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Market Focus

24 August 2021

Waiting for the (virtual) Fed

After months of grinding higher, last week markets suffered a bout of anxiety at the hands of Delta-variant contagion and associated ongoing supply chain concerns together with the prospect of upcoming policy tapering. The 10-year yield has remained stubbornly low. Yet (and Delta concerns notwithstanding) the economic recovery backdrop remains healthy, earnings have been strong, and while we have been seeing some recent disappointment in consumer sentiment and retail data; the US jobs data has been encouraging - and is likely to comfort those Fed policymakers now in conversation about starting to consider pulling back monetary support.

"Delta does for the day trip"

At Jackson Hole next week questions directed to Chair Powell will once again be geared around the markers that might lead FOMC members to consider the extent to which "substantial progress" has been made towards the central bank's maximum employment and price stability goals - as market participants speculate around when the central bank might start (and finish) tapering its asset purchase programme - and raise rates.

As we write, the risk is rising that Jackson Hole is a non-event; moreover that Jerome Powell in his speech on Friday holds the line in a manner that may even be interpreted as a 'dovish' delaying move (and in any event giving us little further steer on tapering). On the other hand, communication preparing for a taper announcement should not surprise. Either way it is clear that central banks will remain accommodative for an extended period. Of note however is that talk of peak growth and earnings in the US has been gaining traction; yet on this front Europe remains in the ascendant and moreover continues to be supported by an fiercely (and consensually) dovish ECB. In light of this and their more cyclical nature and attractive valuation, we are watching European equities for outperformance potential over the coming weeks.

Contents

Unless stated otherwise in the document, all data are as of **23.08.2021**
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Global equity quantitative monitor

Since our last update in July, Europe's score in our equity regional matrix (the top-down indicator that gives us a regional view*) remains in bullish territory, having slipped very slightly from 29% to 26%. Sentiment has improved a little, as has the economics score together with liquidity. Moreover, and while the trend score has softened a little, our indicators suggest that valuations have become less challenging (the valuation score moving from an extreme -78% to -5%); furthermore (and Delta concerns notwithstanding) while the Fed may be gearing up for a tapering announcement, the consensually-dovish ECB is holding fast to its accommodative stance. Data print an encouraging growth picture (Euro Area flash data showing GDP rising 2.0% QoQ in Q2) and we continue to expect momentum to pick up in the latter part of the year, attracting with it those investors seeking out value plays exposed to the cycle into the end of the year.

The US' regional score has climbed back into bullish territory, now at 13% (back up from 8% in July). Trend remains strong (84% up from 82%), and while valuation has improved to -80% from -98% it continues to reflect markets that are 'extended' on a historical basis. The liquidity score has fallen slightly (to 83%) while the economics score has improved (from 0% to 17%); sentiment also improving (from -42% to -38%). The summer market has featured a 10-year US Treasury yield that in spite of recent efforts to rebound remains stubbornly low, with an S&P 500 grinding higher on frequent sub-surface rotations. We need to see the 10-year recover if we are to see a sustained rotation back in favour of the more cyclically-oriented value trades (and in the near term this may depend on the market reaction to Jackson Hole); either way, when hunting for remaining value, quality is becoming increasingly relevant with such strategies becoming more nuanced.

Japan's regional score in our matrix has since June dropped from a 'very bullish' 37% to a neutral -7%; largely driven by the trend score taking a dive to -99%. The valuation score has however improved significantly (now at 78% up from 38%) with the liquidity score higher too (at 88% from 75% while sentiment has come off slightly (to 49% from 59). We continue to prefer the country's exporters as beneficiaries of the global recovery, as well as quality cyclicals in the region.

Emerging market equities have over the past month seen their rating drop in our Matrix from bullish to very bearish, the regional score now at -34% (from 34% last month). While the outlook for EM equities is challenged by returning international trade, dislocations and divergences remain; the trend-score falling to -90% (from a strong 60% in July) and a weaker economics score doubtless reflecting the bearish response to the recent regulatory announcements in China as well as the more disappointing data coming through as the pace of the economic recovery there peaks. We advocate taking a more selective, tactical approach to EM for now.

