

Market Focus

4 May 2021

Big train running

Vaccine progress, strong earnings, a vehemently dovish Fed and more stimulus talk continue to shine a rosy light on growth prospects as the world emerges from the Covid-19 crisis. In the US there is talk of the economy being at an ‘inflection point’, while over in Europe vaccination programmes are picking up pace as EU member states submit their applications for “NextGenerationEU” funds.

For sure the virus that continues to wreak so much horror across many countries still presents a threat to the global recovery; yet markets appear to have moved on. Earnings calls are seeing more mention of supply chain dislocations and prices than reference to the pandemic (or China), and while expectations indicate a degree of scepticism, markets are still appear comfortable taking the Fed’s side of the bet that peaking data and associated inflation pressures will prove ‘transitory’ – an outcome that should become more apparent as we approach the end of the year.

So as we write US equities continue to flirt with new all-time highs, with little that can stand in their way given the technical strength and broad-based participation in this rally, not to mention the macro tailwinds and the upward revision momentum we are seeing in earnings. The recovery train has a good head of steam and we maintain our view that the market can continue to grind higher over the coming weeks and months led by cyclical names and reopening trades where there remains upside potential. It may also be time for Europe to benefit from its more value-orientated profile, as well as a rare opportunity to jump into green and digital innovation plays which are set to benefit from the historic levels of fiscal investment being proposed on both sides of the Atlantic (the next train we draw will be electric...).



“The recovery express”

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Global equity quantitative monitor

Europe's score in our equity regional matrix (the top-down indicator that gives us a regional view) remains in bullish territory (21%) with an improving sentiment score, while the valuation grade remains extended (at -79%). Vaccination programmes in Europe are now finally picking up pace with economies gingerly reopening ahead of the crucial summer season, and the macro data reflect signs of economic improvement, European equities might finally benefit from a catch-up trade and some outperformance on account of their more 'value' bias - and thanks to the prospect of forthcoming 'NextGenerationEU' funds, we expect cyclicals (industrials, materials and financials) to outperform (in particular those that can ride the urban renovation, green and digitalisation themes).

The US' regional score in our matrix has remained steady since our last edition (24%). The trend score remains strong at 88% while the valuation score remains 'extended' at -98%. April was another strong month for US equities, the S&P500 up 5% while the US 10-year Treasury yield fell 10 basis points. Base effects and reopening is expected to bring about a spike in growth and inflation measures, however the Fed remains adamant that these will prove transitory and continues to insist that it will not consider a shift in policy until its inflation target has been met and it sees hard evidence of normalisation in the labour market. The US earnings season has seen strong earnings momentum which we expect to extend into Q2, as fiscal policy, vaccines

and (manageable) reflationary pressures continue to support broad-based equity market performance - led by cyclical and value themes including the US consumer, reopening stocks and infrastructure themes (and again we consider there to be much opportunity in areas associated with the green themes).

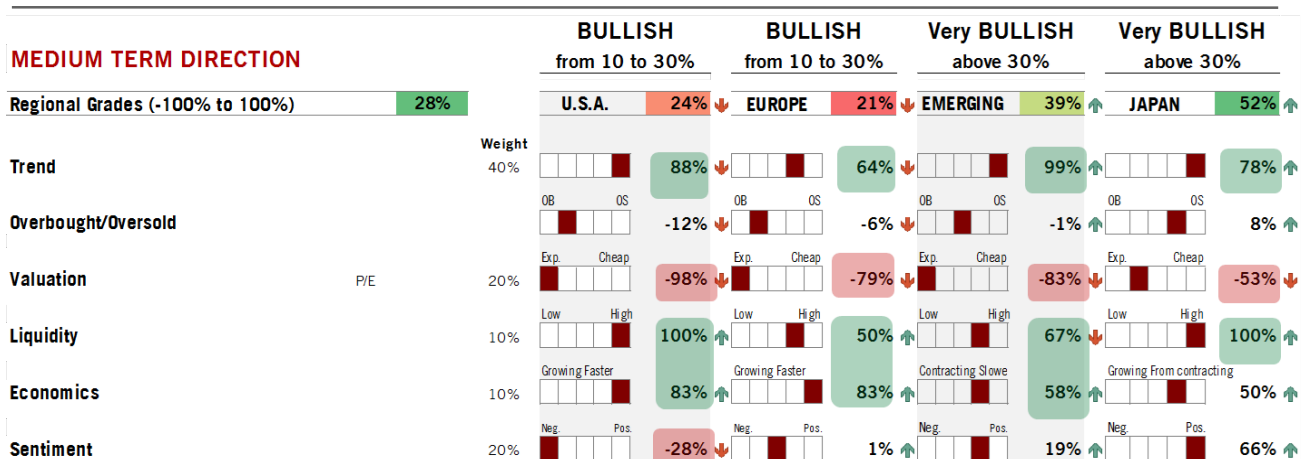
Japan's regional score in our matrix has continued to rise and it still leads at a 'very bullish' 52%. We continue to prefer Japanese exporters as the country remains well-positioned to benefit from China's economic recovery (while the Olympics could boost lagging domestic consumption) and we continue to favour quality cyclicals in the region.

