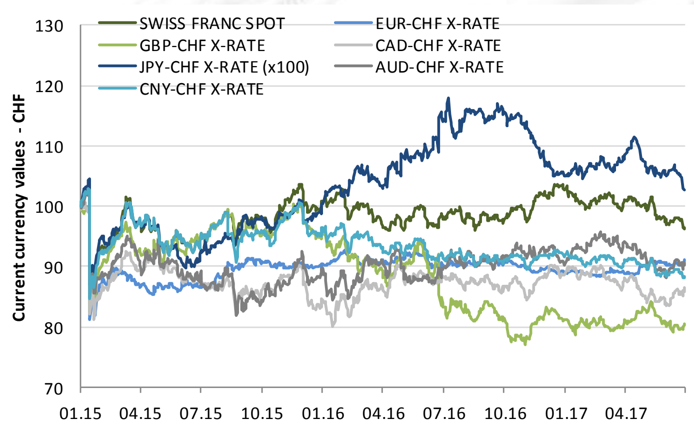


Graph sources: Bloomberg/BearBull Global Investments Group

Real GDP Growth YoY - KOF leading economic indicator



CHF Exchange rate (Normalized at 100)



The trade balance has thus trended downward over the past eight months on a relative basis, although this year's average trade surplus is in fact identical to 2016's (3.07 billion/month). At the beginning of the year, we had pointed to the excellent level of the trade balance in January, prompting hope for 2017. This seems to be materialising, along with a real possibility of seeing our foreign trade finally benefit from a stronger European economy and the weakness of the franc against the euro. Any improvement in foreign trade will require a sharper upturn in exports in 2017 in order to provide a truly positive and lasting contribution to GDP growth. In August, exports did grow +6.1% in real terms, reaching 16.3 billion francs, thanks to the machines and electronics sectors, which improved markedly (+10.8%). A +6.5% increase in imports to 14.2 billion is preventing a more satisfactory overall outcome for now. The most significant export sectors are contributing to these developments. The machines sector along with the textiles, vehicle and watch segments all contributed positively. The watch sector confirms its recovery for the fourth consecutive month, posting yoy growth of +4.2% in August thanks to rising demand in China and Hong Kong. Year-to-date results are once again positive, even if the +1.2% increase in exports is still far from previous years' records. The improvement in the global outlook will also be favourable to our economy and exports.

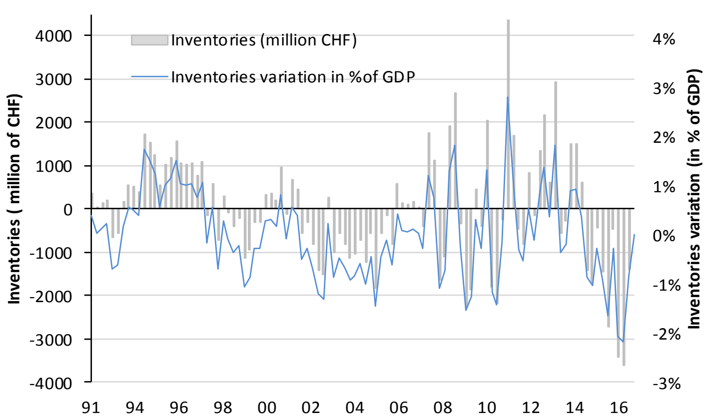
Lights switching to green with regard to consumption

Domestic consumption continued to support GDP growth in Q2 without, however, showing signs of a stronger recovery, nevertheless still anticipated. Indeed, domestic demand is showing no signs of accelerating, in spite of positive economic conditions both in our country and the neighbouring countries. Consumption climate indicators have improved slightly, however, as suggested by both the UBS index, which is showing a clear uptick in confidence levels over the past three months, and the CS index, which is stabilising at its highest levels in the past ten years. In this context, retail sales are indeed stronger than in 2015 and 2016 though struggling to establish a clear upward trend. However, the Swiss have little to worry about and should not curtail their consumption. Certainly, along with the improvement in the international outlook, the job market in Switzerland has been showing signs of an upturn since the beginning of the year. The unemployment rate has indeed returned to low levels (3%) and is approaching its all-time record of +2.5% in 2008.The improvement in the outlook for global growth should also have an increasingly clear and positive impact on the economic climate in Switzerland over the next several months. Private consumption should thus remain on a positive trend, bolstering GDP. Public consumption spending will remain volatile in 2017, but the federal and cantonal governments' finances are rather solid, and the debt-to-GDP ratio (34%) is low by international comparison. We see no reason to anticipate a reduction in public spending in 2017 and count on further positive contributions.

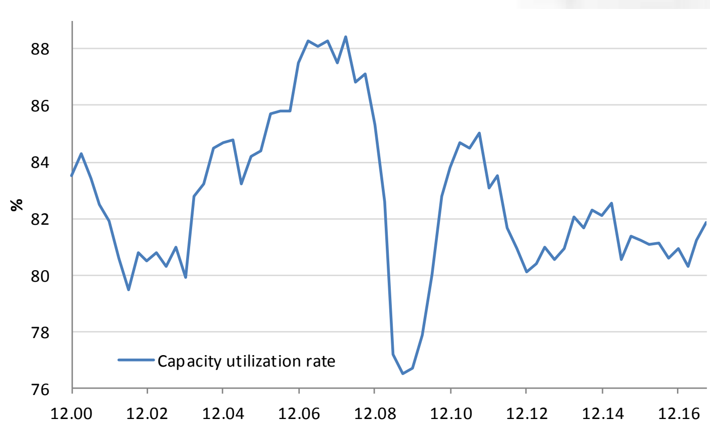
Increasingly positive leading indicators for the manufacturing and industrial sectors

The latest leading indicators published for the industrial sector show that the manufacturing sector has regained a measure of cautious optimism. The manufacturing PMI has indeed reached its highest level since 2011 and has made a sharp recovery since its January 2015 tumble. The manufacturing PMI indicator climbed to 60.9 in August, well above its low in May 2015 (47.3). Hesitations in Q2 have now made way to stronger confidence, as indicated by the satisfactory level of the KOF's leading index. We maintain our optimistic forecast with regard to Swiss economic activity and anticipate a gradual improvement in economic conditions. We had also expected the monetary factor to provide a boost, and the appreciation of the euro, which we had been anticipating and is in fact intensifying, will contribute to these developments.

Inventories - variation in % of GDP

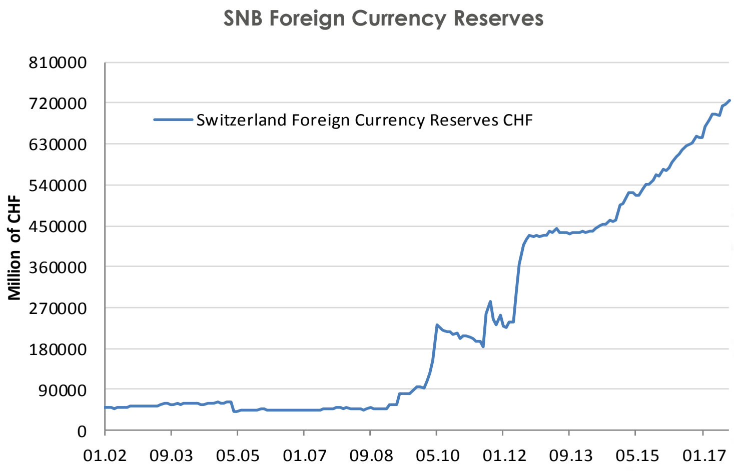


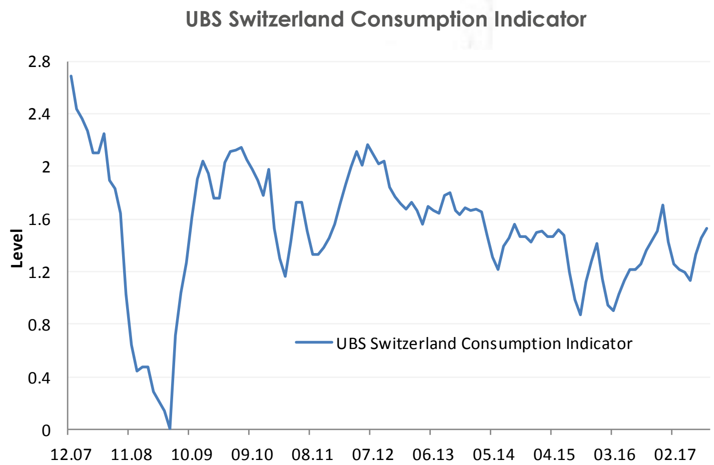
Capacity utilization rate

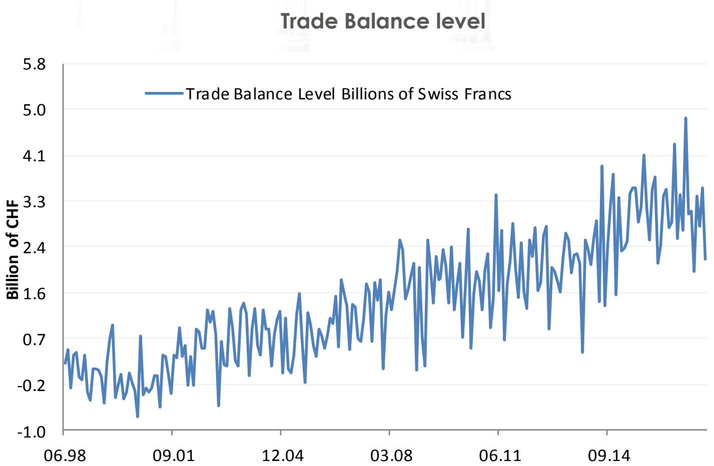


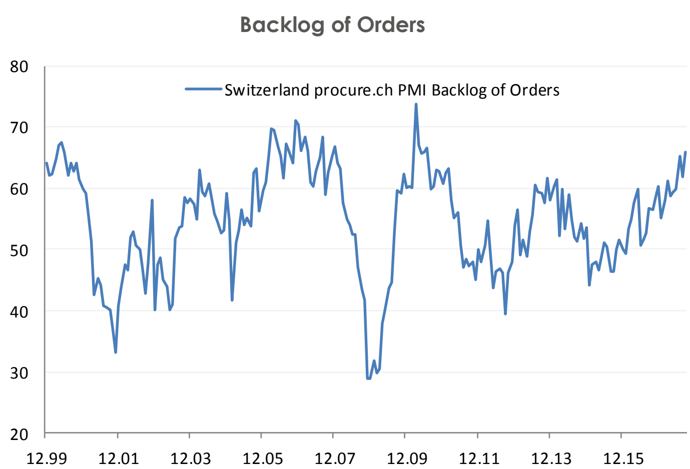
Graph sources: Bloomberg/BearBull Global Investments Group

BearBull Global Investments Group









Graph sources: Bloomberg/BearBull Global Investments Group

The appreciation of the euro has not yet significantly affected the SNB's actions

In spite of the decrease in economic uncertainty in the US and Europe, investor demand for Swiss francs remained relatively high during the first part of the year. Political uncertainty in the Eurozone has receded sharply. Geopolitical risks persist, but the improvement of the economic climate, which should reduce the demand for Swiss francs, will likely affect the euro's exchange rate even more.

The SNB's currency reserves stated in Swiss francs finally seem to be stabilising at around 700 billion. However, domestic banks' overnight deposits have been declining for three months already, while total overnight deposits have also been stabilising since 30 June. We are not expecting the SNB to change its monetary policy this year. The negative rates will stay in place until the European economic cycle exhibits a clear reversal and a highly likely acceleration of growth in 2018.

Our 15 January 2015 post-choc forecast predicting an exchange rate of 1.20 against the euro is materialising

The rate spread is now much more favourable following the dollar-denominated rate increase, although it remains relatively unchanged against the euro at approximately 50 basis points. However, we believe it is now more likely to see rates normalise more quickly in the Eurozone than in Switzerland and thus benefit the European currency. Overall, our exchange rate forecasts are still current, although economic momentum in the US is at present not yet strong enough to push the dollar higher. In Europe, however, a change in perceptions regarding the situation in the Eurozone is clearly favouring a return of investors to the single currency. Our exchange rate forecasts suggest further weakening of the euro to 1.20 against the franc and an uptick of the dollar to 1.05. These predictions also provide us the opportunity to note that we had presented and explained the arguments supporting our forecast at the time of the SNB's introduction of its negative interest rate policy.

In a particularly gloomy context in January 2015, we expressed confidence both in the strategy implemented by our national bank and in the economic and political recovery of the Eurozone, which would certainly provide the requisite conditions for the euro to strengthen. We remain convinced that the euro will return to a level of 1.20 against the franc, which is most certainly overvalued at its current level.

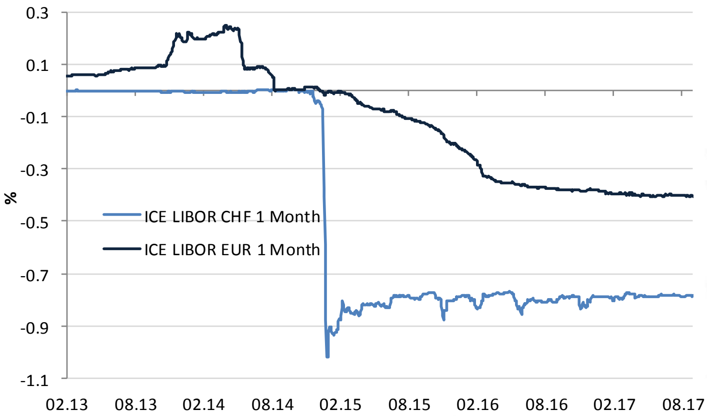
Impending rise of long-term interest rates and inflation in our country

Over the past several weeks, core inflation as well as other broader measures of inflation have pointed toward a return of price increases in our country. The risks of deflation mentioned these past years as one of the most significant threats to our economy have dissipated as inflation climbed back up from its November 2015 lows (-1.4%) to +0.6% in February 2017. The latest figure published for August confirms the resilience of the CPI index above +0.5%. In addition, continued weakness of the franc will certainly have significant consequences with regard to imported inflation. Inflation will thus likely continue to rise in Switzerland over the next few months.

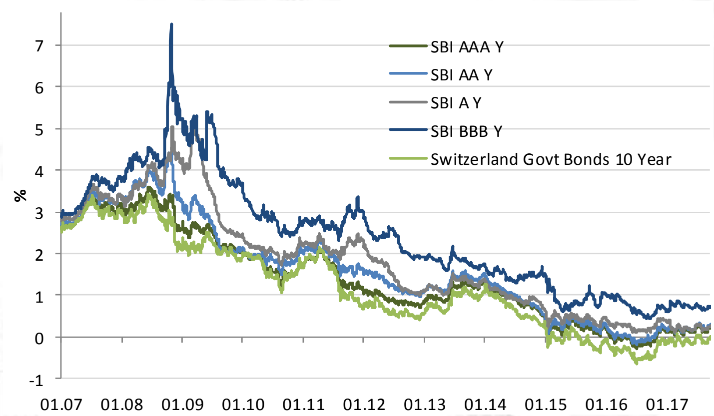
In this context, the normalisation of long-term interest rates in Switzerland remains dependent on the progress of normalisation on the international front and on developments in the euro/franc exchange rate. While the normalisation of long-term rates began last summer, as we had expected, its future course also depends on the flow of economic data. The disappointing performance of the US economy in Q1 and the uncertainties that arose in August caused a slight correction in short-term rates, which in our view constitute one of the last opportunities to reduce bond market risk, in particular in our country.

The appreciation of the euro is a significant factor increasing the risk of correction in our bond market. The bond bubble is now likely to burst very soon.

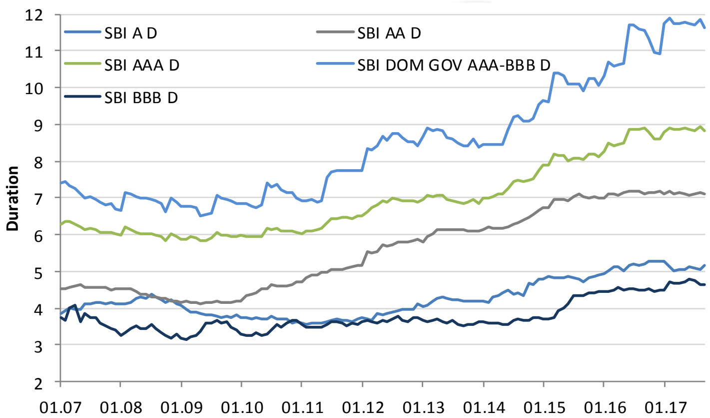
Libor spread rates 1 month



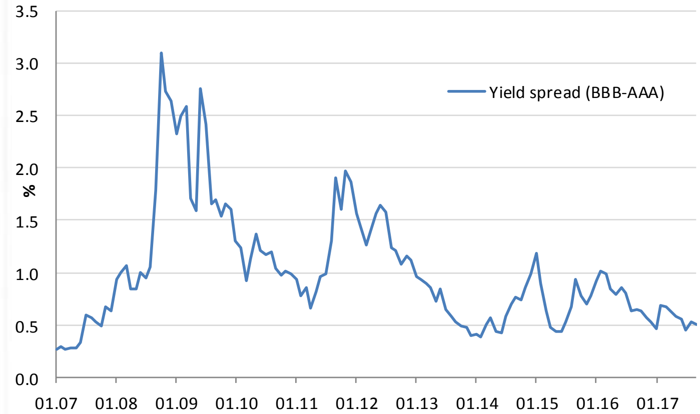
Yield (Government, AAA, AA, A, BBB)



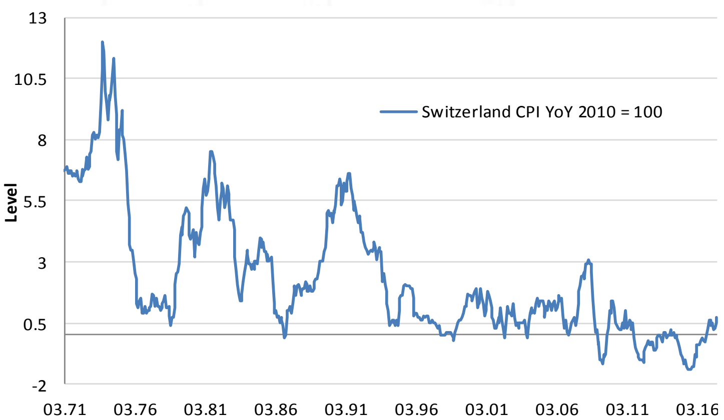
Duration of Swiss bonds



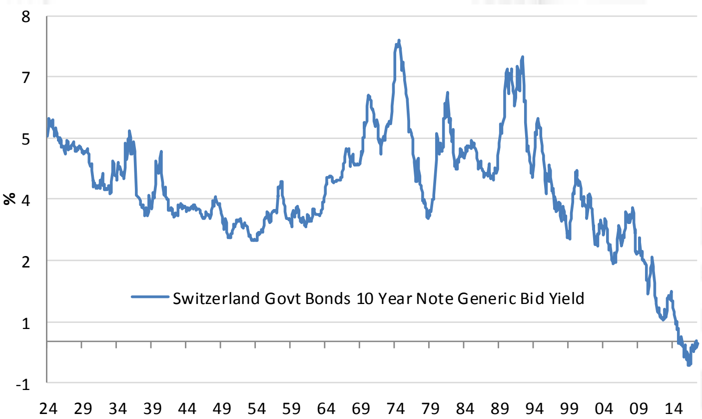
Yield spread



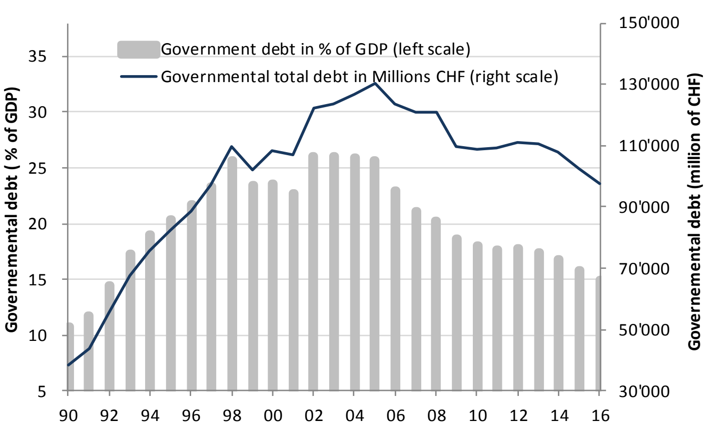
Inflation CPI



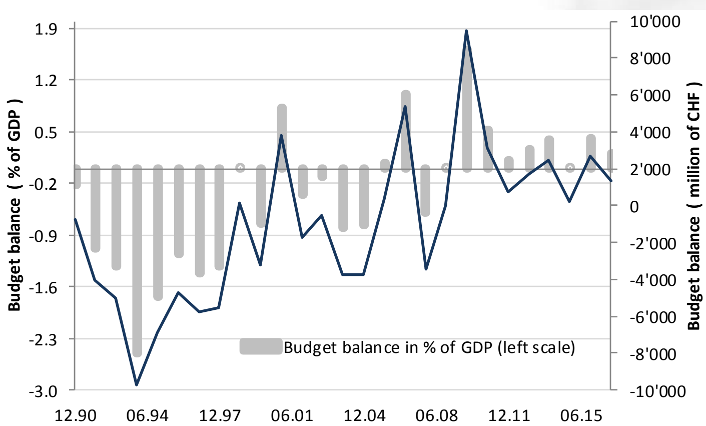
Government Bonds 10 year yield since 1924



Switzerland Government total debt



Switzerland Budget Balance



Graph sources: Bloomberg/BearBull Global Investments Group

MACROECONOMIC SCENARIO

Eurozone

- The German elections have dampened prospects of European reconstruction
- The rise in the Euro mainly reflects improved fundamentals
- European and US growth are level pegging
- The Eurozone no longer inspires fear
- Growing interest in European equities

The German elections have dampened prospects of European reconstruction

Unsurprisingly, the German elections have granted Angela Merkel a fourth term, though with disappointing results (33%) for her party. Despite her win, the inroads made by the far-right have shocked, worried and unsettled the parties involved in the process. The Chancellor will need to forge a coalition around her party in order to govern. This seems to be a difficult undertaking given the Social Democratic Party's decision not to join, instead choosing to be an opposition party. An alliance with the FDP (Free Democratic Party) is still possible, but would have political consequences. As such, the Chancellor is starting this term in office in a complex, and more uncertain context. In the medium-term, the French president's ideas for reform, as well as prospects of European reconstruction could turn out to be collateral damage in the coalition-forming process should it lead to an agreement with the FDP, which is rather hostile to the idea of a European revival. The Euro has already reacted to this fresh uncertainty by dropping 3 cents against the US dollar in the days following the election. This reaction interrupted the eight month long upward trend. We believe that in the short-term this new political landscape could dampen investors' enthusiasm for the single currency.

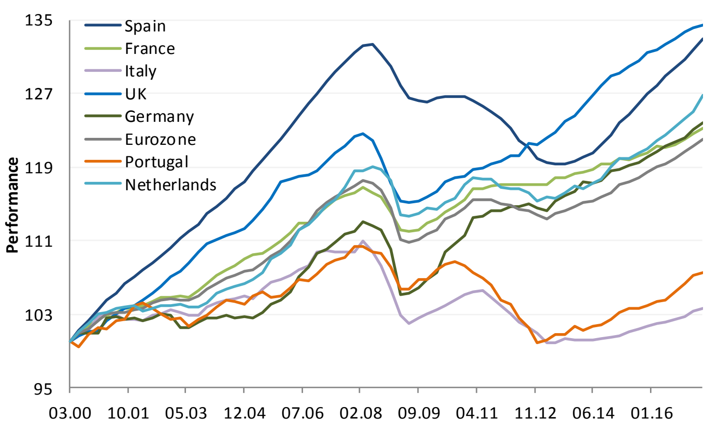
The ECB is confident, though nonetheless concerned by the rise in the Euro

At its latest meeting in September, the ECB decided not to change its policy. More recently, the latest statements by the ECB's chief before the European Parliament's Economic and Monetary Affairs Committee have once again demonstrated its confidence in the success of its policy to revitalise growth and bolster the upward inflation trend. However, Mario Draghi did point out that it would still probably be essential to maintain expansionary monetary policy to a considerable degree. The European economy seems to be on the right path, but the recent rise in the Euro represents a new source of concern. This came just as risks, particularly political risks, had very much fizzled out after the French elections, before bubbling back up again after the German elections last weekend. We will likely see greater strength of language before the next ECB Governing Council meeting on the 26th October, suggesting that the change of tack expected of the ECB in terms of its monetary policy will be gradual, measured and pragmatic. As such, the asset purchase programme, which was to be kept until at least the start of 2018, will undoubtedly be tweaked, but retained beyond this date in order to make the most of the programme's flexibility and ensure the Central Bank can take action if required to do so. The ECB will remain prudent in its approach and should refrain from any policy which could threaten the economic recovery and the improvement in economic operators' confidence, given that the macro-economic context may already have been shaken by the single currency's appreciation. The ECB will announce an overhaul of its programme, though the scope of this is still an unknown element. We believe it likely that the programme will be cut from 60 to 40, or even 30, billion per month as of January 2018 due to the drying up of "buyable" assets. In this context, we cannot see key rates being increased in the coming quarters; this should only come a few months after the asset purchase programme has finished.

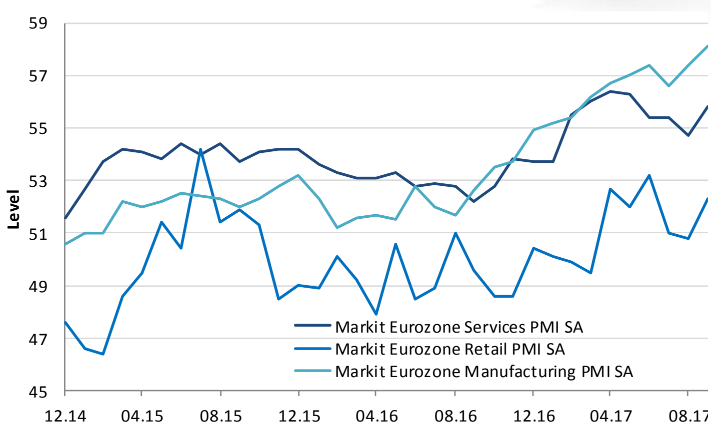
The rise in the Euro mainly reflects improved fundamentals

Should it continue, the rise in the Euro could hinder inflation heading towards the ECB's target as hoped, and foil Mario Draghi's plans. In the medium-term, however, we believe that the Euro could recover some stability. The Euro was expected to rise against the Swiss franc, bringing the single currency to a 1.15 exchange rate in 2017. The bulk of this has taken place over the last two quarters. As regards the Euro/US dollar exchange rate, the Euro started appreciating in the first few days of 2017, giving rise to the theory that its strength was only a side effect of the US dollar's weakness.

GDP Growth - Eurozone

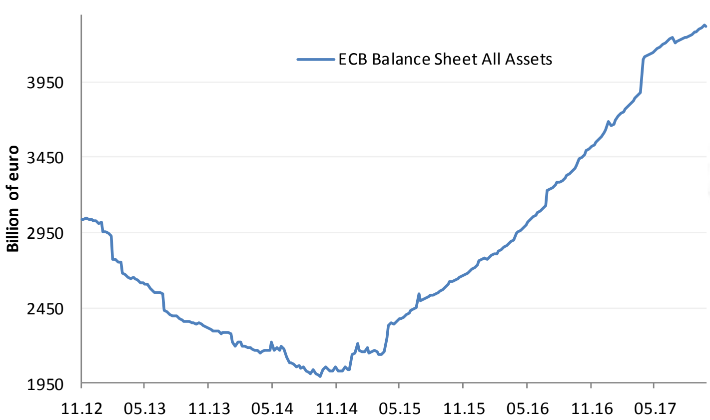


PMI (Manufacturing, Services and Retail) - Eurozone

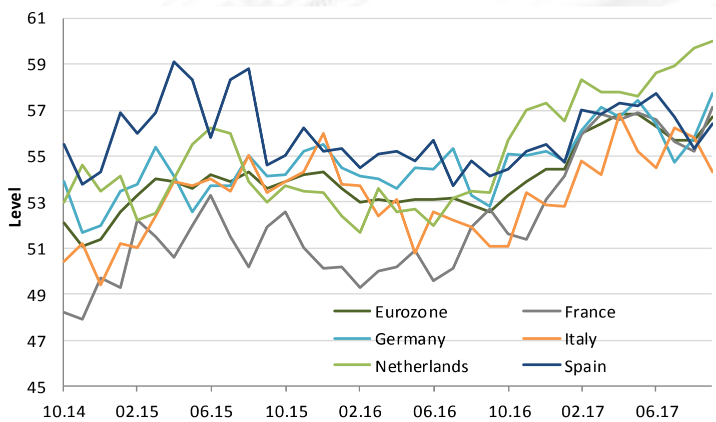


Graph sources: Bloomberg/BearBull Global Investments Group

ECB Balance Sheet



Composite PMI



However, one should not forget that the Euro appreciated against a broad array of currencies, underlining the improvement in the economic and political situation in the Eurozone as the key factor driving the trend change. We therefore believe that the rise in the Euro has undoubtedly hit a ceiling in the short-term. The undeniable improvement in economic fundamentals and the prospect of an about-turn in monetary policy will bolster investors' interest in the single currency further down the road.

European and US growth are level pegging

Our forecasts of the European trend stepping up are being borne out in the 3rd quarter. The OECD is also revising its forecasts for 2017 upwards, whilst aggregated Eurozone GDP moved above +2% in June (+2.3%). German growth should gain in strength and breadth, propped up in particular by domestic spending, which will pick up some of the slack from exports. In France, GDP will certainly exceed +1.7%, whilst in Spain the trend remains robust, and could push GDP above +3%. The end of the year could bring even better news if leading indicators are to be believed. Indeed, PMI indices for September confirm a clear recovery in activity in Europe. Composite PMI improved further in September (56.7), and now sits at its highest level since 2011; similar movements can be seen on manufacturing leading indices (58.2). The sub-index for production even hit 59.5, and underscores an industrial recovery which could well accelerate at the end of the year. The private sector is doing better, and does not seem to have been penalised by the Euro's appreciation. This means that GDP has posted its seventeenth consecutive quarter of growth, and we believe that it could pick up the pace in the second half of 2017.

The investment climate is increasingly confident

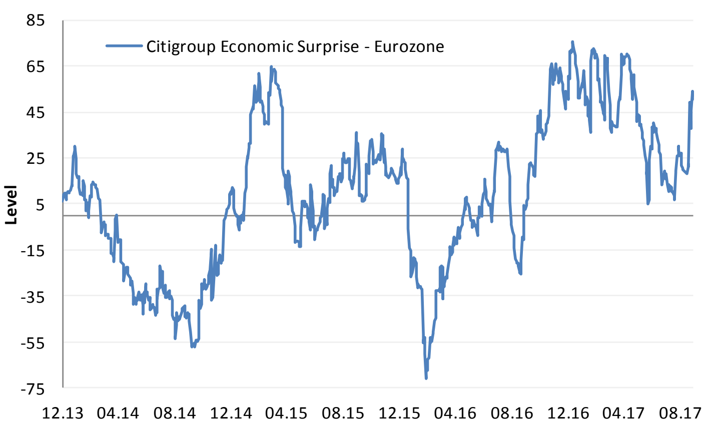
The European Commission's household confidence indicator rose slightly again in the 2nd quarter. Sentiment has improved rather significantly, propped up by the improvement to conditions on the labour market.

Household confidence is now higher than the average of the last twenty years, and at its highest since 2008. The consumer and business confidence survey also shows renewed optimism, posting its highest score since the start of the financial crisis. Whilst perhaps not yet euphoric, this positive trend is propping up consumption, which increased +2.6% year on year. In most countries, we are seeing a welcome return to cautious optimism, which should in turn prop up consumption and GDP growth.

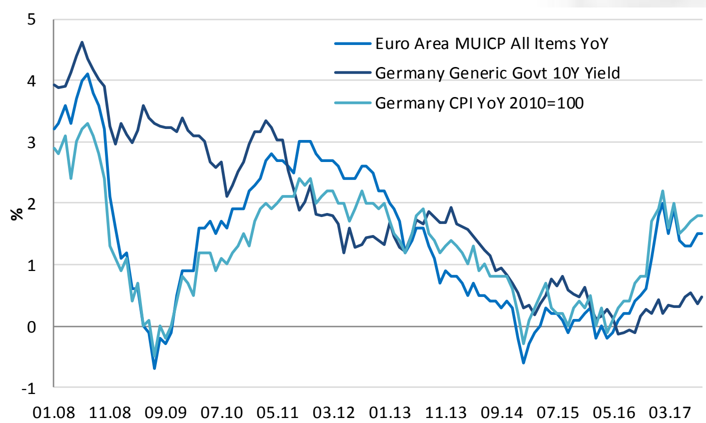
Inflation will not head back above 2% before 2018

After the expected rise in inflation in the 1st quarter to its highest levels since 2012, price indices have shown some signs of running out of steam, as expected. As forecast, the increase in crude oil prices tailed off, and the Euro's appreciation is holding back imported inflation. Equally, it is too soon to see a solid inflation recovery linked to the labour market, the latter still being too far from its point of friction for wage rises to contribute to a price increase. The ECB's target of 2% inflation will certainly be difficult to achieve, even if the central bank continues with expansionary monetary policy in 2018, and particularly if the Euro remains stronger in the long-term. Development of salary costs is slow and the Eurozone unemployment rate is only falling very gradually. At current rates, although the drop seen between 2013 (12%) and today (9%) is continuing, it will take until 2020 to reach the 7.5% of the previous cycle seen before the financial crisis of 2008. Naturally, Eurozone inflation therefore slid from 1.9% to 1.3% in the 2nd quarter; it should get back on the right track in the second half of the year, though it will not quickly hit the ECB's target. With no inflation acceleration, and with prospects of price rises, long rates can still be influenced by ECB action a while longer.

