



CASSA LOMBARDA
Private Banking. Banca dal 1923.



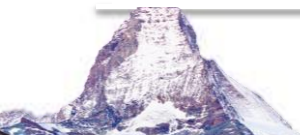
Investment Committee

March 2018

Group Asset Management

Executive Summary

- Market action since the previous Investment Strategy
- Current Asset Class valuation:
 - Economic cycle: world growth mostly solid if not robust; financial conditions tightened by markets, not by Central Banks
 - Asset allocation: asset prices are rich on average and suggest a cautious stance; volatility is rising, but equity markets are in positive trend and profit growth warrants a constructive stance on equities
 - Equities:
 - ❖ US: P/E sustainable and positive earnings growth expectations
 - ❖ EZ: P/E sustainable but earnings prospects somewhat uncertain
 - ❖ JP: low P/E but possible effects from political scandals
 - ❖ EMM: P/E high and margins depressed, but favourable macro
 - ❖ Spain: absolute P/E not expensive, relative below average, adjusted ERP cheap
 - ❖ Further opportunities: maintain Switzerland and Russia, reduce Germany
 - Fixed income:
 - ❖ Govies: EUR curve vulnerable to normalisation, USD to overheating
 - ❖ Inflation linked govies: better than nominals, but already discounting rising CPI
 - ❖ Corporates: EUR at risk due to curve and ECB tapering, still some value in USD
 - ❖ Emerging debt: «carry» and some room for spread tightening
 - Commodities:
 - ❖ Gold: a safe heaven of little use currently
 - ❖ Oil: still undervalued with some marginal upside
 - FX:
 - ❖ EUR/USD now fair, some upside from Central Banks and dual deficit; GBP at risk
 - ❖ Hold on SEK, let NOK run
 - ❖ Maintain the hedge on Japanese stocks; Ruble curve still interesting



Equity markets

Mixed market action during the period:

- US: recovering, despite the White House's protectionist drift; in the black ytd
- Tech and growth stocks most positive, notable performance ytd
- Europe almost stable during the last month but still negative ytd
- Japan also stabilising but in the red ytd
- ECB's milder addendum on non performing loans benefits Italy
- India penalised by banking scandals and underperforms emerging markets and ytd
- Russia lower in the month, remains positive since end 2017
- Poland worst market, first rate hike by CB affects banks
- Hong Kong follows US technology and benefits from China's activity
- Emerging markets marginally higher, still ahead on developed

16/03/2018 15:05	prezzo	Ultimo periodo %	%	%		Stima PE rolling12m	Stima dvd 2018	Stima ROE 2018	Stima P/B 2018	Vol. 90gg	Stima eps Fw12/Rw12
<u>Indici Azionari</u>	16 mar/18	22feb-16mar/18	Ytd 2018	2017							
S&P 500	2756,8	+2,0	+3,1	+19,4	S&P 500	17,3	1,94%	+18%	3,1	14,9	+22%
Nasdaq Composite	7497,7	+4,0	+8,6	+28,2	Nasdaq Composite	22,1	1,04%	+24%	4,4	16,0	+34%
Eurostoxx 50	3434,7	+0,1	-2,0	+6,5	Eurostoxx 50	13,5	3,73%	+9%	1,5	13,2	+12%
Stoxx Europe 600	377,9	-0,6	-2,9	+7,7	Stoxx Europe 600	14,3	3,61%	+10%	1,8	12,1	+9%
FTSE MIB	22865,9	+1,8	+4,6	+13,6	FTSE MIB	12,4	3,74%	+8%	1,2	15,7	+3%
CAC 40	5276,0	-0,6	-0,7	+9,3	CAC 40	14,3	3,34%	+9%	1,5	13,1	+8%
DAX 30	12388,7	-0,6	-4,1	+12,5	DAX 30	12,7	3,24%	+12%	1,6	14,7	+10%
IBEX 35	9762,6	-1,2	-2,8	+7,4	IBEX 35	12,6	4,15%	+9%	1,3	13,3	+11%
FTSE 100	7155,3	-1,3	-6,9	+7,6	FTSE 100	13,4	4,44%	+9%	1,8	11,1	-1%
Swiss Market	8884,9	-0,9	-5,3	+14,1	Swiss Market	15,3	3,59%	+14%	2,3	13,2	+63%
Oslo Stock Exchange	902,9	-0,7	-0,5	+18,6	Oslo Stock Exchange	15,5	3,89%	+12%	1,6	12,6	+11%
OMX Stockholm 30	1578,7	+0,3	+0,1	+3,9	OMX Stockholm 30	15,5	4,14%	+12%	2,1	14,5	+12%
NIKKEI 225	21676,5	-0,3	-4,8	+19,1	NIKKEI 225	15,0	1,85%	+11%	1,7	18,6	+5%
HANG SENG	31502,0	+1,7	+5,3	+36,0	HANG SENG	12,1	3,30%	+12%	1,3	19,2	+12%
Shanghai Composite	3269,9	+0,0	-1,1	+6,6	Shanghai Composite	12,4	2,20%	+13%	1,5	15,0	+27%
India Sensex 30	33176,0	-1,9	-2,6	+27,9	India Sensex 30	16,8	1,37%	+12%	0,0	11,5	+27%
Russian Micex Index	2283,1	-2,3	+8,2	-5,5	Russian Micex Index	6,4	5,85%	+11%	0,7	14,9	+23%
Brazil Bovespa	85294,0	-1,6	+11,6	+26,9	Brazil Bovespa	12,6	3,25%	+13%	1,8	19,7	+54%
Varsavia Stock Exc.	60676,3	-3,3	-4,8	+23,2	Varsavia Stock Exc.	11,3	3,34%	+9%	1,2	13,4	+8%
Msci Developed local	1592,4	+0,8	+0,4	+16,3	Msci Developed local	11,9	2,47%	+12%	2,3	11,0	+18%
Msci Emerging local	63448,5	+1,3	+4,2	+27,8	Msci Emerging local	662,4	2,64%	+12%	1,7	12,2	+23%

Fonte: Bloomberg

Fixed income markets

Period highlights:

- Flattening of dollar curve ahead of a Fed meeting expected to hike rates; long end subdued thanks to favourable salary dynamics
- Downshift of the Euro curve: Eurozone inflation remains weak and the ECB's press conference left the outlook unchanged
- BTP spread marginally higher following inconclusive elections in Italy; Spanish spread stable
- HY spread stable and emerging markets again slightly widening, a due adjustment after the good performance in February during the equity turmoil. Indeed CDS have fallen reflecting good fundamentals