Emerging market equities also remain in 'very bullish' territory with a regional score that has crept up further to 39% (from 37%) while still sporting a solid trend score (99%). The outlook for EM equities remains positive as a lower US dollar environment and bouncing commodity prices are natural supporters - as is the return of international trade and solid manufacturing activity. However, a number of headwinds have brought about various dislocations and divergences that suggest that over the short-term taking a more tactical approach to the same could be preferable.

For a more comprehensive recap of our favourite themes see our recent *Market Outlook* presentation by clicking [here](#), and our long-only, reopening and green selections are at figures 4,5,6 & 7.

*Our top down' Equity Regional Matrix gives us an overview of the prevailing market conditions in equity markets, drawing on macroeconomic data, trend analysis on leading indices, and sentiment. For further information on each parameter, see the endnotes.

Figure 1: PTS Equity Regional Matrix*

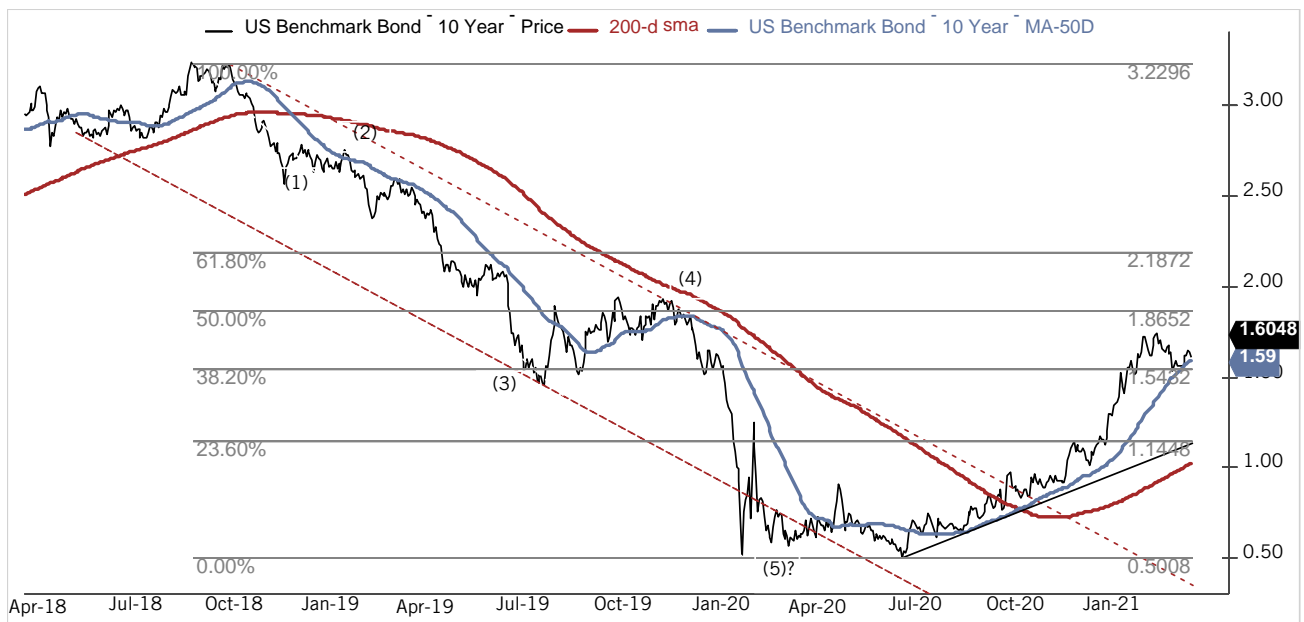


Source: FactSet; Markit, Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 3/5/2021.

*Criteria are explained in the endnotes.