Citigroup Economic Surprise Index - Eurozone

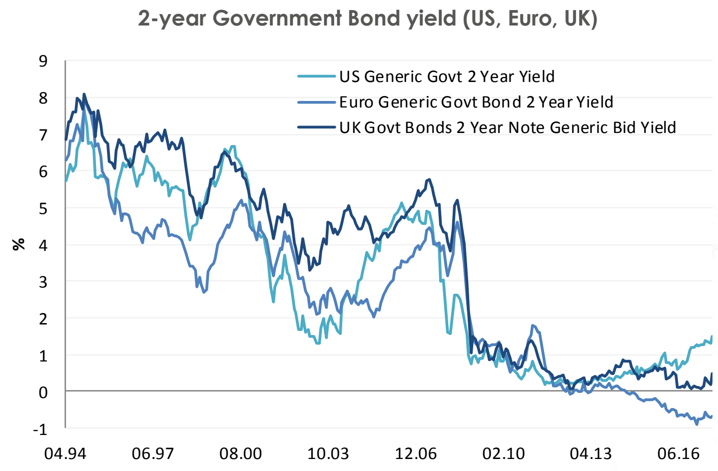


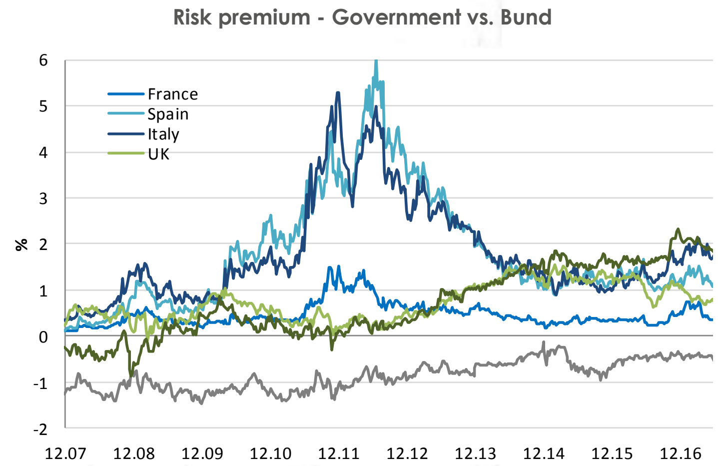
10 year Government Bond yield - CPI

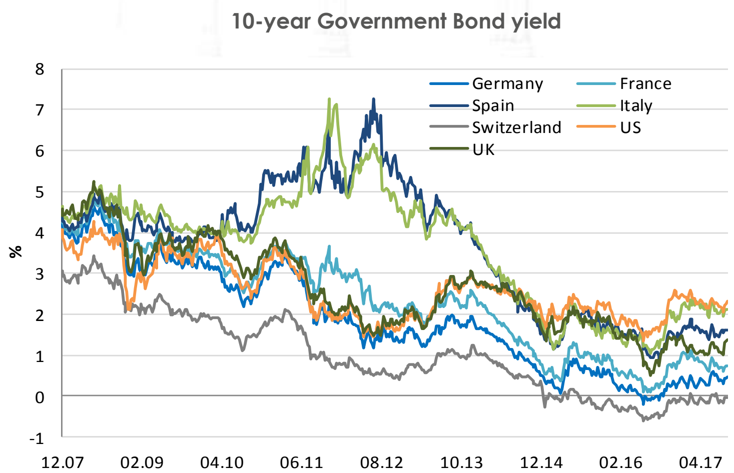


Graph sources: Bloomberg/BearBull Global Investments Group

BearBull Global Investments Group







The evolution of long rates is now increasingly contained within a narrow valuation band of less than 50 basis points below zero for the Euro Bund Future issued by the German Government with an average maturity of almost 10 years. Long rates have risen slightly over the year as a whole, and are trading at their highest levels, though still slightly below zero. We believe that it is not essential for inflation to head back above +2% in order for it to prop up a rise in long-term interest rates in Euros.

The Eurozone no longer inspires fear

Relatively speaking, and in light of forecasts, we believe that the Eurozone's economic, political, and financial situation shows clearer improvement than that of the United States. Growth rates for the two economies are neck and neck, suggesting that the Eurozone is doing a better job of catching up. More surprisingly still, European companies are now more profitable than US companies when calculated as a percentage of GDP. Politcal and economic risks in the Eurozone have beaten a considerable retreat, as is also shown by CDS (Credit Default Swap) levels for the Eurozone, which have dropped considerably since the start of the year. This is very important in supporting the single currency.

Growing interest in European equities

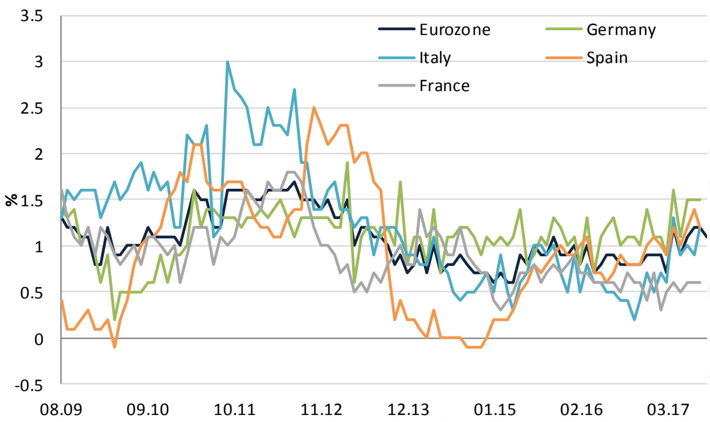
Having been abandoned due to political risks in 2016, European equities have since enjoyed a revaluation phase as announced in first half of the year. After having suggested in May that a consolidation phase seemed increasingly probable, we now believe that Eurozone equities could outperform US equities at the end of the year. They had easily surpassed the performance of US equities, but then saw some profit-taking with the rise in the Euro, despite rather robust company results. At 15x profits, the valuation of European equities was no longer as attractive, though not excessive. Profit growth consensus is now much more optimistic, and rightly so, we believe, given that the improvement in the Eurozone's economic situation is increasingly clear. The recovery of growth and company profitability are key factors, to which are added other favourable factors, including the fall in major political and systemic uncertainty, and improved conditions in the banking sector, among others.

These factors have in fact made European assets more attractive, drawing back in foreign investors (increase in purchases by non-residents at the start of the year) whose asset purchases have also propped up demand for the Euro. Growth of EPS (Earnings per Share) in the Eurozone is now ever closer to that of US companies, for 2017 (+12.8% vs +11.8%) as well as 2018 (+10.5% vs +11.9%), after having been higher in 2015 (+11.2% vs +0.3%).

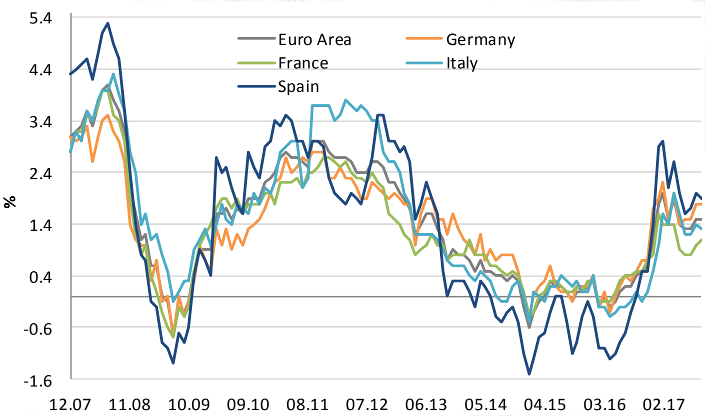
In theory, this could be grounds for a similar valuation of these two large markets, but the impact of the exchange rate is undoubtedly another factor to consider; in 2017, it is perhaps once again working in favour of international US equities, the profits of which could be boosted by a favourable currency effect. In the current US political context, of greater importance are hopes for a revamp of the tax conditions applicable to US companies, as promised by Donald Trump. This hope is undoubtedly contributing to the strength of demand for equities, which is propping up the relative performance of US stocks.

Graph sources: Bloomberg/BearBull Global Investments Group

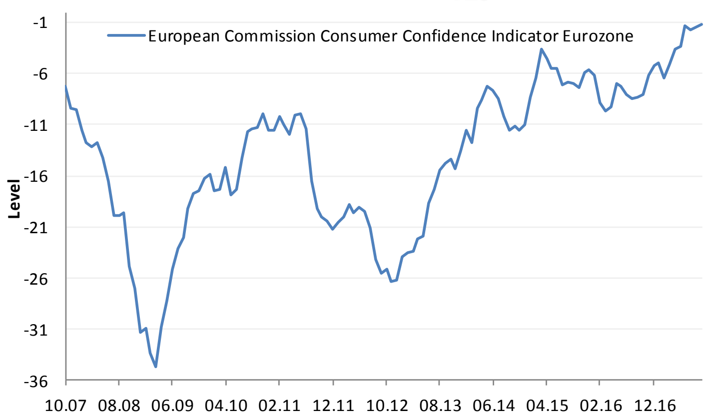
Eurostat CPI - Core Inflation (Eurozone, YoY)



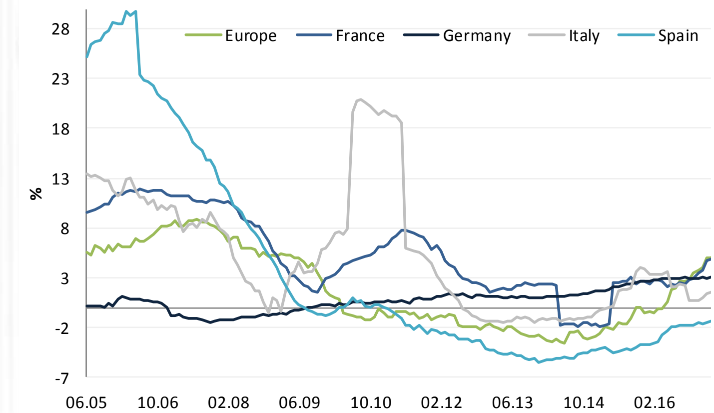
Eurostat CPI - all items (Eurozone, YoY)



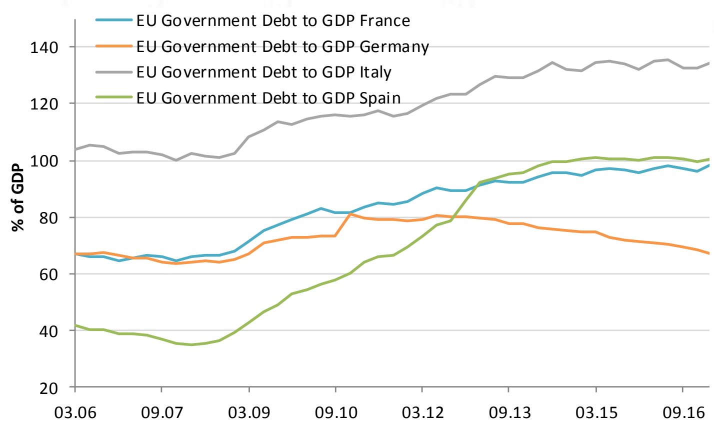
Consumer Confidence - Eurozone



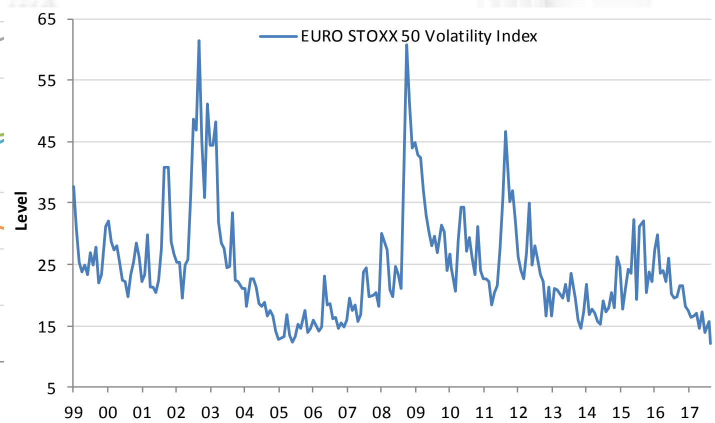
Loans to households (Eurozone - YoY)



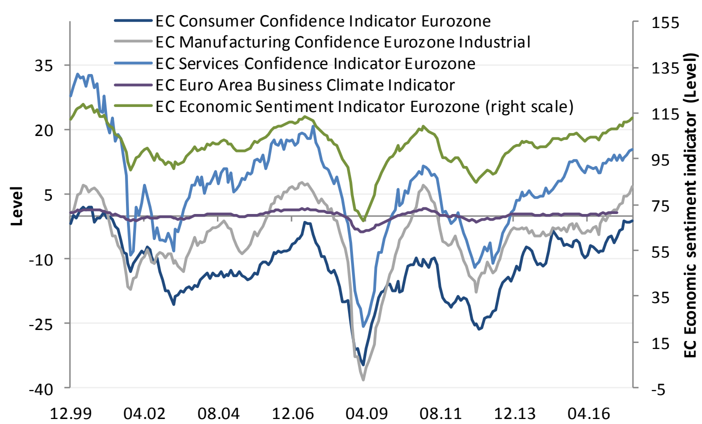
EU Government Debt



Euro Stoxx 50 Volatility Index



Economic Confidence Index



Graph sources: Bloomberg/BearBull Global Investments Group

BearBull Global Investments Group

MACROECONOMIC SCENARIO

United Kingdom

- A financial agreement with Europe before negotiating the other aspects of Brexit
- The pound rises and stabilises against the major currencies
- Overall, the depreciation of the pound is having a negative impact on GDP
- The BOE is wary, as are consumers
- Real estate prices decrease in London

A financial agreement with Europe before negotiating the other aspects of Brexit

"We want our money back," declared the French finance minister recently, in support of Chief Negotiator Michel Barnier, who aims first to reach a financial agreement with the UK before undertaking negotiations regarding the other aspects of Brexit. The European Parliament is increasingly irritated with the lack of progress achieved in discussions with the British negotiators. The legislators noted in particular that the fourth round of negotiations failed to generate any forward momentum on priority issues and recommended via a resolution adopted by an overwhelming majority that the European Council postpone its evaluation of the situation. This perspective obviously contrasts with the position of Theresa May, who offers a different interpretation of the ongoing negotiations. The settlement of the UK's financial obligations is in fact a crucial concern in the negotiations. Estimated at between 60 and 100 billion euros, the tab is far from reassuring or acceptable to the British. However, this is a key issue for the EU, which clearly has no intention of setting it aside, even temporarily, to move forward on other topics. The European Parliament is decrying the lack of progress on fundamental issues, which is preventing further discussion regarding the future partnership between Brussels and London. The Europeans are also pointing to instances of illegal discrimination against EU citizens already arising in the UK both in the job market and in access to housing. The irritation is palpable, and it will disrupt the dialogue if the British cannot come to an agreement amongst themselves and propose a clearer line of negotiation. The ball is thus once again in the British camp, and it is up to Theresa May to unite the Conservative Party and smooth over disagreements, which are penalising the negotiation process. After her resounding defeat in the 8 June elections, it will not be easy for Theresa May to find common ground among the differing positions of actors such as Boris Johnson, who favours a clear split from the EU, for instance, or Finance Minister Philip Hammond, who prefers a more flexible approach.

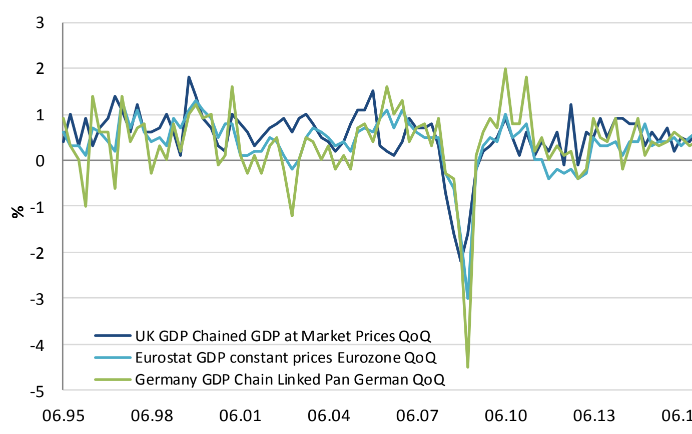
Is Theresa May still in charge?

In this regard, it is easy for Europeans to point to the lack of coherence on the British side, even alluding to the 'cacophony' within Theresa May's government. Between the Prime Minister Theresa May, Foreign Minister Boris Johnson, and Brexit Minister David Davis, it is not clear whom European negotiators should turn to. Whether Theresa May is the right person to see the negotiations through is now a legitimate question. Frustration has also reached new heights within the Conservative Party, with many members thoroughly exasperated by Boris Johnson's behaviour, some of whom are clearly convinced that he is aiming for the Prime Minister's post. The Tories thus need to tidy up their ranks in a hurry, perhaps pushing out those whose voice is too often discordant. The finance minister, who supports a softer pro-business Brexit, has pointedly noted that "no minister is unsackable", a direct reference to Johnson, who is sowing dissent and hampering negotiations with the EU. Theresa May is at the helm, but she appears to be having difficulties holding the course amidst this storm.

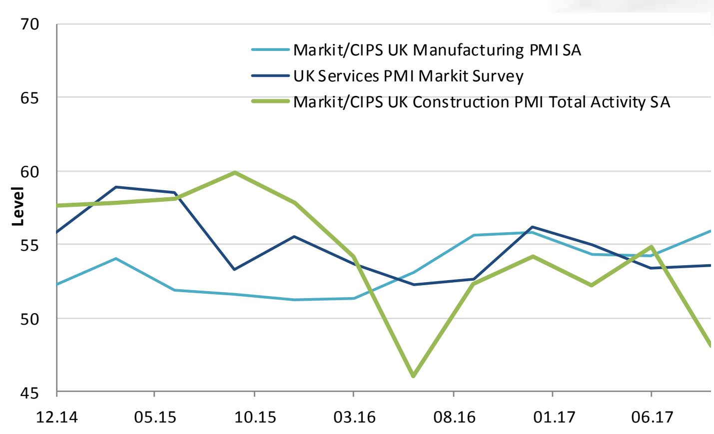
The pound rises and stabilises against the major currencies

After the pound dropped following the surprise vote for Brexit, we noted in 4Q16 that the British currency had likely already reached a valuation level enabling a more lasting consolidation pending greater visibility with regard to the country's economic outlook. Since then, the volatility of the British currency has decreased, and its exchange rate has in fact ticked up against the franc (1.20 to 1.30) and the dollar (1.20 to 1.35) in particular. The pound has stabilised above 1.10 against the euro in a context favouring the single currency. We believe the British currency is unlikely to be able to benefit from new circumstances that would allow it to appreciate significantly against the other major currencies. We thus believe that the pound will continue to stabilise over the next several months.

Quarterly GDP Growth - UK

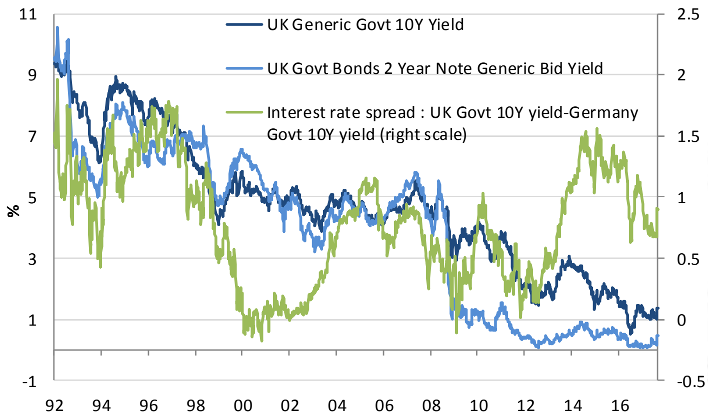


Manufacturing, Services and Construction PMI - UK

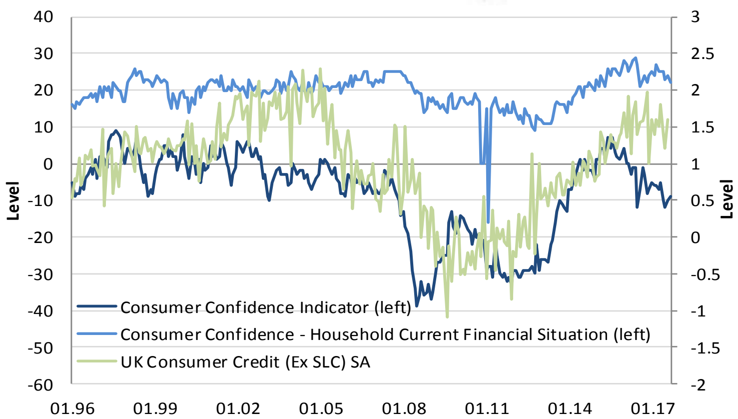


Graph sources: Bloomberg/BearBull Global Investments Group

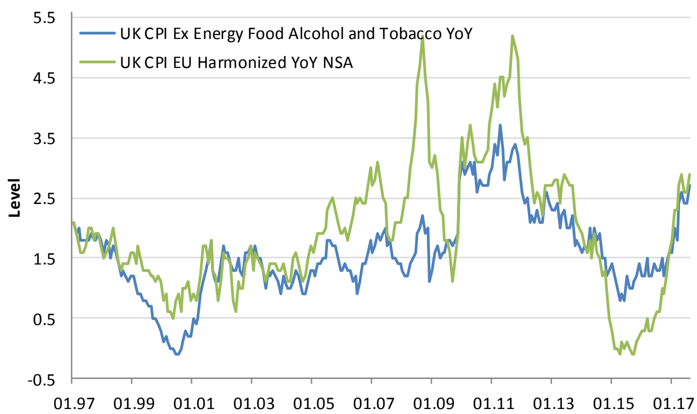
UK Government Bonds - 10 year and 2 year yield



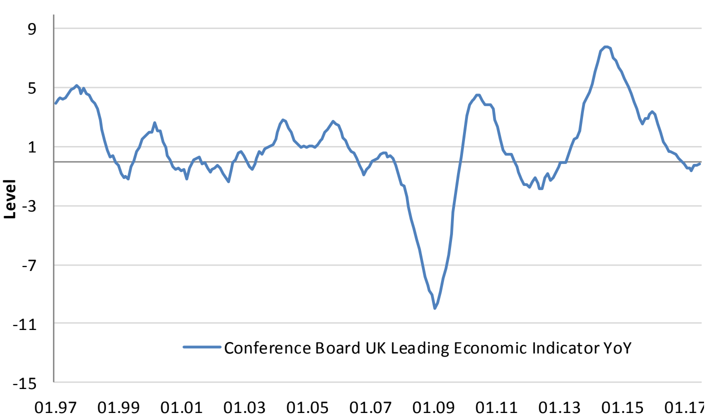
Consumer Confidence



Inflation CPI



UK Leading Economic Indicator



Graph sources: Bloomberg/BearBull Global Investments Group

Overall, the depreciation of the pound is having a negative impact on GDP

Since the Brexit vote, the pound's weakness has significantly affected a number of economic variables. Some of these effects have only recently begun to materialise, such as the overall impact on the country's growth rate. While the pound's decline may initially have been perceived as favourable to British exports and for the economy as a whole, its net effects already appear to be diminishing. Over a year after the vote, the drop in the exchange rate has not really energised foreign trade. Export volumes have risen only very slightly, and ultimately, the impact on the trade balance was penalised by an increase of imports in pounds. Nevertheless, export sectors are benefitting from an increase in competitiveness, although consumption has been hit by imported inflation. While the expectation of rising inflation had caused household spending to increase, the loss of purchasing power that then materialised has weighed on consumption in the last several quarters. Overall, the outcome is rather unfavourable to GDP growth in the UK, as imported inflation has penalised consumption without sufficiently boosting export volumes.

The BOE elucidates the likelihood of a rate hike

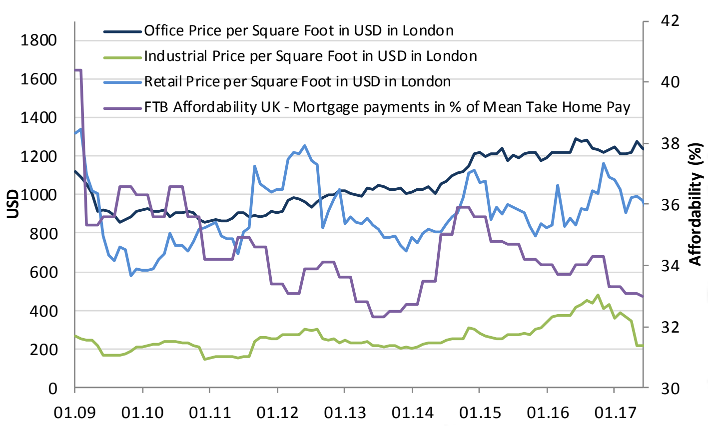
The BOE could well increase interest rates during its next meeting in November, which would be the first hike since 2007. GDP growth is slowing down, but it remains positive, while inflation is showing few signs of stabilising. The central bank is likely deeming that conditions are now right to exit the crisis mode that had led to a further rate cut following the Brexit vote. However, it is unlikely that this initial hike will be hastily followed by further tightening. Indeed, it is likely that economic growth will slow down further in 2018 and that Brexit-related outcomes will lead to a demand shock causing a further decline in consumption and finally the stabilisation of inflation. The next rate hike could well be followed by a long period of inaction.

The BOE is wary, as are consumers

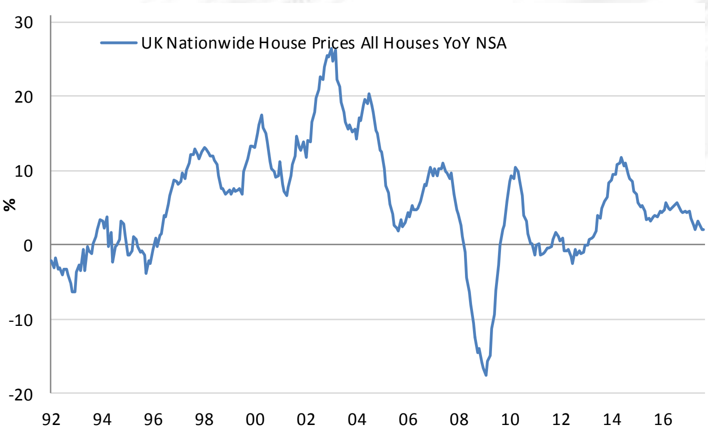
Since the June 2016 vote, consumer confidence has plummeted. Private consumption has stagnated (+0.1%), posting its weakest increase since 4Q14. The cautious attitude that was already manifest, affecting demand for non-essential goods and new vehicle sales for instance, has further taken hold. The uncertainty is now impacting the car market in particular. Vehicle sales and new registrations continue to drop. In April, registrations fell -19.8%, though the latest figures for August show a yoy decline of -2.4%. Consumers are adjusting their spending in line with the decline in their purchasing power, whose risk of long-term deterioration they perhaps now perceive more clearly. Consumer loan growth is still close to +10% yoy. This trend is seen both in the car loan and credit card segments. The BOE is not enthusiastic about this increase in household debt, which is unlikely to continue at the same pace going forward. Moreover, funding costs are unlikely to stay as low over the next few quarters, which increases risk from the BOE's perspective. The latter is increasingly concerned regarding the risk related to consumer credit and is recommending that banks set aside an additional 10 billion pounds in reserves to address a potential crisis. Consumption and the services sector had been key pillars of GDP growth. A lasting dip in consumption would be enough to push GDP into recession.

As the actual Brexit draws nearer, a growth slump or an upswing in interest rates could cause a solvency crisis.

Housing Prices



UK Nationwide House Prices



GDP is flagging, but leading indicators seem more positive

Q2 GDP figures confirm the previously detected slowdown in the UK's economic momentum, which seems to be settling into a quarterly pace of +0.3%. Yoy growth fell to +1.5%, which reinforces our prediction of lower growth for FY2017. Exports contributed positively, progressing +1.7%. Consumption, up +0.2%, remains key to GDP growth, while public spending advanced +0.1%. Leading indicators also support the argument of a resilient economy, with GDP growth remaining positive in 2017, albeit at a reduced rate. Indeed, the most recent published indicators suggest growth in both the manufacturing and the services sectors in H2. The Composite PMI ticked up slightly to 54.1 in September, while the Manufacturing PMI posted a slight decline (55.9). The Services PMI, stable at 53.6, also seems relatively resilient. In this context, the unemployment rate rather surprisingly dropped to a mere 4.3% in July, in line with the previous quarter's job creation figures (181,000), which were much higher than the consensus forecast (150,000). It is somewhat surprising to witness this kind of development in the job market in current conditions. This bright spell is unlikely to persist in 2018, and inflationary pressures are thus likely to emerge. As for industrial production, it has declined, posting growth of just +0.4%, while manufacturing production picked up slightly with annual growth of +1.9%. Growth prospects for the British economy are thus increasingly less optimistic. Growth in Q3 and Q4 could still come it at +0.3% or +1.3% for FY2017.

Real estate prices decrease in London

London is no longer an exception, as shown by the -0.6% yoy decrease in prices posted in September, and is in its turn suffering from the drop in real income (-0.4%) of the British population. It is the first time that the capital falls to the bottom of the list in terms of real estate performance in the country since 2005. Overall, the growth in real estate prices has plunged to barely +2% in September according to the Nationwide Building Society (NBS).

This weakness in prices was expected, and even if supply remains low and inventories are at record lows, the short-term outlook is not promising. However, we are not observing any real contraction in domestic demand yet, as seen in mortgage loan approval rates, which remain steady (66,600). We can also confirm our recent comments suggesting that the stabilisation of the pound could boost residential demand given the sustained interest of international investors.

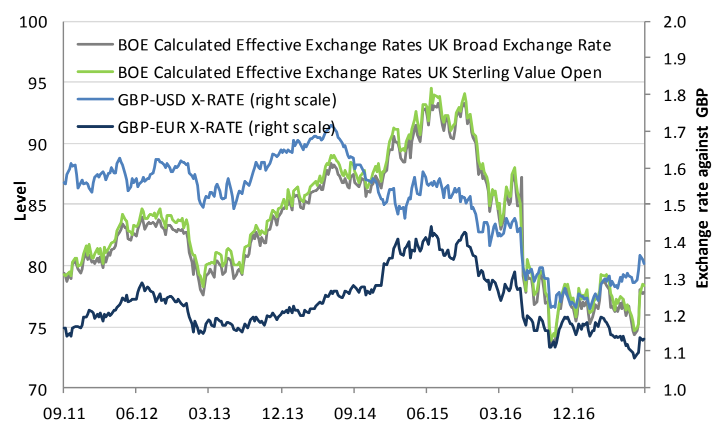
The bond market will not be able to ignore the return of inflation for long

Inflation remained high in August (+2.9%) and seems on the verge of climbing beyond 3% in spite of the stabilisation of the pound and the relative decrease of imported inflation. Retail prices are also up +3.1% over the same period. After an initial increase of +20% in production prices yoy in January 2017, price growth decreased to +7.6% in August. We continue to predict that inflation will exceed the BOE's 2% target in the next several quarters and could even reach 4% by 2020. It is surprising in the context of general prices increases that long-term interest rates are not more affected by changes in expectations. The UK bond market is likely to be increasingly impacted by domestic fundamentals, which will push long-term rates toward 1.8%.

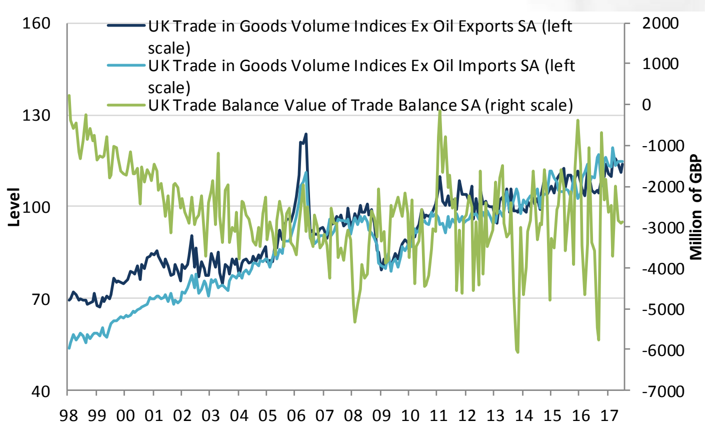
Insufficient visibility with regard to UK equities

At approximately 14x 2018 earnings, the UK market is somewhat dearer than other European markets for a slightly higher yield (4.3%). The stabilisation of the pound has effectively stopped the progression of British equities. We continue to recommend caution with regard to the UK equities market, which is likely to be further penalised as Brexit's potential tangible impacts on the British economy and corporate earnings come to light.

UK Effective Exchange rate



Trade Balance - Exports - Imports



Graph sources: Bloomberg/BearBull Global Investments Group

MACROECONOMIC SCENARIO

Japan

- GDP growth accelerates in Japan
- The export boom continues and the North Korean crisis is not affecting the upward trend in private consumption
- Wave of positive economic indicators
- Tactical dissolution of the lower house

GDP growth accelerates in Japan

The latest revision of Q2 growth figures (+2.5% yoy) continues to sustain expectations of a sharper economic upswing in 2017 and could lead annual growth results to beat beginning-of-the-year forecasts. GDP growth is thus strengthening further after having already advanced +1.7% and +2.2% over the past two quarters. Japan is currently posting its sixth consecutive quarter of GDP growth, its longest expansion phase in 10 years. The Japanese economy has been given a boost by the continued recovery in exports and is now benefitting from increasing momentum in domestic demand. These results were nevertheless somewhat disappointing given the consensus growth forecast of +2.9%. However, these developments bolster our positive projections regarding Q2 economic growth in Japan. We expect the Japanese economy to continue to improve and potentially post growth in excess of +2.5% for FY2017.

Nominal GDP was revised down from +4.6% to 3% yoy and +1.4% for the quarter, but overall the figures published indicate that economic growth is accelerating, thanks to private spending (+1%) and exports (+0.5%) in particular. In August, exports registered their highest growth rate since 2013, surging +18.1% (annualized). We expected export growth to continue gaining momentum, which indeed it seems to have done in Q3. Even if the yen has risen slightly against the dollar (+3.6%) year-to-date, it has nonetheless depreciated -11.5% yoy.

The export boom continues

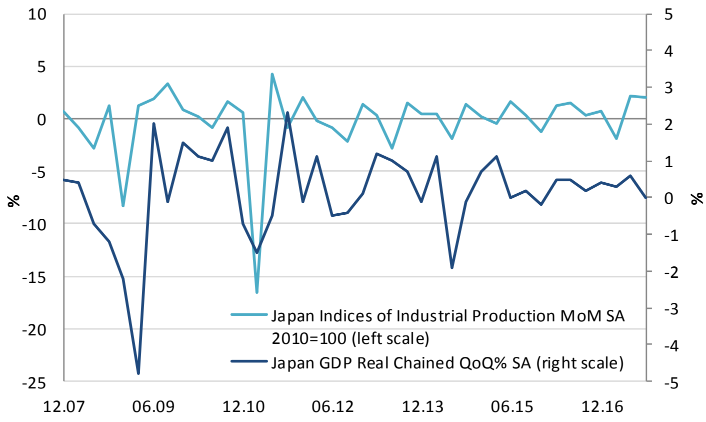
The Japanese economy is indeed experiencing its highest rate of export growth since November 2013. The country's economic recovery will benefit from a more favourable economic climate globally and from the traditional growth factors of the Japanese economy, very oriented toward international trade during the second half of the year. Shipments of cars, car parts and semiconductor manufacturing equipment were the main drivers of export growth, in particular to the US (+21.8%). With regard to imports, the pace of growth was more measured (+15.2%), though slightly above expectations. Japan's trade balance thus expanded, posting a surplus of 113.6 billion yen. The improvement in Japan's foreign trade is an encouraging sign in terms of future GDP growth. Japan's current account balance also improved, growing from 1.5 to 2.03 trillion yen in June.