16/03/2018 15:09	tasso	Var. (bp rend.; % tot return indice)				swap spread bp
Tassi Benchmark	16 mar/18	22feb-16mar/18	Ytd 2018	2017	16 mar/18	
Euribor 3 mesi	-0,33%	+0	+0	-1		
Treasury US 2-anni US\$	2,28%	+3	+40	+69	-32	
US Total return 1-3y		+0,1%	-0,3%	+0,4%		
Bko 2-anni EUR	-0,59%	-6	+4	+14	-44	
GER Total return 1-3y		+0,1%	-0,1%	-0,9%		
BTP 2-anni EUR	-0,25%	-8	+1	-7	-10	
IT Total return 1-3y		+0,1%	+0,2%	+0,4%		
Bonos 2-anni EUR	-0,27%	-8	+8	-7	-12	
SP Total return 1-3y		+0,1%	-0,0%	+0,2%		
Treasury US 10-anni US\$	2,85%	-7	+44	-4	-4	
US Total return 7-10y		+1,0%	-2,4%	+2,9%		
Bund 10-anni EUR	0,58%	-13	+15	+22	-44	
GER Total return 7-10y		+0,6%	-0,5%	-1,1%		
BTP 10-anni EUR	1,95%	-12	-6	+20	+94	
IT Total return 7-10y		+1,3%	+1,0%	+1,8%		
Bonos 10-anni EUR	1,36%	-16	-21	+18	+34	
SP Total return 7-10y		+1,5%	+1,6%	+2,4%		
Spread 10-anni BTP-Bund	1,38%	+1	-21	-2		
Spread 10-anni Bonos-Bund	0,78%	-3	-36	-4		
Us Breakeven Inflation 5 Year	2,08%	+2	+21	+2		
US Total return Bei		+0,3%	+1,0%	+1,2%		
Italy Breakeven Eur inflat. 5 Yea	1,09%	+6	+2	+31		
IT Total return Bei		-0,2%	-0,6%	-2,8%		

basis point	Var. (bp spread; % tot return indice)			
16 mar/18	22feb-16mar/18	Ytd 2018	2017	
Corporate & Emergenti				
OAS Euro Investment Grade (avg)	37	+8	+3	-30
Euro Aggregate Corporate		+0,1%	-0,4%	+2,4%
OAS Euro High Yield (avg)	254	+8	+38	-104
Euro High Yield Unh EUR		+0,2%	-0,2%	+6,9%
OAS Usd Investment Grade (avg)	95	+7	+3	-32
U.S. Corp		+0,1%	-2,7%	+6,4%
OAS Usd High Yield (avg)	344	-3	-31	-55
US Corp High Yield		-0,1%	-0,6%	+7,5%
Embi Global vs All Treasury	318	+7	+7	-54
EM Sovereign TR USD		+0,3%	-2,2%	+9,3%
Emg local Yield	4,90%	-0,0%	+0,0%	-0,3%
EM Local Currency Govt		+0,5%	+2,1%	+14,3%

	basis point	Ultimo periodo bp	bp	bp
CDS 5YR	16 mar/18	22feb-16mar/18	Ytd 2018	2017
USA	20	+1	-1	+21
Germania	10	+1	+1	+9
Italia	99	-6	-18	+117
Francia	17	+0	-0	+17
Spagna	39	-10	-17	+56
Emg Debt	119	-3	-1	+120
Corp Inv Grade Europe	50	-4	+5	+45
Corp High Yield Europe	253	-16	+20	+232
Corp Inv Grade US	54	-1	+5	+49
Corp High Yield US	330	-2	+23	+306
Fonte: Bloomberg				

Fonte: Bloomberg

Commodities, volatilità and currencies

Period dynamics:

- Commodities mixed: oil falling due to increases in supply and US inventories; gold marginally down following the US dollar; copper falling on China's new year; wheat rising due to US draught
- Sharp downturn in equity and bond volatility
- Currencies: EUR/USD stabilising, ECB' determination has kept the common currency at bay; EUR/CHF up on «risk off» abating; CAD suffering BOC's dovishness; NOK down on low inflation target; SEK penalised by disappointment on inflation; politics damages the RUB; and TRL suffers Central Bank's inactivity on inflation