On the macro front the 10-year US Treasury yield (having recently spiked to 1.7%) has fallen back to the 1.54 region, and while we consider rates capped over the medium term, we nevertheless anticipate a pickup from current levels as the reflationary environment gathers strength. A summary of our core views is presented in the table below and for more on our preferred themes see our latest [Market Outlook presentation again here](#).

Figure 2: US 10-year Treasury – technical chart*



Source: Factset - Pictet Trading Strategy – as of 03.05.2021 *criteria are explained in the endnotes
The target price presented in the chart is based upon chart analysis. This is not the product of any Pictet financial research unit

Figure 3: PTS short-term core views April 2021*

	US	Europe	Japan	EM
Equities	<p>*S&P500: 4'000 reached and now a support; next technical target 4'350. Drivers: vaccine, "Fed put", recovery hopes, fiscal stimulus (but Covid-19 remains a headwind)</p>	<p>*Euro Stoxx 50: 3'950 a key level; next target 4'500; closest support 3'500. Drivers: value and cyclical rotation, ECB and govt support, (but ongoing lockdowns do not help the slow macro recovery)</p>	<p>*Nikkei 30'000 as a psychological level, next resistance at 31'500 Drivers: weak virus second wave, exposure to China, Olympics and BoJ still accommodative</p>	<p>*Positive EM globally with rising commodity prices, and hopes of a synchronized economic recovery. Drivers for China: pandemic contained and economy restarting</p>
Equity themes	Cyclical themes; reopening stocks; green technology and infrastructure themes.	Green stocks, value themes and EU cyclical growers. Fiscal stimulus and recovery plans to support infrastructure sectors. Reopening stocks.	Stocks with solid earnings momentum, quality exporters and manufacturers.	Themes linked to the global economic recovery. Consumer, but also manufacturing themes.
FX	Rebound within a bearish trend. Short-term DXY target 96, but upside capped.	*EURUSD: 1.20 as a major technical level – upside capped next support 1.1695.	USDJPY: 110 the key resistance; 107.5 the closest support	Favour cyclical and commodity-driven currencies over more defensive ones. Adopting a tactical approach.
FI	*Lower yields for longer: US 10-year rising on fiscal hopes and economic recovery. 1.54% the support and 1.86% the next resistance.	*Lower yields for longer: GER 10-year yields should be capped at around -0.2%.		
WTI & Gold	*Crude oil → our medium-term target remains at USD 60 on recovery hopes.			
	*Gold → Next supports at 1'700 and 1'600. Next resistance at 1'855.			
	Risks to our scenario; a return to severe lockdowns / subsequent waves of Covid-19, a lasting macroeconomic slump / trade war escalation / geopolitical risks / central bank mistake / weaker-than-expected corporate earnings			

Source: FactSet; Pictet Trading Strategy; as of 03/05/2021 *The target prices presented are based upon chart analysis. This is not the product of any Pictet financial research unit.