The North Korean crisis is not affecting the upward trend in private consumption

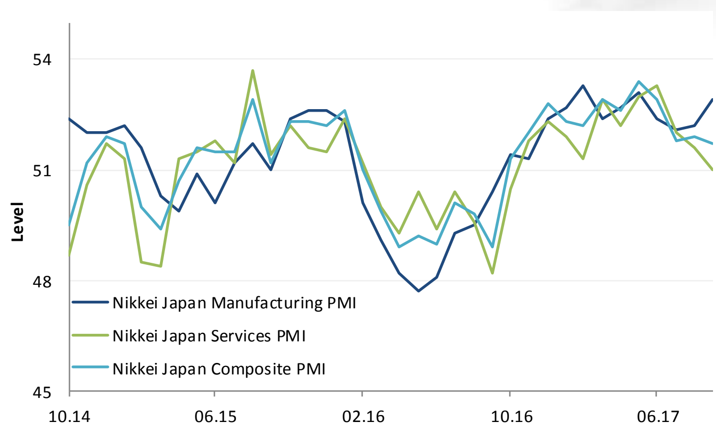
Although indicators are not showing a clear trend, consumer spending seems to be perking up. Nevertheless, Japanese consumers are staying cautious overall. This lack of enthusiasm likely stems in large part from limited growth in incomes and wages. Private consumption will thus remain only a weak driver of GDP growth, pending sharper increases in household incomes. The political uncertainty generated by the North Korean crisis has not had any major impact on (growing) vehicle sales or on supermarket retail sales, up +0.6%.

Overall, real household expenditures have jumped up +0.6% yoy, in concert with disposable income, up +1.6% yoy. Private consumption, which still accounts for close to 60% of Japan's GDP, is thus on the path to recovery, although uncertainty lingers given an economic context and climate that remain tentative in spite of the further decrease in the unemployment rate to 2.8%. Household consumer confidence remains high (43.3), and the unemployment rate may well be approaching full employment levels. Accordingly, the jobs-to-applicants ratio has also reached its highest level in 30 years at 1.52. The BOJ's outlook on inflation growth has always been based on an increase in wages, boosted in particular by corporate earnings growth and thus by the partial redistribution of these earnings in the form of general wage hikes. In our view, these circumstances are more likely to occur in the second half of the year.

GDP and Industrial Production

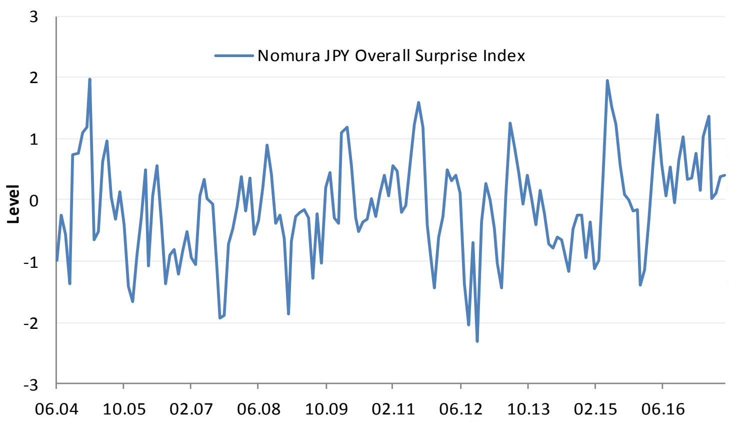


Composite, manufacturing and Services PMI - Japan

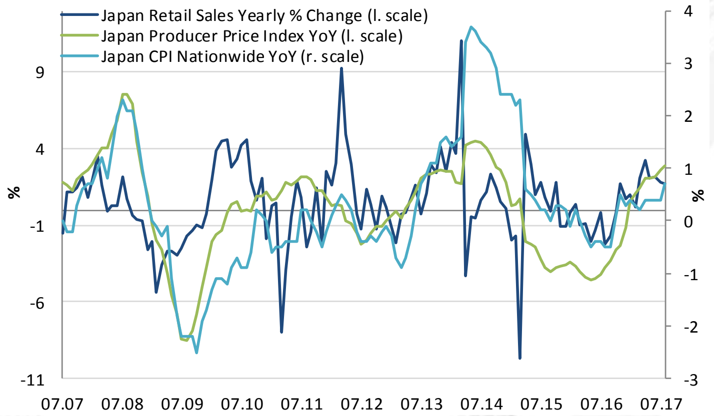


Graph sources: Bloomberg/BearBull Global Investments Group

Economic Surprise Index



Inflation (CPI and PPI) and retail sales



Wave of positive economic indicators

The third largest economy in the world is on a better footing, and leading indicators seem to be pointing further in this direction. The upturn in exports and external demand, bolstered in part by a more favourable global economic environment and rising investments in Asia, is now having a discernible impact on industrial production and on the sector's outlook. In August, industrial production grew +2.1%, or 5.4% annually, after slowing down in July (-0.8%).

This impact is finally noticeable and surprisingly strong. Leading indicators are now suggesting that production will continue to increase in Q3, which will no doubt boost GDP figures for the same period. Inventories are down, indicating a forthcoming increase in production. The services PMI confirms this advance, progressing to 52.6, which is an encouraging result in the medium term given new orders have also risen to 52.5. The optimism of companies in the industrial sector in Japan has reached a 10-year high. Manufacturing confidence jumped 5 points in September. The trend is similar for companies in the services sector. These elements are moreover particularly timely from a political standpoint, as they strengthen the perception that the plan implemented by Prime Minister Shinzo Abe has been effective, just as he has launched his parliamentary election campaign.

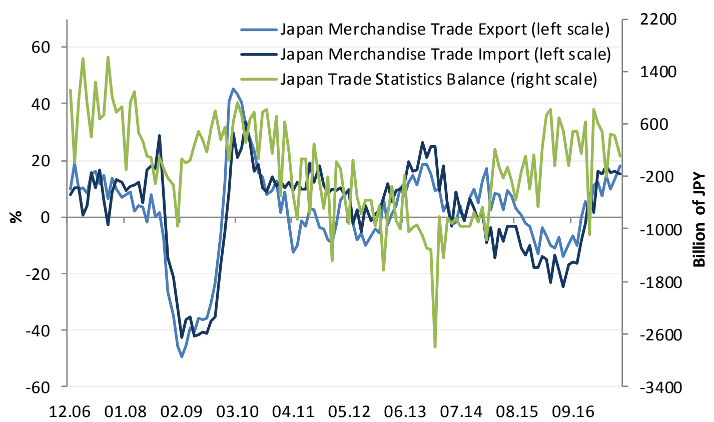
In Q2, Japan posted its sixth consecutive quarter of GDP growth, which is its longest growth streak since 2005. The upturn in exports that had been expected in the wake of the yen's depreciation materialised, due in particular to the improvement in global economic conditions. The yen has strengthened slightly against the dollar ytd (+3.6%), but yoy it has depreciated -11.5%. The success of Abenomics is thus perceptible at the GDP level but has yet to have a real impact on inflation and purchasing power.

Tactical dissolution of the lower house

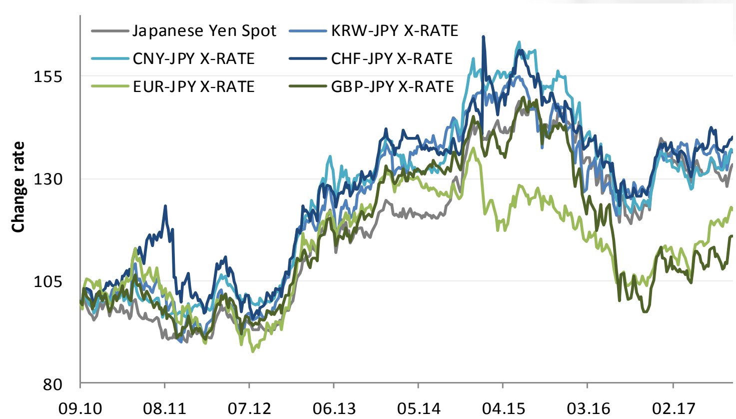
On Thursday, 28 September, the prime minister announced the dissolution of the lower house of parliament in accordance with Article 7 of the Constitution, thus triggering snap elections. Shinzo Abe's decision to call for early elections on 22 October is no doubt related to the relative improvement in the country's economy in the last several quarters. Five years after launching his ambitious recovery programme, it must be noted that, while results are in part satisfactory, certain promised reforms are progressing slowly. In deciding to dissolve the lower house of parliament one year before the end of his term, he is attempting to garner further support to fast-track his plans to increase public spending. It is true that the proposed 180-degree turn could win over the electorate, since the additional funds raised by the VAT increase from 8 to 10% would be allocated to the population and not to reducing public debt as initially planned.

The public debt, amounting to 240% of GDP, will thus not be reduced, since the additional funds will be earmarked for families, the elderly, and education. As the VAT increase is only scheduled to take place in 2019, an extra budget increase of 2 trillion yen will be implemented. Given this programme, it is not surprising that Shinzo Abe is impatient to hold early elections that will likely lead to another LDP victory. The Japanese leader's popularity had already risen following his firm handling of the Korean crisis; he is thus taking advantage of the opportunity to pull the rug out from under the feet of his rival, Ms Koike, who just announced the launch of the Party of Hope, thus leading to the implosion of the Democratic Party, until then one of the main opposition forces. Although it is not considering merging, the Democratic Party will leave its candidates free to join Ms Koike's party. This is not a new strategy for Mr Abe, who had already experimented with the technique in 2014 and who thus hopes to further strengthen his numbers in the lower house. With its ally Komeito, the LDP currently holds 322 out of 465 seats.

Trade Balance (Billion of yen)



Exchange rate (Normalized at 100)



Graph sources: Bloomberg/BearBull Global Investments Group

MACROECONOMIC SCENARIO

China

- Growth remains robust and inflation proves a positive surprise
- However, leading indicators show greater nuance
- The PBOC announces a drop in the reserve requirement ratio
- The yuan has appreciated by just under +5% YTD

Chinese growth remains robust and inflation proves a positive surprise

The Chinese economy grew +6.9% yoy in the second quarter, after already having climbed +6.9% yoy in the first quarter. Growth therefore came in slightly above forecasters' expectations (set at +6.8%), which should enable President Xi Jinping to hit his +6.50% growth target for 2017. The 19th Chinese Communist Party Congress, which starts on 18th October, should set out the plan for Chinese economic development over the next five years. In particular, the Congress will confirm the second term in office for President Xi Jinping, as well as setting out the government's priorities.

Among the latest economic data published, industrial companies' profit growth was a positive surprise in August, coming in at +24% year on year (compared to +16.5% in July). Profit growth has not been so strong since 2013, and should therefore boost industrial companies' performance in the third quarter.

However, growth in retail sales slowed a little, down from +10.4% to +10.1% in August (year on year); this is also slightly under forecasters' expectations (+10.5%). In terms of foreign trade, exports increased less than expected in August (+5.5% in USD, +6.9% in CNY), whilst imports rose more than expected (+13.3% in USD, +14.4% in CNY), thus shrinking China's trade surplus from 46.74 to 41.99 billion US dollars.

As regards inflation, prices rose +1.8% year on year in August; this was their highest rise for seven months, and above consensus forecasts (+1.6%), as well as being an increase compared to July (+1.4%). Excluding food and energy (core inflation), the price increase stood at +2.2% year on year. These figures still come in under the authorities' 3% target. Production prices have increased +6.3% year on year (compared to forecasts of +5.7%)- their clearest bounce back for four months. Production prices reflect a recovery in demand and in the price of coal, steel and other industrial metals. These figures are encouraging, both for the Chinese economy and for global growth.

Leading indicators show greater nuance

However, leading indicators paint a more nuanced picture of GDP growth. On the one hand, the manufacturing PMI index published by the government climbed to 52.4 in September from 51.7 the previous month, and the non-manufacturing index clearly bounced back from 53.4 to 55.4 in September, which is its highest level since May 2014.

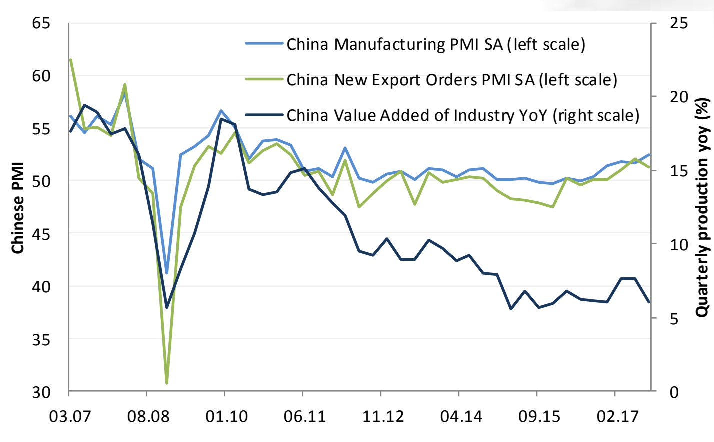
On the other hand, the leading indicators calculated by the Caixin Institute posted a dip in the composite index in September, down from 52.4 to 51.4. This follows on from the manufacturing PMI index falling from 51.6 to 51, and the services index from 52.7 to 50.6. However, all PMI indicators remained in growth territory in August.

The PBOC announces a drop in the reserve requirement ratio

On Saturday 30th September, for the first time since February 2016 the Chinese central bank announced a decrease in the amounts banks are required to hold in reserves. The aim is to encourage loans to small businesses and boost the private sector. This decision is line with the central bank's policy, which aims to encourage loans to small businesses and the real economy on the one hand, and reduce the burden of debt in the financial sector and real estate on the other. We believe that the announcement of a reduction in the reserve requirement ratio demonstrates China's ability to effectively walk the line between economic stability and debt reduction.

Yoy GDP Growth

GDP and Industrial Production



Graph sources: Bloomberg/BearBull Global Investments Group

BearBull Global Investments Group

Real Estate, Infrastructure and Industrial Investments (YoY)

Exports and Imports (YoY)

Indeed, financing conditions have toughened up over the last few months, in line with the authorities' strategy. This can be seen in the slowdown in the creation of M2 money supply (+8.9% in August year on year, compared to +11.30% at the start of the year) and the relative lull in credit growth. The Citigroup index for monetary conditions in China reflects this development: while it was still above 100 at the end of 2016, the index dropped to 50.96 for August 2017.

In order to benefit from the lower reserve requirement ratio, banks must meet certain criteria in terms of credit for small businesses and the agricultural sector, which have until now benefited to a lesser degree from the rapid credit growth on a national level. However, from 2018 onwards, banks should be able to enjoy a reduction of at least 50 basis points in the reserve requirement ratio, which is currently set at 17%.

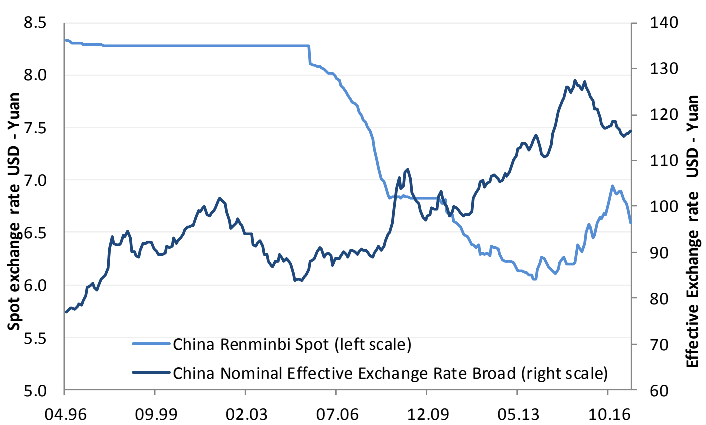
The yuan has appreciated by just under +5% since the start of the year and is seeing investors return

After three years of the yuan depreciating against the US dollar, 2017 has marked a considerable trend change. The yuan has risen each quarter- first of all +1.05% in the first quarter, then +1.45% in the second, and finally +2.20% from June to September. In 2017, investors have shown renewed confidence in the yuan as we look to the Communist Party Congress in October, and in a geopolitical context characterised by an escalation in tensions between the United States and North Korea. More generally, the overall weakness of the US dollar, controls on capital outflows, and new-found confidence in the Chinese macroeconomic trend have all propped up demand for the yuan in 2017.

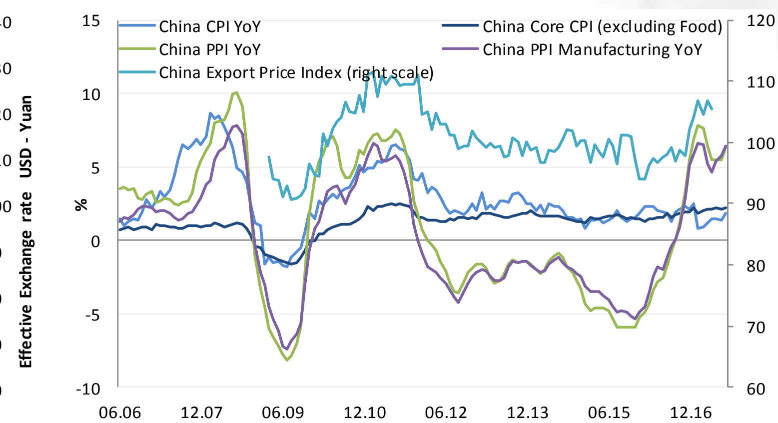
On 7th September, the yuan even hit its highest peak since May 2016, closing under the 6.5 USD threshold. It then slid a little over the rest of the month, particularly after China relaxed some of the controls on movement of capital, and, then at the end of the month, after the US president kicked off his tax reform, which benefited the US dollar.

Two years after the collapse on Chinese markets, foreign investors have generally returned to the sector, particularly after the Stock Connect channel was opened between Hong-Kong and Shenzhen, opening access to nearly half of all capitalisations on the Chinese stock market. Net capital inflows northbound (from Hong-Kong to Western China) have leapt to 155.5 billion yuan over the first 9 months of 2017, which is more than in 2015 and 2016 put together. In our latest analysis, we look at the new investor craze for A equities due to Chinese equities soon being added to the MSCI Emerging Markets Index. On 20th June, the MSCI index calculator announced that Chinese A equities denominated in yuan and listed on the Shanghai and Shenzhen stock markets would be incorporated into the MSCI Emerging Markets index as of next year, bolstering the return of foreign investors. Despite the limited weighting of A equities in the index (less than 1%) when they are introduced in spring 2018, it represents a victory for China, having been refused by the index calculator for the past three years. Including Chinese equities on the MSCI Emerging Markets index also serves as another step in internationalising the yuan, after it having been included in the IMF's Special Drawing Rights in September 2016.

Effective Exchange rate and USD/Yuan



Inflation CPI - Core CPI



Graph sources: Bloomberg/BearBull Global Investments Group

BearBull Global Investments Group

MACROECONOMIC SCENARIO

Emerging Markets

- Significant outperformance of emerging markets in 2017
- Monetary easing in Brazil, Columbia, Indonesia, and Russia
- Slowdown in India likely temporary
- Strong growth in Romania, Poland, Czech Republic, and Hungary

Bolstered by improving fundamentals, and since the end of August by rising crude prices more particularly, emerging markets equities advanced sharply over the quarter. The emerging markets index, having jumped +18.54% over the first half of the year, gained a further +8.01% in Q3, for a total ytd increase of +28.08%. The index significantly outperformed global equities (+16.01%) and US equities (+14.24%). On the macroeconomic front, the list of emerging countries loosening their monetary policies is growing: Brazil, Colombia, Indonesia, and Russia all recently implemented further rate cuts. The Indian central bank decreased its repo rate in August, keeping it unchanged since then at 6%.

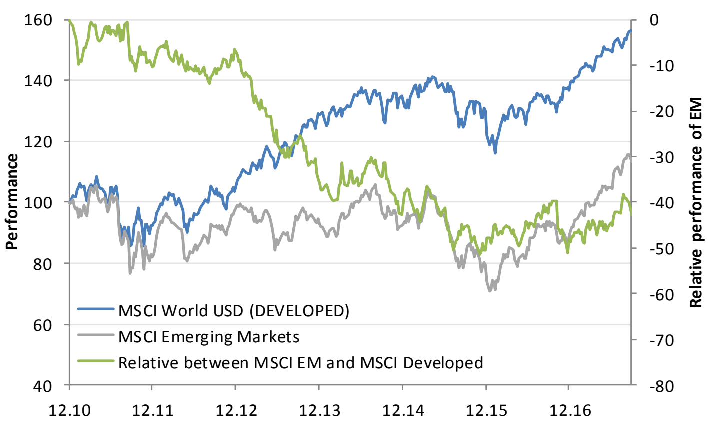
Economic conditions by country

Brazil – President Michel Terner managed to hold on to power in August, as the lower house of Congress voted by a wide majority not to refer his case to the Supreme Court for trial. On 14 September, however, Brazil's prosecutor general laid new charges against the president, accusing him of "having acted as the leader of the criminal organisation since May 2016". In spite of repeated political scandals, after 12 quarters in the red, annualised GDP growth in Brazil climbed back up into positive territory in 2Q17 (+0.3%). The country's economic conditions are indeed showing cautious signs of improving. Indeed, the broad retail sales indicator rose +5.7% yoy in July, its largest increase in two years. The industrial production indicator also posted significant yoy growth (+2.5% vs. 1.7% forecast). As inflation reached its lowest level in almost twenty years (annualised IBGE inflation rate: +2.46%), the central bank chose to implement a further rate cut at its September meeting. The Selic rate thus decreased from 9.25% to 8.25%, its lowest level in four years. The central bank has also become more optimistic in terms of its growth forecast, which it raised from +0.5% to +0.75% for FY2017. The bank is moreover expecting growth of +2.2% in 2018.

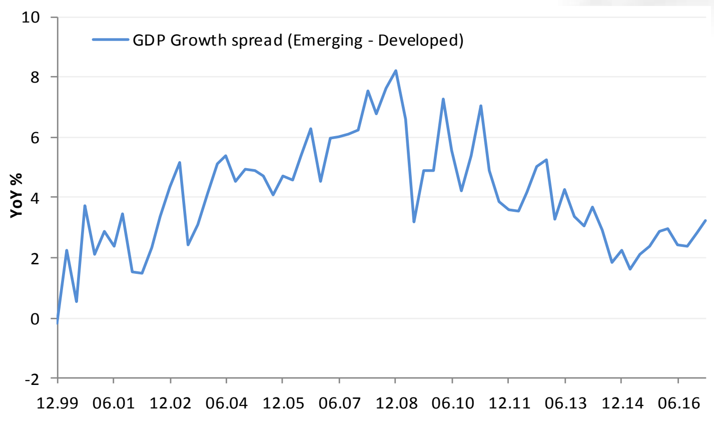
China – The Chinese economy grew +6.9% yoy in Q2, slightly above the +6.8% consensus forecast, having already expanded +6.9% in Q1. This should allow President Xi Jinping to achieve his +6.50% growth objective for 2017. Industrial corporate earnings growth also came in above expectations in August with an annualised growth rate of +24% (versus 16.5% in July). The growth rate of retail sales contracted slightly, however, from +10.4% to +10.1% (annualised), and below analysts' expectations of +10.5%. With regard to foreign trade, exports progressed less than anticipated in August (+5.5% in USD, +6.9% in CNY), while imports beat expectations (+13.3% in USD, +14.4% in CNY), thus reducing the Middle Kingdom's trade surplus from 46.74 to 41.99 billion dollars. Turning to inflation, prices increased +1.8% yoy in August, the fastest rise in seven months, exceeding the consensus forecast (1.6%) and topping July figures (+1.4%).

However, these numbers remain below the official target of +3%. Leading indicators paint a more nuanced picture. On one hand, the manufacturing PMI index published by the government climbed to 52.4 in September, up from the previous month's 51.7, and the non-manufacturing index jumped from 53.4 to 55.4 in September, its highest level since May 2014. On the other hand, leading indicators published by the Caixin Institute showed the composite index falling from 52.4 to 51.4 in September following a drop in the manufacturing PMI index from 51.6 to 51 and in the services index from 52.7 to 50.6. For the first time since February 2016, the Chinese central bank announced on Saturday, 30 September, that it would lower the amount of reserves that banks are required to hold to encourage loans to small businesses and to boost the private sector. In our view, this announcement demonstrates China's capacity to narrowly manage the compromise between economic stability and deleveraging.

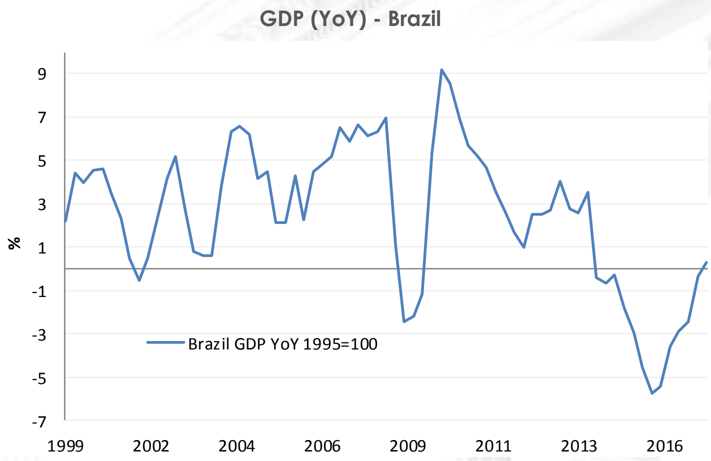
Emerging and Developed Markets - Performance



GDP Growth spread



Graph sources: Bloomberg/BearBull Global Investments Group

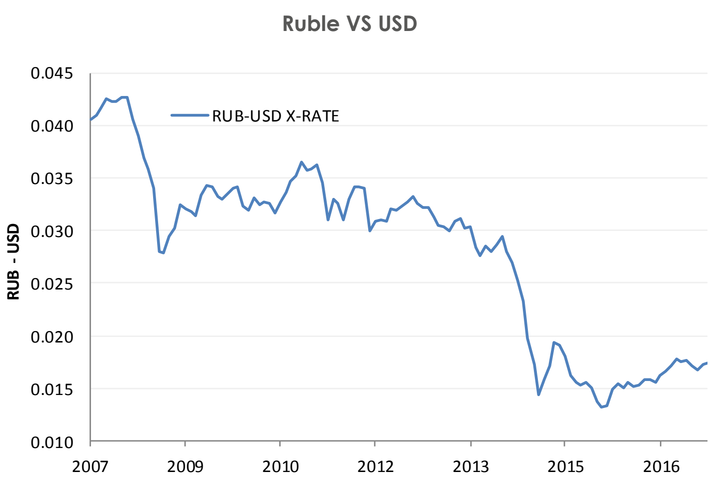


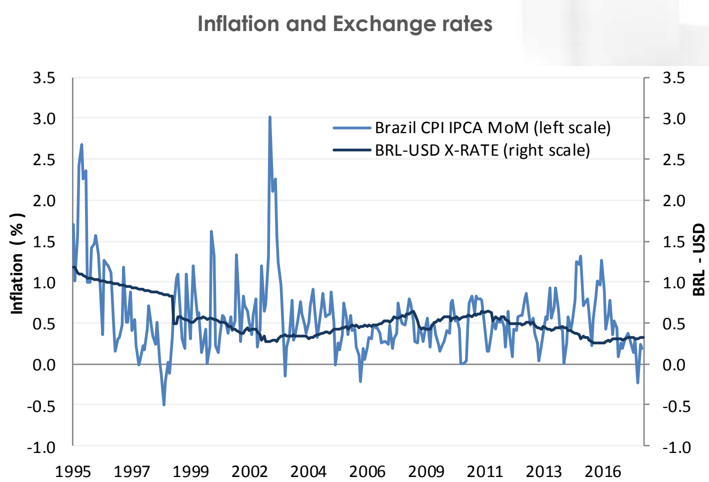
Colombia – GDP grew +1.3% yoy in Q2 (+0.7% over the quarter), after rising +1.1% yoy in Q1 (-0.2% quarterly). Although slightly exceeding analysts' expectations (+1.2%), Q2 growth remains sluggish and well below levels seen in 2015 (+3.4% over the year). In spite of a slight uptick in economic activity as reported by the Colombian statistics department, GDP growth in 2017 is likely to be inferior to the government's current forecast of +2%. The central bank, for one, is anticipating a growth rate of +1.8% in 2017. Inflation, which was still at 9% in July 2016, fell back to 3.4% following several rate hikes by the central bank (which raised the overnight rate to 7.75% in September 2016). However, since then the consumer price index ticked up slightly to +3.97% yoy in September. The central bank eventually reduced policy rates to 5.25% but decided to keep them unchanged at its last meeting, in September. The bank is considering further rate cuts to bolster economic activity once inflation returns to a level closer to 3%.

India – India's GDP growth was disappointing last quarter, coming in at +5.7%, below expectations of +6.5%. In our previous analyses, we expressed concern regarding the impact of demonetisation on growth and remained cautious regarding future growth, while maintaining that such impact would likely be relatively short-lived. Indeed, the slowdown can also be attributed to disturbances related to preparations in view of the introduction of the goods & services tax (GST) on 1 July 2017, as noted recently by the president of the World Bank, Jim Yong Kim, who was emphasising the temporary nature of the slowdown. Indeed, short-term adjustments notwithstanding, there is a broad consensus among economists regarding the long-term benefits of the fiscal programme for the Indian economy.

This view is shared by the Indian central bank, which kept its rates unchanged at its October meeting, after lowering the repo rate down to 6% in August. Nevertheless, the Indian rupee, which had gained +6.5% against the dollar over the first eight months of the year, was impacted by the slowdown, losing -2.11% in September. The possibility of a fiscal stimulus to boost growth stoked fears as to the robustness of India's public finances leading to a significant sell-off by foreign investors. The rupee thus returned to its March levels, above $65. With respect to leading indicators, we are pleased to note that the manufacturing PMI index strengthened from 47.9 in July to 51.2 in August, though it stayed put in September. The services PMI also trended upward in September (from 47.5 to 50.7). As for exports, they progressed +10.3% (annualised) in August, but the larger increase in imports (+21%) weighed on the country's trade balance (-14.32 billion dollars). While the growth rate of industrial production fell to 0% (annualised) in June, the latest available figures for July showed a +1.2% upturn yoy.

Indonesia – The Indonesian economy expanded +5.01% yoy in Q1 and another +5.01% in Q2. Inflation returned to more acceptable levels, coming in at +3% yoy in September (core inflation), allowing the central bank to further reduce interest rates. After a first cut in 2017 from 4.75% to 4.50% in August, the bank lowered rates a further 25 bps in September (4.25%). Furthermore, it is expecting a slight improvement in GDP growth in Q3 – between +5.1% and +5.2% – driven by consumption. Indeed, the consumer confidence indicator published by the central bank reached 123.8, increasing sharply from its December level of 107.5.

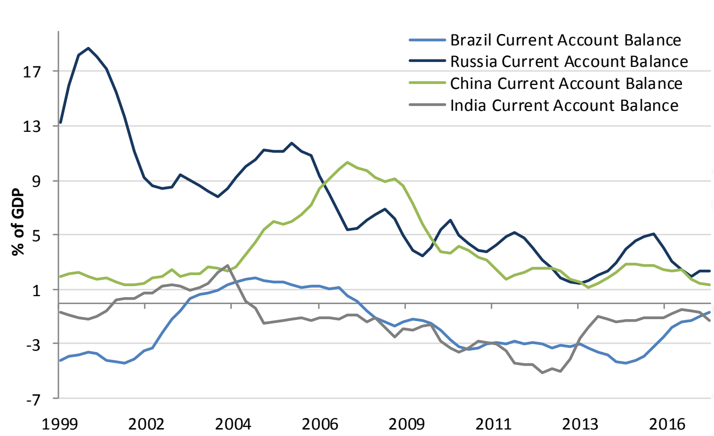




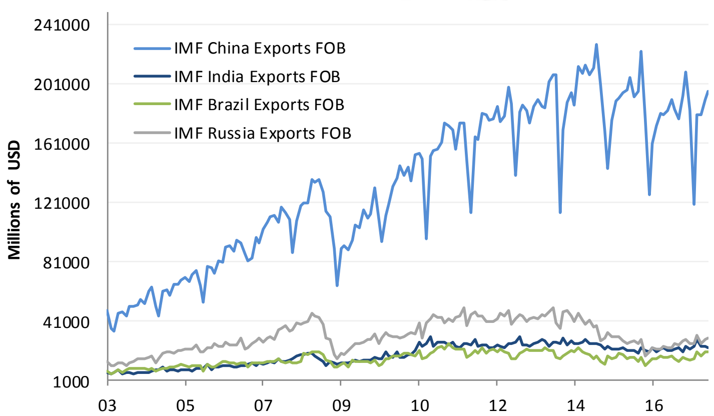
Graph sources: Bloomberg/BearBull Global Investments Group

BearBull Global Investments Group

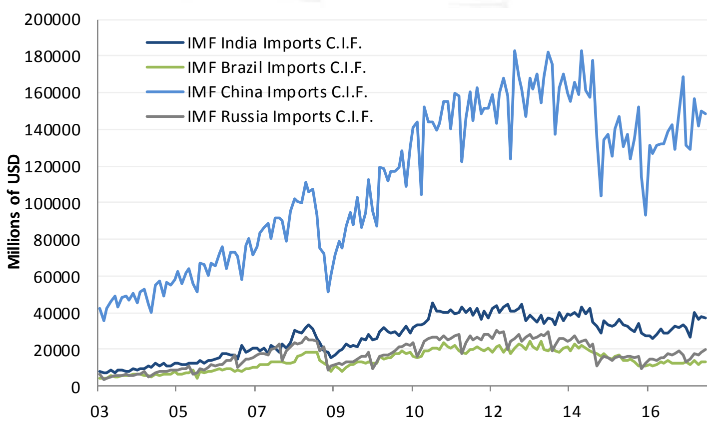
Current Account Balance



BRIC Exports



BRIC Imports



Mexico – It remains difficult to assess the impact of the two consecutive earthquakes in September. Nevertheless, their impact on the economy could ultimately be less significant than expected if the reconstruction effort is substantial enough. GDP grew +1.8% in Q2, in line with consensus, which anticipated a negative calendar effect in April. Economic growth was stimulated by the domestic sector, as private consumption progressed +3.4% (+3% in Q1), although public consumption stagnated (+0.1%). Export growth was disappointing, clocking in at +4.6% versus +9.1% in Q1. Similarly, July retail sales came in below expectations (+0.4% annually vs. +1% expected), and industrial production was down -1.6% yoy. However, leading indicators seem to be pointing toward an improvement in the outlook for the country: manufacturing PMI climbed from 52.2 in August to 52.8 in September, its highest level in 16 months.