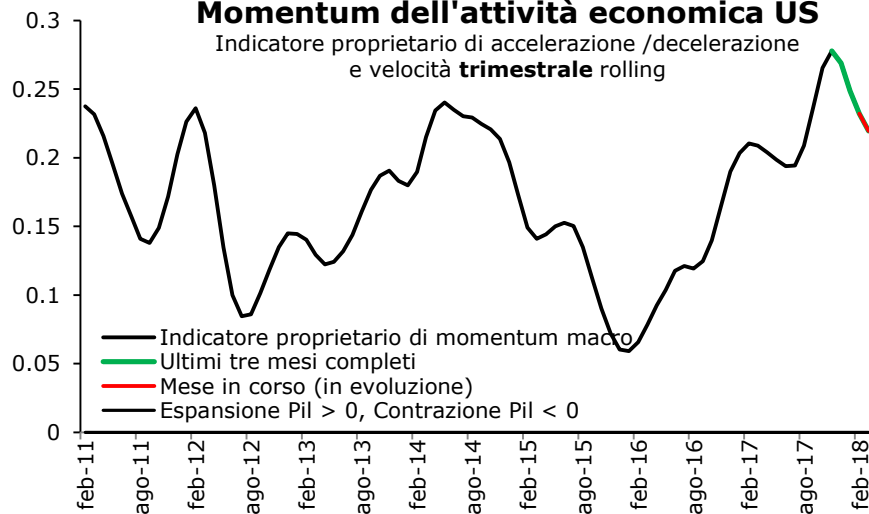
16/03/2018 15:09		prezzo	Ultimo periodo %	%	%
Commodity		16 mar/18	22feb-16mar/18	Ytd 2018	2017
CRB Index		193	-0,9	-0,2	+0,7
Wti Crude Oil (US\$/BBL)		61,1	-2,6	+1,2	+12,5
Gold (US\$/oz)		1.313	-1,4	+0,8	+13,1
Grano		472	+1,7	+7,3	-9,1
Copper (US\$/MT)		6.920	-3,4	-4,5	+30,9
		prezzo	Ultimo periodo %	%	%
Volatility		16 mar/18	22feb-16mar/18	Ytd 2018	2017
Eurostoxx 50 Volatility Index		13,95	-25,4	+3,3	-25,4
SPX Volatility Index		15,48	-17,3	+40,2	-21,4
Treasury Volatility Index (MOVE)		57,71	-5,6	+23,8	-34,9
Currency Volatility Index		7,61	-6,3	+2,8	-32,9
		prezzo	Ultimo periodo %	%	%
Forex		16 mar/18	22feb-16mar/18	Ytd 2018	2017
US DOLLAR INDEX		90,210	+0,5	-2,1	-9,9
JPM Asian Dollar Index		111,350	+0,3	+1,4	+6,6
JPM EM Currency Usd		70,503	-1,0	+1,3	+5,7
USD/Yen Giapponese		106,040	-0,7	-5,9	-3,7
EUR/Dollaro Usa		1,229	-0,4	+2,3	+14,1
EUR/Yen Giapponese		130,270	-1,0	-3,7	+10,0
EUR/Chf Franco svizzero		1,169	+1,7	-0,1	+9,2
EUR/Sterlina inglese		0,882	-0,2	-0,7	+4,1
EUR/Dollaro Australiano		1,586	+0,9	+3,2	+5,3
EUR/Dollaro Canadese		1,607	+2,6	+6,5	+6,8
EUR/Corona Norvegese		9,490	-2,0	-3,6	+8,3
EUR/Corona Svedese		10,073	+0,7	+2,4	+2,7
EUR/Corona Danese		7,449	+0,0	+0,0	+0,2
EUR/Dollaro di Singapore		1,617	-0,6	+0,8	+5,5
EUR/Renminbi (yuan) Cinese		7,772	-0,9	-0,4	+6,3
EUR/Rupia indiana		80,029	+0,1	+4,6	+6,8
EUR/Real Brasiliano		4,045	+0,9	+1,7	+16,0
EUR/Rublo russo		70,841	+1,7	+2,2	+7,1
EUR/Zloty polacco		4,217	+0,9	+0,9	-5,1
EUR/Peso Messicano		23,020	+0,3	-2,5	+8,3
EUR/Lira Turca		4,808	+3,0	+5,8	+22,7

Fonte: Bloomberg

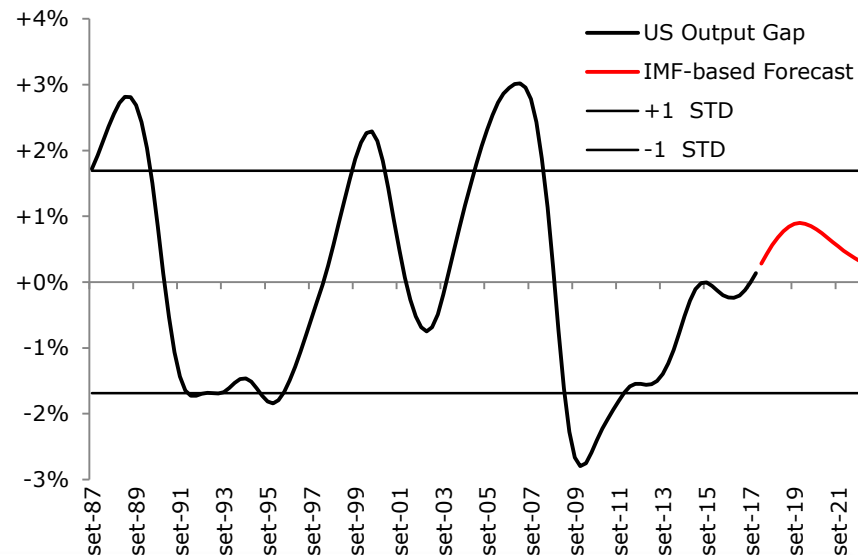
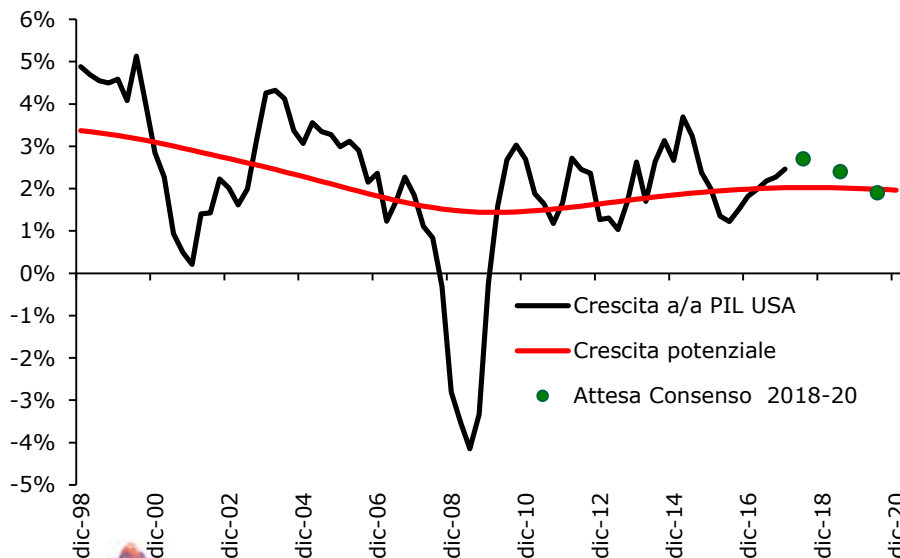
Macro USA: fiscal expansion and risk of overheating

Momentum dell'attività economica US

Indicatore proprietario di accelerazione /decelerazione e velocità **trimestrale** rolling