Figure 4: PTS selection list: EU “Long-only” – quantitative grades*

Ticker	Name	Sector	Short-term			Long-term			Technical Parameters			Global
			Growth	EPS	Sales	Value	Quality	Credit	MF	Sent.	RS	
Weight in Global Grade:			25%	10%	10%	15%	10%	10%	10%	10%	100%	
FP FP	TOTAL SE	Oil, Gas & Consumable Fuels	71	84	50	70	40	61	17	65	26	60
RDSA NA	ROYAL DUTCH SHELL PLC-A SHS	Oil, Gas & Consumable Fuels	70	83	44	75	40	57	19	56	11	59
VOW3 GY	VOLKSWAGEN AG-PREF	Automobiles	58	78	48	76	43	45	44	49	74	57
GLE FP	SOCIETE GENERALE SA	Banks	74	87	35	71	49	48	9	43	65	56
LHN SW	LAFARGEHOLCIM LTD-REG	Construction Materials	57	65	44	59	55	56	62	48	61	56
STLA IM	STELLANTIS NV	Automobiles	58	82	51	66	56	50	18	50	88	55
AZN LN	ASTRAZENECA PLC	Pharmaceuticals	60	65	67	42	53	46	47	60	8	55
STM FP	STMICROELECTRONICS NV	Semiconductors & Semiconductor	64	56	69	30	63	67	26	63	43	55
PST IM	POSTE ITALIANE SPA	Insurance	60	56	48	69	37	19	79	55	49	55
HEI GY	HEIDELBERGCEMENT AG	Construction Materials	48	50	49	73	52	48	65	54	77	55
ENGI FP	ENGIE	Multi-Utilities	48	46	43	71	43	48	66	68	43	54
KER FP	KERING	Textiles, Apparel & Luxury Goo	68	66	63	27	54	60	19	60	50	53
DPW GY	DEUTSCHE POST AG-REG	Air Freight & Logistics	61	70	58	56	55	51	21	40	74	53
VONN SW	VONTOBEL HOLDING AG-REG	Capital Markets	55	56	71	53	54	60	26	47	50	53
AMUN FP	AMUNDI SA	Capital Markets	56	50	64	56	55	66	18	47	31	52
ISP IM	INTESA SANPAOLO	Banks	47	58	37	65	42	29	88	54	64	52
SIKA SW	SIKA AG-REG	Chemicals	67	63	69	21	57	56	0	74	72	52
DG FP	VINCI SA	Construction & Engineering	52	64	55	53	49	48	22	67	32	51
NESN SW	NESTLE SA-REG	Food Products	50	41	37	35	52	63	83	60	17	51
ERICB SS	ERICSSON LM-B SHS	Communications Equipment	43	52	30	47	63	54	84	52	53	51
SIE GY	SIEMENS AG-REG	Industrial Conglomerates	53	64	38	38	55	57	49	58	77	51
PUM GY	PUMA SE	Textiles, Apparel & Luxury Goo	60	78	73	22	54	53	13	49	66	50
BNP FP	BNP PARIBAS	Banks	47	51	26	60	49	55	37	67	76	49
VNA GY	VONOVIA SE	Real Estate Management & Devel	43	34	44	37	51	41	78	71	38	48
GALE SW	GALENICA AG	Health Care Providers & Servic	44	38	51	53	44	52	54	51	6	48
VIV FP	VIVENDI	Entertainment	49	51	50	48	47	45	11	65	57	46
ENEL IM	ENEL SPA	Electric Utilities	27	32	45	56	36	44	88	64	48	46
JD/LN	JD SPORTS FASHION PLC	Specialty Retail	45	39	84	43	46	46	24	43	73	46
FGR FP	EIFFAGE	Construction & Engineering	49	58	43	67	46	34	6	47	34	46
CS FP	AXA SA	Insurance	36	48	24	74	46	52	10	74	55	46
ALO FP	ALSTOM	Machinery	42	23	58	33	41	57	47	70	46	45
DTE GY	DEUTSCHE TELEKOM AG-REG	Diversified Telecommunication	38	40	49	71	35	35	31	43	36	43
CARLB DC	CARLSBERG AS-B	Beverages	49	35	37	39	52	44	59	26	42	43
AIR FP	AIRBUS SE	Aerospace & Defense	56	53	28	36	40	52	23	41	78	43
FRE GY	FRESENIUS SE & CO KGAA	Health Care Providers & Servic	29	23	48	77	43	35	19	56	15	41
BN FP	DANONE	Food Products	25	21	28	57	49	49	37	72	9	40
LONN SW	LONZA GROUP AG-REG	Life Sciences Tools & Services	37	22	32	17	56	54	72	44	41	40
RWE GY	RWE AG	Multi-Utilities	16	23	45	48	45	63	11	42	39	34
EZJ LN	EASYJET PLC	Airlines	28	27	11	40	42	32	9	60	75	31

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 3/5/2021.
*Criteria are explained in the endnotes.