Taiwan – After expanding +2.66% yoy in Q1, GDP grew a further +2.13% in Q2. Furthermore, the government revised its 2017 forecast upward from +2.05% to +2.11% in view of the increase in export orders this year. The production of new smartphone models, and in particular of the iPhone 8, will likely also benefit the country, which produces a number of components for the American tech giant.

Russia – Russia's GDP rose +2.5% annually in Q2, its fastest growth rate since 4Q13. Inflation appears to be under control, decreasing to 3% (annualised) in September, its lowest level since the end of the Communist era, even though it still stood at 6.4% a year ago. These were thus ideal conditions for the central bank to further reduce interest rates at its September meeting. The bank, having cut rates by 25 bps in March, 50 bps in April, and 25 bps in June, lowered rates again by 50 bps to 8.5%. In spite of these repeated rate cuts, the rouble is among investors' favourite currencies in 2017, gaining +7.02% against the dollar since the beginning of the year. Retail sales also grew more than anticipated in August, up +1.9% yoy versus expectations of +1.1% – their best performance since December 2014 – likely boosted by the growth in real wages, which have risen over +3% (annualised) every month since March 2017. Leading PMI indicators are also pointing toward an improvement in the country's economic outlook. The services PMI index reached 55.2 in September, up from 54.2 in August and 52.6 in July. The manufacturing PMI index inched up to 51.9, a slight increase over the previous month.

Turkey – The country's GDP expanded +5.1% annually in Q2, following growth of +5.0% in Q1. The economy is benefitting from the return of foreign tourists since the beginning of the year – numbers are up yoy since April, reaching a growth rate of +46.4% annually in August – as well as from an upturn in exports, which rose +12.3% yoy.

Romania, Poland, Hungary, and Czech Republic – Romania is once again a star performer in Europe in view of its particularly vigorous economic growth. GDP rose +6.1% annually in Q2, confirming the country's positive momentum. Retail sales grew +12.6% yoy, as did industrial sales (+13.5% yoy). On the political front, however, the country is already on its third government in less than a year and facing keen expectations with regard to its promises to cut taxes and increase wages and investment, measures whose implementation remains constrained by the EU's 3% deficit limit.

As for the Polish economy, it expanded +3.9% annually in Q2, similarly to Q1 (+4% yoy). In Hungary, the manufacturing PMI beat expectations by climbing to 59.3 in September vs. a forecast of 57.5. Czech GDP grew +4.7% in Q2, its fastest yoy growth rate since 4Q15. Given this strong growth, unions will likely ask for more significant wage hikes in 2018, which could further boost domestic consumption, already robust in Q2.

Graph sources: Bloomberg/BearBull Global Investments Group

PROSPECTS AND STRATEGIES

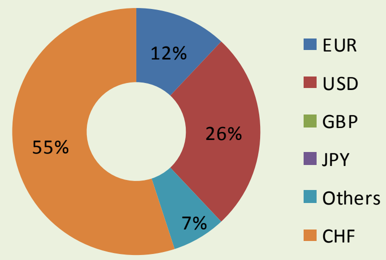
Graph sources: Bloomberg/BearBull Global Investments Group

PROSPECTS AND STRATEGIES

Currencies

- Speculative positions point to a rise of the dollar
- The appreciation of the euro reflects improved fundamentals
- Our post-SNB 2015 shock forecast is materialising
- Positive outlook for currencies linked to commodities

Currency allocation - CHF portfolio



Tactical Allocation

- Underweight CHF
- Favor the USD
- Overweight EUR
- Avoid JPY

LIQUIDITY/ CURRENCY	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
EUR vs CHF	↗	↗							
USD vs CHF	↗	↗↗							
GBP vs CHF	→	→							
JPY vs CHF	→	→							
EUR vs USD	↘	→							
USD vs JPY	→	→							
GBP vs USD	→	→							

The US dollar will benefit from significant improvement in the economic outlook and the yield spread

Taking a small step back is required to fully appreciate the current situation and the medium-term outlook for the US currency. Ambiguous leading indicators sowed confusion at the beginning of the year, punctuating the dollar's gradual correction, even though the greenback had been strategists' favourite currency. This decline occurred just as we noted that the dollar could weaken following its appreciation of close to 30% in four years and its accelerating rise in 4Q16. As we expected, the dollar experienced a short-term dip over the past several months, and we now believe the dollar will strengthen in 2018.

The appreciation of the dollar should correlate with the expected improvement in the performance of the US economy, which seems to be materialising with increasing strength in the past months. The macroeconomic context is indeed clearly more robust, suggesting a new phase of growth at year-end. It certainly provides grounds for new pressures on long rates, which will likely be magnified by the announcement of the start of normalisation of the Federal Reserve's balance sheet. The Fed's intention is clear; even the latest inflation figures confirm its forecasts. The ISM Prices Paid index has reached its highest level since 2011, while average hourly wages have posted their sharpest increase since 2009. The latest unemployment figure (4.2%), the lowest since 2001, strengthens the outlook for household spending. Signs of inflation are the most evident they have been in several years.

In this context, we can find no grounds to justify the weakness of the US dollar over the past nine months. The roughly -10% depreciation of the trade weighted USD index against a basket of currencies should correct relatively quickly, unless prospects of a deterioration of public finances linked to tax reform pull the US dollar down. The promised fiscal reform could lead to long-term growth above +3% per annum, as suggested by the White House economic adviser, in which case it would likely provide additional support to the dollar in the long run.

Speculative positions point to a rise of the dollar

Indeed, it appears increasingly clear that US economic fundamentals are stronger than those of most industrialised countries. However, since the beginning of the year, net long dollar index speculative positions reported to the CFTC are declining steadily and broadly in line with the weakening of the dollar, reaching a negative level (-3200 contracts). In spite of a robust macroeconomic environment, speculators seem to be totally uninterested in the US currency. However, this indicator warrants a closer look because, over the past ten years, every significant increase in the dollar was preceded by a similar ratio. The last time that the current level was reached, in March 2014, the dollar rose +25% in twelve months.

We believe it is likely that the dollar will now start rising once again against most major and emerging currencies.

The rise in the Euro mainly reflects the improvement in Eurozone fundamentals

Should it continue, the rise in the Euro could prevent inflation from moving towards the ECB's target as hoped and foil Mario Draghi's plans. In the medium term, however, we believe that the Euro could recover some stability. The Euro was expected to rise against the Swiss franc, reaching an exchange rate of 1.15 in 2017. The bulk of this has taken place over the last two quarters. As regards the Euro/US dollar exchange rate, the Euro started appreciating in the first few days of 2017, giving rise to the theory that its strength was only a side effect of the US dollar's weakness. However, one should not forget that the Euro appreciated against a broad array of currencies, underlining the improvement in the economic and political situation in the Eurozone as the key factor driving the trend change.

We therefore believe that the rise in the Euro has undoubtedly hit a ceiling in the short-term. The undeniable improvement in economic fundamentals and the prospect of an about-turn in monetary policy will bolster investors' interest in the single currency further down the road.

Graph sources: Bloomberg/BearBull Global Investments Group

Our 15 January 2015 post-shock forecast predicting an exchange rate of 1.20 against the euro is materialising

With an increase from 1.07 to 1.15, the European currency has risen close to +7% over the past eight months and has reached our medium-term growth target. In this context, it is interesting to note that this advance erases almost 75% of the drop in the euro since 2015 (-19%) following the SNB's scrapping of the exchange rate cap. With regard to the dollar, note as well that at 0.97 francs to the dollar, the US currency is currently trading at the same levels as in October 2014, only a few months before the SNB's action. A little over 30 months after the SNB's change of strategy, the Swiss franc has ultimately appreciated only +4.2% against the euro and +5% against the dollar.

The rate spread is now much more favourable following the dollar-denominated rate increase, although it remains relatively unchanged against the euro at approximately 50 basis points. However, we believe it is now more likely to see rates normalise more quickly in the Eurozone than in Switzerland and thus benefit the European currency. Overall, our exchange rate forecasts are still current, although economic momentum in the US is at present not yet strong enough to push the dollar higher. In Europe, however, a change in perceptions regarding the situation in the Eurozone is clearly favouring a return of investors to the single currency.

Our exchange rate forecasts suggest further weakening of the euro to 1.20 against the franc and an uptick of the dollar to 1.05. These predictions also provide us the opportunity to note that we had presented and explained the arguments supporting our forecast at the time of the SNB's introduction of its negative interest rate policy.

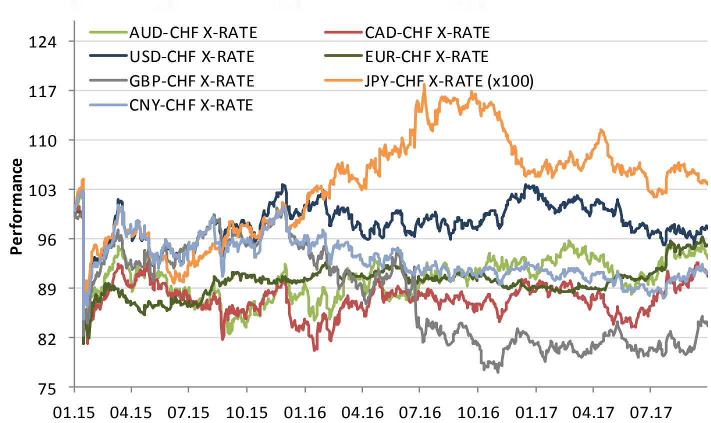
In a particularly gloomy context in January 2015, we expressed confidence both in the strategy implemented by our national bank and in the economic and political recovery of the Eurozone, which would certainly provide the requisite conditions for the euro to strengthen. We remain convinced that the euro will return to a level of 1.20 against the franc, which is most certainly overvalued at its current level.

Status quo for the BOJ and a stable yen

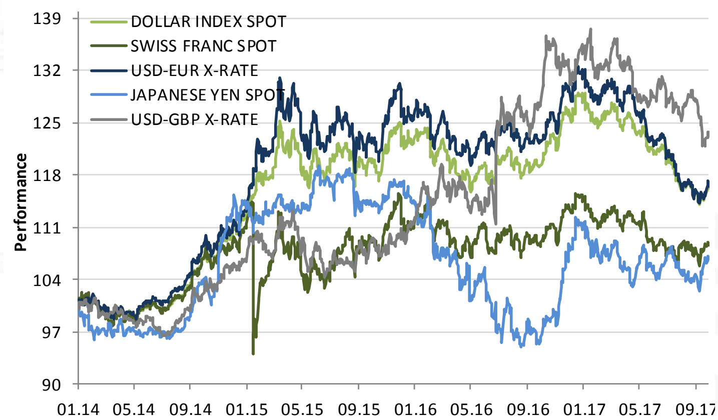
The Bank of Japan maintained its economic outlook and kept monetary policy steady during its last meeting on 21 September 2017, as it continues to anticipate that economic improvements will lead to a rise in inflation toward its 2% target. There was some dissent, as one of the new board members stated that current policies were not sufficient to push inflation up. The short-term interest rate objective remains unchanged at -0.1%, as does the goal of steering 10-year rates toward 0%. The Japanese currency did not react significantly to this announcement or to the improvement in economic growth expectations of the past few weeks. We still believe that the improvement in fundamentals will not have any immediate impact on the yen, which will likely remain on the sidelines due to an entirely unfavourable interest rate environment.

Government policy thus continues to seek to weaken the yen, as interest rate spreads and the prospect of further rate hikes in the US will likely weigh further on the Japanese currency in 2017. A weaker exchange rate was one of the key elements of the government's policy to boost inflation and exports. This policy remains current, and we continue to predict that the yen will return to a fluctuation range of 115 to 120 yen to the dollar over the next several months.

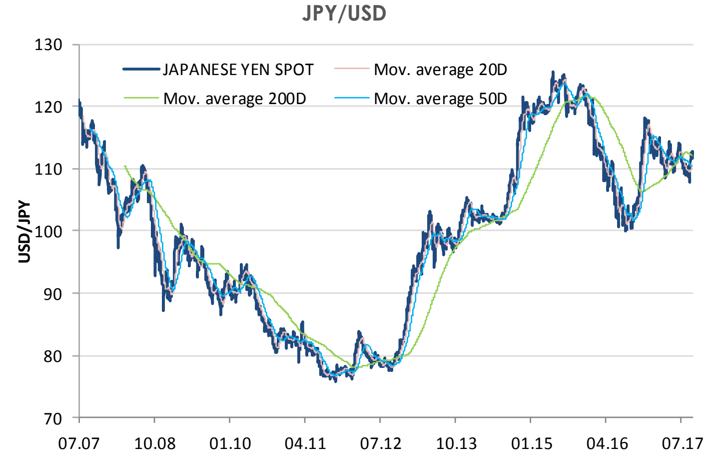
7 currencies against CHF (Normalized at 100)



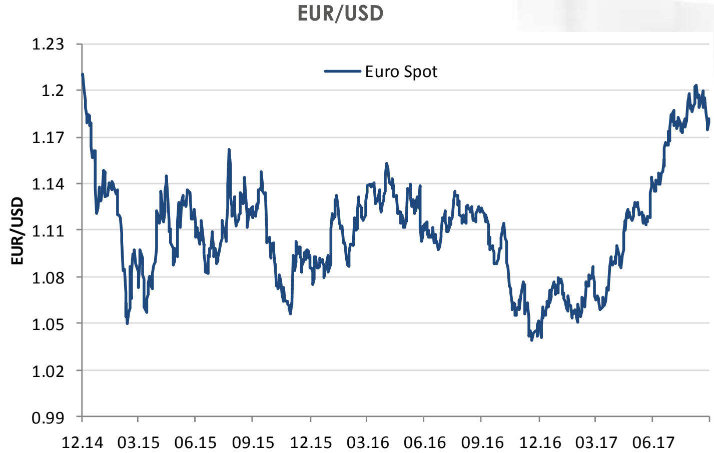
Dollar Trade-weighted index & cross rates (Normalized at 100)



JPY/USD



EUR/USD



Graph sources: Bloomberg/BearBull Global Investments Group

Likely stabilisation of the pound

After the pound dropped following the surprise vote for Brexit, we noted in 4Q16 that the British currency had likely already reached a valuation level enabling a more lasting consolidation pending greater visibility with regard to the country's economic outlook. Since then, the volatility of the British currency has decreased, and its exchange rate has in fact ticked up against the franc (1.20 to 1.30) and the dollar (1.20 to 1.35) in particular. The pound has stabilised above 1.10 against the euro in a context favouring the single currency. We believe the British currency is unlikely to be able to benefit from new circumstances that would allow it to appreciate significantly against the other major currencies. We thus believe that the pound will continue to stabilise over the next several months.

Positive scenario for currencies linked to commodities

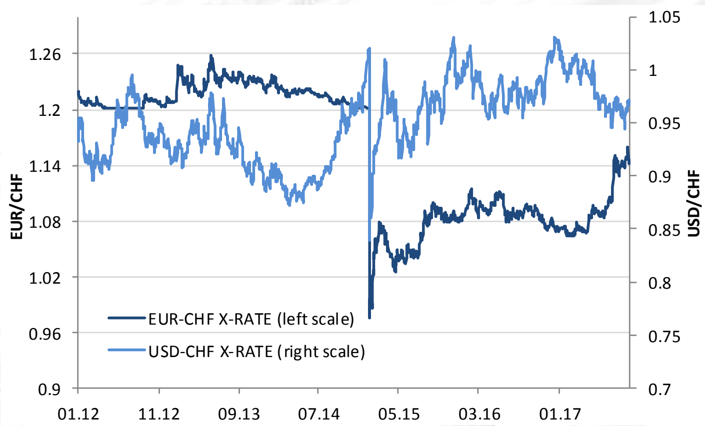
In Australia and Canada, and more generally in commodities-producing countries, the rebound in industrial and precious metals prices and in the price of crude has reversed downward trends. The improvement in the general environment caused by the rally in commodities and more robust global economic prospects will have a positive effect on the valuation of these currencies.

CURRENCIES

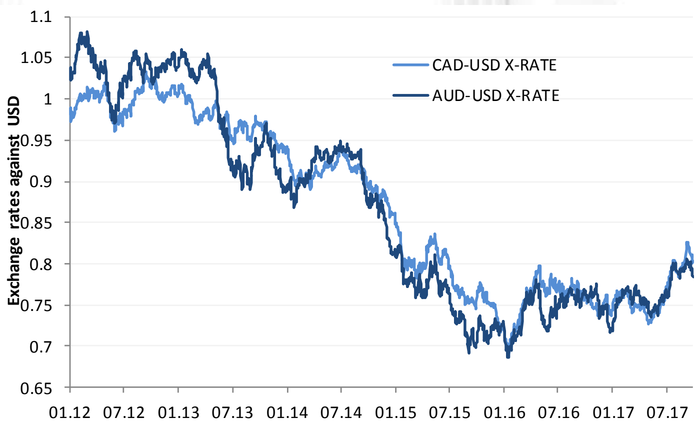
30.09.2017

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.2	-1.1	-0.8	3.4	10.7	12.3
CHF-USD X-RATE	1.0	0.1	-1.0	-1.0	3.4	5.2
GBP-USD X-RATE	1.3	-0.8	3.6	2.9	7.3	8.6
JPY-USD X-RATE	0.0	-0.5	-2.3	-0.2	-1.4	4.0
CAD-USD X-RATE	0.8	-1.0	0.1	4.0	7.3	7.8
AUD-USD X-RATE	0.8	-1.6	-1.4	1.9	3.0	8.7
RUB-USD X-RATE	0.0	0.2	0.9	1.6	-2.5	7.0
CNY-USD X-RATE	0.2	-0.7	-0.6	2.2	3.7	4.8
INR-USD X-RATE	0.0	-0.7	-2.1	-1.1	-0.5	4.0
BRL-USD X-RATE	0.3	-1.2	-0.4	4.6	-1.5	2.9
AGAINST SWISS FRANC						
USD-CHF X-RATE	1.0	-0.1	1.0	1.1	-3.3	-5.0
EUR-CHF X-RATE	1.1	-1.2	0.2	4.5	7.1	6.7
GBP-CHF X-RATE	1.3	-0.9	4.7	4.0	3.8	3.1
JPY-CHF X-RATE (x100)	0.9	-0.6	-1.3	0.9	-4.7	-1.2
CAD-CHF X-RATE	0.8	-1.1	1.1	5.1	3.8	2.5
AUD-CHF X-RATE	0.8	-1.6	-0.4	3.2	-0.3	3.3
RUB-CHF X-RATE	0.0	0.1	1.9	3.3	-5.8	1.9
CNY-CHF X-RATE	0.1	-0.8	0.5	3.3	0.3	-0.4
INR-CHF X-RATE	0.0	-0.7	-1.3	0.0	-3.9	-1.3
BRL-CHF X-RATE	0.3	-1.3	0.7	5.5	-5.0	-2.2

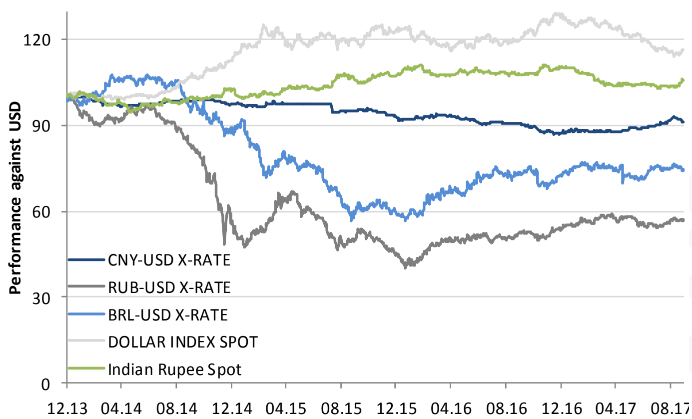
EUR/CHF - USD/CHF



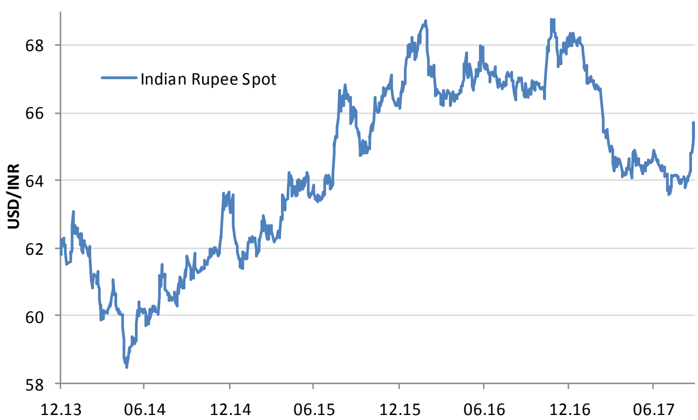
CAD/USD - AUD/USD



Emerging Currencies VS USD (base 100)



Indian Rupee

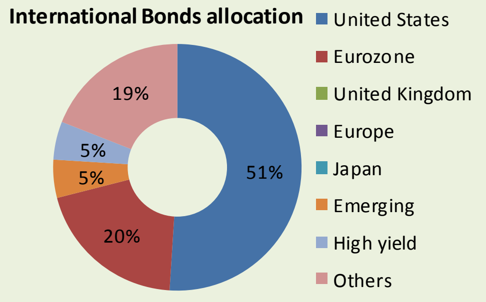


Graph sources: Bloomberg/BearBull Global Investments Group

PROSPECTS AND STRATEGIES

International bonds

- The US market becomes attractive once again
- The ECB will no longer hamper the rise of long-term rates
- Fewer opportunities in peripheral markets
- Systematic hedging no longer makes sense in 2017



BONDS (Areas/currency)	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Switzerland	↘	↘↘							
United States	↘	↘							
Eurozone	↘	↘↘							
UK	↘	↘							
Europe	↘	↘↘							
Japan	↘	↘							
Emerging	→	→							
Other (AUD, CAD, NOK...)	→	→							

Tactical Allocation

- Reduce exposure to Eurozone
- Reduce duration again
- Diversify exposure to CAD, AUD and commodity-related currencies
- Diversify exposure to Emerging and High Yield Bonds

Inflation will soon surpass the Fed's target

Pressures on wages are barely having an impact despite a constantly improving labour market. Contrary to theory, inflationary pressures are still weak, although the unemployment rate is steadily falling and moving towards 4% and therefore full employment. These observations are of concern for investors and the central bank. However, the Fed remains relatively calm and convinced that there is still a link between employment and inflation, even though the Phillips curve seems much flatter for the time being than before.

In August, inflation came in slightly under the +2% target (+1.9%), while import prices gained +2.1% year on year, which is significantly less than in February, when the indicator had been considerably affected by crude oil prices. It is likely that the fall of the US dollar in the first half of the year has had some positive consequences for imported inflation. Equally, future inflation at between 1 and 10 years remains close to 2.7%. Inflation should soon head back above +2%.

The US bond market is once again attractive even though long-term interest rates have resumed trending upward

After an expected short-term consolidation of long rates in the relatively soft context of the 1st quarter, our forecasts for the 2nd quarter indicated a resumption of the upward trend, bolstered by an influx of more robust economic data. Specifically, we underscored the fact that the 10-year Treasury rates' correction from 2.6% to 2.1% did not seem at all compatible with our forecasts of a +3.1% upturn in economic activity and normalisation of monetary policy. We believed we would very likely see a further boost to long rates in the second half of the year. This is now in part the case, with long rates increasing to 2.6% at the end of the quarter. We are not altering our forecasts, and expect the trend to continue, potentially bringing interest rates up above 2.8% by the end of the year. US economic activity is increasing significantly, which should make it possible to reach the Fed's growth objective (+2.4% for 2017). The US consumer should be reassured by the flow of positive economic news in H2. In his context, we believe GDP growth of +2.6% is likely.

The macroeconomic context certainly provides grounds for further pressure on long rates, which should be magnified by the announcement of the start of normalisation of the Federal Reserve's balance sheet. Indeed, the monthly caps initially set at US $6 billion for Treasury Bonds and US $4 billion for MBS are symbolic sums given the current size of the balance sheet (4.5 trillion). However, these caps will be gradually increased within a year, up to definitive limits of US $30 billion (Treasury Bonds) and US $20 billion (MBS). In parallel, the key rate target (Fed Funds) remains unmodified at 1-1.25%; this situation will undoubtedly change in December. The bank is thus declaring the start of the second phase of its monetary policy normalisation.

US long-term rates will thus likely exceed levels seen in March and approach 2.8%-3% at year-end. This environment is furthermore amongst the most favourable with regard to international bonds as an asset class. High yields and a positive outlook in terms of exchange rate gains are sufficient to anticipate a positive overall return. We recommend overweighting US bonds at the expense of European bonds.

BOND INDICES (local currency)

30.09.2017

	Name	Last price	Curr.	7 d%	1 m %	3 m %	6 m %	YTD %
				Total Return Performance				
SWISS BONDS	SBI AAA-BBB	135.8	CHF	-0.1	-0.8	0.0	-0.7	-0.3
UE BONDS	Barclays EuroAgg	247.3	EUR	0.0	-0.4	0.7	0.9	0.1
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	144.5	EUR	0.0	0.0	0.1	0.3	0.1
US BONDS	JPM U.S. Aggregate Bond Index	630.1	USD	-0.1	-0.5	0.8	2.1	3.3
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USDA1	8.6	USD	0.3	0.0	0.5	1.0	1.6
EMERGING BONDS	JPMorgan Emerging Markets Bond	545.4	USD	-0.1	-0.1	2.7	4.9	9.2
INTERNATIONAL BONDS (DIVERSIFIED) - USD	JPM Global Aggregate Bond Index	564.2	USD	-0.6	-0.8	1.7	4.3	6.0
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	JPM Global Aggregate Bond Index	626.7	EUR	0.6	-0.3	-1.9	-6.0	-5.5
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	141.8	CHF	-0.5	0.4	3.3	1.9	2.4
CONVERTIBLE BONDS (UE)	Exane Europe Convertible Bond	7658.1	EUR	0.4	1.5	0.7	1.3	2.5
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq HY USD	143.6	USD	-0.2	0.6	2.8	7.0	9.6
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	15.1	USD	0.1	0.3	0.8	2.0	3.0

1) Short & Medium-term (1-5 years)
2) Emerging Bonds (Corporate)
3) Emerging Bonds - Eastern Europe

Graph sources: Bloomberg/BearBull Global Investments Group

Inflation will not head back above 2% before 2018

After the expected rise in inflation in the 1st quarter to its highest levels since 2012, price indices have shown some signs of running out of steam, as expected. As forecast, the increase in crude oil prices tailed off, and the Euro's appreciation is holding back imported inflation. Equally, it is too soon to see a solid upswing in inflation linked to the labour market, the latter still being too far from its point of friction for rising wage to contribute to a price increase. The ECB's target of 2% inflation will certainly be difficult to achieve, even if the central bank continues with expansionary monetary policy in 2018, and particularly if the Euro remains stronger in the long term. Development of salary costs is slow, and the Eurozone unemployment rate is falling only very gradually. At current rates, although the drop seen between 2013 (12%) and today (9%) is continuing, it will take until 2020 to reach the 7.5% of the previous cycle seen before the financial crisis of 2008. Naturally, Eurozone inflation therefore slid from 1.9% to 1.3% in the 2nd quarter; it should get back on the right track in the second half of the year, though it will not quickly hit the ECB's target. With no inflation acceleration, and with prospects of price rises, long rates can still be influenced by ECB action a while longer.

It is time to reduce European bond risk

The evolution of long rates is now increasingly contained within a narrow valuation band of less than 50 basis points below zero for the Euro Bund Future issued by the German government with an average maturity of almost 10 years. Long rates have risen slightly over the year as a whole and are trading at their highest levels, though still slightly below zero. We believe that it is not essential for inflation to head back above +2% in order for it to bolster a rise in long-term interest rates in euros. The yield of 10-year German government bonds is thus likely to increase. We recommend reducing exposure to the euro-denominated bond market in a context of increased risk of capital losses and zero yields.

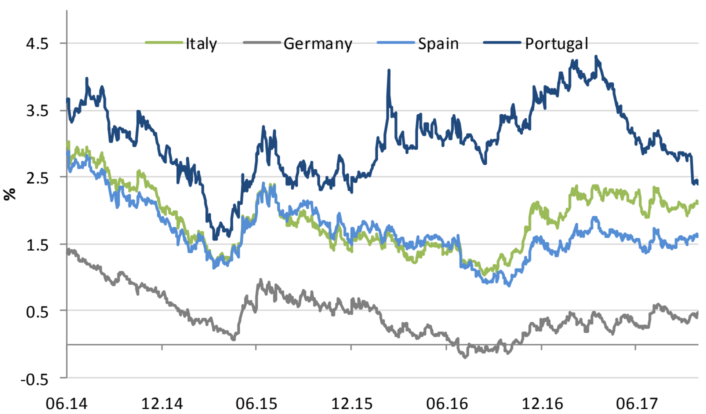
The bond market will not be able to ignore the return of inflation for long

Inflation remained high in August (+2.9%) and seems on the verge of climbing beyond 3% in spite of the stabilisation of the pound and the relative decrease of imported inflation. Retail prices are also up +3.1% over the same period. After an initial increase of +20% in production prices yoy in January 2017, price growth decreased to +7.6% in August. We continue to predict that inflation will exceed the BOE's 2% target in the next several quarters and could even reach 4% by 2020. It is surprising in the context of general price increases that long-term interest rates are not more affected by changes in expectations. The UK bond market is likely to be increasingly impacted by domestic fundamentals, which will push long-term rates toward 1.8%. We recommend avoiding positions denominated in pounds.

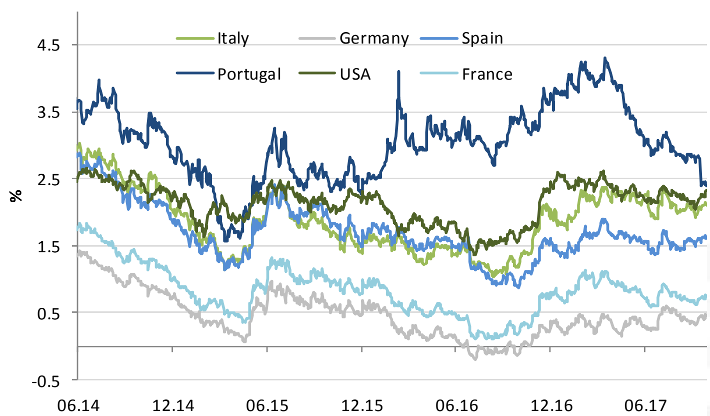
Avoid bonds even though inflation remains low

The incipient signs of an uptick in price indices have strengthened somewhat, with the national CPI index progressing +0.7% annually in August. However, inflation is still nowhere close to the BOJ's target. The best hope of a lasting increase in prices continues to be a further weakening of the yen. The change of circumstances with regard to inflation is still too recent and too imperceptible a phenomenon to have a significant impact on interest rates. At this time, the Japanese bond market is not a worthwhile prospect for foreign investors.

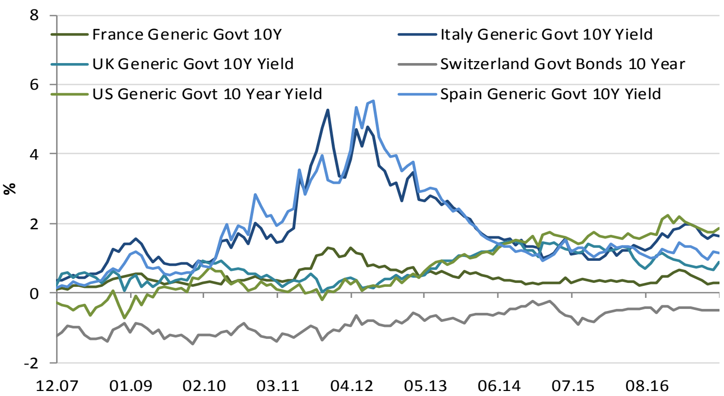
European Bonds (10 year yield)



10 year yield



Risk premium over Bund



Graph sources: Bloomberg/BearBull Global Investments Group

BearBull Global Investments Group

Peripheral markets: higher yields and potential exchange rate gains provide protection against capital loss risks

Yields in Canadian or Australian dollars, which exceed 2%, also provide an alternative within developed markets to low yields in euros. The risk of an upswing in long-term interest rates is also present in these market segments as well as in the emerging debt segment, but coupon levels and the positive outlook on exchange rates should limit, at least in part, the risk of negative performances.

Emerging market debt and the high yield segment were offering investment opportunities due to higher yield levels. However, their recent performance suggests an increased level of risk and a decrease in the attractiveness of these assets. The yield spread between these investments and US government debt is now similar to that prevailing just before the 2007 crash. At current levels, we recommend reducing exposure to these investments.

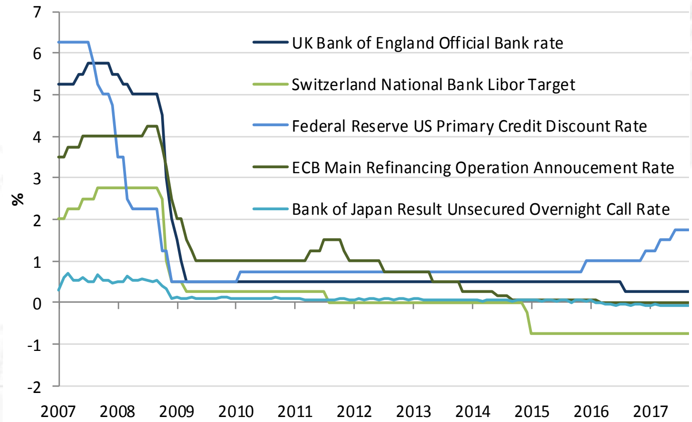
Systematic exchange rate hedging no longer makes sense for international bonds in 2017

In the specific case of systematic exchange rate risk management for international bonds, the effects of hedging on net yield prospects in the specific current context for bond markets might be the polar opposite of historical results and investor expectations. Although such an approach may have been of interest during the phase of falling rates over the past few years, particularly thanks to capital gains, the cycle of rising long rates and monetary policy normalisation will now create a new environment which is totally different to before. We believe that this broadly calls into question the wisdom of systematic currency risk hedging for this asset class. For example, today, in order to hedge the exchange rate risk on a 12-month investment in US dollars (with 1.7% yield), the investor should sell US dollars forward such that they are no longer exposed to any fluctuation in the USD/CHF exchange rate. By hedging that risk, they will keep their US dollar bonds, which will indeed bring in 1.7% in yield, but the 220-point cost of hedging will reduce their yield by that amount. This brings it close to what they would have obtained by immediately selling the position and investing in Swiss francs with -0.5% yield. This example shows that hedging bonds in other currencies totally changes the yield and risk profile of the investment. After the hedging operation, the investor finds themselves with an investment with a profile that is almost identical to the equivalent position in Swiss francs (excluding transaction and management fees).

