INVESTMENT INSIGHTS

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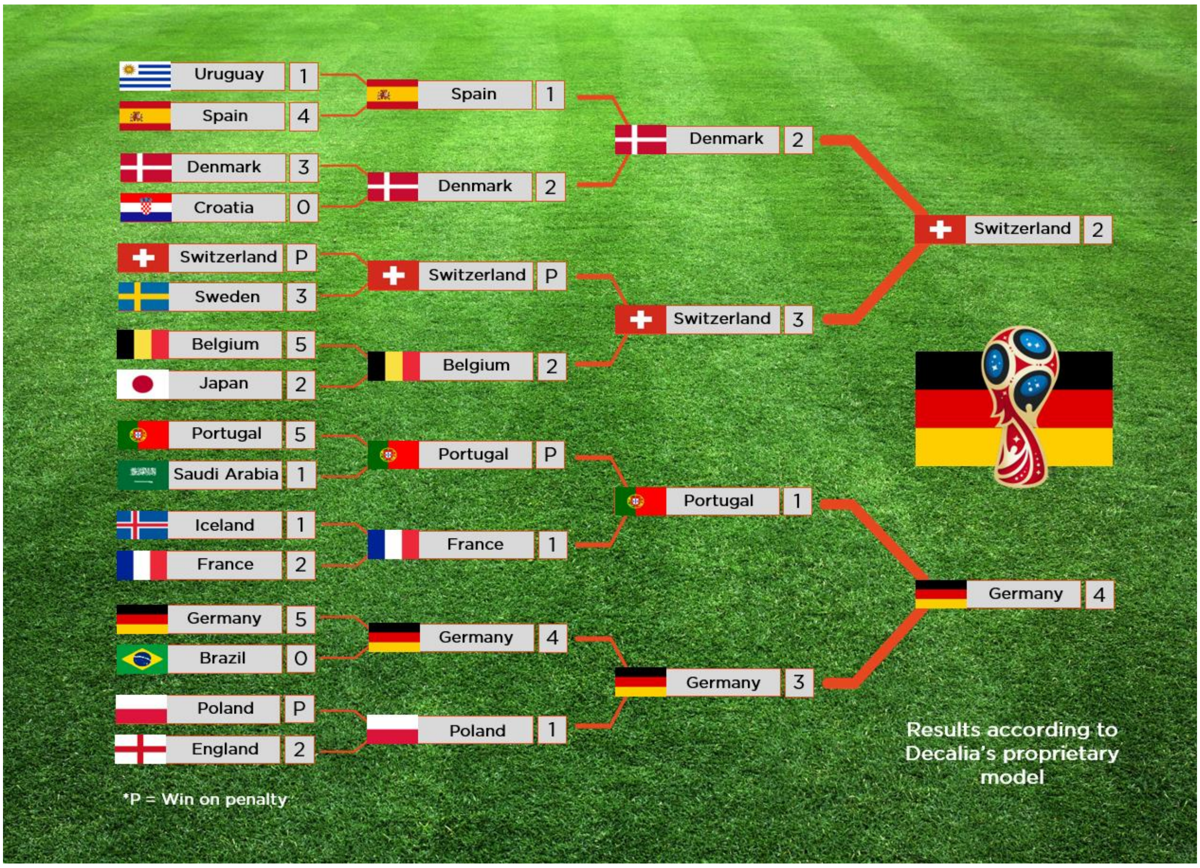

"AND AT THE END, THE GERMANS ALWAYS WIN"

EDITORIAL VIEW Page 2

- This month, 32 nations will be contending for the ultimate football championship trophy in Russia
- Against all *sportive* odds, our proprietary *macro* scorings suggest Switzerland could reach the final
- However, as often, Germany offers the best combination of factors and thus should snatch the title

GLOBAL STRATEGY Page 3

- Global economic soft patch underway – EU/US decoupling favoring the other side of the pond
- Rising geopolitical risks adding an extra layer of uncertainty - EU periphery back in the spotlight
- Expect further high-altitude market turbulence as clouds gather – But no storm in sight (yet)

ASSET ALLOCATION Page 4

- Equities – Stay invested but greater near-term caution with Eurozone downgrade to Neutral
- Fixed Income – Still see downside risk despite recent rise in both nominal & real yields
- FX – Tactical USD upgrade to Neutral vs. Stay bullish EUR over the medium term