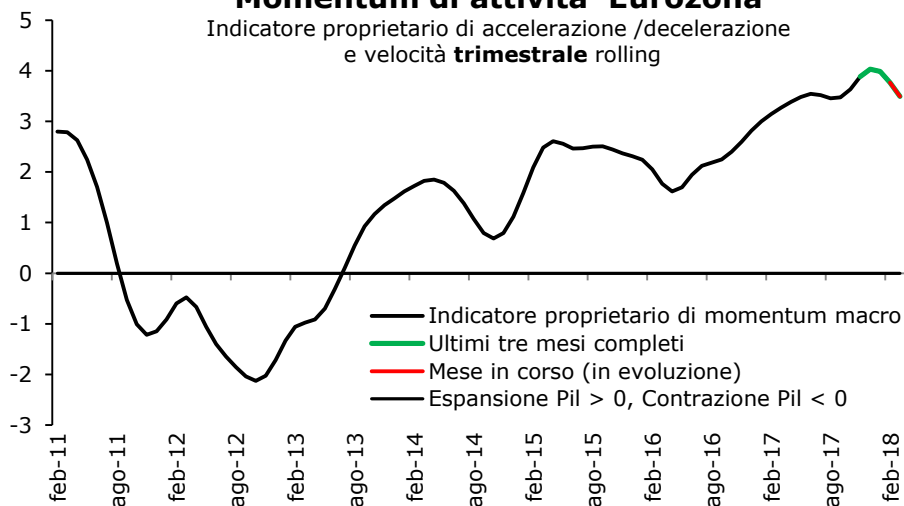
Despite the decline in recent months, the momentum in activity in the United States continues to show robust growth (top left). Tax reform, spending increases approved by Congress earlier this year and the removal of the Budget Control Act of 2011 will provide a strong stimulus to activity in the 2018-19. The growth will exceed potential (bottom left), the economy will begin to overheat (below) and the trajectory of federal debt will become even less sustainable in the long run. The probability of recession in three years is increasing, because the Fed could become restrictive after the normalization and Congress finally restores virtue by cutting public spending.



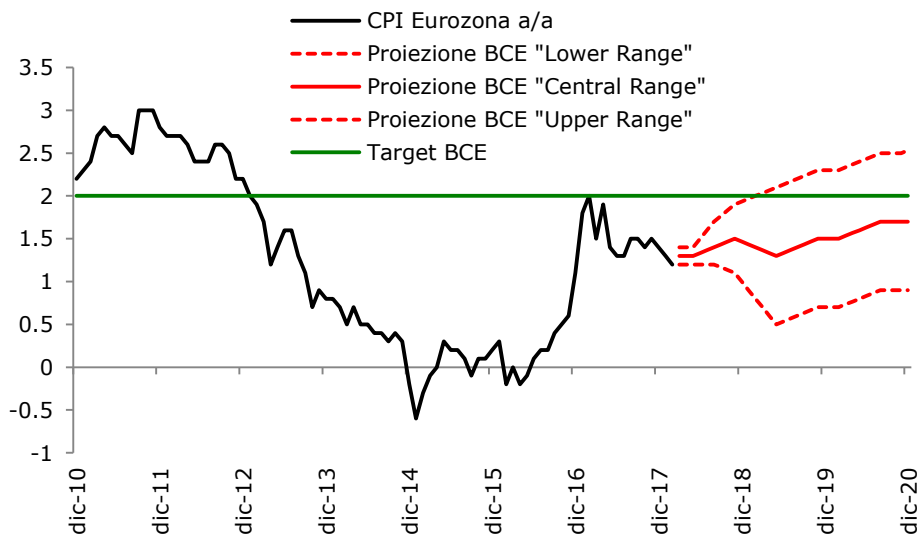
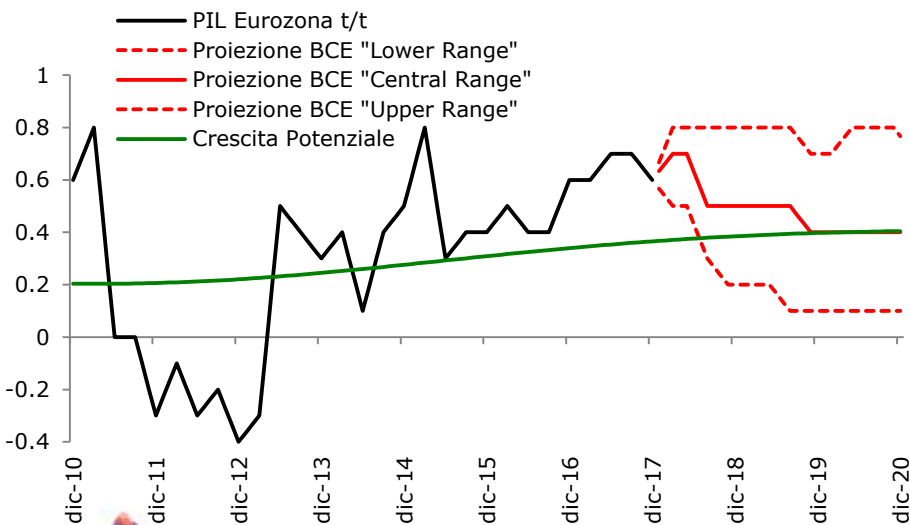
Macro EZ: strong growth and slow increase of inflation towards target

Momentum di attività Eurozona

Indicatore proprietario di accelerazione /decelerazione
e velocità **trimestrale** rolling



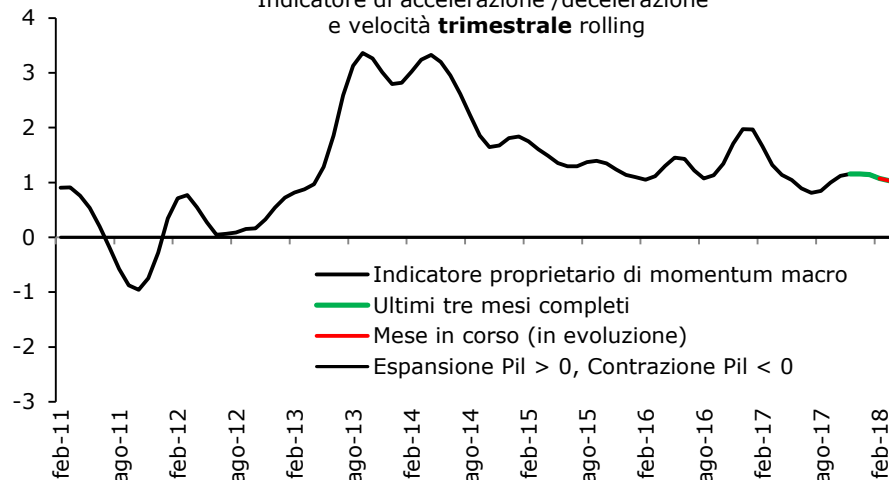
The Momentum of Eurozone activity shows a strong growth rate ever in the first quarter of 2018 (top left), almost dizzy. During the resto of the year, it will be hard to improve. The latest ECB projections are based on an already extremely expansive monetary policy with only two reference rate rises in 2019 and 2020, as expected by the market. GDP growth is expected to slow down towards potential (bottom left). As for inflation, it will take until 2021 to reach the "below but close to 2%" target (below).