**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*

MEDIUM TERM DIRECTION		Weight	BULLISH from 10 to 30%	BULLISH from 10 to 30%	VERY BEARISH below -25%	NEUTRAL from -10% to +10%
Regional Grades (-100% to 100%)	8%		U.S.A. 13% ↓	EUROPE 26% ↓	EMERGING -34% ↓	JAPAN -7% ↓
Trend		40%	84% ↓	80% ↓	-90% ↓	-99% ↓
Overbought/Oversold (OB – OS)			-16% ↓	-20% ↓	10% ↑	1% ↑
Valuation (Exp. – Cheap)	P/E	20%	-80% ↓	-18% ↓	-69% ↓	78% ↓
Liquidity (Low – High)		10%	83% ↑	33% ↑	51% ↓	88% ↑
Economics		10%	Growing Slower 17%	Growing Slower 50% ↑	Growing Faster 33% ↑	Growing Slower -17%
Sentiment (Neg. – Pos.)		20%	-38% ↓	-10% ↑	18% ↓	49% ↓

Source: FactSet; Markit, Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 17/8/2021.
**Criteria are explained in the endnotes*

Market update

Once again, as we approach the Central Bank Economic symposium at Jackson Hole Wyoming, central bank policy and the prospect of the tapering of asset purchases, is back centre stage. Since our July edition we have seen US equities grind on higher albeit with ongoing gyrations under the surface, and markets have becoming less polarised in the process. Another bumper earnings season and evidence of continued strong growth in Q2 reflects the continued strength and broad nature of the recovery and moreover absence of recession risk, although talk of peaking growth and earnings has changed the tone a little, as has growing concern around the ongoing pandemic and persistence of the Delta variant. Positioning has become more nuanced, and as we write markets have also become more unsettled by the regulatory announcements and governance rhetoric recently coming out of China and the possible risk such might pose to the broader recovery outlook globally.

The 13F reports filed by the big hedge funds that show position changes in Q2 already began to reflect this recent shift to a more nuanced market, bringing a less-crude reading on the "stay-at-home" vs "re-opening" trend. On the whole, markets have continued to flip flop around this theme yet such a distinction is arguably becoming dated as we look ahead to what the post recovery 'rehabilitation' phase might look like and see more discussion around the fast-moving nature of this growth cycle. The notable absence of ETFs on the 13F forms suggests managers have become more active once again, and the more nuanced intra-sector positioning is exemplified by the strong swing in sector allocation back in favour of tech notwithstanding the sector's reduced "active weighting". (See our recent analysis of the 13F reports again here or on request).

The short-term risk as we write is that markets let Delta overshadow the data, and moreover that investors take umbrage at Fed commentary coming out of Jackson Hole this weekend. The 10-year Treasury yield has remained low, and we need to see it rebound if we are to see a significant cyclical/value rotation drive markets into the end of the year. Strong employment figures and a CPI in line (that has for the time being reduced the hitherto heightened perceived risk of "out of control" inflation), suggested that after its significant pullback, the 10-year yield might have been showing signs of recovering, however in the short term (and particularly since the weaker U. Michigan print) it has fallen again. Doubtless the Fed's colossal bond purchase programme continues to distort the US Treasury market, however should we see more evidence that the economic momentum continues (and particularly as pandemic benefits roll off in the coming weeks) on balance we would still expect it to rise to reflect the ongoing strength in the recovery as is in our view necessary if we are to see interest in value/cyclical stocks return. Our core technical scenario remains a short-term limited rise back towards resistance at 1.54% - Jackson Hole is the near-term driver.