Editorial View

"And At The End, The Germans Always Win"

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With the FIFA World Cup kick-off in Russia just a few days away, time has come to run our now traditional twin tournament, assessing the relative strength of the 32 contenders by creating our own scoring for each country, often leading to a surprising but not so improbable final ranking. As reminder, our DECALIA World Competitiveness Country Scoring combines various criteria across four equally weighted categories including *Macroeconomy*, *Corruption & Innovation*, *Market Risk* and their official *FIFA score*. More specifically, whereas our Macro assessment considers hard data such as GDP Growth, Inflation and Economic Performance Index, our Corruption & Innovation score adopts a more qualitative approach, taking into account the *Corruption Perceptions Index* computed by Transparency International and the *Global Innovation Index* published by Cornell University, INSEAD, and the World Intellectual Property Organization. Finally, our Market Risk rating for each country includes CDS, equity volatility & performance, and FX volatility. The combination of all four categories then provides an overall score for each country that is used to determine the winner of every Championship match.

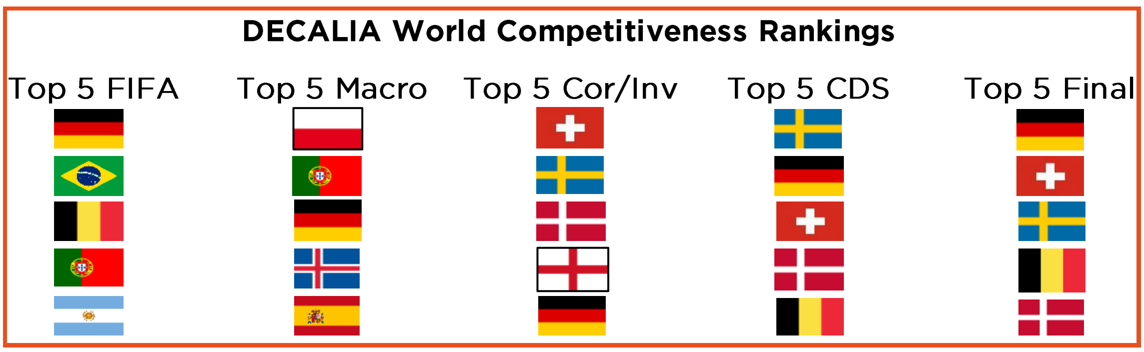
With the Decalia World Cup tournament rules having now been set, let the game be! In the group stage, all 32 teams have fought hard in what turned out to be a spectacular start to the competition, but only 16 could remain: Uruguay, Spain, Denmark, Croatia, Switzerland, Sweden, Belgium, Japan, Portugal, Saudi Arabia, Iceland, France, Germany, Brazil, Poland & England. The host country, Russia, was kicked out after winning only one match (vs. Egypt) just as, more surprisingly, Messi's Argentina.

With the exception of Brazil almost repeating its disastrous 2014 performance against Germany, the first round of the knockout phase offered only little surprises from a sport perspective. Indeed, most favourite teams advanced to the next level while Switzerland narrowly beat Sweden after penalty shootout, helped by its higher FIFA ranking. In the quarter finals, Denmark caused the sensation by defeating Spain 2-1 thanks to a better Corruption and Market Risk rating. Meanwhile, Switzerland sneaked past Belgium with its better innovation index & market risk eventually making the difference. The stage was then set for thrilling semi-finals with both Denmark and Switzerland reaching this level for the first time and offering a tight but spectacular game with the latter ultimately snatching victory (3-2) while Germany marched over Portugal (3-1).

The big day has finally arrived! On the evening of 15 July in Moscow's boiling Luzhniki Stadium, the 2018 Decalia World Cup final sees the Swiss "Nati" challenger defying the current title holder, Germany's insatiable "Mannschaft". The National anthems are sung proudly and loudly while tears are flowing down fans' cheeks. Alas, despite a brave start and early lead for Switzerland driven by its superior Corruption & Innovation ratings, the suspense proved short-lived as Germany took advantage of its greater experience to come back and win the game 4-2, helped by its better Macro score and higher FIFA ranking.

Yet again, as former English player Gary Lineker famously said "Football is a simple game; 22 men chase a ball for 90 minutes and at the end, the Germans win". And this saying seems to be true not only on the pitch…

Chart of the Month



Global Strategy

From “Trump(pet) Show” to “Commedia Dell’Arte”...