Macro RoW: UK (-), Japan (=)

Momentum di attività UK

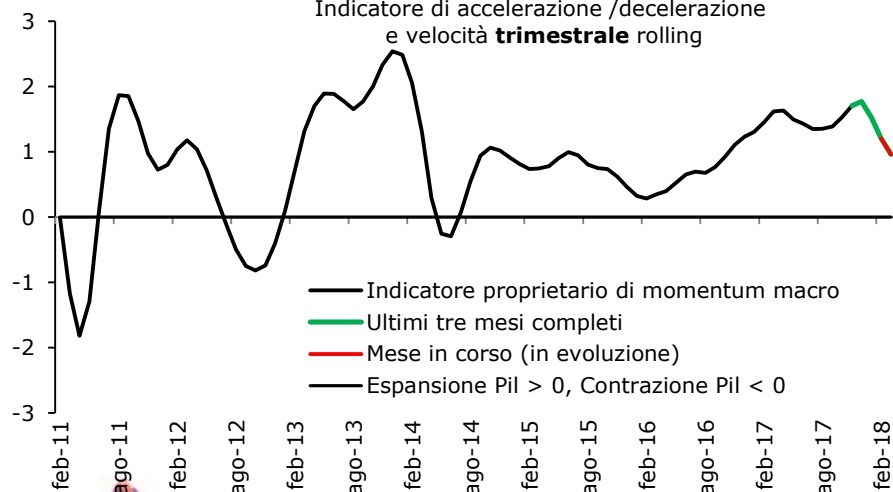
Indicatore di accelerazione /decelerazione
e velocità **trimestrale** rolling



While activity data in the UK indicates a beginning with growth from weak to moderate (top left) and the BOE remains in waiting mode, the EU has announced its proposal for a post-Brexit commercial deal within London's «red lines». The plan will be approved by the 27 before the end of March and entails a free-exchange deal limited to goods and thwarts London's attempt to negotiate sector by sector. The UK is the world's biggest exporter of financial services, representing 10% of GDP. The exclusion from the Common Market is more and more likely and constitutes a significant risk to growth.

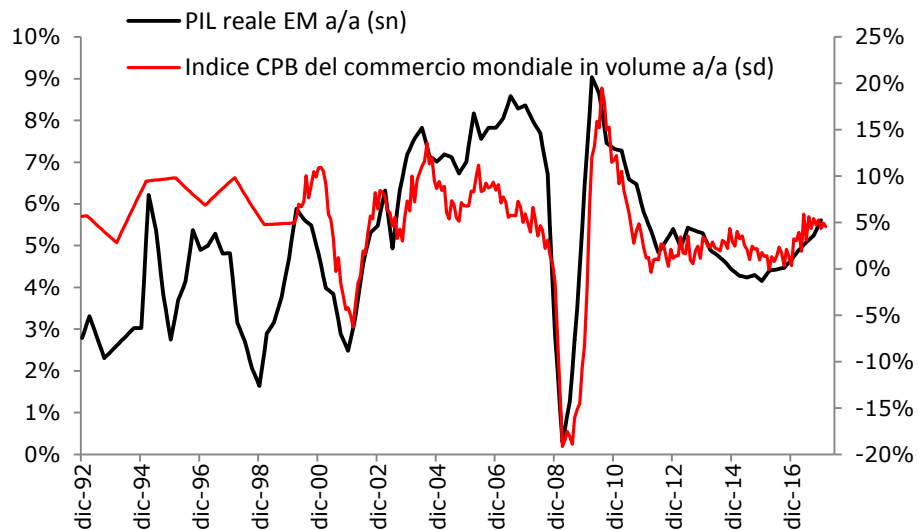
Momentum di attività Giappone

Indicatore di accelerazione /decelerazione
e velocità **trimestrale** rolling

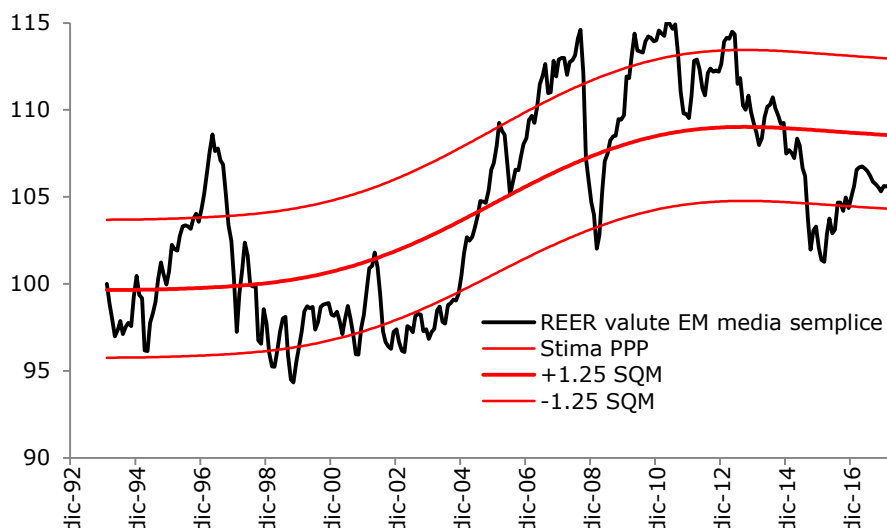
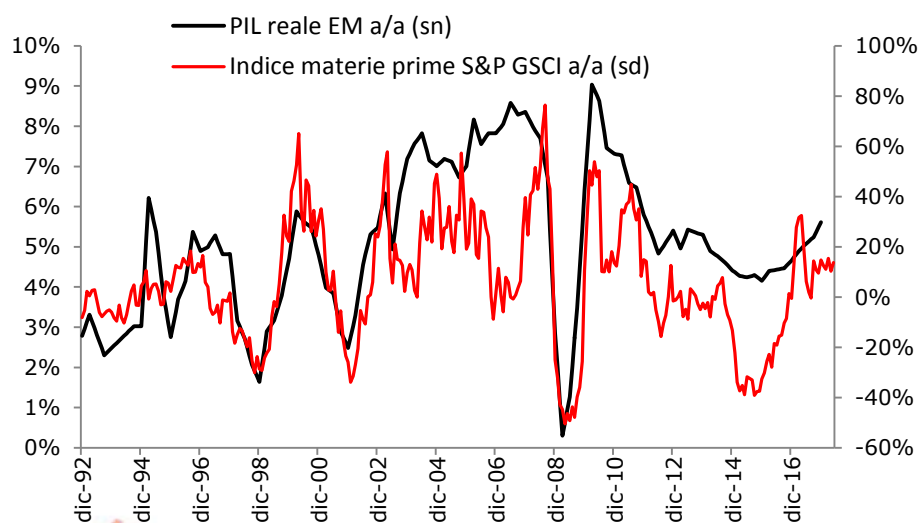