Figure 2: US 10-year yield: testing a key support*

*Source: FactSet; Pictet Trading Strategy; as of 13/8/2021. *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: S&P500 short-term technical chart*

*Source: FactSet; Pictet Trading Strategy; as of 13/8/2021. *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.*

In terms of equities, and in spite of last week's pullback, the technical picture for US equities has not changed with the technical outlook for the S&P500 still largely positive (recent consolidations having so far failed to push the index significantly below the support provided by the 50-day SMA). The price action continues to be influenced by an internal rotations between "stay-put" and "reopening" stocks, which has been creating episodes of volatility and offering little long-term visibility. A crude look at past data shows Jackson Hole has historically had little effect on equity market performance and while some short-term volatility cannot be ruled out, we remain confident on the outlook for equities if a move on yields could trigger some intra sectorial rotation. The next technical target on the S&P500 lies at 4,600 while the closest support lies in the 4,300/4,350 zone – see our recent daily on the technicals around Jackson Hole again here.

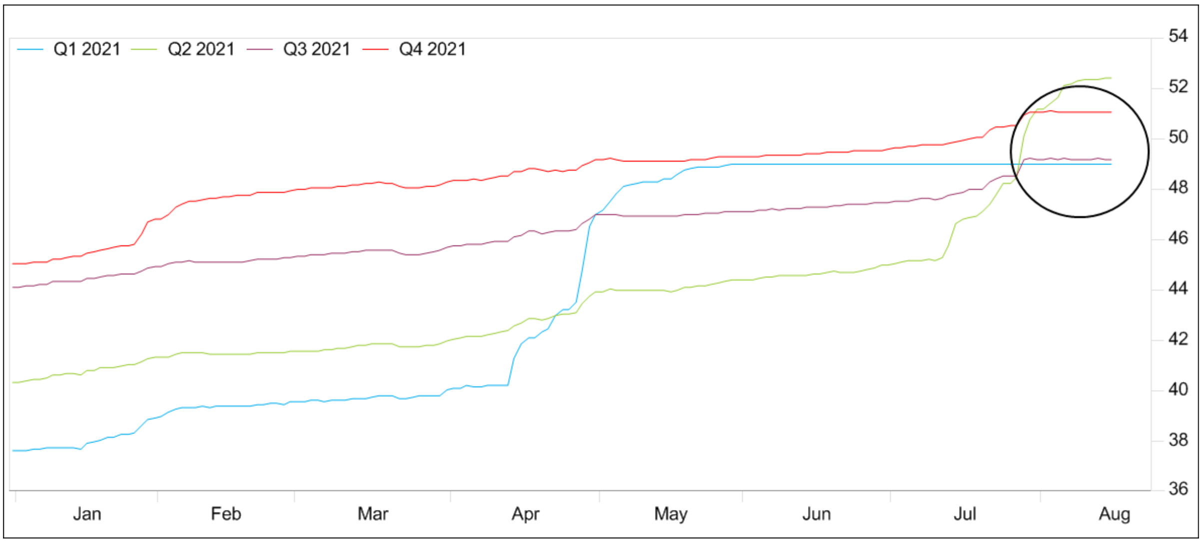
Its has been another bumper earnings season – can it continue?

Q2 as expected proved another strong earnings season; and while the bar was set low on account of last Q2 2020's suffering from Covid-19 lockdowns, it was a record season in its own right, with spectacular sales growth, impressive beats and big surprise - not just among the big names but right across the market. The upshot is that we have a healthy bag of "triple winners" – our favourite post-earnings play being a screening for those names beating EPS and sales estimates and raising guidance.

Consensus has been behind the numbers and continues to appear conservative into the year end: Q1 and Q2 earnings seasons both triggered estimate adjustments of c.20% on average yet Q3 and Q4 revisions have been unchanged since August, the consequence being that EPS projections (in USD amounts) for Q3 and Q4 are now below those of Q2 (suggesting that there is further rerating to come for the next two quarters). This is illustrated in figure 4 over the page, and see our recent Q2 earnings review for more here.

