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Press Release

Positive market outlook for 2018

The year 2017 ended with a higher growth rate than expected, due to an acceleration in the Eurozone, Japan and China, and the coming year should be equally buoyant:

- Leading indicators for the major regions are high and indicate global growth of 4% over the next few quarters, representing the highest growth rate since 2010.
- This growth appears much more synchronous than during previous years. Of the 25 main world economies, 24 are now showing growth.
- Perspectives in emerging markets are positive, regardless of the anticipated slow-down in the Chinese economy.

Inflationary pressures remain very low, whether in the Eurozone, the United States or in emerging countries. The circumstances supporting this trend will continue in 2018, but some aspects point to an acceleration:

- The rebound in commodity prices.
- The start of a wage inflation cycle, spurred by unemployment rates in the main industrialized countries that are close to their equilibrium levels.

The Fed and its new Chairman, Mr. Powell, should continue to normalize American monetary policy at a slightly faster pace than expected by the market. Inflation in the US will drive the FED's future monetary policy.

The ECB's asset purchases will decline quite sharply in 2018 and are expected to stop by the end of the year.

Furthermore, we will monitor any change in the BoJ's yield curve control policy.

In light of these considerations, Jean-Luc Hivert, CIO Fixed Income & Cross Asset and Laurent Jacquier-Laforge, CIO Equities, share their convictions for 2018.

1/ Fixed Income: our convictions

"A reconnection between the interest rates of core countries and economic fundamentals will take time: the very clear dichotomy between the growth dynamic and the (currently disappointing) inflation dynamic will have a moderating effect on any upward trend in interest

rates," says Jean-Luc Hivert, CIO Fixed Income & Cross Asset. "We must also remember that the combined balance sheets of the central banks will continue to grow in 2018 before reaching a balance by the end of the year, which limits the probability of a hike in interest rates, at least during the first half of the year."

Directional

If we continue to witness the normalization of bond yield curves, the accommodative monetary environment should support peripheral debt in the Eurozone and should be a counterforce in the event of a major shift in European interest rates. The increase in government rates that we expect should therefore be moderate which will be key for the other fixed income asset classes.

"In an environment where German and Japanese interest rates remain low, any significant rise in interest rates will be seen as an opportunity to invest cash in government bonds, especially US bonds," adds Jean-Luc Hivert.

Investment Grade credit

After a year of very positive performance in terms of European credit, margins have settled at historically low levels. We expect the proportion of Investment Grade credit purchased by the ECB to increase compared with other asset classes eligible for its buyback program, thereby limiting the impact on valuations.

Subordinated debt

We are positive on financial (bank) subordinated debt given the impact of expected reflation on bank results, the healthier state of balance sheets in the south of Europe, and easing regulatory pressure, following the signature of the Basel IV agreement.

High Yield Credit

In terms of High-Yield credit, the fundamentals are good and default rates will remain very low, well below historical averages. Valuations are high and liquidity is an issue. We will therefore follow closely:

- Investor inflows which have dropped, given performance figures
- The financial leverage of US companies which remains high, making the most indebted companies sensitive to a more aggressive FED.
- The price of oil.

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Emerging markets

Investment flows will continue in 2018, since risk premiums remain very attractive relative to developed markets and to corporate debt.

Many emerging countries will hold elections in 2018, mainly in Latin America. Within this environment, local markets meeting specific domestic requirements should continue to perform well thanks to high real interest rates.

2/ Equities: our convictions

“The macroeconomic environment expected for 2018 offers significant support for global equity markets and suggests another strong performance after an excellent 2017,” says Laurent Jacquier-Laforge, CIO Equities.

Increasing Earnings per share

Synchronized global growth of 4% will back corporate activity and margins. As such, earnings per share are expected to be up by 10%, synchronized among the geographic regions.

Over and above the accelerated global activity, earnings per share should rise in the United States thanks to the increase in household disposable income and the finalization of the tax reform by the authorities. The profits of European companies, and more particularly of those in the Eurozone, should increase by more than 10% thanks to the acceleration in activity and to the Eurozone’s positive reaction to growth in emerging countries.

“We give priority to companies who have committed to a sustained investment policy with a profitability that far exceeds the cost of capital,” comments Laurent Jacquier-Laforge.

Nevertheless, we must pay special attention to:

- shifts induced by the digitalization of the economy, which, once detected, can affect an entire sector.
- the risk associated with a strong Euro for European export companies.

What sectors to favor?

We still believe that the growth sectors should attract investors, although we could record ‘technical’ and occasional rebounds in sectors with low valuations. The visible growth in industrial production will support investments that have not lived up to expectations in 2017, with the usual lag of 12 to 18 months. That is why the growth differentials between the sectors must be significant, with a preference for technological and industrial stocks.

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Beyond this scenario, what are the main risks?

In addition to geopolitical tensions (Korea, Iran, Donald Trump's foreign policy, etc.), special attention should be paid to the normalization of the main central banks' monetary policies, and in particular the drop in cash flow from 2018. The hike in interest rates will increase credit conditions and probably generate more volatility in the markets. These tensions will naturally highlight the historically high absolute valuation of risky assets classes. In the portfolios, we will also take care to monitor foreign exchange risks that materially affect the relative performance of the markets.

About La Française

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For forty years, La Française has been developing core competencies in third party asset management.

La Française has a multi-expertise business model organized around four core activities: securities, real estate, investment solutions and direct financing. The group caters to institutional and private clients throughout the world.

With 566 professionals and offices in Paris, Frankfurt, Geneva, Stamford (CT, USA), Hong Kong, London, Luxembourg, Madrid, Milan, Seoul and Singapore, La Française manages over 64* billion euros in assets.

Credit Mutuel Nord Europe ("CMNE"), a banking and insurance group present in Northern France and Belgium with total regulatory capital in excess of €3.3bn as at 31/12/2016, holds 92% of the voting rights of La Française (as at 16/03/2017). La Française's employees and management are also shareholders in the company.

*as at 30/06/2017

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