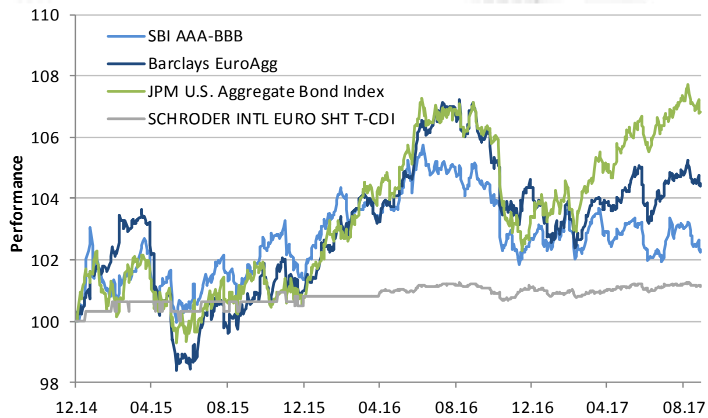
The main take-away is that investors cannot therefore simply hope to benefit from the foreign currency position's higher interest rate, as the yield differential applied to the currency's forward rate in order to set its fluctuation risk directly eats away at the yield of these currencies as expressed in Swiss francs. However, the current context offers very little prospect of capital gains for a great majority of international bond markets, with risks of capital losses more likely. Rather, the coming years will be defined to a greater extent by widespread normalisation of monetary policy and interest rates in the long-term. Investment strategies for international bond markets should therefore focus on shorter duration investments to limit to as great a degree as possible potential capital losses caused by interest rate rises. Yield differentials on the short and medium part of rate curves will certainly tend to draw closer to each other.

In such a context, systematic hedging is tantamount to taking on international borrower risk for the sake of a risk profile which is very similar to a position from a Swiss borrower in Swiss francs. It is therefore very likely that the performance of systematically hedged international bonds will be very similar to that of bonds in Swiss francs.

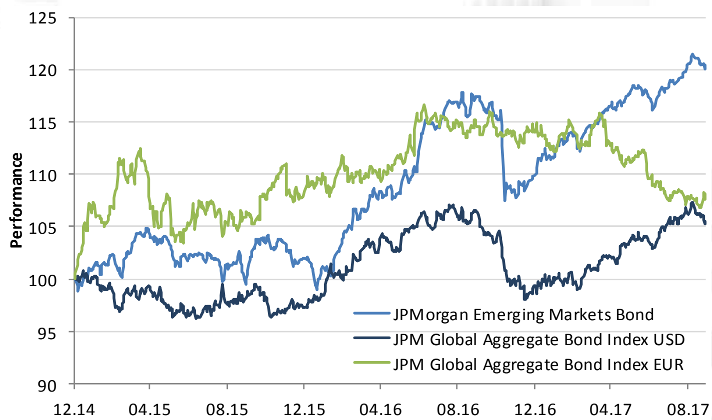
Central Bank rate (EUR, CHF, GBP, USD, JPY)



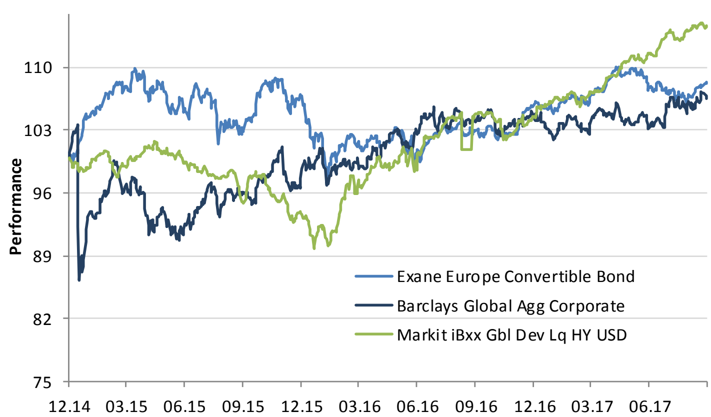
YTD Performance of Bond Indices 1- 5 years (Normalized at 100)



Emerging Bonds - Performance (Normalized at 100)



Eastern Europe Bonds - Performance (Normalized at 100)

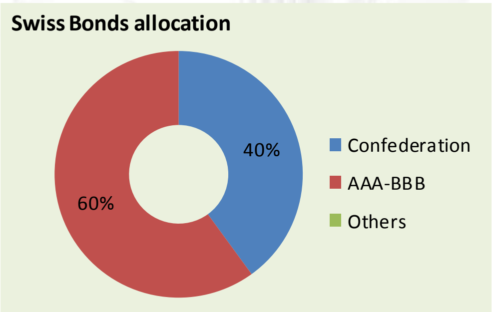


Graph sources: Bloomberg/BearBull Global Investments Group

PROSPECTS AND STRATEGIES

Swiss bonds

- Swiss rates remain correlated to international markets
- Impending rise of long-term interest rates and inflation
- The euro will be the factor triggering a drop in bond prices
- Nominal rates should be higher than inflation
- Overweight quality and shorter maturities



BONDS Type of Debtor	Expected Return 3months	1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Governement	↘	↘							
Corporate (IG)	↘	↘							
Others	↘	↘							

Tactical Allocation

- Underweight Swiss Government Bonds
- Overweight the "IG" segment
- Prioritise short durations on all segments

Swiss rates remain correlated to international markets

The Swiss bond market follows the movements in international markets, which remain correlated in spite of distinct macroeconomic environments. Long-term Swiss government rates have also bounced back from their extremes (-0.5%) of 2016 following the movement in US and European rates. The strengthening global economic outlook that bolstered the recent upswing in long-term interest rates has thus also affected the Swiss bond market. We believe that long-term rates could climb back into positive territory before the end of the year. Negative rates will persist, however, for the shorter maturities in the government yield curve.

Impending rise of long-term interest rates and inflation in our country

Over the past several weeks, core inflation as well as other broader measures of inflation have pointed toward a return of price increases in our country. The risks of deflation mentioned these past years as one of the most significant threats to our economy have dissipated as inflation climbed back up from its November 2015 lows (-1.4%) to +0.6% in February 2017. The latest figure published for August confirms the resilience of the CPI index above +0.5%. In addition, continued weakness of the franc will certainly have significant consequences with regard to imported inflation. Inflation will thus likely continue to rise in Switzerland over the next few months. In this context, the normalisation of long-term interest rates in Switzerland remains dependent on the progress of normalisation on the international front and on developments in the euro/franc exchange rate. While the normalisation of long-term rates began last summer, as we had expected, its future course also depends on the flow of economic data. The disappointing performance of the US economy in Q1 and the uncertainties that arose in August caused a slight correction in short-term rates, which in our view constitute one of the last opportunities to reduce bond market risk, in particular in our country.

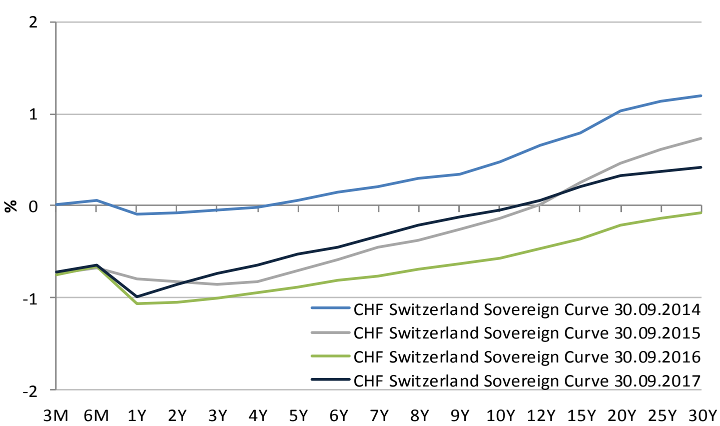
The euro will be the factor triggering a drop in bond prices

The yield spread between Swiss and German government bond rates has remained unchanged at 0.5% for almost 18 months. The improvement in the economy and the normalisation of European monetary policy expected in 2018 will amplify the already significant rise of the euro. We expect a slower upturn for Swiss long-term rates and an increase of the spread mentioned above that will further penalise the franc. The appreciation of the euro to levels close to 1.20 will likely feature among the triggers of a change in outlook and a more significant drop in bond prices.

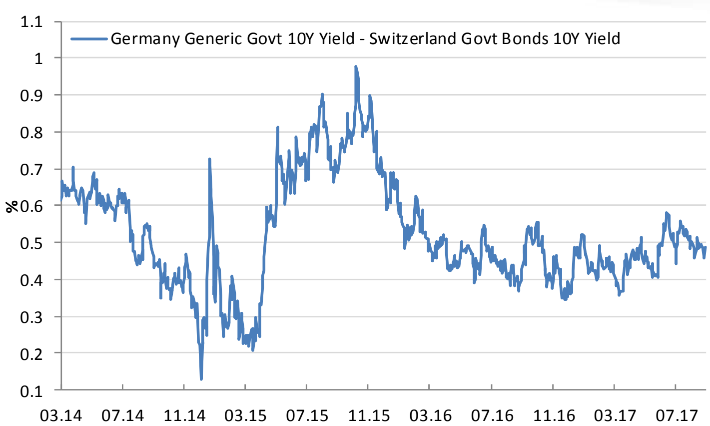
Overweight quality and shorter maturities

The emergence of negative real interest rates is an extraordinary phenomenon and likely temporary. It will correct only once long-term rates exceed the inflation rate. It also points to a correction in the valuation of bond markets. In this context, overweight quality and shorter maturities.

Switzerland Sovereign Yield Curve

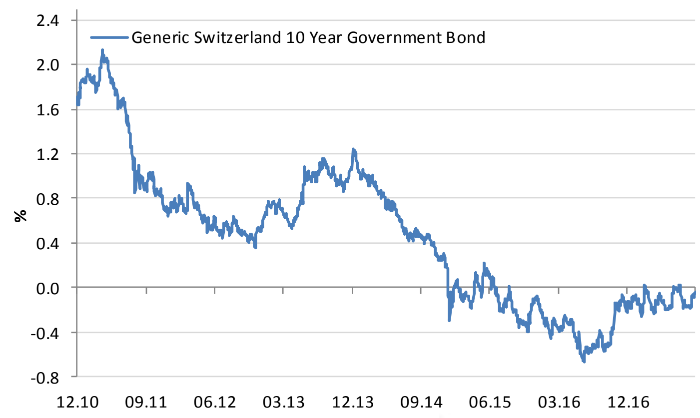


Long rates Yield Spread (German Bund - Swiss Confederation)

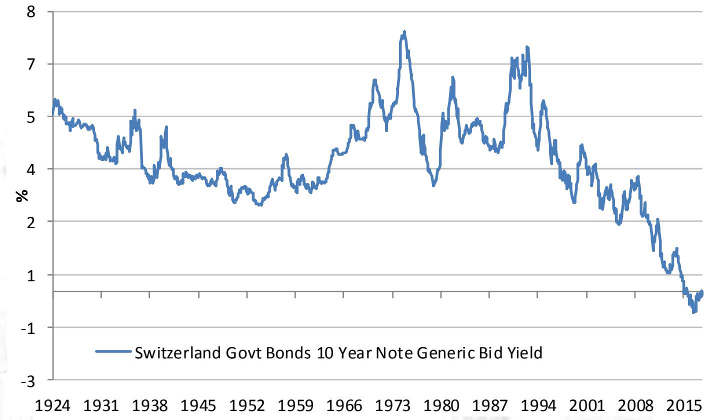


Graph sources: Bloomberg/BearBull Global Investments Group

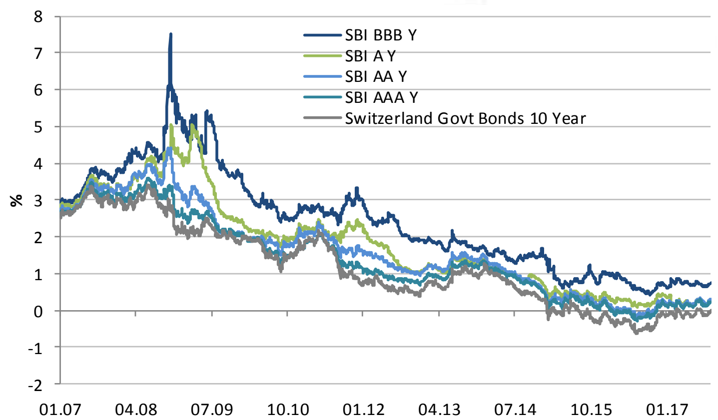
Switzerland Government Bond yield (10 year)



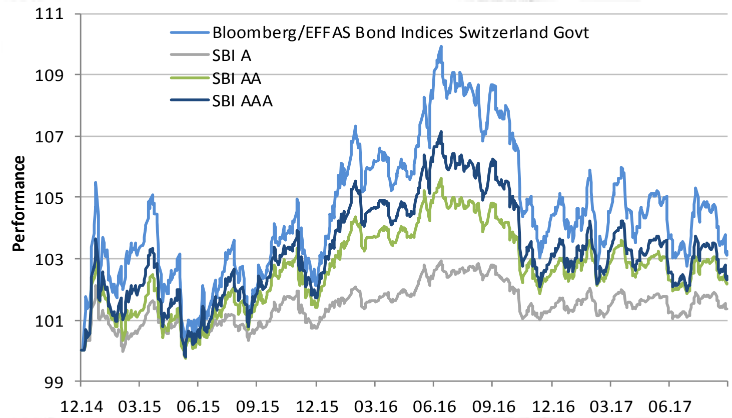
Switzerland Government Bond yield (10 year) since 1924



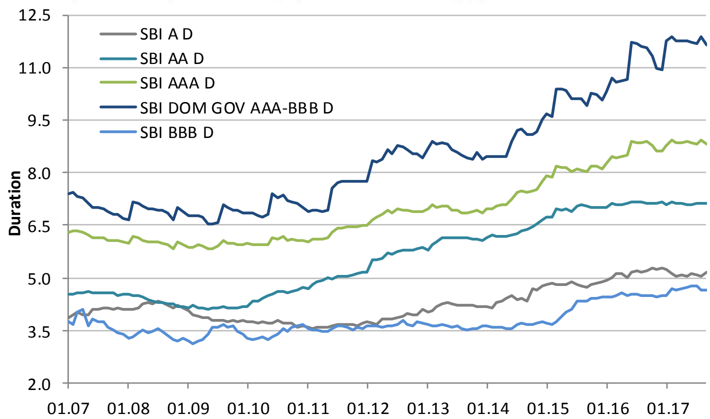
Yield by debtor type



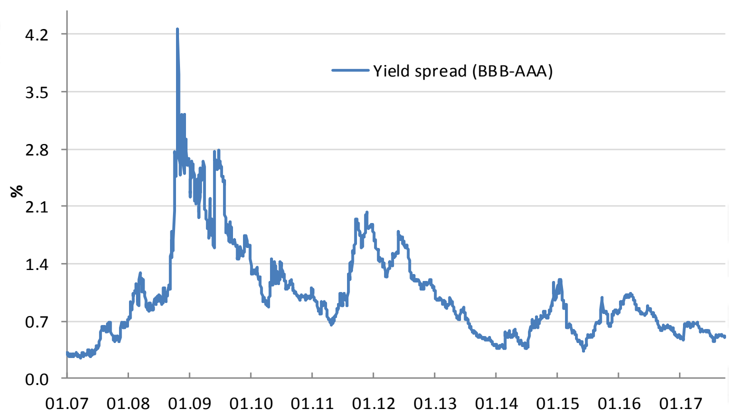
Performance of Swiss Bonds (Normalized at 100)



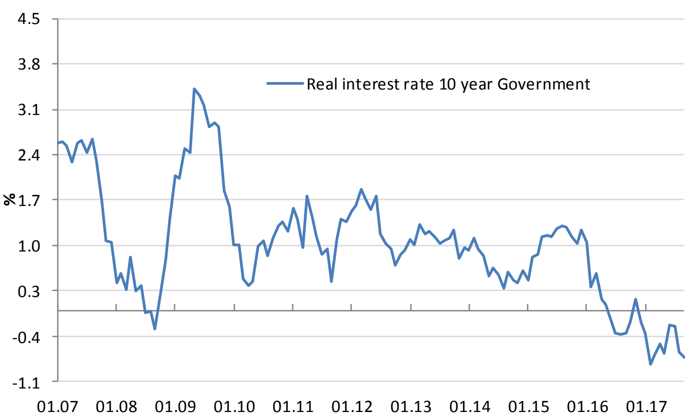
Duration of Bond Indices



Yield spread



Real Interest Rates



Graph sources: Bloomberg/BearBull Global Investments Group

SWISS BOND INDICES (CHF)

30.09.2017 Total Return Performance

	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	258.6	CHF	-0.3	-1.4	-0.4	-1.5	-1.1
SBI A-BBB	135.8	CHF	0.0	-0.4	0.2	0.2	0.5
SBI AA-BBB	134.3	CHF	-0.1	-0.5	0.1	-0.3	0.1
SBI AAA-AA	135.3	CHF	-0.2	-0.9	-0.1	-1.0	-0.6
SBI BBB	147.3	CHF	0.0	-0.3	0.4	0.6	1.1
SBI AAA-BBB	135.8	CHF	-0.1	-0.8	0.0	-0.7	-0.3
SBI DOM GOV AAA-BBB 1-3P	71.3	CHF	-0.1	-0.3	-0.8	-1.9	-2.8
SBI DOM GOV AAA-BBB 3-7P	89.9	CHF	0.0	-0.6	-0.5	-1.6	-2.3
SBI DOM GOV AAA-BBB 7+ P	127.4	CHF	-0.5	-2.2	-1.0	-2.9	-3.0

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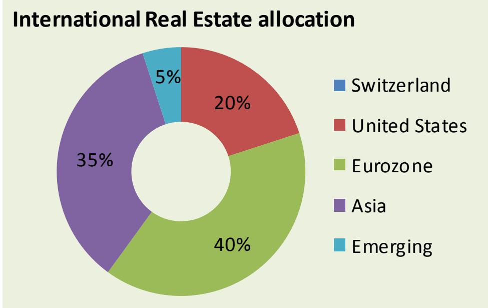
PROSPECTS AND STRATEGIES

International Real Estate

- New growth in global real estate
- Interest rate rise has no effect
- Real estate will benefit from the increasing pace of growth
- Asia is benefiting from more dynamic growth



Tactical Allocation

- Overweight Europe and Asia
- Cash 0%

REAL ESTATE Areas	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Switzerland	↗	↗							
United States	↗	↗							
Eurozone	↗	↗↗							
United Kingdom	↗	↗							
Asia	↗	↗↗							
Emergents	↗	↗↗							
Liquidity									

Listed real estate rises in the 3rd quarter

International real estate (Epra Nareit Global Index TR in USD) has seen its growth slow, but still moved up +1.6% overall in the 3rd quarter, and +10.8% since the start of the year. Over nine months, Europe as a whole has made a significant contribution to global growth thanks to a +19.5% rise, or +6.8% in Euro. However, the Eurozone (Epra Nareit Europe ex-UK TRI in USD) was particularly strong, increasing +21.6%, pushing the index to high levels.

In local currency, the Eurozone posted an excellent result (+8.1%), which was rather different from Europe as a whole (+7.5%) due to the stagnation on British indices. Asian indices for developed markets hardly moved up (+1.2%), but the increase was even smaller for the US index which only posted a slight +0.7% rise.

This quarter, the exchange rate is still affecting results due to the depreciation of the US dollar. The performance of European indices in US dollars are therefore particularly exceptional.

Key rate normalisation in the United States and higher yields in US dollars have made diversifying into US real estate assets a less attractive prospect.

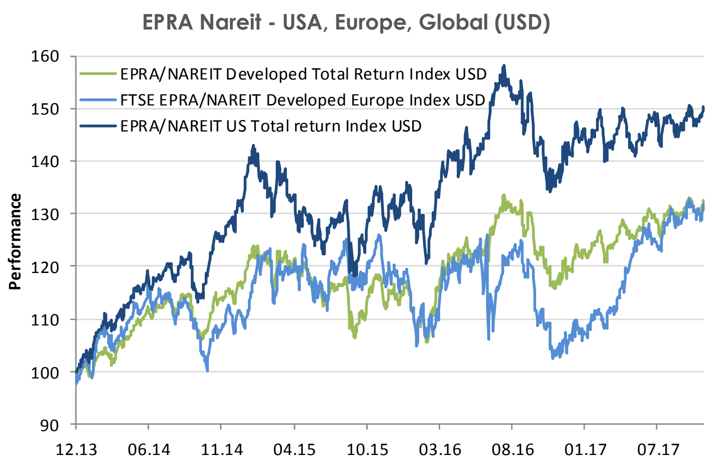
In the Eurozone, the fall in political uncertainty is benefiting Italy, which has posted strong growth of +15.6%, coming in much higher than listed real estate in Germany (+4.3%), for example. The stability observed in the United Kingdom may seem surprising; real estate assets have not seen decommitment, and posted a neutral quarter.

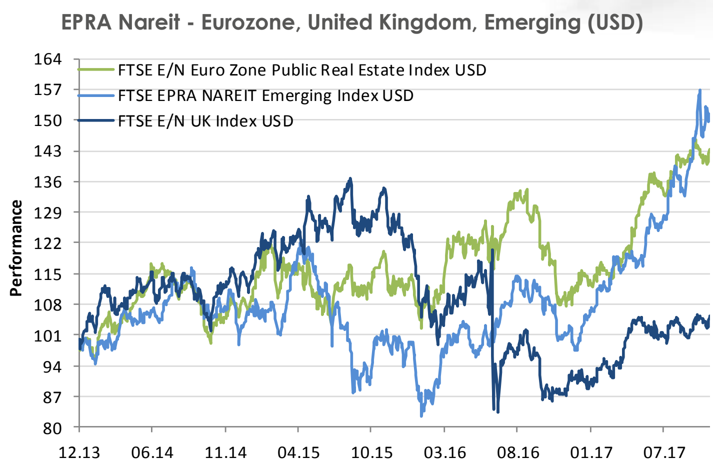
Interest rate rise has no effect

The last quarter has seen interest rates bounce back considerably in most countries. For a few months now, regional and global growth forecasts have been revised one after the other to increase forecasts for this year and next. In the United States, long rates are once again close to their 1st quarter peak, and in the Eurozone, government bonds will all soon finally offer positive yield across the yield curve.

We were expecting this long-term rate recovery on most bond markets, also predicting that it was likely the global economy would improve in the second half of the year. However, we believe that this recovery is still insufficient and not yet mature to compete with real estate investments.

The yield spreads (or risk premia) between long term interest rates and listed real estate investment yield have shrunk slightly, but they still remain attractive in past comparison, particularly in the Eurozone.





Graph sources: Bloomberg/BearBull Global Investments Group

BearBull Global Investments Group

The modest rise in nominal long rates comes in a slightly more inflationary domestic context. It should not have a lasting effect on real estate fundamentals at the current point in the economic cycle.

Consequently, prospects for international real estate investments remain favourable. The need to diversify portfolios and find an alternative to nil yield, particularly in the Eurozone, should still prop up demand for liquid real estate investments for some time to come.

Increasing numbers of investors will be moved by this in 2018, and will contribute to rotating assets away from bonds and towards real estate investments to a considerable degree.

Historically low real terms interest rates are still propping up real estate

The expected recovery on price indices should gain in strength in 2018, further affecting long term interest rates. Despite recent leaps, the relative stability of long rates over the last few months has gone hand in hand with comparable stability on price indices.

In the Eurozone, real rates are digging down into negative ground, falling from -0.8% to -1.2% over the quarter. Real terms interest rates in US dollars have therefore fallen, from 0.6% to less than 0.2%. Despite monetary policy normalisation currently taking place in the United States, and to come at a later date in the Eurozone, we believe that inflation will rise faster than long rates.

Over the next few quarters we should still see real terms interest rates drop off further, favouring real estate markets, particularly in the United States, Europe, and Japan. Regular increases in inflation will only bolster this trend, which we believe will benefit the sector.

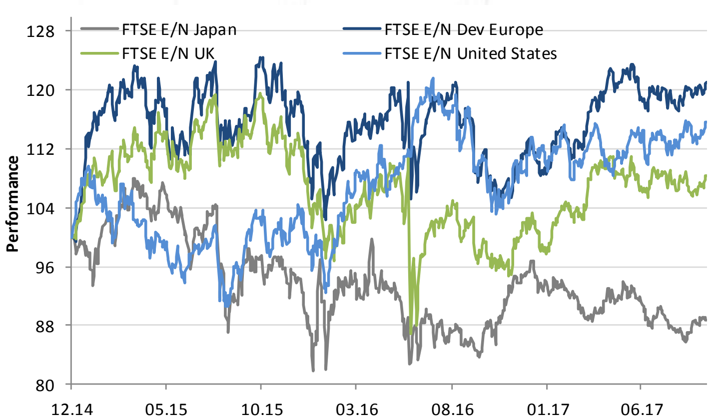
Real estate market performances should therefore be higher when real term interest rates are low, and when growth prospects are equal to or greater than their historical average. The improvement to the global economic trend will go hand in hand with greater rent growth forecasts, working in favour of valuations of real estate assets.

Listed real estate will benefit from the increasing pace of global growth

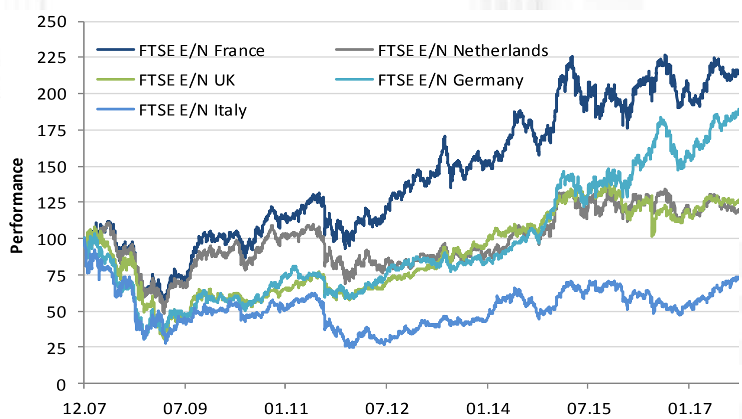
The latest OECD forecasts highlighted the fact that world growth could be at its highest since 2011 thanks to a very considerable resurgence in economic actors' confidence. These forecasts were then bolstered by increasingly confident statements on the part of central banks regarding economic conditions and growth prospects. According to OECD experts, global growth should even head north of 3.5% in 2017, and 3.6% in 2018. These upward forecast revisions will also have a positive effect on long-term investments in real estate, due to real estate benefiting from improved economic factors and a likely rise in demand for commercial and residential premises. We still believe that this rise in global demand will have a relatively stark effect on both occupancy rates and rents, in a context of weaker supply. As such, the macroeconomic environment should prop up real estate investment, due to a combination of several key factors.

At current short- and long-term interest rates, we do not believe that key rate normalisation and lower levels of liquidity injections will have a negative impact on real estate markets in 2017 and 2018. Real estate yields remain attractive and should still enable prices to rise.

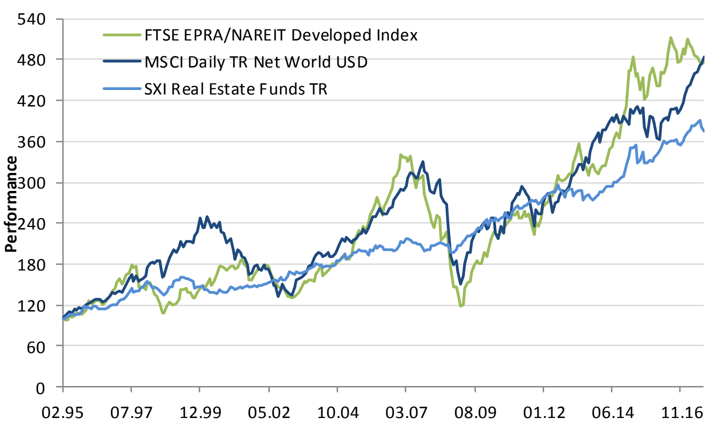
Performance (local currency)



Performance (local currency)



Long-term Performance (local currency)



INTERNATIONAL REAL ESTATE INDICES (local currency)

30.09.2017				Total Return Performance				
N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT Glb TR	2589.9	USD	-0.5	0.3	3.4	7.0	10.8
DEVELOPED	EPRA/NAREIT Dev TR USD	4801.0	USD	0.0	-0.2	1.8	4.8	7.3
DEVELOPED EUROPE	FTSE E/N Dev Europe	2125.7	EUR	1.1	1.1	1.2	5.8	6.8
EUROZONE	FTSE E/N Euro Zone	2517.7	EUR	1.2	0.1	2.2	9.2	10.5
USA	FTSE E/N United States	2914.1	USD	0.7	0.2	0.7	1.8	2.3
DEVELOPED ASIA	FTSE E/N Dev Asia	1474.2	EUR	0.3	-1.0	-1.6	-7.0	-1.9

Graph sources: Bloomberg/BearBull Global Investments Group

US real estate cycle is losing momentum

The American real estate cycle is losing momentum, but remains positive after six years of price rises. Developments in real estate prices still show appreciation, of +0.4% in July (S&P CoreLogic Case-Shiller Index), bringing the price increase to +5.8% year on year. Real estate assets seem to be appreciating rather steadily, with no sign of the pace picking up. Supply still seems to be slightly lower than demand, and this situation should not change over the coming quarters. The rise in financing costs could place some restrictions on demand and slow down the price rise. Growth in employment rates and prospects of salary increases will be positive, but for the time being we are seeing a slight dip in new mortgage applications.

The construction sector is in rather good shape, with the +0.5% increase in spending in August demonstrating steady growth, though operator sentiment did nonetheless wane in September. Sales in new houses should bounce back after the hurricane season, but overall housing starts have levelled off since 2015, at a rate of 1,180,000 per month. In the commercial sector, rent rises are in step with the slowdown in the United States. The supply to come onto the market should prevent a sharp rent rise. Growth rates will therefore be significantly lower than in other regions, especially the Eurozone. The below-par performance of listed US real estate reflects a loss of momentum on the real estate cycle. Despite good economic prospects, listed US real estate is certainly ahead of the revaluation cycle.

Despite potential for appreciation, the US market should under-perform compared to other developed and emerging markets over the next few quarters.

The Eurozone is enjoying better conditions

In our previous forecasts, we predicted an easing of political tensions and risks in Europe, working in real estate markets' favour, despite uncertainty linked to Brexit. Today, we can see that uncertainty has fallen in the Eurozone, despite looming confrontation with the United Kingdom, which does not seem to be affecting the political or economic trend in Europe. Enthusiasm for reform, spearheaded by the new French president and the German chancellor, will certainly be held back by the issue of German government coming out of the latest elections, but generally speaking, the Eurozone is in good economic shape, which should prove positive for investment and real estate. Leading indicators are suggesting a boost for economic activity at the end of 2017 and in 2018. These developments could enable rent to continue to rise in Europe. The change in the interest rate trend will certainly increase financing costs, but the real cost (after inflation) and the want of any alternative will mean that European real estate markets will still be able to draw in new investors.

In terms of regional allocation, the Eurozone should still enjoy greater potential for rent revaluation and more sustained price growth. Commercial rents have already benefited from the improved economic conditions, and are posting +2.3% year on year growth.

The greatest rises were posted in the Netherlands and Sweden. Berlin, Barcelona, Madrid and Milan are all still enjoying robust demand. Vacancy rates have fallen in Germany.

Asia is benefiting from more dynamic growth

GDP growth in Asia is robust, but significant interest rate hikes remain unlikely. Despite being higher compared to others internationally, inflation remains very much lower than the historical average. There are still prospects of an increase in rent, but this is partially limited by growing supply. Prospects of an increase in prices now seem a little contained.

The rent rise in Asia in the office sector moved up +2% year on year, bolstered by positive developments on the Australian and Indian markets. Rents in China seemed to have dropped off a little due to new capacity coming onto the market. However, absorption rates are good, and demand remains robust, particularly on the part of domestic companies.

In Singapore, demand for resettlement has remained relatively strong, though with no noticeable impact on rent. In Hong-Kong and Tokyo demand has weakened slightly. In India, the government's demonetisation policy has had no major effect on the commercial real estate market; demand for offices and retail premises from international companies has remained strong, with a rise in rents as a result of this. The residential sector is a little weaker, however.

Asia continues to benefit from a better trend and is still prioritised in our regional allocation.

Ten years on from the 2007 real estate crash, the current cycle suggests no systemic risk

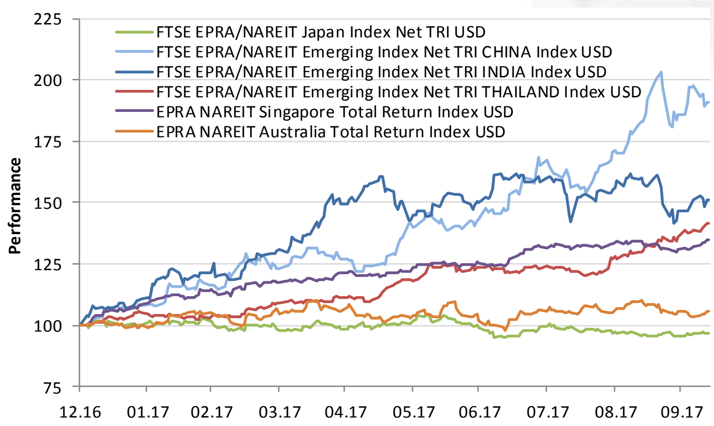
International real estate markets are still enjoying considerable rises and favourable prospects. Ten years on from the last real estate bubble, we believe it is still too early to fear another major international incident in this asset class. Price growth is still far from comparable to rises in the previous cycle, and in the few regions where the increases are significant, we detect no major risks that could affect the economy.

Interest rate rises and monetary policy normalisation will be gradual and most real estate markets will withstand it. Risks of brutal rate hikes can be ruled out due to the lack of signs of an uncontrolled acceleration in inflation.

Global growth is therefore providing broad-based support for the still-favourable developments in rental income and real estate asset prices. Residential real estate could however suffer, should there be no salary increase in certain regions, making property ownership more difficult.

Our strategy prioritises the Eurozone and Asia, whilst keeping overall high allocation for the US market. It is still too early to consider new investments in the British market.