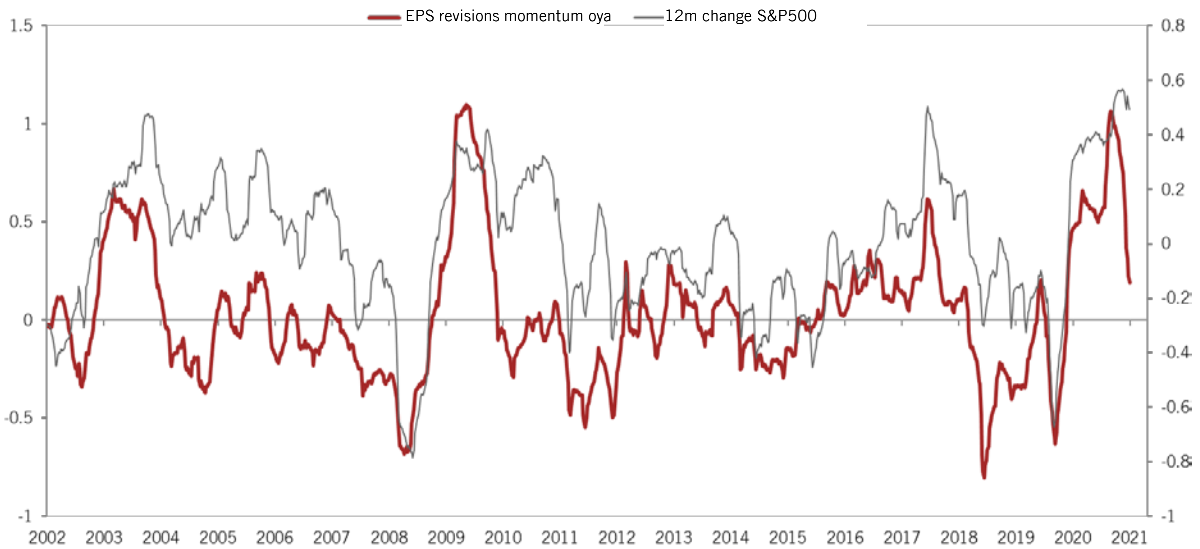
Nevertheless, there is now talk of how both growth and earnings may now be peaking, and on the earnings front the picture is indeed becoming more challenging for the longer term – as reflected in our revision sentiment indicator (a simple ratio between +ve EPS vs –ve EPS revisions): the ratio for the 12m forward EPS has recently suffered a steep drop (see figure 5 below) indeed suggesting a significant slowdown in the pace in EPS revisions. We have been looking at how changes to the prevailing trend in EPS momentum has impacted S&P500 leadership – see our letter on this topic again [here](#).

Figure 4: S&P500 quarterly EPS revisions



Source: FactSet; Pictet Trading Strategy; as of 13/8/2021.

Figure 5: S&P 500 analyst revision sentiment indicator (red; RHS, oya) vs 12m change S&P500 (grey; LHS)