Despite the slowdown since the end of 2017, captured by our Momentum indicator (bottom left) growth in Japan remains strong compared with potential (+0.8%) but prices do not rise. The BOJ has missed no opportunity to reiterate its plans for monetary policy. QQE will be maintained and if necessary extended until inflation will top 2%. The median forecast of the Board is 1.8% for fiscal year 2019, well above the consensus (+1.1%). No exit strategy in sight until 2021.

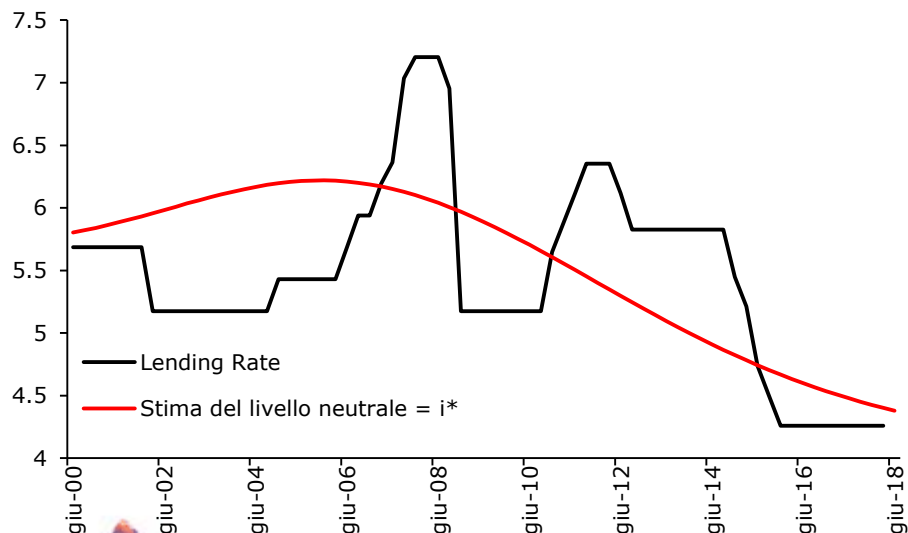
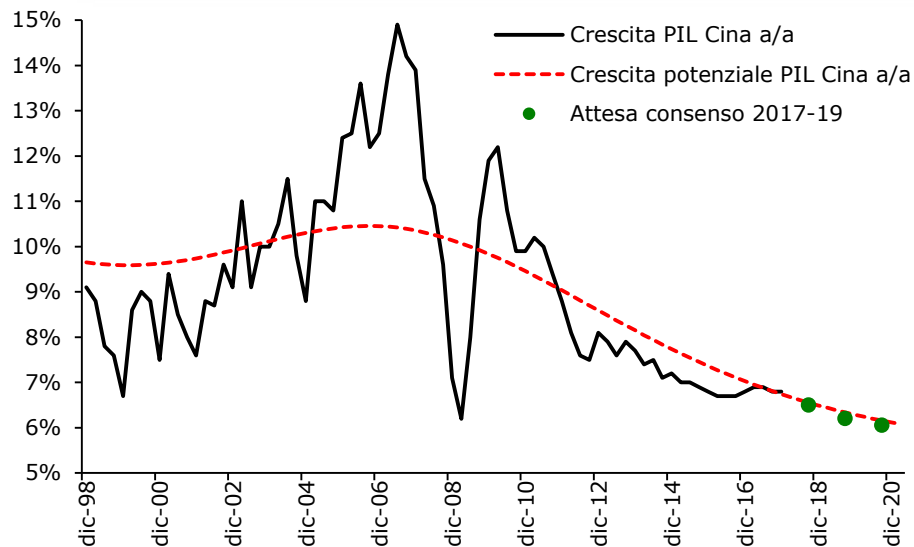
Macro RoW: Emerging Markets (+)



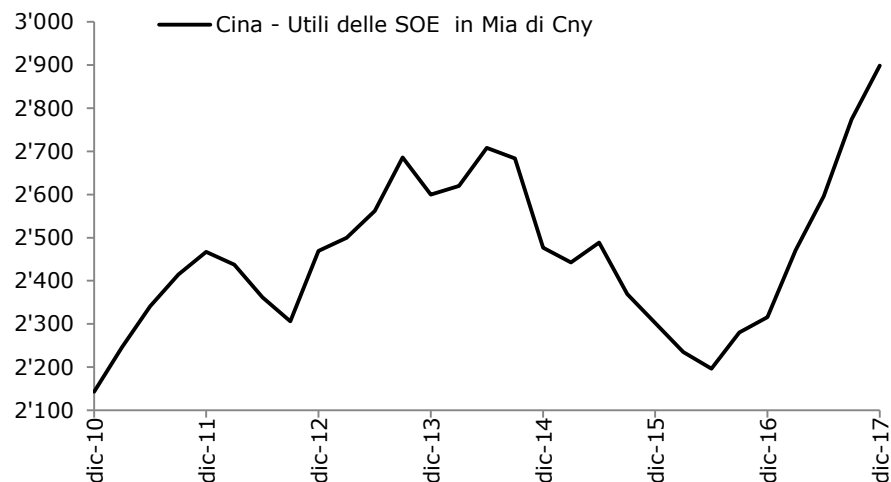
- ❖ Emergin economis represent 58% of world GDP
- ❖ Synchronized global growth is very favourable to emerging economies via the groth in world commerce (top left) and raw materials (bottom left)
- ❖ Currencies remain fairly undervalued (bottom)
- ❖ US steel and aluminium tariffs will have minimal impact