Real estate markets (USD)



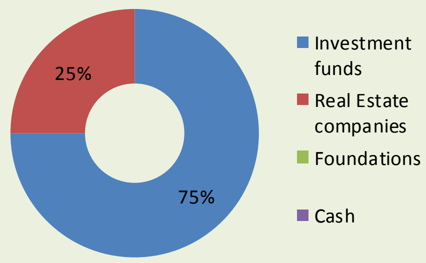
Graph sources: Bloomberg/BearBull Global Investments Group

PROSPECTS AND STRATEGIES

Swiss Real Estate

- Real estate slowdown is an opportunity
- Reasonably priced transactions?
- No speculative bubble in Swiss real estate
- Increase in interest rates could be painless

Swiss Real Estate allocation



REAL ESTATE Switzerland	Expected Return 3months	1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Investment funds	↗	↗							
Real Estate companies	↗	↗↗							
Foundations	→	→							
Cash									

Tactical Allocation

- Favor Funds 75%
- Increase exposure to Real Estate Shares : 25%

Listed real estate slowdown is an opportunity

In our previous "Investment Strategy", we recommended some profit-taking and a temporary reduction of exposure to listed real estate companies, who had already performed rather well over six months. Indeed, since 16 November 2016, Swiss real estate funds had progressed close to +14%, while listed real estate companies had risen almost +20%. We took note of these impressive results in a context that was negative for bond markets due to increasing yields, and suggested a short-term reduction of risk via a decrease in exposure to real estate companies. Today, Swiss residential real estate market fundamentals continue to point to a continued imbalance between supply and demand. Thus, in the wake of the correction of both listed real estate companies and real estate investment funds, we believe it is once again appropriate to selectively increase exposure to these segments to take advantage of more attractive pricing and lower premiums. For Q4, we maintain our positive outlook on Swiss real estate as a diversification play and as the most suitable alternative to poorly performing bonds, and reinvest the cash generated by our summer profit-taking.

Reasonably priced transactions?

Buyers' yield requirements are often more stringent than sellers', but overall, except for rare cases, transactions continue to go through based on yields vastly superior to those prevalent in the interest rate markets. While yields on real estate funds are slightly below 3%, net yields on well-located residential real estate investments are somewhat higher. We are still not seeing any real speculative bubble with regard to Swiss real estate. We believe that final demand will remain robust but rational over the next few quarters. The asset allocation transfer from bonds to real estate assets will likely continue, though not completely regardless of circumstances.

The increase in interest rates could be painless... at least at first

The next phase of rising interest rates will likely be moderate, and although it will not be a positive factor for real estate, we believe its impact will be limited. The risk of price corrections in this scenario should not be overestimated. As previously mentioned, we believe other factors could have a stronger impact than that of a modest increase in the capitalisation rate in particular.

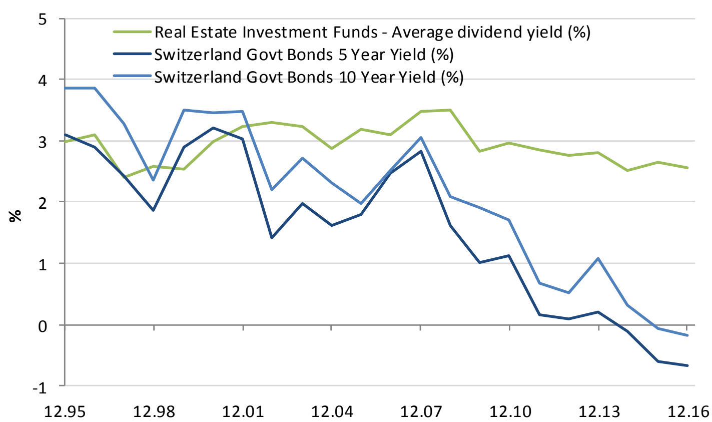
SWISS REAL ESTATE

30.09.2017 — Total Return Performance

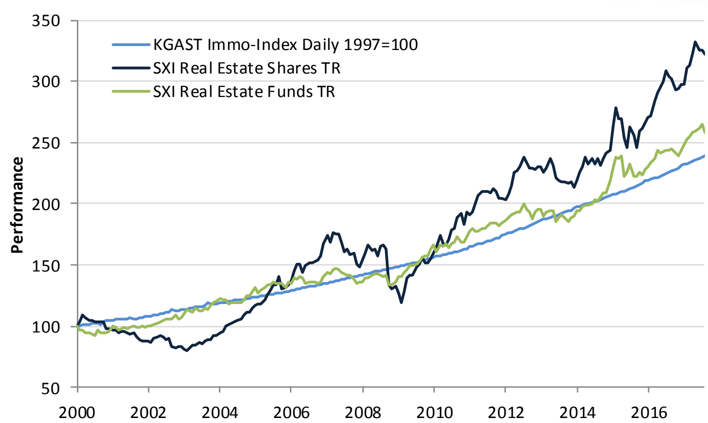
Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	373.1	-0.3	-1.8	-2.8	-0.6	4.2
SXI Real Estate Idx TR	2397.2	0.6	0.0	-1.1	3.2	8.2
KGAST Immo-Index*	268.2				2.6	3.8

* subject to one-month lag

Government and Real Estate Yield



Performance of Swiss Real Estate



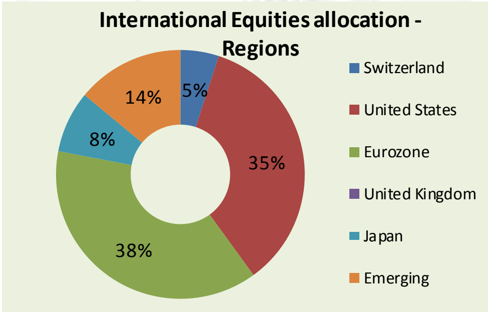
Graph sources: Bloomberg/BearBull Global Investments Group

BearBull Global Investments Group

PROSPECTS AND STRATEGIES

International equities by region

- The S&P 500 faces the realities of fiscal reform
- Fiscal reforms could be disappointing
- Growing interest in European equities
- Positive surprises for Japanese equities



EQUITIES REGIONS	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Switzerland	↘	↗							
United States	↘	↗							
Eurozone	↘	↗							
United Kingdom	↘	↗							
Europe	↘	↗							
Japan	↘	↗							
Emergents	↘	↗							

Tactical Allocation

- Favor Eurozone and Emerging markets
- Avoid UK
- Keep Japan exposure hedged
- Reduce active deviations

Could the S&P 500 benefit from the announced tax reform?

After nine months waiting and a +20% rise in US equities, the hotly anticipated announcement of tax reform came at long last. Since the election of Donald Trump, US stocks have benefited from positive macro- and micro-economic fundamentals, as well as forecasts of increasing profits, which were hoped for as a direct result of and promised as part of the change in tax rates.

The outlines of the project finally unveiled

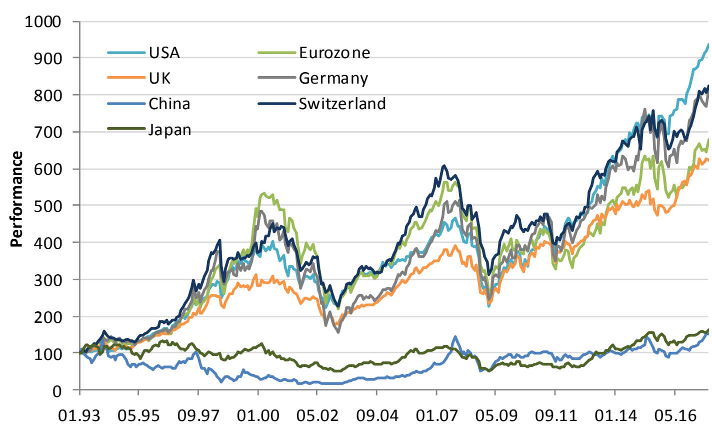
The aim behind the tax reform was to rekindle purchase power and create jobs. The plan, concocted by a working group exclusively made up of six White House and Congress representatives, has two pillars. The first is corporation tax, with the rate dropping from 35% to 20% in the end, bringing it close to that of many other industrialised countries. The second pillar is income tax, rates of which have been reduced, mainly by increasing tax allowances and reducing tax brackets. The top bracket is dropping from 39.6% to 35%. A flat rate of 25% has also been introduced for entrepreneurs.

With this, Donald Trump has announced measures that will cost the state around US $5.8 trillion dollars, without including countervailing measures. The US deficit would increase government debt by that same amount without such measures. The US Senate Committee on the Budget had agreed on a US $1.5 trillion increase over ten years, which is a very far cry from the Committee's estimate of the US $5.8 trillion cost over twenty years for this project. For the time being, the official version given by the White House's economic adviser explains that these tax breaks would be paid for with the extra growth achieved by GDP growth above +3% over the coming years. Gary Cohn stated that an extra percentage point of growth could generate US $3 trillion over ten years. This argument will undoubtedly be considered extremely optimistic and will soon meet with criticism from the US Congress, despite Republicans holding a majority. Notwithstanding a Republican majority in both Congress and the Senate, Donald Trump has not managed to repeal Obamacare or pass any major draft bill since being elected. The hotly anticipated tax reform bill is already very divisive in terms of the potential social and economic consequences of the reform, which is the first since the last amendment to the tax code in 1986.

Will the improvement in results be in line with expectations?

For now, published profits are rather positive and could very much stand to benefit from this tax change in 2018. At this juncture, mention is often made of the considerable profits reaped by American multinationals abroad, which could be repatriated and divided up amongst shareholders as dividends if this tax measure is adopted. The OECD estimates them at US $2.6 trillion. In theory, this should be enough to sustain interest in US equities, but is it really such good news for the stock market trend?

Long-term Performance (Normalized at 100)



Chinese Equities - A and B (Normalized at 100)

Graph sources: Bloomberg/BearBull Global Investments Group

After nearly a year of speculation as to the outlines of this reform, it is finally public and open to analysis. Still hot off the press, it is already dividing observers and politicians before it has even been presented to Congress or the Senate. A few weeks ago, we were concerned about the weight of the GAFA web giants in overall S&P 500 performance in 2017. We pointed out that this craze had pushed up valuations exponentially, to levels probably unsustainable in the short-term. This suggested there would soon be a change in investor psychology towards them and made sectoral rotations likely. Any future rise on the S&P 500 was therefore dependent on prospects of a profit growth cycle recovery.

Growing interest in European equities

Having been abandoned due to political risks in 2016, European equities have since enjoyed a revaluation phase as announced in first half of the year. After having suggested in May that a consolidation phase seemed increasingly probable, we now believe that Eurozone equities could outperform US equities at the end of the year. They had easily surpassed the performance of US equities, but then saw some profit-taking with the rise in the Euro, despite rather robust company results.

At 15x profits, the valuation of European equities was no longer as attractive, though not excessive. Profit growth consensus is now much more optimistic, and rightly so, we believe, given that the improvement in the Eurozone's economic situation is increasingly clear. The recovery of growth and company profitability are key factors, to which are added other favourable factors, including the fall in major political and systemic uncertainty, and improved conditions in the banking sector, among others.

These factors have in fact made European assets more attractive, drawing back in foreign investors (increase in purchases by non-residents at the start of the year) whose asset purchases have also propped up demand for the Euro.

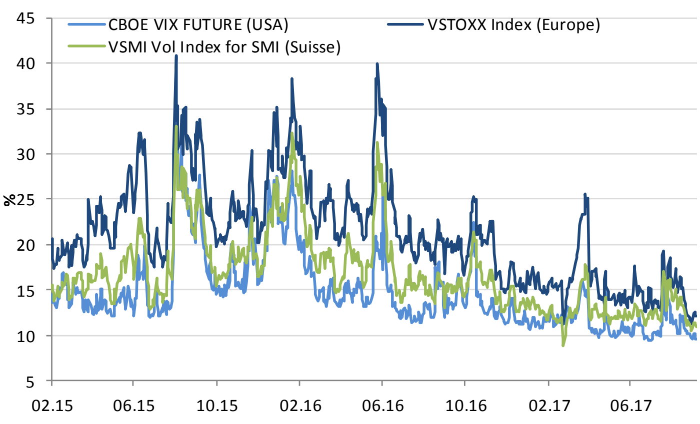
Growth of EPS (Earnings per Share) in the Eurozone is now ever closer to that of US companies, for 2017 (+12.8% vs +11.8%) as well as 2018 (+10.5% vs +11.9%), after having been higher in 2015 (+11.2% vs +0.3%).In theory, this could be grounds for a similar valuation of these two large markets, but the impact of the exchange rate is undoubtedly another factor to consider; in 2017, it is perhaps once again working in favour of international US equities, the profits of which could be boosted by a favourable currency effect.

In the current US political context, of greater importance are hopes for a revamp of the tax conditions applicable to US companies, as promised by Donald Trump. This hope is undoubtedly contributing to the strength of demand for equities, which is propping up the relative performance of US stocks. But this factor may well lose in intensity over the coming months.

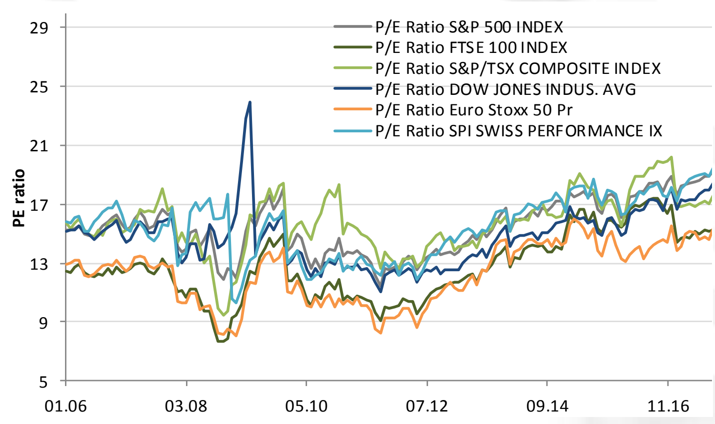
Insufficient visibility for UK equities

At approximately 14x 2018 earnings, the UK market is somewhat dearer than other European markets for a slightly higher yield (4.3%). The stabilisation of the pound has effectively stopped the progression of British equities. We continue to recommend caution with regard to the UK equities market, which is likely to be further penalised as Brexit's potential tangible impacts on the British economy and corporate earnings come to light.

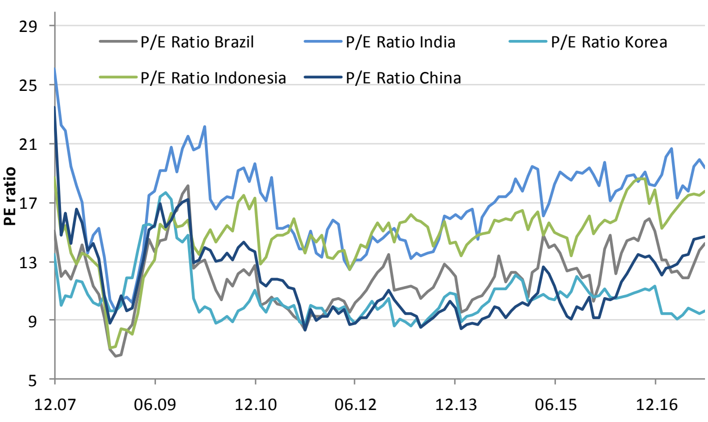
Volatility (USA, Europe, Switzerland)



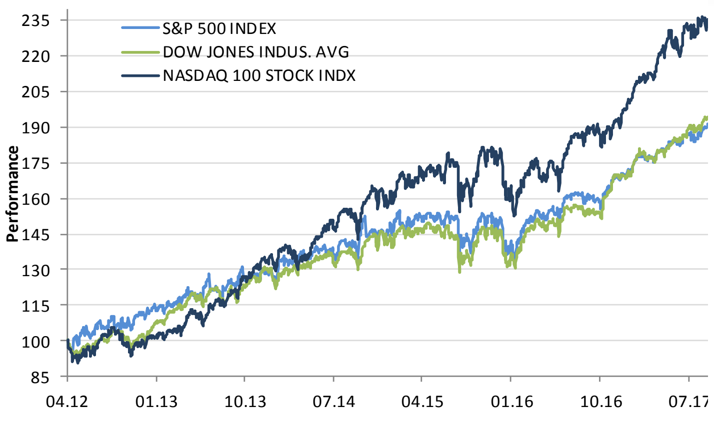
Price/Earnings



Price/Earnings Emerging markets



US Equities (Normalized at 100)



Graph sources: Bloomberg/BearBull Global Investments Group

Japanese equities still relatively attractive

At the beginning of the year, we were predicting that an acceleration in the growth of Japanese corporate earnings was highly likely, due in particular to the improvement in global economic conditions and to the depreciation of the yen. Reported results have indeed exceeded expectations, and earnings forecasts for the next twelve months are thus being revised upward. Dividend distributions of listed companies could thus increase for the fifth consecutive year. Several months ago, we had already noted that a weaker yen would likely be the determining factor in any forthcoming increase of the Nikkei, potentially pushing Japanese equities toward their highest levels since 2015. It turns out the Nikkei is now only 600 points (or +2.8%) away from its 21,000-point high. In spite of this progression, the performance of the Japanese market (+6.7%) has lagged slightly behind that of the US (+12.8%) and European (+9.3%) markets in 2017.

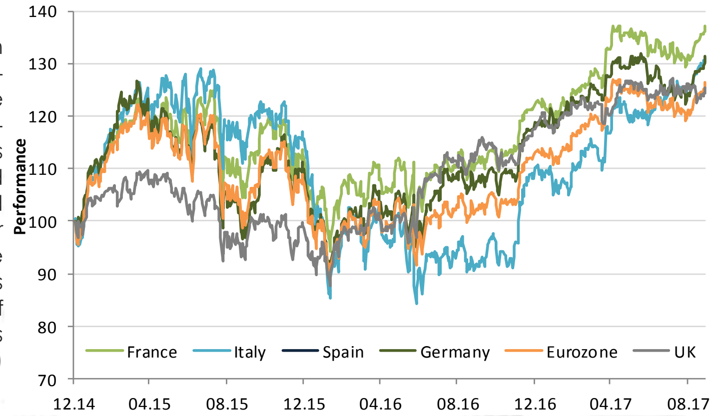
By international comparison, Japanese equities (15.8x 2018) are slightly less expensive than US equities (17.4x 2018) in PE terms. Balance sheets are solid overall, and changes implemented to improve corporate governance are noteworthy. However, it must be emphasized that any future increase in the Nikkei depends at least in part on maintaining a weak exchange rate against the dollar. Currency risk must thus be factored in with regard to overall exposure to Japanese equities. The market still provides some opportunity for positive surprises and for readjusting expectations over the next several quarters.

Stay cautious with regard to short-term risks in emerging markets

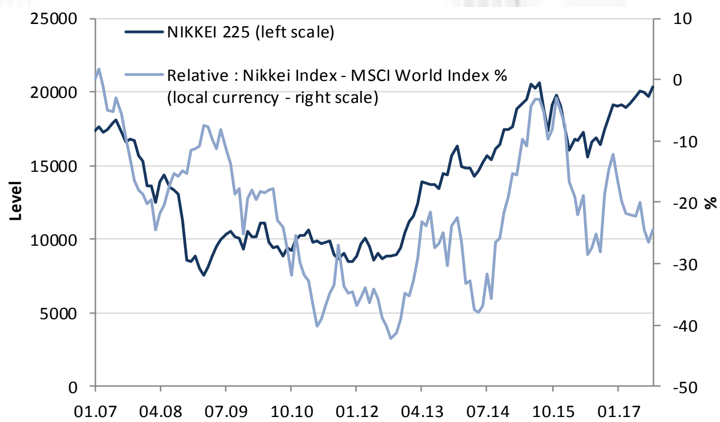
Emerging markets (+30%) have outperformed developed markets (+17%) by a wide margin since the beginning of the year based on much improved fundamentals. Emerging countries' growth prospects are often vastly superior to those of developing countries, and an upswing in confidence is favourable to risk-taking and diversification outside of developed markets. Asian emerging markets (34%) have benefitted the most from the improvement in the global growth outlook. China posts an outstanding performance of +45%, surpassing India, which is up +26% in US dollars. Russia barely makes it into positive territory, while Latin America makes a significant recovery. The MSCI Turkey index plunged -20% in September, potentially calling into question investors' optimism with regard to the segment as a whole.

We believe the general outlook still justifies some exposure to emerging market shares, but given expected profit-taking in developed markets, we recommend reducing exposure to emerging markets.

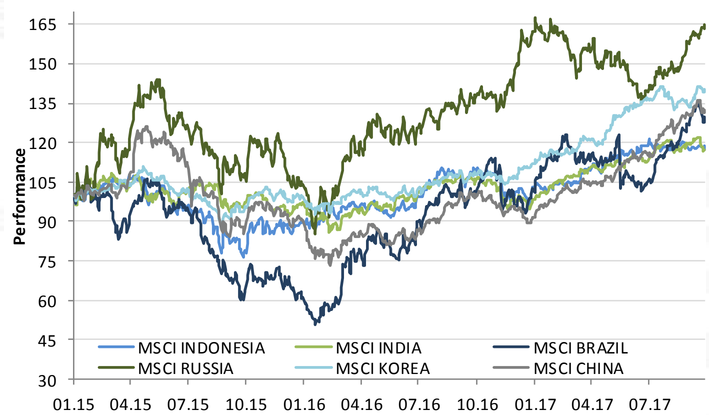
Performance of Stock markets (Normalized at 100)



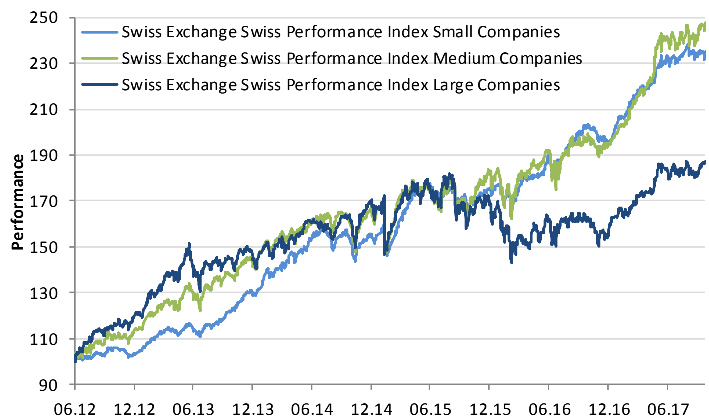
Japanese Equities VS MSCI World



Emerging Markets (Normalized at 100)



Swiss Equities (large - middle - small caps/Normalized at 100)



EQUITIES - BY REGION (local currency)

30.09.2017 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
SWITZERLAND	SPI Swiss Performance Index	9443.1	CHF	0.3	2.7	3.1	8.6	16.5
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	2903.8	CHF	0.4	2.8	4.5	12.4	23.4
EUROPE	STXE 600 € Pr	394.6	EUR	1.3	3.9	2.8	4.5	10.5
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	352.7	EUR	1.6	4.5	5.0	8.5	16.0
UK	FTSE All-Share Index	3595.9	GBP	1.0	-0.4	2.1	4.1	7.7
USA	S&P 500 Index	2519.4	USD	0.7	2.1	4.5	7.9	14.2
USA SMALL-MID CAPS	RUSSELL 2500	578.1	USD	1.8	4.5	4.7	7.9	11.0
JAPAN	NIKKEI 225	20356.3	JPY	0.9	4.3	2.3	8.1	8.3
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	854.9	JPY	1.6	4.0	4.9	12.7	14.5
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	529.7	USD	-1.6	-0.2	6.1	12.4	27.4
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	992.2	USD	-1.2	0.1	3.5	5.7	18.0
EMERGING	MSCI EM	910.4	USD	-1.8	-0.4	8.0	14.1	28.1
INTERNATIONAL EQUITIES -DIVERSIFIED USD	MSCI Daily TR Net World	4693.2	USD	0.4	2.2	4.8	9.3	16.0

Graph sources: Bloomberg/BearBull Global Investments Group

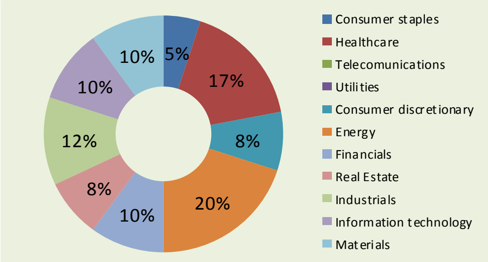
PROSPECTS AND STRATEGIES

International equities by sector

- Tech giant valuations remain extreme
- Fiscal reform is expected and could disappoint
- Probable sector rotation in favour of value stocks
- Higher EPS growth in the energy sector

EQUITIES Sectors	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Consumer staples	↘	↗							
Healthcare	→	↗							
Telecommunications	↘	→							
Utilities	↘	→							
Consumer discretionary	→	↗							
Energy	↗	↗↗							
Financials	→	↗							
Real Estate	↗	↗							
Industrials	→	↗							
Information technology	↘	↗							
Materials	↗	↗↗							

International Equities allocation - sectors



Tactical Allocation

- Underweight digital stocks
- Reduce Growth stocks
- Overweight Value stocks
- Overweight Energy and Real Estate

EQUITIES - BY SECTOR

30.09.2017 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	200.9	USD	0.2	2.3	3.4	7.7	15.3
CONSUMER STAPLES	MSCI WORLD/CON STPL	208.3	USD	0.1	-0.8	-0.3	4.0	11.4
ENERGY	MSCI WORLD/ENERGY	206.3	USD	1.3	9.0	9.3	4.6	-0.9
FINANCIALS	MSCI WORLD/FINANCE	105.4	USD	0.8	4.0	5.5	11.9	16.7
HEALTHCARE	MSCI WORLD/HLTH CARE	222.5	USD	0.0	1.4	2.5	9.8	19.3
INDUSTRIALS	MSCI WORLD/INDUSTRL	196.5	USD	0.3	3.9	5.6	12.0	19.6
MATERIALS	MSCI WORLD/MATERIAL	208.5	USD	-0.2	2.1	9.1	12.2	20.1
REAL ESTATE	MSCI WORLD/REAL ESTATE	192.1	USD	0.0	-1.0	2.1	5.7	10.5
TECHNOLOGY	MSCI WORLD/INF TECH	145.5	USD	0.8	1.1	8.5	14.0	28.0
TELECOMMUNICATION	MSCI WORLD/TEL SVC	71.1	USD	0.1	1.0	4.0	3.4	4.8
UTILITIES	MSCI WORLD/UTILITY	113.8	USD	-0.9	-2.4	3.2	7.9	15.1

Corporate earnings growth, expected to come in above +10%, may not deliver by Q4, even if the exchange rate effect in the US could add a few bps to EPS growth. Disappointment on the fiscal reform front could soon affect confidence, while share sales driven by fiscal reasons could also weigh on the market.

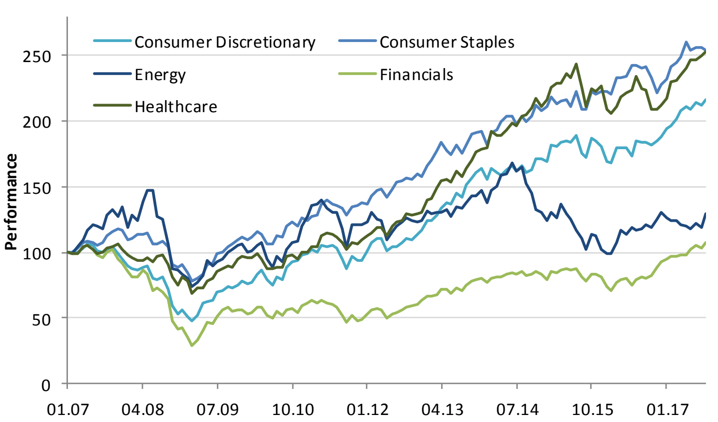
Fiscal reform, if it is implemented, could obviously boost EPS growth in 2018 by a little over +5%. However, after waiting nine months for it to happen, it is now more likely to end in disappointment than in any genuinely positive surprises.

Since our decision to reduce exposure to key **digital stocks**, most of them performed poorly and are likely to continue doing so. We now adopt the same cautious position with regard to the **tech sector** and stocks. More generally, we believe growth stocks, which have outperformed value stocks, will lose some momentum.

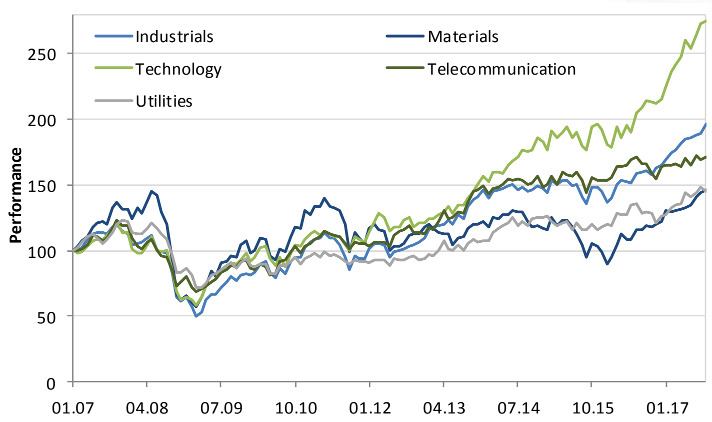
We continue to overweight **industrials** and **raw materials** as well as **healthcare**. Finally, among the cyclical sectors, the **energy** sector remains undervalued given the positive surprises and the favourable outlook for energy prices and thus warrants increased exposure.

The **finance & insurance** sector should see some downward revisions of expected earnings. We thus reduce exposure to this sector in favour of the real estate sector, which provides better visibility.

Sectors - MSCI World (Normalized at 100)



Sectors - MSCI World (Normalized at 100)



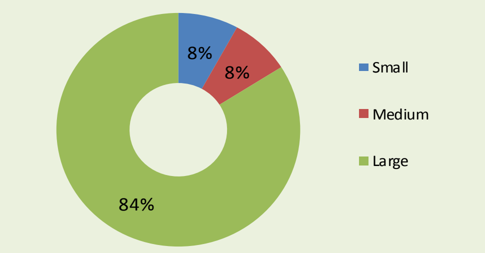
Graph sources: Bloomberg/BearBull Global Investments Group

PROSPECTS AND STRATEGIES

Swiss Equities

- Prices have reached bottom-up consensus forecast levels
- Appreciation of the euro and the dollar will boost earnings
- Reduce the overweight position in small & mid caps

Swiss Equities allocation - size



EQUITIES capitalization	Expected Return 3months	1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Small	↗	↗							
Medium	↗	↗							
Large	↗	↗							

Tactical Allocation

- Reduce exposure to small and mid caps
- Reduce relative sectoral risks

Prices have reached bottom-up consensus forecast levels

We were expecting the Swiss equities market to slow down over the summer, which it did before optimism resurfaced temporarily, due in particular to the rapid rise of the euro. This element will be a key factor boosting profits in 2017 and 2018, as it is likely not fully integrated into earnings growth forecasts. In the short term, the market's growth (almost 25% since November 2016 lows) has paused temporarily.

The bottom-up consensus growth forecast does not currently leave much room for further growth in earnings, dividends, and especially share prices. Indeed, SMI shares for the most part reached Swiss analysts' average price targets, with less than 1% growth left to spare at Q3 closing.

While yields remain attractive (3.2%), they may not be sufficient to prevent the profit-taking likely to occur if indices lose momentum. Although the current valuation of Swiss equities is not excessive at 16.3x 2018 earnings, 2017 valuations (18.3x) seem high enough to trigger sell-offs as local or international uncertainties arise. We maintain our positive outlook on Swiss equities for 2H2017, but it now appears increasingly likely that share prices will temporarily subside. The trigger for profit-taking in the Swiss market is more likely to be external than domestic.

Appreciation of the euro and the dollar will boost earnings

The appreciation of the euro is certainly not integrated into the earnings growth outlook of Swiss companies for 2017 and 2018, and rather surprised most observers. It accelerated in July, with the euro rising to 1.16 against the franc. Our exchange rate forecasts published just after 15 January 2015 already projected that the European currency would bounce back up to 1.20. We are thus pleased to note that the euro is appreciating as expected, although many analysts and forecasters have not factored in the impact of this event. It also appears that accelerating growth in the Eurozone has not been sufficiently taken into account in earnings growth forecasts.

Swiss shares will thus likely benefit from adjustments in earnings estimates over the next several months, in particular those whose results depend more heavily on international sales and exports.

Meanwhile, the dollar's weakness has not been a positive factor for the earnings growth of Swiss multinationals in Q1. This factor should nonetheless boost earnings growth more clearly in Q2, if our forecast regarding the appreciation of the dollar materialises.

Reduce the overweight position in small & mid caps

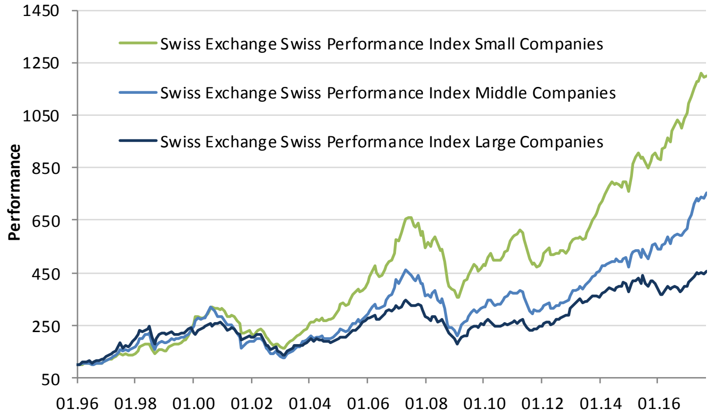
After the continued outperformance of small & mid caps in 2017, we are reducing our overweight position in the segment in favour of large caps and the biggest sectors of the SPI in a risk reduction effort aimed at shifting exposure to more defensive stocks.