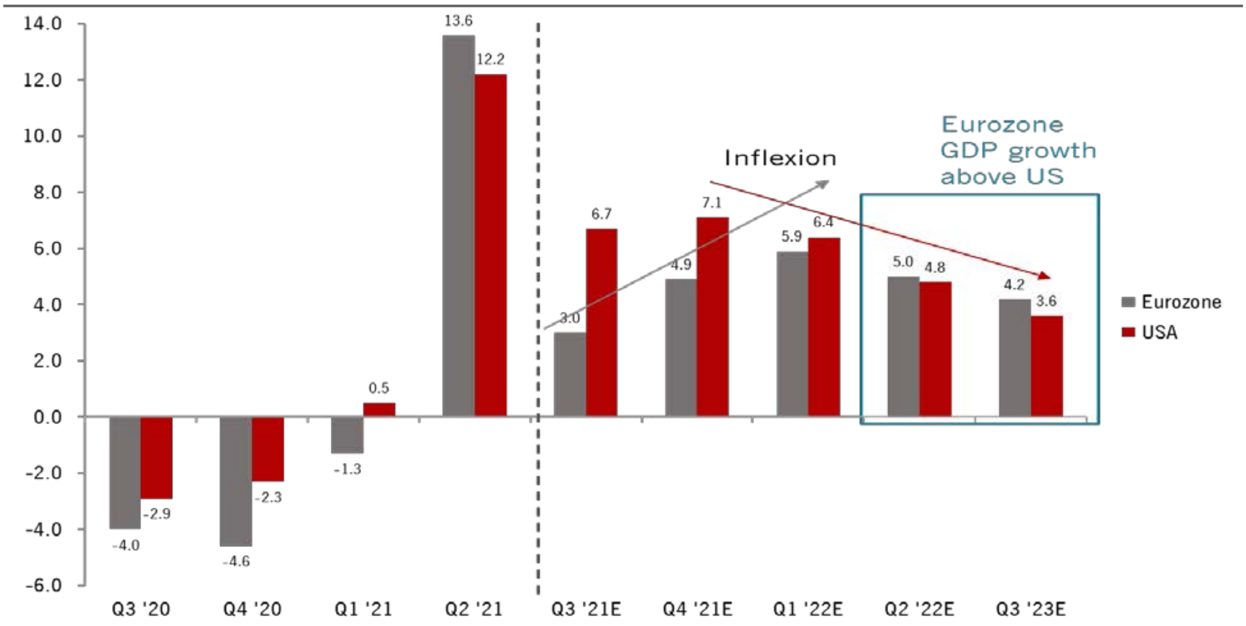


Source: FactSet; Pictet Trading Strategy; as of 13/8/2021.

Looking across to Europe

The past decade has been dominated by US equity outperformance over Europe, the low growth environment attracting investors to the growth and tech-heavy US market while also encouraging them to shy away from Europe's political risk and regional idiosyncrasies, and European equities remain undervalued on a comparable basis. However, with Brexit in the rear-view mirror, NextGenEU pulling EU members closer together on policy and a vehemently supportive ECB, these political risks appear to have abated and the monetary machine is firmly in support-mode. Moreover, Europe remains behind the US in the recovery cycle and while the Fed is starting to talk about tapering, the ECB is also likely to remain accommodative for much longer so to not derail the economic recovery.

Figure 6: Realized real GDP and median real GDP estimates (in %, YoY)



Source: FactSet; Pictet Trading Strategy; as of 13/8/2021

Markets may have become more anxious in the lead up to the Jackson Hole symposium (and arguably more sensitive to any hints that may (or indeed may not) be dropped around tapering and the outlook on growth and inflation). However, and on the basis that recent Delta concerns abate and focus returns to the continued strength in the global growth recovery (and 10-year US yields recover upwards in support) Europe should present opportunity for equity investors willing to bet on a prolongation of the global economic recovery.

China

China has been flexing its regulatory muscles, its probe into tech companies and the subsequent clampdown on non-profit tutoring sector followed by the announcement of a broader 5-year plan to regulate a cross a broad swathe of sectors which includes a focus on digital governance. This has resulted in markets turning cautions China with many investors now avoiding Chinese ADRs in particular. We remain tactically cautious, although mainland-listed firms may be less exposed to current regulatory action (and it is among these where one might be selective and take advantage of attractive entry points). Yet with the post-pandemic recovery starting to slow down in China, we remain cautious for now. The latest retail sales and industrial production figures for July were both below estimates and China is now clearly weighing on emerging markets as a whole.

From a technical point of view, the Hang Seng recently flagged a bearish death cross configuration while breaking below its 200-DMA, a negative signal (the text technical support stands at 24,500):

Figure 7: Hang Seng draws a bearish technical picture*

*Source: FactSet; Pictet Trading Strategy; as of 13/8/2021. *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.*

Core views

In conclusion, we present below the latest iteration of our 'core convictions' table, together with our 'long-only' selection lists.