Figure 5: PTS selection list: US “Long-only” – quantitative grades*

			Short-term			Long-term			Technical Parameters			
Weight in Global Grade:			25%	10%	10%	15%	10%	10%	10%	10%		100%
Ticker	Name	Sector	Growth	EPS	Sales	Value	Quality	Credit	MF	Smart Sent.	RS	Global
GOOGL US	ALPHABET INC-CL A	Interactive Media & Services	80	76	84	23	61	88	40	39	80	62
USB US	US BANCORP	Banks	62	75	38	52	58	77	79	33	66	59
C US	CITIGROUP INC	Banks	67	78	43	63	58	63	30	46	61	58
MOS US	MOSAIC CO/THE	Chemicals	63	69	52	56	50	41	95	28	97	58
LNG US	CHENIERE ENERGY INC	Oil, Gas & Consumable Fuels	65	76	79	52	32	36	58	52	74	57
FCX US	FREEPORT-MCMORAN INC	Metals & Mining	62	85	56	37	56	46	87	32	99	57
BAC US	BANK OF AMERICA CORP	Banks	73	77	48	45	57	73	29	35	69	57
AMZN US	AMAZON.COM INC	Internet & Direct Marketing Re	68	50	81	26	56	68	65	36	57	57
FB US	FACEBOOK INC-CLASS A	Interactive Media & Services	67	54	84	30	55	70	56	32	69	56
BLK US	BLACKROCK INC	Capital Markets	52	49	75	35	57	72	57	62	67	55
FDX US	FEDEX CORP	Air Freight & Logistics	44	59	67	55	50	41	77	43	89	53
ADBE US	ADOBE INC	Software	64	47	79	14	68	72	37	44	61	53
QCOM US	QUALCOMM INC	Semiconductors & Semiconductor	64	64	64	37	62	57	25	33	76	52
JNJ US	JOHNSON & JOHNSON	Pharmaceuticals	56	56	60	44	57	70	43	27	20	52
MSFT US	MICROSOFT CORP	Software	69	62	72	17	61	75	21	28	58	52
BSX US	BOSTON SCIENTIFIC CORP	Health Care Equipment & Suppli	63	67	66	34	46	41	35	50	35	51
LULU US	LULULEMON ATHLETICA INC	Textiles, Apparel & Luxury Goo	67	54	85	9	58	65	25	38	58	51
V US	VISA INC-CLASS A SHARES	IT Services	62	50	66	16	60	70	5	74	47	50
AZO US	AUTOZONE INC	Specialty Retail	58	46	65	39	62	49	11	66	49	50
PH US	PARKER HANNIFIN CORP	Machinery	66	64	52	31	65	48	31	30	88	50
AAPL US	APPLE INC	Technology Hardware, Storage &	64	58	70	15	69	64	26	29	80	50
ABT US	ABBOTT LABORATORIES	Health Care Equipment & Suppli	60	51	57	32	55	62	32	42	44	50
AVGO US	BROADCOM INC	Semiconductors & Semiconductor	54	49	70	36	60	32	31	63	72	49
CB US	CHUBB LTD	Insurance	51	53	53	55	56	66	12	38	57	49
PYPL US	PAYPAL HOLDINGS INC	IT Services	64	49	77	8	65	65	27	27	91	48
JCI US	JOHNSON CONTROLS INTERNATION	Building Products	47	55	37	43	51	49	74	32	86	48
WDC US	WESTERN DIGITAL CORP	Technology Hardware, Storage &	50	54	40	38	35	34	91	31	64	47
CHWY US	CHEWY INC - CLASS A	Internet & Direct Marketing Re	45	58	76	23	37	63	1	75	77	46
MDLZ US	MONDELEZ INTERNATIONAL INC-A	Food Products	49	48	49	40	53	42	53	26	31	45
ROST US	ROSS STORES INC	Specialty Retail	51	66	58	24	63	55	15	31	50	45
BMJ US	BRISTOL-MYERS SQUIBB CO	Pharmaceuticals	36	36	59	67	53	48	43	20	19	45
KO US	COCA-COLA CO/THE	Beverages	54	48	45	37	61	49	27	27	27	45
ZTS US	ZOETIS INC	Pharmaceuticals	58	41	66	19	55	42	23	30	50	43
EQIX US	EQUINIX INC	Equity Real Estate Investment	48	41	59	23	32	32	48	54	16	42
ALK US	ALASKA AIR GROUP INC	Airlines	49	68	55	39	38	26	20	28	88	42
CLH US	CLEAN HARBORS INC	Commercial Services & Supplies	57	46	44	36	44	35	28	21	64	41
FIS US	FIDELITY NATIONAL INFO SERV	IT Services	36	46	46	28	40	50	38	35	31	39
LVS UN	LAS VEGAS SANDS CORP	Hotels, Restaurants & Leisure	39	49	32	28	25	26	57	32	44	36

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 3/5/2021.
*Criteria are explained in the endnotes.