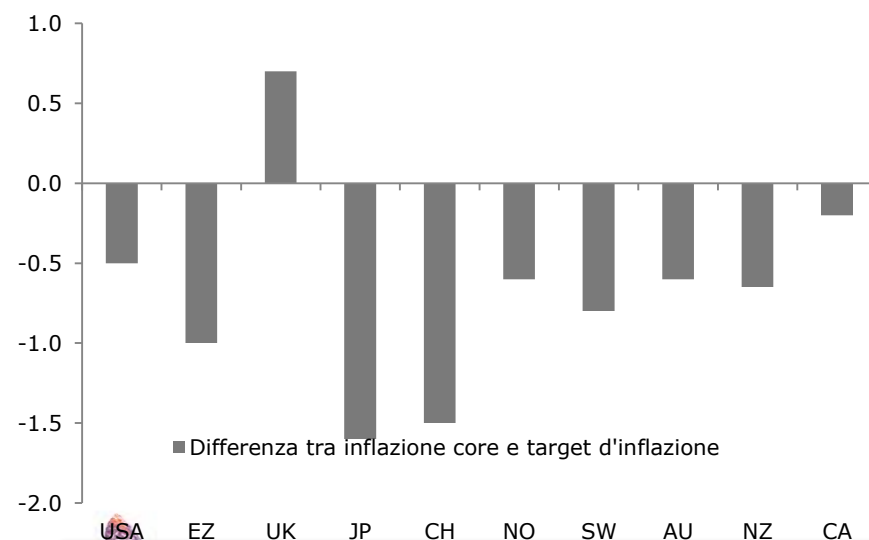
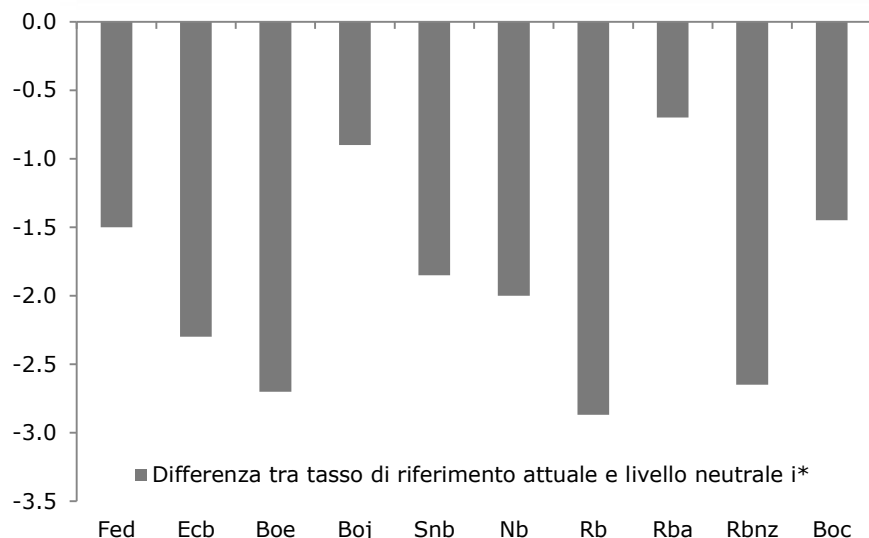
Macro RoW: China (=)



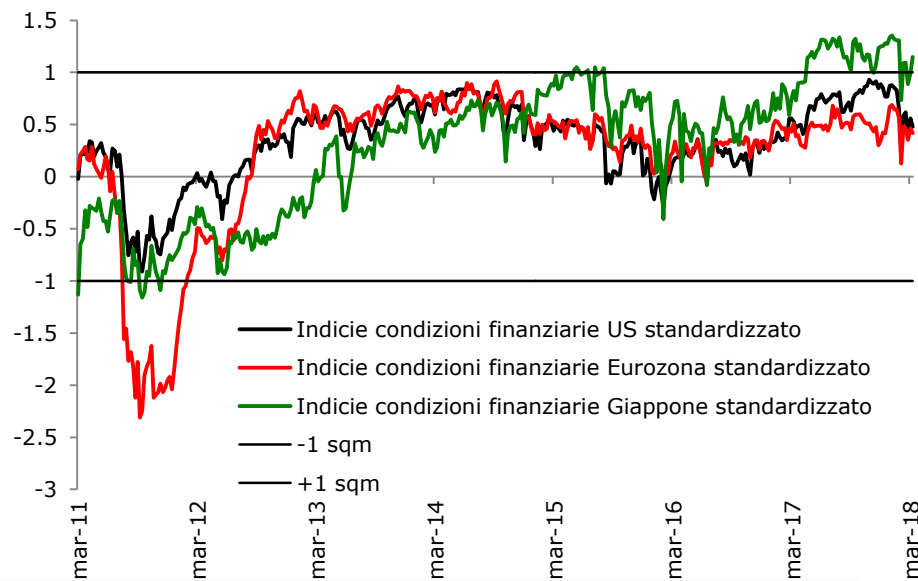
- ❖ Economic targets must be attainable if not beaten
- ❖ Premier Li Keqiang has quoted a target of 6.5% for growth and 3% or inflation
- ❖ Monetary policy to stay neutral
- ❖ Debt/GPD to fall from 3% to 2.6%: the economy is self-sustaining
- ❖ SOEs profits are up strongly (bottom) and allow the government to reduce the fiscal burden on companies



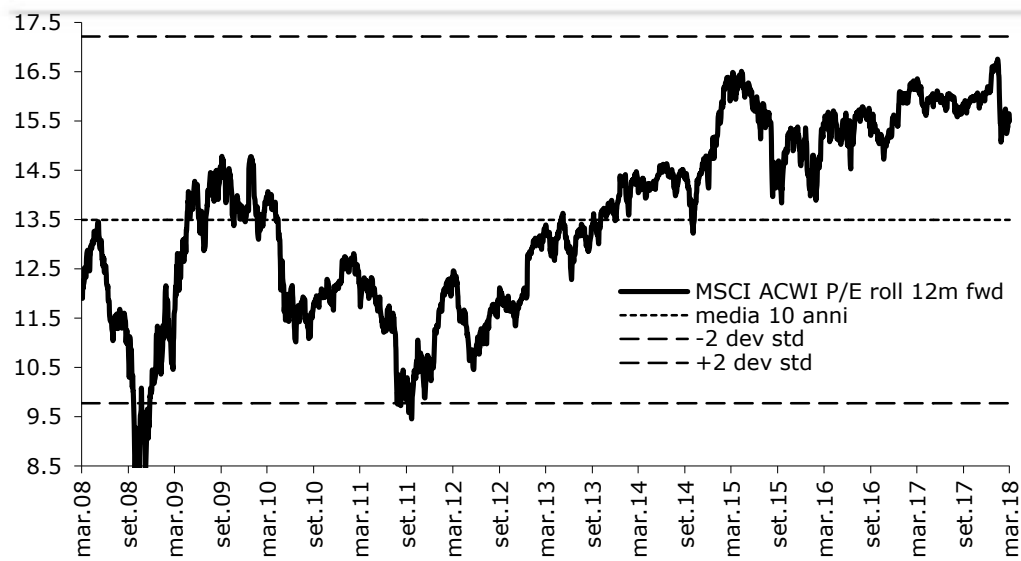
Monetary policies: financial conditions tightened by markets, not yet by CBs