SWISS EQUITIES - Capitalization

30.09.2017 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	10447.3	0.3	2.7	3.1	8.6	16.5
SPI SMALL COMPANIES INDX	26452.2	0.4	0.6	1.7	7.3	15.7
SPI MIDDLE COMPANIES IDX	15740.3	0.4	2.7	4.5	12.7	24.2
SPI LARGE COMPANIES INDX	9757.3	0.2	2.7	2.9	7.8	15.0

Swiss Equities Performance

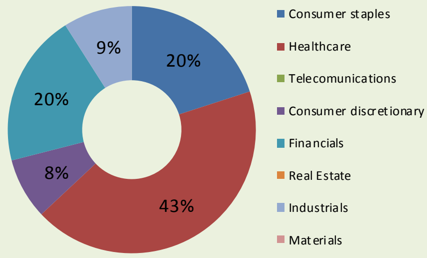


Graph sources: Bloomberg/BearBull Global Investments Group

Swiss Equities - Sectors

SWISS EQUITIES Sectors	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Consumer staples	→	↗							
Healthcare	→	↗							
Telecommunications	→	↗							
Consumer discretionary	→	↗							
Financials	→	↗							
Real Estate	→	↗							
Industrials	→	↗							
Materials	→	↗							

Swiss Equities allocation - sectors



Tactical Allocation

- Favor sectors and stocks sensitive to exchange rates
- Favor defensive stocks
- Positive situation for exporters

Overweight sectors and stocks sensitive to exchange rates

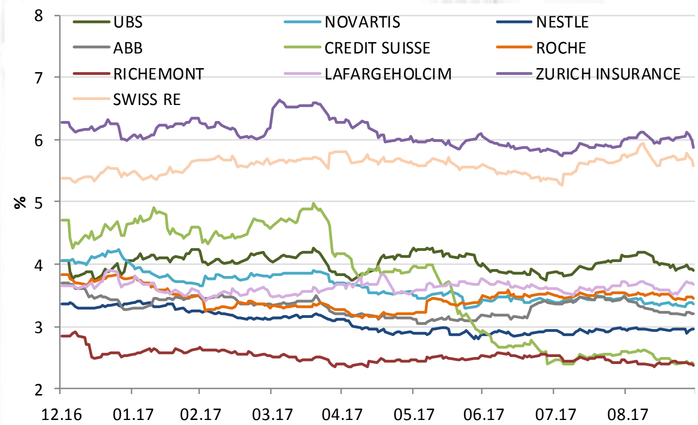
Company size did not play a key role in Q3 and is unlikely to constitute a decisive factor in Q4 either. Indeed, one trending investment theme involves companies' exposure to international markets and encompasses the SPI as a whole regardless of company size. Overall, a breakdown of the revenues of companies in the SPI by region shows that Switzerland represents under 20% of revenues, less than the US (approximately 25%) but slightly more than Germany and France combined (around 12%).

The next few quarters could well be characterised by substantial changes in expectations related to the impact of exchange rates on corporate earnings. The appreciation of the euro to levels close to 1.20 is sufficiently significant to alter forecasts and heighten expectations regarding earnings in Swiss francs. As for the dollar, while the movement has not yet been initiated, it is likely that a new dynamic will favour the exchange rate, while the franc remains overvalued.

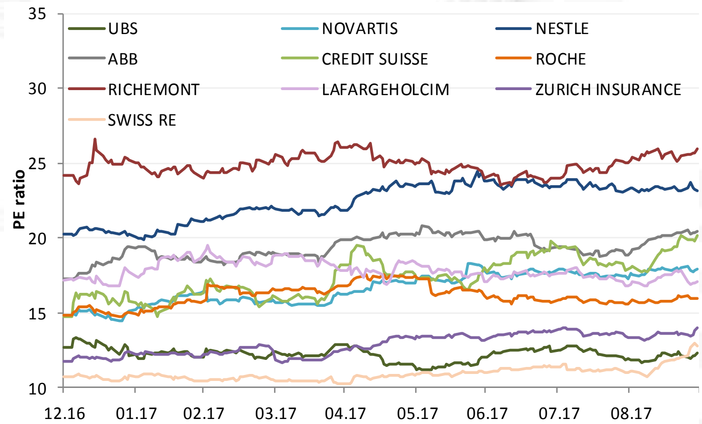
The competitiveness of Swiss exporters has improved considerably in this context, and if the franc continues to weaken, Swiss equities and exporters should see profits expand faster than anticipated.

We favour more of a bottom-up than a sector-based approach in this investment climate, with a stock selection process favouring companies sensitive to exchange rates while allocations remain diversified across most sectors. Defensive stocks are also emphasised.

Dividend Yield



PE ratio

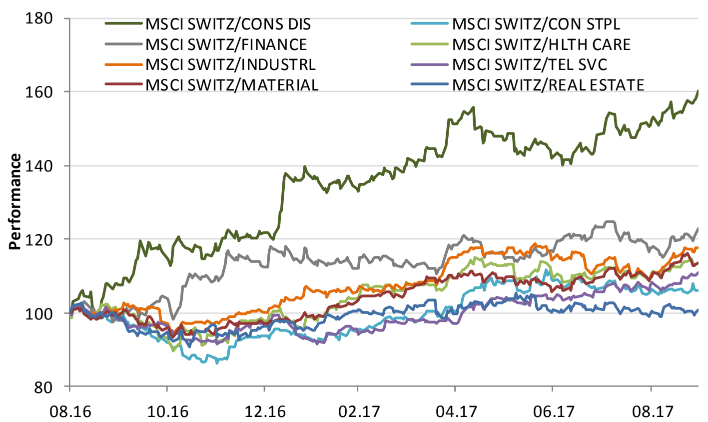


SWISS EQUITIES - BY SECTOR

30.09.2017 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	353.0	1.7	5.1	12.5	13.4	31.7
MSCI SWITZ/CON STPL	266.5	0.7	-0.2	-2.5	8.3	13.4
MSCI SWITZ/FINANCE	58.3	1.2	4.2	5.3	9.1	9.1
MSCI SWITZ/HLTH CARE	145.3	-0.5	2.3	3.7	5.6	15.9
MSCI SWITZ/INDUSTRL	192.2	0.4	6.6	2.8	9.5	17.6
MSCI SWITZ/MATERIAL	286.2	-2.3	3.5	7.1	6.3	17.0
MSCI SWITZ/REAL ESTATE	1006.4	0.3	0.3	-0.1	-0.3	4.4
MSCI SWITZ/TEL SVC	93.8	1.5	2.6	7.3	12.9	14.3

Performance



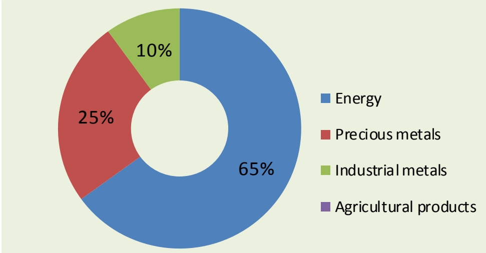
Graph sources: Bloomberg/BearBull Global Investments Group

PROSPECTS AND STRATEGIES

Commodities

- Commodities' performance boosted by oil
- World demand is rising, supply decreases
- Focus on the Chinese energy problem
- Positive outlook for precious and industrial metals

Commodities allocation



COMMODITIES	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Energy	↗	↗↗							
Precious metals	↗	↗↗							
Industrial metals	↗	↗↗							
Agricultural products	→	↗							

Tactical Allocation

- Large Energy exposure
- Overweight Precious Metals

Positive performance for commodities due to the upswing in the price of their main component : oil

In our most recent "Investment Strategy", we predicted that, after consolidating in Q1, crude prices would bounce back in Q3 due to a positive change in outlook for the oil market. We noted that the gradual improvement in supply and demand conditions would likely propel oil prices above $55/barrel. The rebound of oil of + 18% on Brent and + 11% on WTI has pushed the S&P GS Commodities index up +7.2% over the quarter. The upswing in the price of WTI was restrained by the indirect impact of the hurricanes on refinery demand, which explains why the spread between North Sea Brent and WTI reached a high of $6.80 mid-September. This should be reduced in the coming months in a more positive context for the WTI.

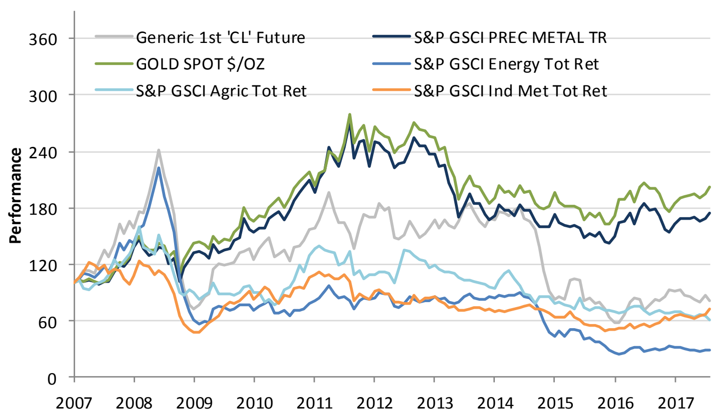
Global demand for crude will grow in 2017 and 2018

Global demand for oil rose sharply in Q1 according to IEA estimates. Indeed, demand for crude increased by approximately 2.3 mbd (+2.4%). For FY2017, the IEA has forecast an average increase of 1.6 mbd, a little above their previous forecast. Demand in OECD countries has been higher than expected both in the US and Europe. The acceleration of global economic growth in 2017 and 2018 should strengthen this trend. In China, demand has also remained robust, and Chinese imports are growing consistently.

Despite rising US production, global supply is declining

On the supply side, analysis of world production suggests that output is already declining in close to 80% of oil fields, which thus could not be exploited more intensively regardless of intent. For OPEC members, the announced production cuts aiming to stabilise global supply in the short term also likely reflect the fact that these countries are undoubtedly already producing at capacity and that in the glaring absence of investment over the past several years capacity expansion has stagnated. It is thus unlikely that any increase in demand could be swiftly met by an increase in production. Moreover, energy returned on energy invested (ERoEI), or the amount of oil required to extract crude, is constantly decreasing, including in China, where the ERoEI for the largest oil field (Daquing) is below 1:6 for example. This ratio is obviously a crucial factor in the evaluation of the lifecycle and profitability of an oil field, providing a valuable indication as to the level of existing resources that are actually exploitable whether on the scale of a production area or of global supply. Thus, the decrease in the energetic return of conventional oil also has an impact on production margins and sales price in the long term. The price of oil should continue to trend upward in 2018, especially since the global crude supply appears to have declined by approximately 0.7 mbd. OPEC's decision to lower production from 34 mbd (November 2016 peak) to 32 mbd has indeed been implemented, albeit imperfectly, during the last few months. The proportion of member countries complying has in fact increased from 75% to 82%, indicating a greater willingness to act.

Commodities



Graph sources: Bloomberg/BearBull Global Investments Group

COMMODITIES (USD)

30.09.2017 — Total Return Performance

N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
	MSCI Daily TR Net World USD	5619.23	USD	0.38	2.24	4.84	9.33	16.01
GLOBAL	S&P GSCI Tot Return Indx	2326.5	USD	0.3	3.3	7.2	2.0	-3.8
WTI CRUDE	Generic 1st 'CL' Future	51.7	USD	2.0	9.4	12.2	2.8	-3.8
BRENT OIL	Generic 1st 'CO' Future	57.5	USD	1.2	9.9	20.1	8.3	1.3
NATURAL GAS	Generic 1st 'NG' Future	3.0	USD	1.6	-1.1	-0.9	-3.9	-19.3
OR	GOLD SPOT $/OZ	1280.2	USD	-1.3	-3.1	3.1	2.1	11.1
ARGENT	Silver Spot $/Oz	16.7	USD	-2.0	-5.3	0.1	-8.8	4.6
AGRICULTURE	S&P GSCI Agric Indx Spot	281.3	USD	-1.0	0.5	-5.5	-2.4	-3.3
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	359.8	USD	-0.2	-2.5	9.9	10.7	19.6

Russia had pledged to join in OPEC's effort by stabilising its output, which seems to have been the case given the decline in production from 11.2 mbd to 10.9 mbd. In the US, however, production continued to rise overall to reach a new record high of 9.5 mbd in September. In their effort to reduce global supply, OPEC and Russia are thus confronted to a rise in US production, which is preventing the oil market from returning to equilibrium Globally, oil stocks are showing encouraging signs of returning to equilibrium levels. The OECD's commercial stocks remained stable in July, even though they usually increase during that period. The stock surplus compared to its five-year average actually declined by approximately 190 mb.

Focus on the Chinese energy problem

Chinese demand is unlikely to slow down in our view, even if the pace of economic growth slackens. Chinese production is flagging, and it seems likely that China is fast approaching peak oil extraction. A recent study by Beijing's China University of Petroleum suggests that China will reach peak production of conventional and shale oil as early as 2018. The Chinese production deficit will inevitably be made up for by an increase in crude imports, even as China's policy aiming at reducing coal-based energy production will lead to a peak in coal extraction in 2020 as well. Recall that coal-based energy currently represents two thirds of total energy production in China.

The outlook for sustained growth in Chinese crude imports also takes into account potable water constraints and the limits to oil and shale gas production. China's energy supply is a major issue in this context, which could threaten China's economic growth if not managed effectively. This possibility is certainly taken very seriously by the Chinese government, which has no choice but to consider a combination of strategies. The first positive strategy to be implemented has been an acceleration of the transition toward alternative energies. China is indeed the leading country in terms of building new facilities producing electricity from alternative sources. China will no doubt also pursue other strategies leading to the use of less energy intensive means of production and consumption. The way China manages this transition will have fundamental repercussions on energy prices as well as on the global geopolitical environment. The militarisation of the South China Sea is already a political issue disrupting diplomatic relations with countries in the region. Many Chinese energy experts recognise China's peak production issue, but they have yet to consider the risk of a peak in global production. Given these prospects, the medium-term conclusion is that China will make up for its production deficit by continuing to import oil, boosting global crude demand.

Continued upward trend for gold and silver

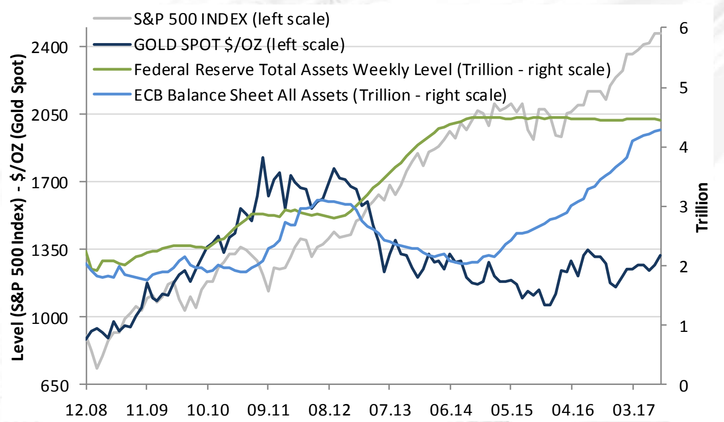
Systemic, political and geopolitical risks have increased quite sharply, and the recent increase in the risk of profit-taking in equity markets may well boost demand for gold protection and investment. On the other hand, the announced return of inflation in the United States and in most regions at the beginning of the year should also continue, restoring the attractiveness of the yellow metal as a historical hedge against inflation.

Fundamentally, world supply remains stable, while demand is expected to rise. We are still anticipating an increase in physical and investment demand which should allow gold prices to trade again between 1,400 and 1,500 dollars per ounce.

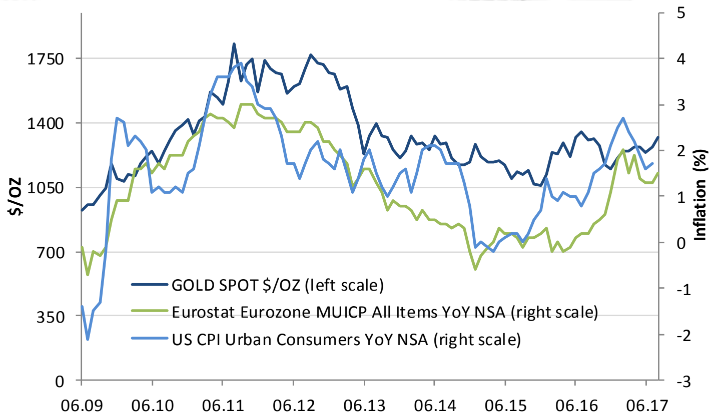
Positive outlook for industrial metals

Industrial metals should benefit from the expected strengthening of global growth prospects and announced investments in infrastructure. The fundamentals are improving with the reduction of production capacity in China in particular. Supply is thus gradually adjusting, which should allow higher prices when demand will be enhanced by accelerating growth and investment.

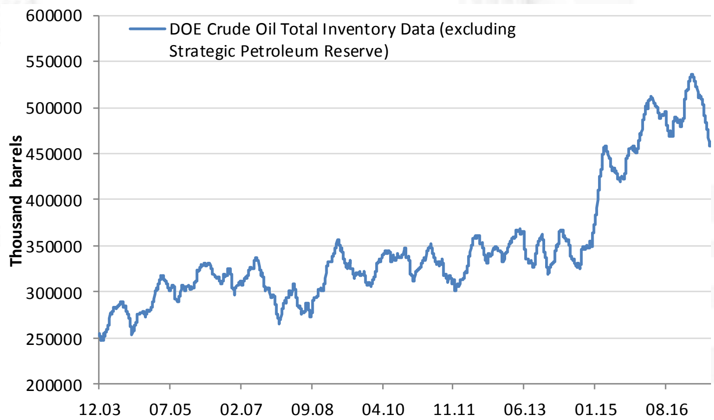
Gold and Global liquidity



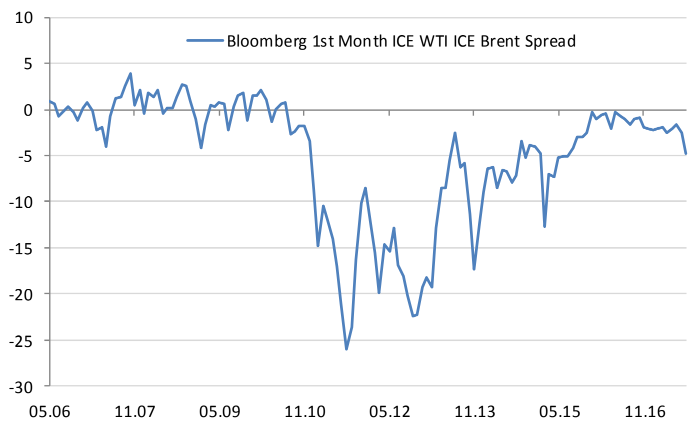
Gold and Inflation



Crude Oil Inventory (USA)



WTI - Brent Price Spread



Graph sources: Bloomberg/BearBull Global Investments Group

PROSPECTS AND STRATEGIES

Hedge Funds

- Alternative investments are not reaping much benefit from the current market context

Private Equity

- The Composite Private Equity index rises +10.5% in 2017

Alternative investments are not reaping much benefit from the current market context

Since the beginning of the year, the HFRX Global index has progressed +4.4%, well below the performances of various international equities markets or even of diversified bond indices. The MSCI World index and US equities have indeed risen +16.01% and 14.24%, respectively, in nine months, while the JP Morgan Global Aggregate Bond index is up +6.0% ytd.

Equity Hedge and Event Driven strategies posted the best results this year at +7.1% and +6.6%, respectively. Indeed, Equity Hedge strategies were able to create value in August, while equities markets were stagnating or sliding backward, and thus gained 3.3% in Q3.

Relative Value Arbitrage strategies are up +2.8% since the beginning of the year, rising 1.1% in Q3, while Macro/CTA, the only strategy in the red in 2017 (-0.1%) posted a +0.7% increase in Q3.

However, it is important to note that the performance of HFRX indices comprises a large range of disparate results, even within similar investment strategies.

The Composite Private Equity index rises +10.5% in 2017

September was notably positive for private equity and in particular for the European segment (+6.1%). The latter is also the best performing year-to-date, progressing +16.0%.

Since the beginning of the year, the performance of the US segment, as measured by the LPX America Listed Private Equity index, is rather disappointing, with an increase of only 3.2% in spite of +4.1% growth in September.

HEDGE FUND INDICES (USD)

30.09.2017

	Name	Last price	Curr.	Total Return Performance 7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1256.8	USD	0.1	0.6	1.8	2.8	4.4
EQUITY HEDGE	HFRX Equity Hedge Index	1237.1	USD	0.3	1.8	3.2	4.5	7.1
EVENT DRIVEN	HFRX Event Driven Index	1667.4	USD	0.2	0.8	1.9	3.7	6.6
MACRO/CTA	HFRX Macro/CTA Index	1134.3	USD	-0.6	-1.0	0.7	0.7	-0.1
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1173.9	USD	0.2	0.3	1.1	1.8	2.8
LATIN AMERICA*	HFRX Latin America Index	2204.2	USD	-	2.9	6.7	6.0	13.2
ASIA COMPOSITE*	HFRX Asia Composite Hedge Fund Index	2409.7	USD	-	1.4	3.5	4.7	9.9
NORTHERN EUROPE*	HFRX Northern Europe Index	1989.7	USD	-	1.5	1.6	3.2	5.6
ASIA EX-JAPAN*	HFRX Asia ex-Japan Index	2655.0	USD	-	1.5	4.8	5.4	14.7
MULTI-REGION	HFRX Multi-Region Index	1336.9	USD	0.1	0.6	1.1	2.2	3.1

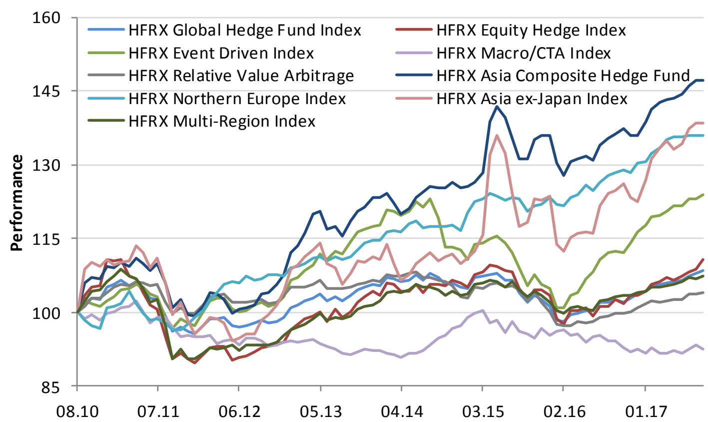
* Subject to one-month lag

PRIVATE EQUITY INDICES (EUR)

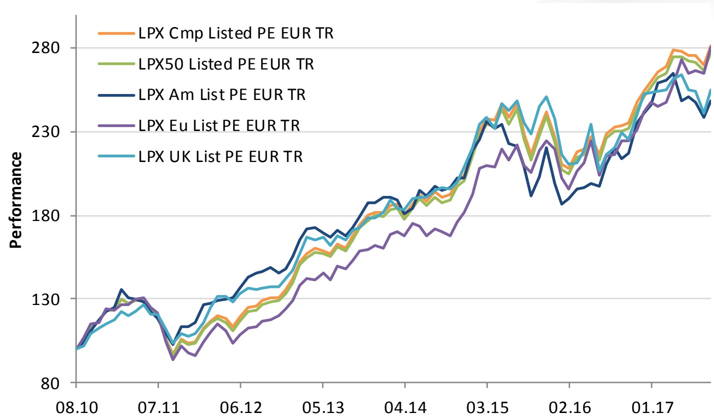
30.09.2017

	Name	Last price	Curr.	Total Return Performance 7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	233.6	EUR	1.9	4.2	2.0	4.5	10.5
MAJOR COMPANIES	LPX50 Listed PE EUR TR	2197.0	EUR	1.9	4.2	2.0	4.5	10.6
USA	LPX Am List PE EUR TR	330.3	EUR	2.2	4.1	-1.1	-5.1	3.2
EUROPE	LPX Eu List PE EUR TR	896.9	EUR	2.3	6.1	5.9	13.4	16.0
UK	LPX UK List PE EUR TR	284.8	EUR	2.7	5.6	0.0	-0.5	1.0

Hedge funds

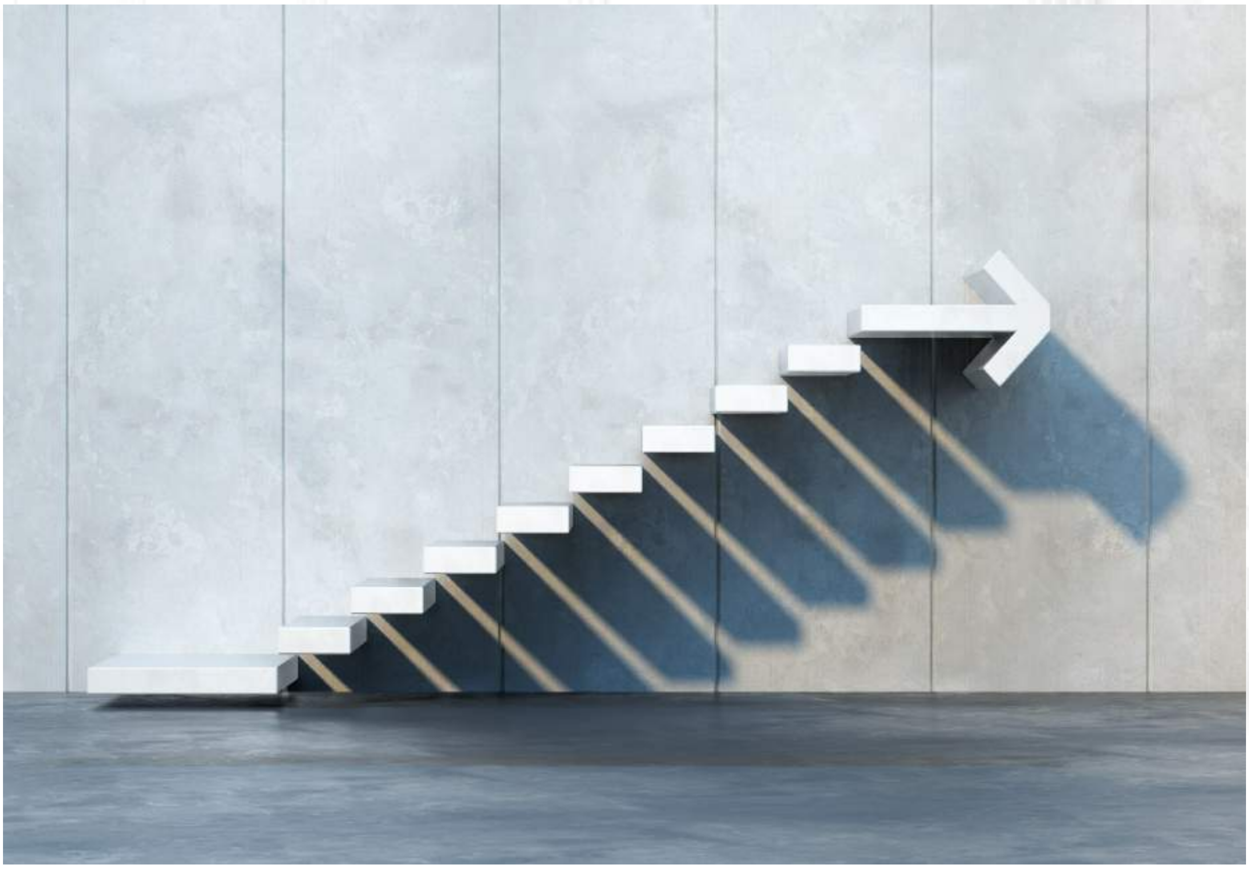


Private Equity



Graph sources: Bloomberg/BearBull Global Investments Group

GLOBAL STRATEGY & ASSET ALLOCATION



Graph sources: Bloomberg/BearBull Global Investments Group

GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: medium risk - CHF

- The normalisation of long-term interest rates is underway
- Real estate remains the preferred alternative to bonds
- Adopt a more cautious position vis-à-vis equities
- After the euro, it is the dollar's turn

ASSETS	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Cash	↘	↘							
Bonds	↘↘	↘↘							
Real Estate	↗	↗							
Equities	↘	→							
Hedge funds	→	→							
Commodities	↗↗	↗↗							
Private equity	↗	↗							

Asset allocation

The core of our investment strategy is made up of traditional liquid assets (liquidities, bonds, equities and real estate), which is then complemented by other diversified, tradable assets (commodities, hedge funds, private equity).

Bonds

Global economic growth has improved and will likely accelerate in the next several months. This new outlook suggests that adjustment of long-term rates will resume. The pause expected with regard to inflation indicators materialised, while inflation is now expected to take off once again in the US and the Eurozone in particular. This factor could potentially generate risk and renewed concerns. The normalisation of policy rates continues without surprises in the US, and the asset purchase programme in Europe will likely be discontinued in 2018. The rise in long-term rates will likely restrain the pace of monetary tightening. Emerging markets and the high yield segment are now less attractive. Bond market risks have become more present, and we recommend reducing maturities and overall exposure.

Real estate

Real estate is benefitting from the improvement in the global economic cycle and from persistently low interest rates. In most countries, real estate yields remain attractive and continue to represent an alternative to fixed income investments. After recommending some profit-taking, we overweight this segment once again, favouring European and Asian markets.

Equities

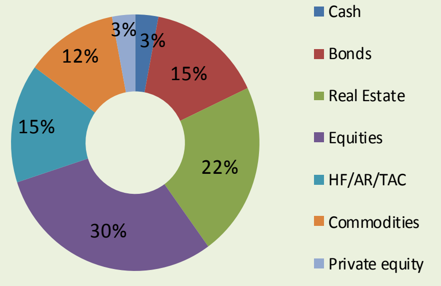
Economic fundamentals are good, and financial markets do not seem prepared to punish Trump's absence of effectiveness on both the economic and political fronts. The increase in equity markets suggests perhaps excessive optimism with regard to the outlook for earnings growth and the impact of fiscal reform. While there are no obvious signs of nervousness yet, our risk indicators emphasise a heightened risk of slowdown in equity markets. We recommend reducing risk.

Commodities

A strengthening global economy will help commodities benefit from renewed investor interest in this asset class whose performance is stronger when inflation is rising.

Graph sources: Bloomberg/BearBull Global Investments Group

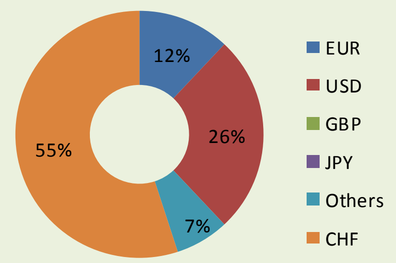
Asset allocation - CHF portfolio



Tactical Allocation

- More cautious stance on equities
- Overweight real estate, commo, currencies
- Underweight bonds

Currency allocation - CHF portfolio



Crude prices will likely also resume their upward trend after staying put for a time above $50. Risk levels remain low in all segments. The precious metals segment is consolidating its gains. We recommend overweighting commodities.

Currencies

The rapid rise of the euro in the last few months reflects the expected change in investors' perceptions of the European currency, sustained by a stronger outlook for the Eurozone. At current levels, momentum will likely lose steam. We recommend adjusting allocations in favour of the US dollar. The franc will likely remain weak in 2H17, in particular against the US dollar but also against the major currencies. We recommend significant exposure to currencies and temporary profit-taking on the euro.

Market performances - Q3 2017

		Q3 2017 local	Q3 2017 CHF	YTD local	YTD CHF
Exchange rates					
USD/CHF		1.1%		-5.0%	
EUR/CHF		4.5%		6.7%	
GBP/CHF		4.0%		3.1%	
JPY/CHF		0.9%		-1.2%	
Equity markets					
World	MSCI World USD	4.8%	6.0%	16.0%	10.2%
Europe	DJ Stoxx 600	2.7%	7.3%	9.9%	17.3%
Eurozone	DJ Eurostoxx 50	4.4%	9.1%	9.2%	16.6%
	MSCI Europe S.C.	4.7%	9.3%	14.0%	21.6%
Germany	Dax 30	4.1%	8.7%	11.7%	19.2%
France	Cac 40	4.1%	8.7%	9.6%	17.0%
United Kingdom	FTSE 100	0.8%	4.8%	3.2%	6.4%
Switzerland	SPI	3.1%	3.1%	16.5%	16.5%
	SMI	2.8%	2.8%	11.4%	11.4%
	MSCI Swiss S.C.	3.2%	3.2%	29.8%	29.8%
North America	SP500	4.0%	5.1%	12.5%	6.9%
	Nasdaq	5.8%	6.9%	20.7%	14.7%
	Tse 300	3.0%	8.2%	2.3%	4.8%
	SP600 Small C.	5.6%	6.8%	7.9%	2.5%
Japan	Nikkei 225	1.6%	2.6%	6.5%	5.2%
Emerging	MSCI EMF USD	7.0%	8.2%	25.5%	19.2%

		Q3 2017 local	Q3 2017 CHF	YTD local	YTD CHF
Interest rates (3 months)		(level)			
CHF		-0.73%			
EUR		-0.38%			
USD		1.33%			
JPY		-0.05%			
Bonds markets					
World	Citi Gr Global Govt.USD	1.8%	2.9%	6.4%	1.1%
Europe	Euro Ser-E Gov > 1	0.6%	5.1%	-0.3%	6.4%
United Kingdom	UK Ser-E Gov > 1	-0.4%	3.5%	-0.2%	2.9%
Switzerland	SBI Général AAA-BBB	0.0%	0.0%	-0.3%	-0.3%
	SBI Govt.	-0.4%	-0.4%	-1.5%	-1.5%
USA	US Ser-E Gov > 1	0.4%	1.5%	2.4%	-2.7%
Japan	Japan Ser-E Gov > 1	0.1%	1.1%	-0.2%	-1.4%
Emerging	J.P. Morgan EMBI Global	2.4%	3.5%	8.7%	3.3%
Miscellaneaous					
	LPP 25 Index	1.9%	1.9%	3.9%	3.9%
	LPP 40 Index	2.7%	2.7%	5.9%	5.9%
	LPP 60 Index	3.9%	3.9%	8.7%	8.7%
Real Estate CH	DB RB Swiss Real Est Fd	-2.7%	-2.7%	4.3%	4.3%
Hedge Funds	Hedge Fund Research USD	1.4%	2.5%	3.8%	-1.4%
Commodities	GS Commodity USD	7.2%	8.4%	-3.8%	-8.5%

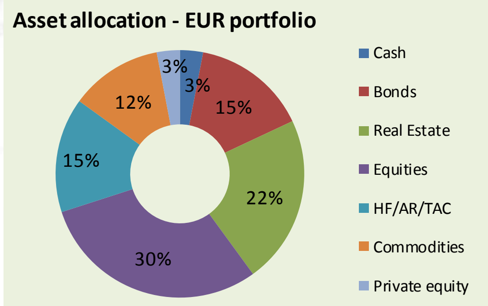
BearBull Global Investments Group

GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: medium risk - EUR

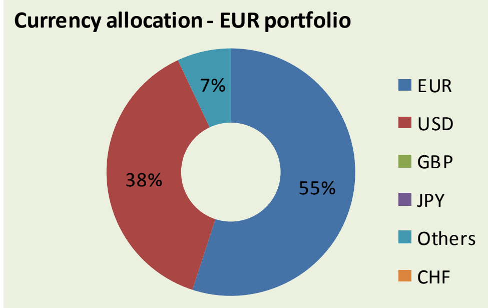
- Normalization of long-term rates in the euro area is coming soon
- Real estate yields remain an alternative
- Adopt a more cautious positioning in equity markets
- Focus on commodities and precious metals

ASSETS	Expected Return 3months	Expected Return 1year	ALLOCATION (EUR Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Cash	→	→							
Bonds	↘↘	↘↘							
Real Estate	↗	↗							
Equities	↘	→							
Hedge funds	→	→							
Commodities	↗↗	↗↗							
Private equity	↗	↗							



Tactical Allocation

- More cautious stance on equities
- Overweight real estate, commo, dollar
- Underweight bonds



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Global economic growth has improved and will likely accelerate in the next several months. This new outlook suggests that adjustment of long-term rates will resume. The pause expected with regard to inflation indicators materialised, while inflation is now expected to take off once again in the US and the Eurozone in particular. This factor could potentially generate risk and renewed concerns. The normalisation of policy rates continues without surprises in the US, and the asset purchase programme in Europe will likely be discontinued in 2018. The rise in long-term rates will likely restrain the pace of monetary tightening. Emerging markets and the high yield segment are now less attractive. Bond market risks have become more present, and we recommend reducing maturities and overall exposure.