Figure 6: Global Green theme (extract) - quantitative grades*

			Short-term			Long-term			Technical Parameters			
Weight in Global Grade:			25%	10%	10%	15%	10%	10%	10%	10%		100%
Ticker	Name	Sector	Growth	EPS	Sales	Value	Quality	Credit	MF	Smart Sent.	RS	Global
ANDR AV	ANDRITZ AG	Machinery	54	65	37	67	63	51	98	68	53	62
ADYEN NA	ADYEN NV	IT Services	75	63	80	12	51	69	83	37	91	59
SPWR US	SUNPOWER CORP	Semiconductors & Semiconductor	58	87	57	30	52	38	96	67	100	59
7267 JP	HONDA MOTOR CO LTD	Automobiles	55	67	39	70	47	62	77	46	43	58
ALV US	AUTOLIV INC	Auto Components	60	78	50	49	54	55	69	49	75	58
UMI BB	UMICORE	Chemicals	52	73	83	41	41	51	62	66	41	57
VOW3 GY	VOLKSWAGEN AG-PREF	Automobiles	58	78	48	76	43	45	44	49	74	57
ALFA SS	ALFA LAVAL AB	Machinery	59	63	37	38	53	56	70	69	68	55
SEDG US	SOLAREEDGE TECHNOLOGIES INC	Semiconductors & Semiconductor	67	58	61	4	48	58	90	56	93	54
7203 JT	TOYOTA MOTOR CORP	Automobiles	50	54	44	55	37	62	85	54	36	54
VSLR US	VIVINT SOLAR INC	Electrical Equipment	50	71	78	36	23	33	100	50	100	53
GM US	GENERAL MOTORS CO	Automobiles	61	54	46	61	39	33	92	24	94	53
ETL FP	EUTELSAT COMMUNICATIONS	Media	36	41	38	78	51	36	84	72	16	53
TSLA US	TESLA INC	Automobiles	68	74	87	6	46	48	42	53	99	53
WCH GY	WACKER CHEMIE AG	Chemicals	49	78	48	48	48	58	59	42	92	53
MTZ US	MASTEC INC	Construction & Engineering	45	32	58	39	64	44	83	73	95	53
BNR GY	BRENNTAG SE	Trading Companies & Distributo	62	62	49	45	63	55	20	52	78	52
QCOM US	QUALCOMM INC	Semiconductors & Semiconductor	64	64	64	37	62	57	25	33	76	52
NVDA US	NVIDIA CORP	Semiconductors & Semiconductor	66	61	84	11	58	74	31	27	86	52
HLMA LN	HALMA PLC	Electronic Equipment, Instrume	54	41	61	20	49	58	80	62	34	52
PRY IM	PRYSMIAN SPA	Electrical Equipment	47	52	52	49	45	40	96	39	63	52
HASI US	HANNON ARMSTRONG SUSTAINABLE	Mortgage Real Estate Investmen	51	37	59	24	53	28	85	86	82	51
ENPH US	ENPHASE ENERGY INC	Semiconductors & Semiconductor	55	53	52	9	63	71	72	44	98	51
NDX1 GY	NORDEX SE	Electrical Equipment	64	82	64	40	40	34	2	62	98	50
APTIV US	APTIV PLC	Auto Components	60	59	51	26	54	55	31	62	88	50
1211 HK	BYD CO LTD-H	Automobiles	48	42	68	24	47	49	78	59	98	50

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 3/5/2021.
*Criteria are explained in the endnotes.