Figure 8: PTS core views August 2021*

	US	Europe	Japan	EM
Equities	*S&P500: Range trading over the summer (4,200-4,600) **Drivers: vaccine ,"Fed put", recovery hopes, fiscal stimulus (but inflation and tapering fears)**	*Euro Stoxx 50: 3,950 a key level; next target 4,500; **Drivers: reopening momentum, ECB and govt support to enhance EU risk assets**	*Nikkei 30,000 a psychological level, the 200-DMA is now a resistance at around 28,500 **Drivers: weak virus second wave, exposure to China, Olympics and BoJ still accommodative**	*EM slowing down as China is progressively plateauing post pandemic
Equity themes	Recovery stocks, banks and energy, green technology and infrastructure themes. Unloved defensive, staples and healthcare	Green stocks, unloved defensive. 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	87 the closest support on the DXY; Rebound within a bearish trend, next resistance at 94.5	*EURUSD: 1.17 has become a support; next resistance 1.20 then 1.2350.	USDJPY: 113 the key resistance; 109 the closest support	Favour commodity-driven currencies while avoiding local special situations (i.e.TRY)
FI	*US 10-year rising tactically, 1.15% the support and 1.35% the next resistance	*GER 10-year yields on a key level at around -0.55%. Next psychological hurdle at -0.3%		
WTI & Gold	*Crude oil → our medium-term range is 60-70. Positive on global commodities, especially industrial metals			
	*Gold → Next supports at 1'765 and 1'677. Next resistances at 1'830 and 1'920.			

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 / persistent inflation

*Source: FactSet; Pictet Trading Strategy; as of 17/08/2021 *The target prices presented are based upon chart analysis. This is not the product of any Pictet financial research unit.*

Figure 9: PTS EU long-only selection as at 14.7. 2021 - 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	Sent.	RS	Global
STM FP	STMICROELECTRONICS NV	Semiconductors	75	72	75	29	64	65	77	59	71	64
UHR SW	SWATCH GROUP AG/THE-BR	Apparel, Accessories & Luxury	59	75	48	50	55	76	97	69	62	64
GLE FP	SOCIETE GENERALE SA	Diversified Banks	74	87	44	70	51	53	69	48	91	64
RDSA NA	ROYAL DUTCH SHELL PLC-A SHS	Integrated Oil & Gas	70	84	36	74	49	63	49	60	57	63
STLA IM	STELLANTIS NV	Automobile Manufacturers	62	88	52	65	54	46	93	38	96	62
