

## 5/ Mapping the markets (part I)

### General comment

While US markets are making all time highs, European and Japanese markets have topped out. If it wasn't for a small amount of big technology growth stocks (software/e-commerce/internet majors), US markets would have probably done the same. Cyclical and Financials (reflationary assets) don't seem ready to take over the lead yet (not before mid year or mid Summer), so that equity markets, at best, are stuck at high levels. Risk/reward looks stretched to the upside going into June. We continue to favor Defensives assets (Bonds, Gold, the Yen and the Euro) vs Reflationary ones (Equity, Oil, Basic Metals and the Dollar) and now probably also vs Growth until mid year.

### Equity markets

#### Volatility

Following a strong yet short-term bounce mid May, VIX is re-testing historical lows, we believe it may bounce back in June

#### World markets (p.11,12,13 )

US markets are still making all time highs. Europe and Japan topped out early May. Breadth continues to thin out. Overall risk/reward seems stretched and we would expect some consolidation into June. From July / August, markets should accelerate up again towards year-end.

#### Regional picks

US markets make a comeback: Europe's outperformance may take a pause until July, while Japan underperforms again on the back of a stronger Yen.

#### Emerging markets (p. 26-30, p37-40)

EM currencies should top out in June vs the Dollar and with them the EEM ETF. The correction to the downside could last into mid/late Summer. Strong rotation is expected between the countries: China is bottoming out vs other EMs, while we will probably need to wait until mid Summer to see Commodity exporters do the same (e.g. Brazil, Russia). India and Asian growth should top out mid-year and consolidate into the Summer.

#### Relative Sectors (p. 15,16,17,19,24))

On a relative basis, Technology is stretched, yet could linger on up as reflationary sectors continue to correct. Financials may bounce, yet should consolidate again into July/August. Defensives are gathering momentum and could outperform until midyear

#### Profiles/Themes (p. 14)

Value continues to retrace vs Growth, probably towards mid year.

### Interest rates

#### US rates and Yield curve (p.16 )

US yields continue to consolidate towards the second half of June and levels slightly below 2%. The curve keeps flattening across the board.

#### Other countries

Yields and Yield curves in other developed countries are also retracing down (flattening).

#### Credit

High yield is topping out and should consolidate towards mid-year, while High grade and Treasuries remain firm.

#### Rate Differentials

US vs Eurozone and Japan rate differentials continues to consolidate towards mid year

#### Tips

Tips remain positive on an absolute basis as they follow Gold and other defensive assets up towards mid year. Concomitantly, they continue to underperform Treasuries.

## 6/ Mapping the markets (part II)

### Commodities

#### Oil

(p.23- 26)

following its bounce in May, oil should roll over again. Initial lows are expected end June, yet end July / early August could see another retest to the downside. Targets down point to below 50\$/barrel, possibly the mid 40s for Brent or slightly below them for WTI.

#### Base metals

they should continue to consolidate down into June before they find support towards mid year, early Summer and move up again towards yearend.

#### Gold & PMs

(p.17,18,42)

Gold & Silver corrected sharply into early May, they are now moving up again as a more risk-off environments materializes.

#### Agriculture

on average Agricultural Commodities have achieved little during the deflation trade, or have given up most of their early gains. They should remain under pressure towards the Summer at least.

### Foreign Exchange

#### Dollar Index

The Dollar index continues to consolidate, possibly towards the second half of June in first instance (further weakness expected later on in the year). Target range towards year end still pointing towards 96-92.

#### Euro

we still expect 1.15 – 1.22 on EUR/USD towards year end. In the meantime, June could see another figure or so of progression to the upside before EUR/USD retraces from late June to mid/end Summer. EUR/CHF follows similar dynamics.

#### Yen

Yen should firm again vs other majors as we move into June and may retest April highs.

#### Sterling

Sterling may have started to resume its downtrend vs the Euro and the Dollar. We expect it to weaken further during the Summer towards the Fall.

#### Commodities currencies

(p.25,31)

As oil and commodities continue to consolidate down towards mid year and early Summer, commodity currencies (BRL, RUR, CAD, NOK, ZAR) should continue to retrace vs the Dollar and the Euro. AUD/USD should continue to follow Gold up, possibly until midyear (less so vs the Euro and the Yen) .

#### Asian currencies

(p.31,37)

they continue to move up vs the Dollar, probably until midyear (e.g. INR, KRW, TWD). They may have already topped out for now vs the Euro and the Yen.