Figure 7: Global Reopening (extract) – quantitative grades*

Ticker	Name	Sector	Short-term			Long-term			Technical Parameters			Global
			25%	10%	10%	15%	10%	10%	10%	10%	10%	
			Growth	EPS	Sales	Value	Quality	Credit	MF	Smart Sent.	RS	
FL US	FOOT LOCKER INC	Specialty Retail	57	65	46	64	66	45	99	86	90	65
HOG US	HARLEY-DAVIDSON INC	Automobiles	62	87	57	44	60	35	99	69	90	63
MONC IM	MONCLER SPA	Textiles, Apparel & Luxury Goo	64	62	79	22	56	62	90	62	56	60
BBBY US	BED BATH & BEYOND INC	Specialty Retail	67	89	25	48	48	28	99	75	98	60
KNX US	KNIGHT-SWIFT TRANSPORTATION	Road & Rail	53	65	65	61	50	60	78	52	35	59
ODFL US	OLD DOMINION FREIGHT LINE	Road & Rail	73	67	74	18	57	74	73	34	75	59
VOE AV	VOESTALPINE AG	Metals & Mining	62	77	40	65	55	45	54	63	82	59
RXL FP	REXEL SA	Trading Companies & Distributo	62	76	46	67	51	36	76	41	83	58
PCAR US	PACCAR INC	Machinery	58	67	55	48	51	66	87	29	42	57
1COV GY	COVESTRO AG	Chemicals	57	80	52	62	52	62	34	55	76	57
RAND NA	RANDSTAD NV	Professional Services	56	70	50	57	69	64	42	50	70	57
CNHI IM	CNH INDUSTRIAL NV	Machinery	68	86	48	61	53	37	49	35	89	57
VOLVB SS	VOLVO AB-B SHS	Machinery	62	76	40	53	58	63	41	52	71	56
ULTA US	ULTA BEAUTY INC	Specialty Retail	55	69	68	30	70	56	72	46	57	56
HCA US	HCA HEALTHCARE INC	Health Care Providers & Servic	70	65	63	50	59	23	65	37	76	56
IHG LN	INTERCONTINENTAL HOTELS GROU	Hotels, Restaurants & Leisure	65	63	52	26	44	40	89	70	53	56
DE US	DEERE & CO	Machinery	74	74	69	33	54	45	37	45	94	56
M US	MACY'S INC	Multiline Retail	58	73	48	55	48	20	86	54	95	56
HMB SS	HENNES & MAURITZ AB-B SHS	Specialty Retail	47	74	43	51	52	38	84	70	62	56
GPS US	GAP INC/THE	Specialty Retail	64	73	44	49	47	28	80	48	99	55
TXRH US	TEXAS ROADHOUSE INC	Hotels, Restaurants & Leisure	58	76	67	21	44	50	85	51	84	55
HEI GY	HEIDELBERGCEMENT AG	Construction Materials	48	50	49	73	52	48	65	54	77	55
BAS GY	BASF SE	Chemicals	60	66	43	65	49	64	16	58	58	54
SECUB SS	SECURITAS AB-B SHS	Commercial Services & Supplies	37	39	47	66	60	47	81	70	40	54
CON GY	CONTINENTAL AG	Auto Components	60	70	39	67	48	54	14	60	64	54
AA US	ALCOA CORP	Metals & Mining	59	81	52	58	58	47	13	50	99	54
DPW GY	DEUTSCHE POST AG-REG	Air Freight & Logistics	61	70	58	56	55	51	21	40	74	53
UHR SW	SWATCH GROUP AG/THE-BR	Textiles, Apparel & Luxury Goo	56	70	40	53	54	76	4	68	54	53

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 3/5/2021.
*Criteria are explained in the endnotes.

Endnotes: References for publications of Banque Pictet & Cie SA – Trading Strategy

Model performance data is not a reliable indicator of future returns. Model performance calculation has a number of limitations and the results do not represent the results of actual trading using client assets. The data provided is gross of fees and other commissions. Fees and charges will apply and will reduce the final return. No representation is being made that the model portfolios illustrated will or are likely to achieve results similar to those shown and there are often sharp differences between model performance results and actual results achieved.

The Equity quantitative grades

Growth Grade: The Growth Grade is a proprietary formula made up of earnings revisions momentum, past earnings growth, earnings stability, and current and long-term earnings growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45 and neutral between 55 and 45.

EPS Grade: The EPS Grade is a proprietary formula consisting of current and forward EPS growth, change and surprise data. An EPS grade above 60 or below 40 is considered predictive for future out/under performance.

Sales Grade: The Sales Grade is a proprietary formula made up of current and next year's sales momentum, past sales growth, sales stability, and current and long-term sales growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45, and neutral between 55 and 45.

Value Grade: The Value Grade is a proprietary formula made up of estimated P/E, P/B, P/S and P/CF ratios. 40% of the grade is based on historical values and 60% on current market data. A grade above 55 suggests a stock is cheap, below 45 expensive, and neutral between 55 and 45.

Quality Grade: The Quality Gating is a proprietary formula that focuses on the balance sheet (i.e. change in accruals, change in free cash flows and profitability). A grade above 55 suggests a stock with a good balance sheet.

Credit Grade: The Credit Grade focusses on the passive side of the balance sheet. It is divided into three sub-components to assess both short and long-term solvency. A grade above 55 suggests a strong capital structure, while a grade below 45 suggests a weak one.

Money Flow Grade: The Money Flow Grade is a proprietary formula that gives the accumulation/distribution based on the volume flows of a stock. A grade above 55 indicates good money flow and a grade below 45 suggests weak money flow.

Smart Sentiment Grade: The Smart Sentiment grade is a contrarian indicator based on investor positioning measures such as the days to cover ratio, the put call ratio, and the short interest ratio. A weak grade suggests 'too much' optimism.