AMUN FP	AMUNDI SA	Asset Management & Custody B	62	59	71	55	58	68	63	42	49	60
CS FP	AXA SA	Multi-line Insurance	46	64	33	75	49	59	75	72	65	58
VOW3 GY	VOLKSWAGEN AG-PREF	Automobile Manufacturers	58	75	47	80	46	52	61	32	68	58
DPW GY	DEUTSCHE POST AG-REG	Air Freight & Logistics	58	68	59	51	55	51	83	37	79	57
AZN LN	ASTRAZENECA PLC	Pharmaceuticals	56	59	75	34	56	48	99	42	24	57
AIR FP	AIRBUS SE	Aerospace & Defense	76	85	32	37	64	54	45	44	82	57
TTE FP	TOTALENERGIES SE	Integrated Oil & Gas	68	79	44	70	48	64	8	50	38	57
ISP IM	INTESA SANPAOLO	Diversified Banks	58	70	34	61	53	27	90	43	58	55
PUM GY	PUMA SE	Footwear	55	71	75	23	52	55	74	54	75	55
ADYEN NA	ADYEN NV	Data Processing & Outsourced S	72	57	88	11	50	69	57	31	82	55
ALC SE	ALCON INC	Health Care Supplies	60	68	56	30	46	49	81	47	58	54
ENGI FP	ENGIE	Multi-Utilities	62	67	38	68	48	50	17	60	28	54
BNP FP	BNP PARIBAS	Diversified Banks	54	62	31	60	50	57	41	60	72	53
JD/ LN	JD SPORTS FASHION PLC	Specialty Stores	50	47	76	43	44	45	80	37	68	52
KORI FP	KORIAN	Health Care Facilities	39	44	62	54	45	48	78	60	27	52
SIKA SW	SIKA AG-REG	Specialty Chemicals	63	54	69	19	53	56	19	74	78	51
PST IM	POSTE ITALIANE SPA	Life & Health Insurance	60	53	43	66	42	19	53	50	72	51
SRT3 GY	SARTORIUS AG-VORZUG	Health Care Equipment	68	59	84	8	46	39	55	34	96	50
VOLVB SS	VOLVO AB-B SHS	Construction Machinery & Heavy	53	52	42	57	50	60	13	62	45	50
CCH LN	COCA-COLA HBC AG-DI	Soft Drinks	51	50	60	44	53	44	38	54	53	49
VIV FP	VIVENDI	Movies & Entertainment	54	51	60	49	45	47	6	74	56	49
HOLN SW	HOLCIM LTD	Construction Materials	54	58	44	62	48	51	8	50	45	49
DG FP	VINCI SA	Construction & Engineering	48	57	53	53	46	46	25	44	39	47
FGR FP	EIFFAGE	Construction & Engineering	48	57	42	68	50	50	12	37	32	47
SIE GY	SIEMENS AG-REG	Industrial Conglomerates	48	59	41	39	49	54	35	48	61	46
DTE GY	DEUTSCHE TELEKOM AG-REG	Integrated Telecommunication S	35	34	52	65	39	32	86	35	51	46
BN FP	DANONE	Packaged Foods & Meats	29	30	36	52	51	49	71	68	36	46
NESN SW	NESTLE SA-REG	Packaged Foods & Meats	40	25	27	32	52	59	81	54	28	45
RWE GY	RWE AG	Multi-Utilities	24	35	40	50	58	57	29	58	18	41
ERICB SS	ERICSSON LM-B SHS	Communications Equipment	29	32	26	53	64	55	16	41	21	39
LONN SW	LONZA GROUP AG-REG	Life Sciences Tools & Services	44	33	44	13	55	53	21	41	59	38