Real estate

Real estate is benefitting from the improvement in the global economic cycle and from persistently low interest rates. In most countries, real estate yields remain attractive and continue to represent an alternative to fixed income investments. After recommending some profit-taking, we overweight this segment once again, favouring European and Asian markets.

Equities

Economic fundamentals are good, and financial markets do not seem prepared to punish Trump's absence of effectiveness on both the economic and political fronts. The increase in equity markets suggests perhaps excessive optimism with regard to the outlook for earnings growth and the impact of fiscal reform. While there are no obvious signs of nervousness yet, our risk indicators emphasise a heightened risk of slowdown in equity markets. We recommend reducing risk.

Commodities

A strengthening global economy will help commodities benefit from renewed investor interest in this asset class whose performance is stronger when inflation is rising. Crude prices will likely also resume their upward trend after staying put for a time above $50. Risk levels remain low in all segments. The precious metals segment is consolidating its gains. We recommend overweighting commodities.

Currencies

The rapid rise of the euro in the last few months reflects the expected change in investors' perceptions of the European currency, sustained by a stronger outlook for the Eurozone. At current levels, momentum will likely lose steam, mainly due to political events in Germany and Spain. We recommend adjusting allocations in favour of the USD, AUD, and CAD.

Market performances - Q3 2017

		Q3 2017 local	Q3 2017 EUR	YTD local	YTD EUR
Exchange rates					
USD/EUR		-3.3%		-11.0%	
CHF/EUR		-4.3%		-6.3%	
GBP/EUR		-0.5%		-3.3%	
JPY/EUR		-3.4%		-7.4%	
Equity markets					
World	MSCI World USD	4.8%	1.4%	16.0%	3.3%
Europe	DJ Stoxx 600	2.7%	2.7%	9.9%	9.9%
Eurozone	DJ Eurostoxx 50	4.4%	4.4%	9.2%	9.2%
	MSCI Europe S.C.	4.7%	4.7%	14.0%	14.0%
Germany	Dax 30	4.1%	4.1%	11.7%	11.7%
France	Cac 40	4.1%	4.1%	9.6%	9.6%
United Kingdom	FTSE 100	0.8%	0.3%	3.2%	-0.2%
Switzerland	SPI	3.1%	-1.3%	16.5%	9.2%
	SMI	2.8%	-1.6%	11.4%	4.4%
	MSCI Swiss S.C.	3.2%	-0.2%	29.8%	15.6%
North America	SP500	4.0%	0.5%	12.5%	0.2%
	Nasdaq	5.8%	2.3%	20.7%	7.4%
	Tse 300	3.0%	3.5%	2.3%	-1.8%
	SP600 Small C.	5.6%	2.1%	7.9%	-3.9%
Japan	Nikkei 225	1.6%	-1.8%	6.5%	-1.4%
Emerging	MSCI EMF USD	7.0%	3.5%	25.5%	11.7%

		Q3 2017 local	Q3 2017 EUR	YTD local	YTD EUR
Interest rates (3 months)		*(level)*			
CHF		-0.73%			
EUR		-0.38%			
USD		1.33%			
JPY		-0.05%			
Bonds markets					
World	Citi Gr Global Govt.USD	1.8%	-2.5%	6.4%	-0.3%
Europe	Euro Ser-E Gov > 1	0.6%	0.6%	-0.3%	-0.3%
United Kingdom	UK Ser-E Gov > 1	-0.4%	-0.9%	-0.2%	-3.6%
Switzerland	SBI Général AAA-BBB	0.0%	-4.3%	-0.3%	-6.6%
	SBI Govt.	-0.4%	-4.7%	-1.5%	-7.7%
USA	US Ser-E Gov > 1	0.4%	-2.9%	2.4%	-8.9%
Japan	Japan Ser-E Gov > 1	0.1%	-3.3%	-0.2%	-7.6%
Emerging	J.P. Morgan EMBI Global	2.4%	-1.0%	8.7%	-3.2%
Miscellaneaous					
	LPP 25 Index	1.9%	-4.5%	3.9%	-2.7%
	LPP 40 Index	2.7%	-3.8%	5.9%	-0.7%
	LPP 60 Index	3.9%	-2.7%	8.7%	1.8%
Real Estate CH	DB RB Swiss Real Est Fd	-2.7%	-2.7%	4.3%	-2.3%
Hedge Funds	Hedge Fund Research USD	1.4%	-1.9%	3.8%	-7.6%
Commodities	GS Commodity USD	7.2%	3.7%	-3.8%	-14.3%

Graph sources: Bloomberg/BearBull Global Investments Group

BearBull Global Investments Group

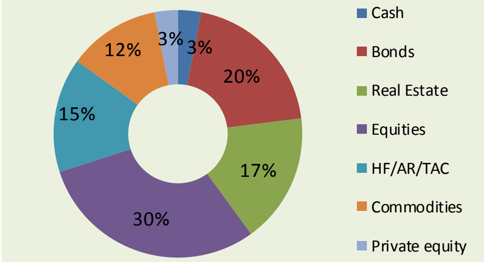
GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: medium risk - USD

- A future rise in long-term rates in US dollars
- Real estate yields still represent an alternative
- Beware high valuations on equity markets
- Prioritise commodities

ASSETS	Expected Return 3months	Expected Return 1year	ALLOCATION (USD Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Cash	→	→							
Bonds	↘↘	↘↘							
Real Estate	↗	↗							
Equities	↘	→							
Hedge funds	→	→							
Commodities	↗↗	↗↗							
Private equity	↗	↗							

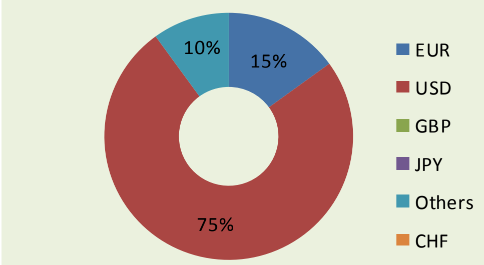
Asset allocation - USD portfolio



Tactical Allocation

- More cautious stance on equities
- Overweight real estate and commodities
- Concentrate on USD assets

Currency allocation - USD portfolio



Asset allocation

The core of our investment strategy is made up of traditional liquid assets (liquidities, bonds, equities and real estate), which is then complemented by other diversified, tradable assets (commodities, hedge funds, private equity).

Bonds

Global economic growth has improved and will likely accelerate in the next several months. This new outlook suggests that adjustment of long-term rates will resume. The pause expected with regard to inflation indicators materialised, while inflation is now expected to take off once again in the US and the Eurozone in particular. This factor could potentially generate risk and renewed concerns. The normalisation of policy rates continues without surprises in the US, and the asset purchase programme in Europe will likely be discontinued in 2018. The rise in long-term rates will likely restrain the pace of monetary tightening. Emerging markets and the high yield segment are now less attractive. Bond market risks have become more present, and we recommend reducing maturities and overall exposure, while favoring the USD market which offers attractive returns in international comparison.

Real estate

Real estate is benefitting from the improvement in the global economic cycle and from persistently low interest rates. In most countries, real estate yields remain attractive and continue to represent an alternative to fixed income investments. After recommending some profit-taking, we overweight this segment once again, favouring European and Asian markets as a diversification for real estate investments in dollars.

Equities

Economic fundamentals are good, and financial markets do not seem prepared to punish Trump's absence of effectiveness on both the economic and political fronts. The increase in equity markets suggests perhaps excessive optimism with regard to the outlook for earnings growth and the impact of fiscal reform. While there are no obvious signs of nervousness yet, our risk indicators emphasise a heightened risk of slowdown in equity markets. We recommend reducing risk.

Commodities

A strengthening global economy will help commodities benefit from renewed investor interest in this asset class whose performance is stronger when inflation is rising. Crude prices will likely also resume their upward trend after staying put for a time above $50. Risk levels remain low in all segments. The precious metals segment is consolidating its gains. We recommend overweighting commodities.

Currencies

The weakness of the dollar does not reflect current US fundamentals. An acceleration of economic growth is quite possible at year-end. The rapid rise of the euro over the last several months should abate due in particular to political events in Germany and Spain. We recommend a significant shift of allocations in favour of the US, Australian, and Canadian dollars.

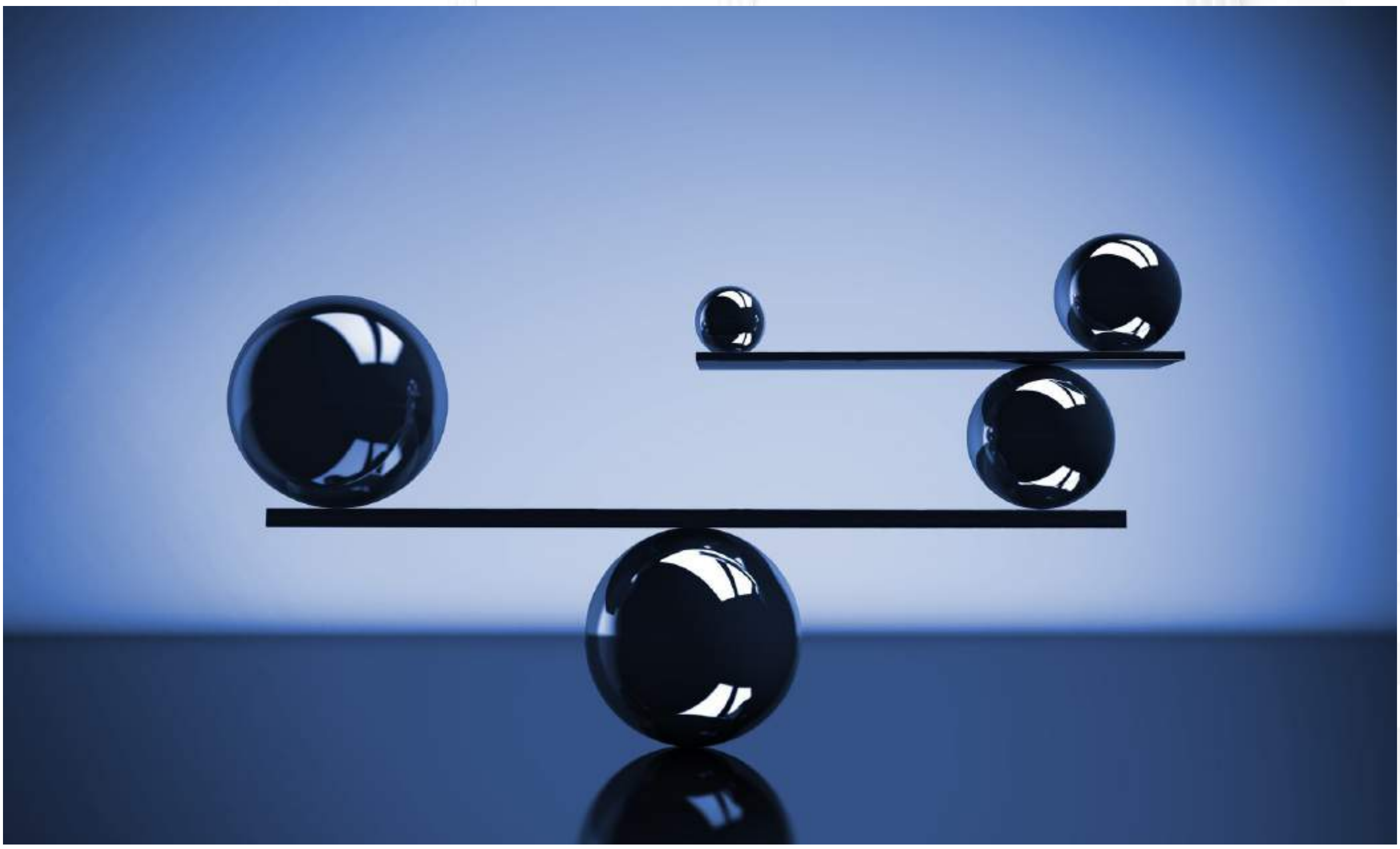
Market performances - Q3 2017

		Q3 2017 local	Q3 2017 USD	YTD local	YTD USD
Exchange rates					
CHF/USD		-1.0%		5.2%	
EUR/USD		3.4%		12.3%	
GBP/USD		2.9%		8.6%	
JPY/USD		-0.2%		4.0%	
Equity markets					
World	MSCI World USD	4.8%	4.8%	16.0%	16.0%
Europe	DJ Stoxx 600	2.7%	6.2%	9.9%	23.5%
Eurozone	DJ Eurostoxx 50	4.4%	8.0%	9.2%	22.7%
	MSCI Europe S.C.	4.7%	8.2%	14.0%	28.0%
Germany	Dax 30	4.1%	7.6%	11.7%	25.5%
France	Cac 40	4.1%	7.6%	9.6%	23.1%
United Kingdom	FTSE 100	0.8%	3.7%	3.2%	12.1%
Switzerland	SPI	3.1%	2.1%	16.5%	22.6%
	SMI	2.8%	1.8%	11.4%	17.2%
	MSCI Swiss S.C.	3.2%	3.2%	29.8%	29.8%
North America	SP500	4.0%	4.0%	12.5%	12.5%
	Nasdaq	5.8%	5.8%	20.7%	20.7%
	Tse 300	3.0%	7.1%	2.3%	10.2%
	SP600 Small C.	5.6%	5.6%	7.9%	7.9%
Japan	Nikkei 225	1.6%	1.5%	6.5%	10.7%
Emerging	MSCI EMF USD	7.0%	7.0%	25.5%	25.5%

		Q3 2017 local	Q3 2017 USD	YTD local	YTD USD
Interest rates (3 months)		*(level)*			
CHF		-0.73%			
EUR		-0.38%			
USD		1.33%			
JPY		-0.05%			
Bonds markets					
World	Citi Gr Global Govt.USD	1.8%	0.8%	6.4%	11.9%
Europe	Euro Ser-E Gov > 1	0.6%	4.0%	-0.3%	12.0%
United Kingdom	UK Ser-E Gov > 1	-0.4%	2.4%	-0.2%	8.3%
Switzerland	SBI Général AAA-BBB	0.0%	-1.0%	-0.3%	4.9%
	SBI Govt.	-0.4%	-1.4%	-1.5%	3.7%
USA	US Ser-E Gov > 1	0.4%	0.4%	2.4%	2.4%
Japan	Japan Ser-E Gov > 1	0.1%	0.0%	-0.2%	3.8%
Emerging	J.P. Morgan EMBI Global	2.4%	2.4%	8.7%	8.7%
Miscellaneaous					
	LPP 25 Index	1.9%	7.3%	3.9%	9.3%
	LPP 40 Index	2.7%	8.1%	5.9%	11.5%
	LPP 60 Index	3.9%	9.3%	8.7%	14.4%
Real Estate CH	DB RB Swiss Real Est Fd	-2.7%	-2.7%	4.3%	9.8%
Hedge Funds	Hedge Fund Research USI	1.4%	1.4%	3.8%	3.8%
Commodities	GS Commodity USD	7.2%	7.2%	-3.8%	-3.8%

Graph sources: Bloomberg/BearBull Global Investments Group

INVESTMENT THEMES
FOCUS



Graph sources: Bloomberg/BearBull Global Investments Group

INVESTMENT THEMES:

Limitations of hedging currency risks

- The Euro has reached 1.15, and the Swiss franc has corrected 75% of its sharp appreciation on 15.01.15
- Non-linear appreciation of the Swiss franc in the long-term
- How to calculate the cost of currency hedging? There is no great secret- the cost of hedging depends on the interest rate differential
- What level of protection is truly provided by systematic hedging?

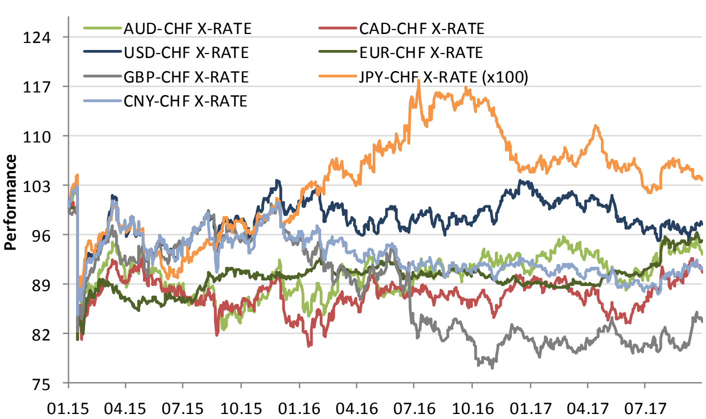
The Euro has reached 1.15, and the Swiss franc has corrected 75% of its sharp appreciation on 15th January 2015

With a rise from 1.07 to 1.15, the Euro has appreciated nearly +7% over the last eight months, now hitting our medium-term target. In this context, it must not be forgotten that this appreciation wipes out nearly 75% of the drop posted by the Euro in 2015 (-19%), following the SNB dropping the Euro floor. As regards the US dollar, before we go any further, here, too, we should recall that at 0.97 Swiss francs to the US dollar, today the latter is trading at the same rate as in October 2014, just a few months before the SNB's intervention. Just over 30 months after the SNB's strategy change, the appreciation of the Swiss franc against the Euro and the US dollar now only stands at +4.2% and +5% respectively.

Non-linear appreciation of the Swiss franc in the long-term

Obviously, it should not be deduced from this that exchange rate fluctuations end up moving towards equilibrium in the long-term and that it is pointless to try to protect oneself, whether it be systematically, occasionally, or when an opportunity presents itself. At this juncture, it is important to remember that since a floating exchange rate regime was established at the start of the 1970s, the Swiss franc has appreciated by around +3% per year against the US dollar, just as the dollar has slid 4.3% to 0.97 Swiss francs to the US dollar. The Euro has also taken the same path since it was created in 1999, losing an average of -1.8% per year, which corresponds to depreciation from 1.6 Swiss francs to the Euro to 1.15 today.

Major currencies against CHF (2015-2017)



Graph sources: Bloomberg/BearBull Global Investments Group

However, it is interesting to underscore that despite the stark appreciation of the Swiss franc, particularly against these two currencies, in the long-term, the process is far from linear. This is indicated both by levels of volatility (12% for the dollar/franc exchange rate over 46 years, and 6.2% for Euro/franc over a shorter period of 17 years), and the way in which annual performances are distributed over the years. The US dollar/Swiss franc exchange rate is almost equally divided between years of appreciation (48%) and depreciation (52%), whilst for the Euro/Franc exchange rate the number of years with falls easily wins out (70%). In the case of the US dollar, then, there is more opportunity to make a gain. This makes it possible to exploit periods of temporary weakness via an appropriate strategy to manage the risks and opportunities of exposure to foreign currencies.

Calculating the cost of currency hedging

For the US dollar and the Euro, for example, over the last 20 years, the theoretical cost is estimated at 1.8% (excluding transaction and management fees) for USD/CHF, and since 1999, the theoretical cost for EUR/CHF is 1.2% (excluding transaction and management fees). Systematic hedging therefore represents a sizeable cost for the investor, as we can see from above. Today, the cost of hedging the risk over a year is estimated at 0.42% for the Euro (excluding transaction and management fees), and 2.2% for the US dollar (excluding transaction and management fees).

There is no great secret- the cost of hedging depends on the interest rate differential

The cost of hedging a position in currencies is relatively simple to estimate, as it basically depends on known variables, such as the interest rates of the two currencies, and the exchange rate, to which are added transaction/management fees. Specifically, systematic hedging consists of selling one foreign currency forward, for example a year, to reduce effective exposure to this currency for the same value as the portfolio to be protected.

For example, overall exposure to assets denominated in US dollars of 40% will be reduced to 30% by selling forward 10% of the US dollars. The exchange rate over the period, which is obtained upon sale of the foreign currency, to reduce exposure to US dollars in our example, is basically determined by the interest rate differential applied.

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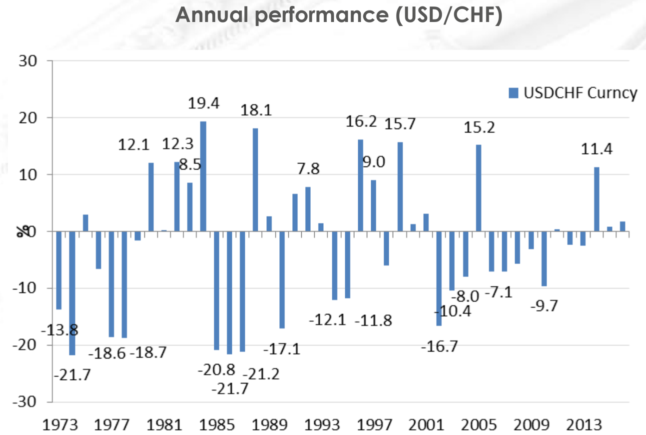
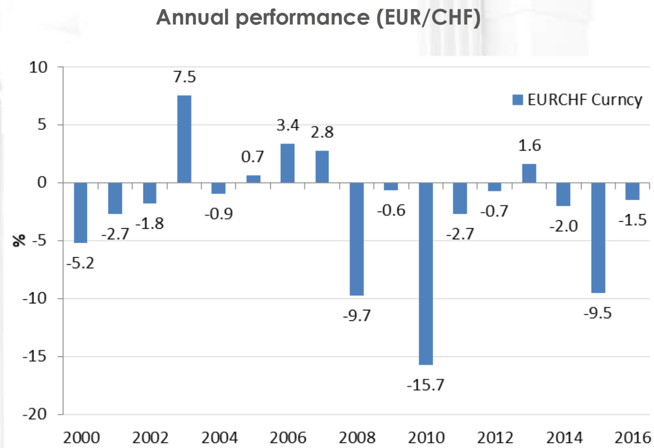
As such, a 12-month sale of US dollars against Swiss francs will only involve three key parameters- the USD/CHF spot exchange rate and the 12-month rates in US dollars and Swiss francs. The 12-month rates currently being higher in US dollars (1.7%) than Swiss francs (-0.5%), a differential of around 220 points will be used to calculate the forward value of the exchange rate, reducing by the same amount the forward exchange rate obtained when applying US dollar risk hedging.

The forward (12-month) exchange rate (0.938) will therefore naturally be lower than the spot rate (0.961), providing no speculation or forecasting is involved in calculating this rate. However, transaction/management fees still need to be incorporated in order to get effective net value of the forward exchange rate calculated.



What level of protection is truly provided by systematic hedging?

In the long term, the theoretical annual cost of systematic hedging (excluding transaction/management fees) for the US dollar (1.8%) represents around two thirds of the appreciation in the currency (-3%). For the Euro, the cost of exchange rate hedging is estimated at 1.2%/year on average, exclusive of fees, and should be compared with average annual depreciation of -1.8% of the Euro against the Swiss franc, giving the same cost/depreciation ratio of around 60%. We can therefore see that the costs of systematic currency risk hedging for these two currencies are already very high, before transaction and management fees are even added into the equation. When we take this additional element into account, depending on the fees applied, the impact of hedging costs can be similar to the historical depreciation of the currency in question, and therefore has no tangible financial benefit in terms of performance.



There is therefore no guarantee of being able to protect the local currency as expected. This is important to take into account when estimating the expected benefits of a systematic currency hedging policy, so as not to overestimate the merits and features of such an approach on management results.

As a result, analysis of opportunities presented by implementing this type of approach should not be limited to this parameter when establishing how effective it would be. One of the significant benefits of managing currency risks is the decreased overall volatility of the portfolio due to exchange rate fluctuations being eliminated by the policy. Better management of currency risks reduces their inherent volatility, and enables the budget that should have been set aside for risk to be allocated to other assets. Investors should now take this element into consideration, particularly when determining whether systematic currency risk management should be implemented across the board, or whether it should be reserved for a particular asset class, for example.

Graph sources: Bloomberg/BearBull Global Investments Group

INVESTMENT THEMES:

Biofuels: Increase in crude oil prices and pick-up in exports to benefit US producers

- What performance for biofuel producers in 2017?
- Positive prospects for crude oil prices
- US Biofuel market: context, economic background and political will under D. Trump
- Brazil, a new market for US producers

What performance for biofuel producers in 2017?

Since the beginning of the year, companies in the biofuel sector have risen +15.40%, i.e. a result similar to that of the MSCI World TR Index (+16.01%). Moreover, they have clearly outperformed equities in the energy sector, down by -1.58% over the same period. Nevertheless, this increase includes a variety of performance depending on which companies.

Despite the rise already recorded, we believe that companies in the biofuel sector will benefit from a combination of favourable factors in the remaining of 2017 and in 2018. First, on a macroeconomic level, a possible increase in crude prices – a further increase beyond 60$ cannot be excluded – will naturally strengthen the competitiveness of biofuels in terms of price. Also, US ethanol producers, whom we favour, will likely benefit from a pick-up in exports to Brazil and Mexico, although political will still remains uncertain under Trump.

Positive prospects for crude oil prices

Global demand for oil rose sharply in Q1 according to IEA estimates. Indeed, demand for crude increased by approximately 2.3 mbd (+2.4%). For FY2017, the IEA has forecast an average increase of 1.6 mbd, a little above their previous forecast. Demand in OECD countries has been higher than expected both in the US and Europe. The acceleration of global economic growth in 2017 and 2018 should strengthen this trend. In China, demand has also remained robust, and Chinese imports are growing consistently. In emerging markets, the economy is picking up steam as well, and demand for oil could intensify.

An increase in demand of approximately 2 mbd in 2018, in a context where supply is assumed to remain stable, would represent 700 million barrels to be drawn from the OECD's crude stocks. The latter could thus be substantially impacted and rapidly reduced to under 4,000 mb, nearing the lows of the 1990s and below the level (4,095 mb) prevailing when oil prices exceeded $140 per barrel.

The hypothesis that production will stabilise is perhaps slightly more likely given the role of the US in world production. However, the more realistic scenario is that crude exports and the available supply will stabilise because of the determination of the main crude exporters to rebalance the oil market. US exports still make up only a small portion of physical crude transactions. We thus believe it is much more likely that export levels will be controlled and reduced via more effective management by OPEC members and Russia.

Thus, after a period of excess supply, the market should move back toward equilibrium in 2018, and a supply deficit favouring an increase in energy prices should emerge. The imbalance caused by excess demand in 2006-2007 drove crude prices from $60 to $140. Although we do not foresee an impact of that magnitude in the next few years, we do believe that crude prices will benefit from positive developments over the next several quarters, which should propel them beyond $60/barrel.

US Biofuel market: context and economic background

Corn-based ethanol (or 'bioethanol') is the most largely produced and consumed biofuel in the US, representing more than 80% of biofuel production. The US is also the leading producer of ethanol in the world, concentrating over 60% of ethanol production this year. Brazil, the second producer (sugarcane-based ethanol), provides 27% of the world's production.

The hegemony of US production is due to the significant involvement of the authorities in the development of biofuels with the clear aim to reduce the country's energy dependency. The Renewable Fuel Standard (RFS) was thus created in the 2005 Energy Policy Act (EPAct), and then expanded and refined in the 2007 Energy Independence and Security Act (EISA). This programme sets out priorities in terms of biofuels in the US, establishing minimum annual biofuel production and consumption volumes. On a daily basis, the quota and functioning of the RFS are managed by the EPA, the US Environmental Protection Agency. The responsibility for achieving the programme's targets lies with petrol refiners, since they are the ones who can blend up to 10%, even 15% ethanol now (subject to conditions) in the fuel that they sell to petrol stations. Each refiner has an individual quota that has to be met in terms of biofuel.

To monitor biofuel use and the individual quota requirements imposed on petrol refiners, the Renewable Fuel Standard (RFS) programme has set up what are called RINs ('Renewable Identification Number'). Each unit of biofuel produced is given a sort of serial number that will be transferred with the fuel once it is sold. When refiners buy biofuel and blend it with petrol, the RINs are then separated from the fuel and can be exchanged on the market, while the RINs of exported biofuel are removed from the market. Refiners can then choose to meet their individual quota requirements either by blending biofuels into the fuel they sell or by buying back RINs from refiners who have injected more biofuel into their blend than their quota required. That is why it is important for ethanol to maintain competitiveness in terms of price compared to gasoline. In the last decade, ethanol has thus long enjoyed a better price tag compared to petrol, which justified its incorporation by refiners into fuel intended for mass consumption.

Graph sources: Bloomberg/BearBull Global Investments Group

Nevertheless, with the declining crude prices in 2014 and 2015, the competitive advantage of ethanol eroded substantially to the point of being negotiated with a 50-cent premium on petrol prices in February 2017. Since September, the spread is again really in favor of ethanol (-7 cents at the end of September).

What political will under Donald Trump?

Since Donald Trump's election, political will remains uncertain. In our analysis of 10/11/2016, we pointed out that in January 2016, while campaigning for the primary elections and during a speech for an event organised by the Iowa Renewable Fuels Association, the future President underlined that federal regulators would have to increase the quantity of ethanol blended with gasoline intended for mass consumption. Moreover, Donald Trump reiterated his support for the ethanol industry in the US, bringing forward the argument for energy independence.

He then promised that, as President, he would promote the RFS programme and ensure that it would not be revised downwards by the Congress, for instance. Donald Trump has partly kept his word: The EPA's proposals regarding production quotas for biofuels in 2018, published in July, are 15 billion gallons for ethanol, i.e. the same level as in 2017. If anything, a share of the market feared a reduction in quotas. Very recently however, the U.S. Senate Committee on Environment and Public Works elected not to consider draft legislation (S.517) that would help expand the commercialisation of E15 fuel, which contains 15% ethanol. The question was indeed deferred until after the Congress' recess in August.

The very structure of the market in the US, with a theoretical production limit for the domestic market that depends on the authorised quantities for the so-called 'mass-market' gasoline blend remains restrictive for US producers, which is a paradox of the RFS programme.

Nevertheless, analysts are generally quite confident about the future use of E15 fuel this year, a progression that pushes back the structural boundary of the ethanol market from 10% to 15% of the petrol consumed in the country. More importantly though, and this is relatively new on the ethanol market, US producers are now enjoying new export markets, such as Brazil and Mexico.

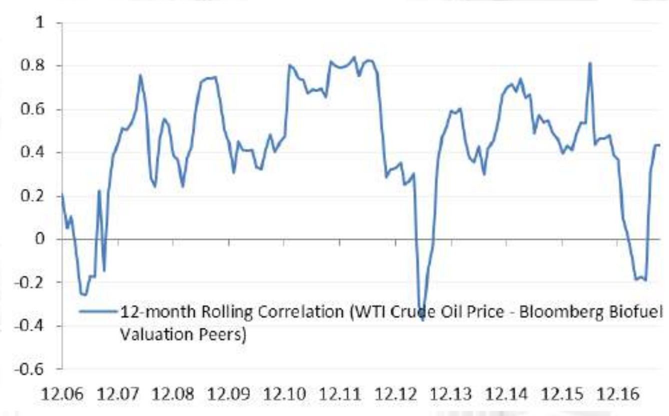
Brazil, a new market for US producers

Even if global demand for ethanol weakened in 2017, US producers might still increase their production in H2, both to cover a robust domestic demand and to meet an increasing export demand. Indeed, in view of the real's appreciation in value since the beginning of 2016, US ethanol has become more competitive in Brazil, which must import to meet its mandatory targets in terms of ethanol blend. Local producers have actually focused on the more lucrative sugar production in the last few months. The estimates released by F.O. Licht anticipate an increase from 220 to 513 million litres of ethanol exported/month by the US by the end of 2017 and an increase in Brazil's imports from 5 to 218 million litres/month, reflecting the intensified trade between the two countries.

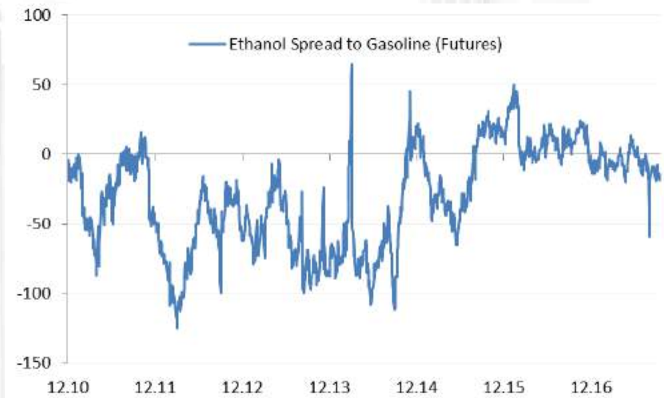
With the end of the PIS/COFINS tax exemption for ethanol at the beginning of 2017, observers feared that ethanol consumption in Brazil would diminish. However, the Brazilian government elected to take a step back on 28 July and to reduce the tax on ethanol after increasing the tax on petrol, diesel and ethanol a week earlier, in an effort to ward off increasing budget deficits. Since the increases announced for petrol and diesel have been maintained, biofuels will benefit from a slight advantage in terms of price at the pump in comparison to gasoline.

In Mexico, the authorities passed a bill at the end of June that allows for a 10% blend of ethanol in the petrol sold in petrol stations (against 5.8% previously). The country will likely provide a potential market for US producers, although to a lesser extent.

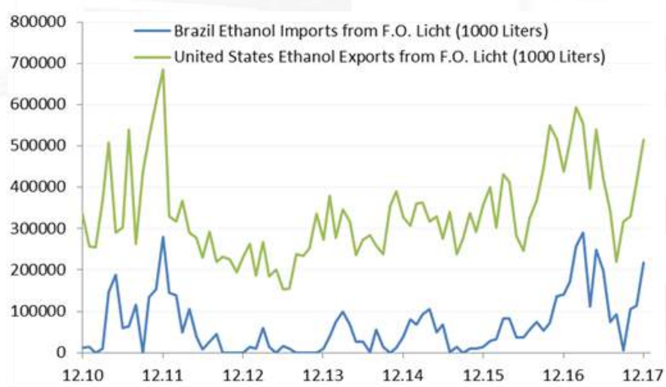
Correlation – Biofuel producers and Oil



Price spread between Ethanol and Gasoline



Ethanol Imports (Brazil) and Ethanol Exports (USA)



Graph sources: Bloomberg/BearBull Global Investments Group

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