Relative Strength (RS) Grade: The RS grade measures the price momentum of a stock over its 1-year price performance.

Global Grade: The Global Grade is a weighted average of the Growth, EPS Sales, Value, Quality, Credit, Money Flow and Smart Sentiment Grades.

The Regional MATRIX grades

The Regional Matrix grades range from -100% to +100%. We consider a grade above 50% to be very bullish, a grade above 25% to be bullish, and a grade between 0% and 25% to be neutral. A grade between 0% and -45% we consider bearish and a grade below -45% very bearish.

Regional Grade: The Regional Grade (-100 to +100) is an indicator of a structural bull market or not. It is calculated by combining and applying weight to each of the other grades that make up the Regional Matrix (Trend, Overbought/Oversold, Valuation, Liquidity, Economics, and Sentiment). If we believe equities to be in a structural bull market, we use 15 years of data to assess Valuation.

Trend Grade: The Trend Grade (-100% to +100%) is based on a moving averages model adjusted according to the overbought/oversold conditions of the region's main indices.

Valuation Grade: The Valuation Grade (-100% to 100%) is based on the percentile rank of the regional Index stocks' P/E ratios since 1995 (current year estimated).

Economics Grade: The Economics Grade (-100% to 100%) is based on a combination of manufacturing and non-manufacturing PMIs and the **Citigroup Surprise Indices**. The Citigroup Economic Surprise Indices are an objective and quantitative measure of economic news and are defined as weighted historical standard deviations of data surprises (actual releases vs. Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance beaten the consensus.

Sentiment Grade: The Sentiment Grade (-100% to 100%) is based on various contrarian and non-contrarian indicators.

Reversal date in the Trend: If the trend has reversed, we give the reversal date and indicate the direction of the reversal.

Factor trends: We look at the performance of 5 theoretical long-short selections, each built around one of our quantitative grades (i.e. growth (EPS momentum), price momentum (RS), quality, sentiment and value), and each long the top decile and short the bottom decile of stocks within the respective region in our equity universe in terms of exposure to each specific score.

Model Long Only & Absolute return regional Allocation: The Regional Allocation shows the advised net exposure in total and per region. It is calculated by multiplying the MSCI regional weight by the Regional Grade (we use the structural bull market regional grade).

Trading Strategy Exposure: The Trading Strategy Exposure shows the actual net exposure in total and per region, based on our trades.

Short-Term: 1 to 4 weeks / Medium Term: 1 to 3 months / Long Term: more than 3 months.

PTS: Pictet Trading Strategy.

Buy/Long: Stock is expected to achieve a total return that exceeds the relevant market index over the next 3 to 6 months.

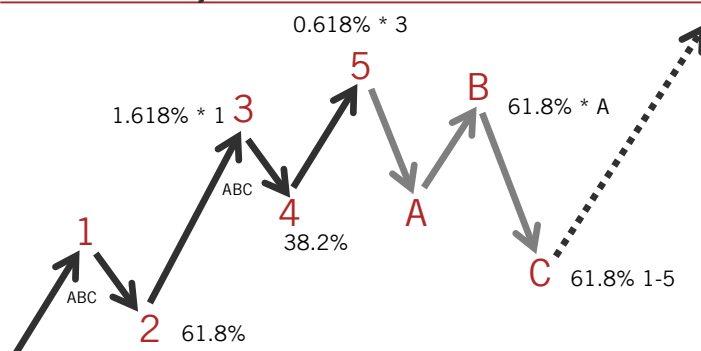
Sell/Short: Stock is expected to underperform the relevant market index over the next 3 to 6 months.

Hold/Neutral: Stock is expected to be in line with total return of the relevant market index over the next 3 to 6 months.

Technical Analysis: The technical analysis used in this presentation combines traditional technical tools: graphical analysis (trend lines, support lines, continuation and reversal patterns) which determines the tendency, mathematical indicators (moving averages, RSI, MACD) used as numeric filters and Elliott wave theory which allows us to build a scenario with target levels and invalidation points.

Elliott Wave Theory: According to Elliott Wave Theory, markets move in impulse waves – with five sub-waves (numbered 1-5 or I-V) following the direction of the main trend, followed by three corrective sub-waves (A-B-C) (example to the right). These waves follow a set of specific rules and are linked to each other by target and retracement ratios based on the Fibonacci sequence, and the characteristics of each wave form an integral part of the reflection of the mass psychology it embodies.

Elliott Wave Theory



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