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 14/07/2021.
**Criteria are explained in the endnotes.*

Our long-only selection lists aim to provide investors with long equity ideas within our European and US large cap coverage. The selection is made with reference to our quantitative screening tool, technical analysis, qualitative attributes, and the prevailing market environment. They are updated weekly and available on request.

Figure 10: PTS US long-only selection as at 14.7. 2021 - 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	Sent.	RS	Global
GOOGL US	ALPHABET INC-CL A	Interactive Media & Services	79	76	83	22	61	88	47	40	86	63
QCOM US	QUALCOMM INC	Semiconductors	71	73	66	41	67	57	73	31	51	61
LULU US	LULULEMON ATHLETICA INC	Apparel, Accessories & Luxury	69	57	84	8	56	65	93	39	30	58
CB US	CHUBB LTD	Property & Casualty Insurance	64	73	56	58	56	63	22	56	71	57
FB US	FACEBOOK INC-CLASS A	Interactive Media & Services	73	66	84	29	55	70	35	31	61	57
ALK US	ALASKA AIR GROUP INC	Airlines	59	77	55	50	58	29	98	22	74	56
LNG US	CHENIERE ENERGY INC	Oil & Gas Storage & Transporta	59	69	79	51	31	34	87	37	81	56
CLH US	CLEAN HARBORS INC	Environmental & Facilities Ser	70	68	57	34	56	36	89	28	80	56
DRI US	DARDEN RESTAURANTS INC	Restaurants	50	54	47	38	55	38	95	72	82	54
USB US	US BANCORP	Diversified Banks	49	53	39	55	57	79	74	34	76	54
AZO US	AUTOZONE INC	Automotive Retail	60	50	66	37	63	49	43	58	58	53
AAPL US	APPLE INC	Technology Hardware, Storage &	71	69	70	15	64	62	41	28	51	53
CMG US	CHIPOTLE MEXICAN GRILL INC	Restaurants	67	66	62	12	49	45	53	68	73	53
AMZN US	AMAZON.COM INC	Internet & Direct Marketing Re	62	42	68	32	54	67	55	37	19	53
BLK US	BLACKROCK INC	Asset Management & Custody B	46	40	66	27	56	74	68	61	75	52
GLW US	CORNING INC	Electronic Components	55	57	70	45	47	53	50	36	51	52
C US	CITIGROUP INC	Diversified Banks	58	61	34	65	57	64	8	49	66	52
V US	VISA INC-CLASS A SHARES	Data Processing & Outsourced S	61	48	65	17	62	69	6	74	40	50
PYPL US	PAYPAL HOLDINGS INC	Data Processing & Outsourced S	58	40	70	6	59	65	83	27	63	50
XRAY US	DENTSPLY SIRONA INC	Health Care Supplies	52	57	51	38	50	48	83	17	64	49
NFLX US	NETFLIX INC	Movies & Entertainment	70	54	68	29	52	36	33	31	27	49
BAC US	BANK OF AMERICA CORP	Diversified Banks	60	57	37	46	58	76	4	39	79	49
MSFT US	MICROSOFT CORP	Systems Software	61	47	73	17	62	75	26	27	63	49
WMT US	WALMART INC	Hypermarkets & Super Centers	51	51	50	40	54	66	47	30	33	49
BMY US	BRISTOL-MYERS SQUIBB CO	Pharmaceuticals	41	43	62	65	56	52	48	18	29	48
MU US	MICRON TECHNOLOGY INC	Semiconductors	54	64	57	40	44	66	12	40	79	48
ZTS US	ZOETIS INC	Pharmaceuticals	60	44	71	16	56	43	61	29	51	48
ABT US	ABBOTT LABORATORIES	Health Care Equipment	54	43	61	29	55	66	34	40	47	48
JNJ US	JOHNSON & JOHNSON	Pharmaceuticals	50	46	57	41	61	73	25	29	42	48
ATVI US	ACTIVISION BLIZZARD INC	Interactive Home Entertainment	55	39	54	33	65	76	15	26	21	46
KO US	COCA-COLA CO/THE	Soft Drinks	51	43	45	37	62	52	42	29	40	46
MDLZ US	MONDELEZ INTERNATIONAL INC-A	Packaged Foods & Meats	41	35	45	38	53	39	91	33	31	46
JCI US	JOHNSON CONTROLS INTERNATION	Building Products	40	44	35	39	54	54	67	36	88	45
FDX US	FEDEX CORP	Air Freight & Logistics	42	36	61	53	48	41	18	42	57	43
EQIX US	EQUINIX INC	Specialized REITs	41	32	62	21	29	33	33	70	24	39
FIS US	FIDELITY NATIONAL INFO SERV	Data Processing & Outsourced S	34	45	52	30	43	48	44	15	16	38

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 14/07/2021.
**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.

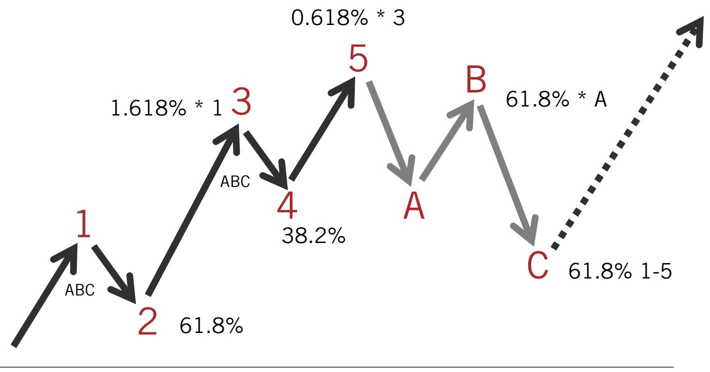
The Regional MATRIX grades

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 Elliot 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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