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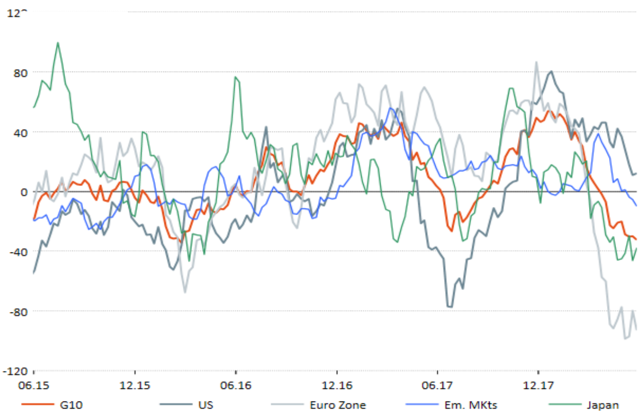
Despite revived geopolitical uncertainties impacting Europe’s periphery (Italy & Spain), we keep our global macro scenario broadly unchanged after already adopting a more cautious tone last month. Indeed, both recent slowing global economic momentum (declining economic surprises) and moderating corporate earnings upgrades along with ongoing monetary policy tightening by major Central Banks’ had already raised warning signs. Admittedly, the additional layer of uncertainty from political tensions in Italy, and to a lesser extent Spain, is likely to drive market volatility higher but as seen in the past, we don’t expect such events to derail the underlying constructive fundamental narrative. Hence, while not predicting a storm for global financial markets in the near term, we nevertheless need to brace ourselves for renewed high-altitude turbulence as clouds gather during this late business cycle stage. The overall picture remains healthy for now but fundamentals are slowly deteriorating as we enter a transition phase. In this context, we recommend keeping a highly selective approach to security selection for the coming months and continue taking profits opportunistically.

As a result, we maintain our "Neutral" portfolio allocation for Equities at this stage. Admittedly, both latest cyclical trends & aforementioned geopolitical events (Italy/Spain, Russia, Iran, Trade wars) warrant a greater note of caution as slowing economic growth, increasing inflation, Central Banks moves, higher asset correlation & rising interest rates all suggest an end to the recent Goldilocks era. However, market fundamentals are still far from trough levels and remain healthy overall with still-easy monetary policies, robust EPS growth, and more affordable valuation all supporting a constructive near-term outlook. As such, we still expect characteristic late-cycle bumpy upside for equity markets this year, tracking positive underlying earnings trends. Within this context, we have recently lowered our Eurozone equity allocation back to Neutral and continue to favor a balanced sector approach with a slight pro-cyclical bias.

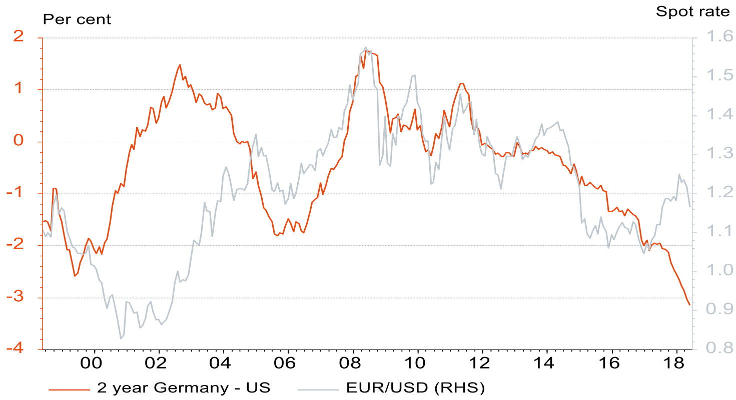
We keep our cautious stance on the Fixed Income asset class unchanged as 2018 will be a turning point for global monetary policies, in our view. Even after the recent rise in nominal & real yields, we still see downside risk from current levels. We nevertheless keep our US Treasury 10 years position as a hedge against geopolitical turmoil for now. A stronger USD has put pressure on EM recently but we remain positive on both Hard & Local currency debt as we see fundamentals further improving with the current crises in Argentina and Turkey likely contained.

Sharp currency swings have continued to play with our nerves lately. We have recently upgraded our short-term view for the USD back to neutral driven by a favorable decoupling of the US (vs. EU) economic momentum, latest political turmoil keeping the EUR under pressure, a more attractive interest rate differential, and the still extreme EUR investor positioning (crowded long trade). However in the medium term, we keep our preference for the EUR vs. CHF & USD as the former should still benefit from its more attractive relative valuation (PPP), Europe’s current account surplus, and the upcoming turning point in the ECB’s policy rates.

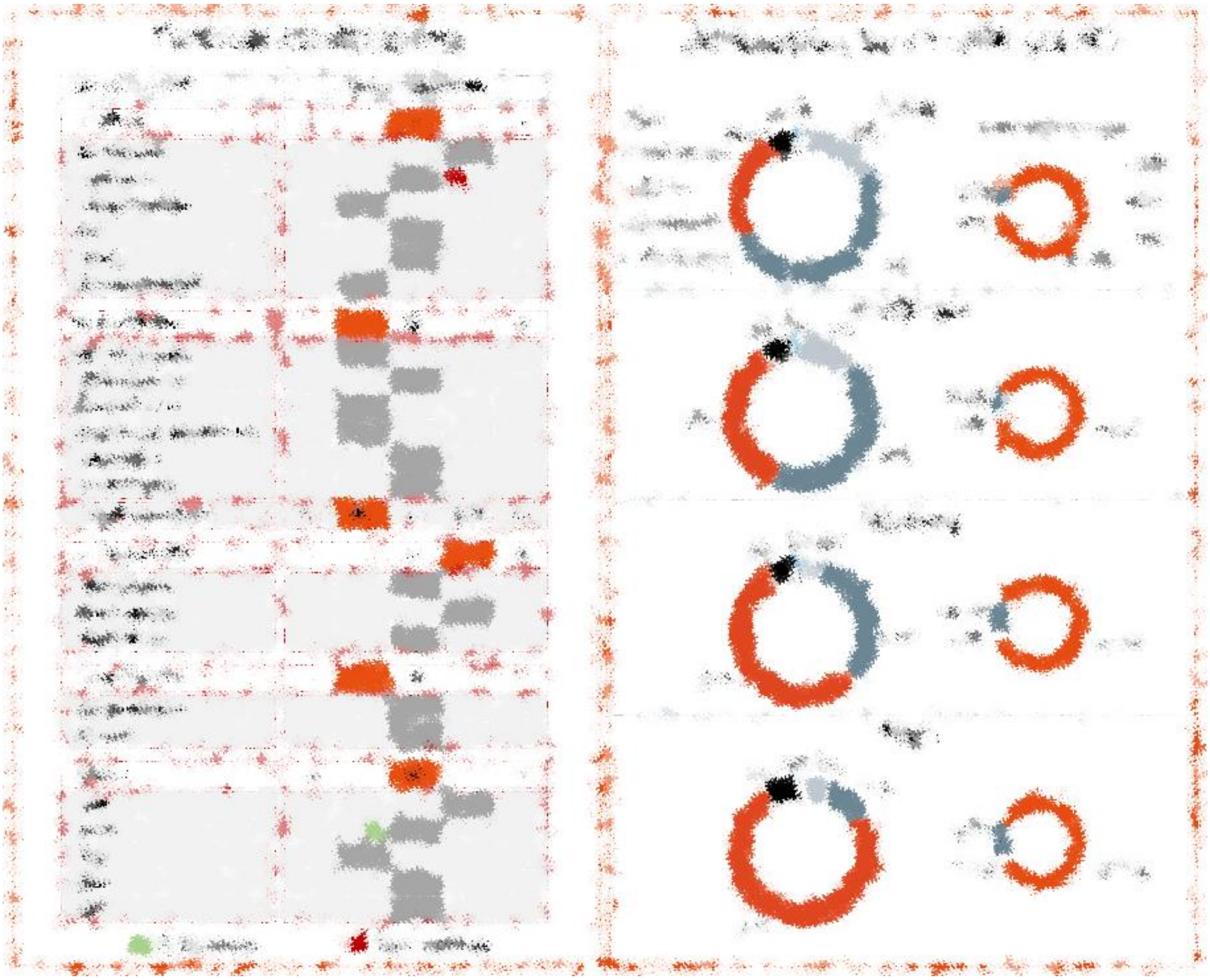
Citigroup Economic Surprise Indices



Interest Rate Spread EUR/USD



Asset Allocation



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External sources include: Bloomberg, OECD, FIFA, Transparency.org, Thomson Reuters DataStream, Globalinnovationindex.org

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