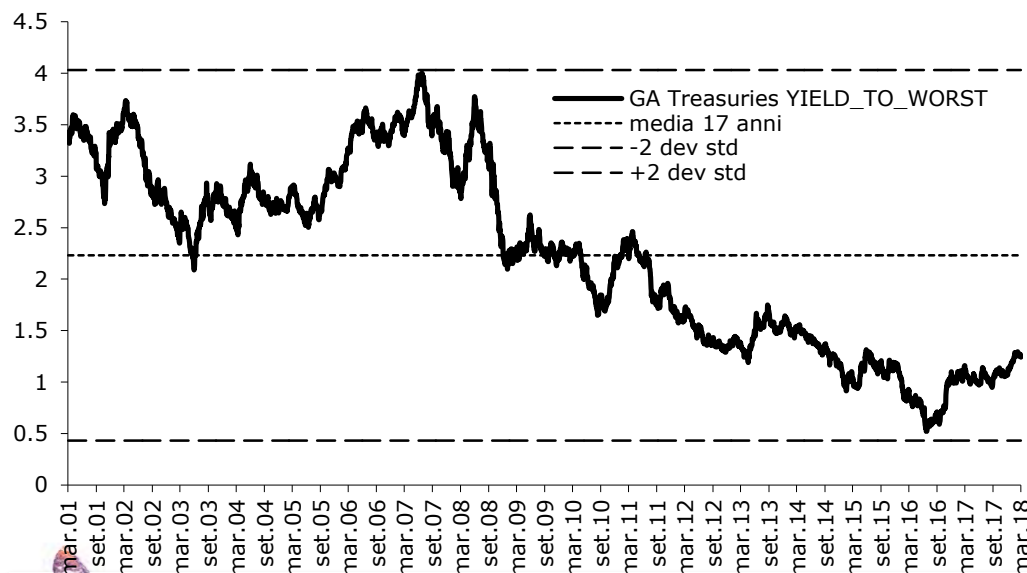
- ❖ Developed markets CBs maintain (very) accommodative policies (top left)
- ❖ Core inflation rates remain below targets except in the UK (bottom left)
- ❖ As the support global growth, CBs will begin normalisation with great caution
- ❖ Monetary support will remain positive in the next two years
- ❖ Recent market turmoil has tightened financial conditions (bottom) which remain nonetheless supportive



Asset Allocation: asset prices are fairly elevated

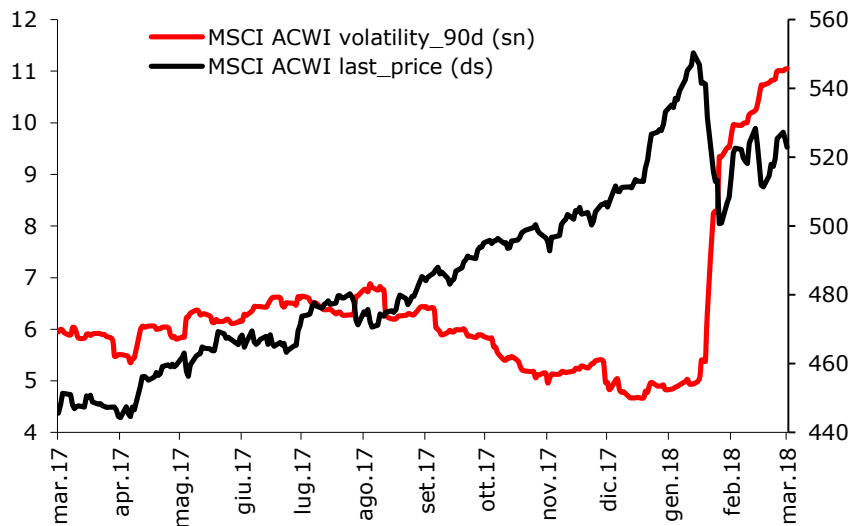


❖ Absolute valuations are not cheap and still above average, yet they have come down from recent highs (top left)



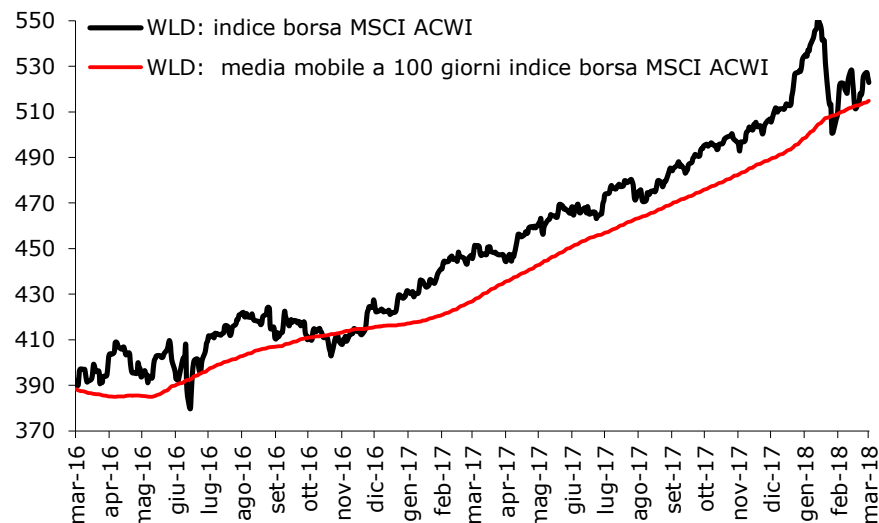
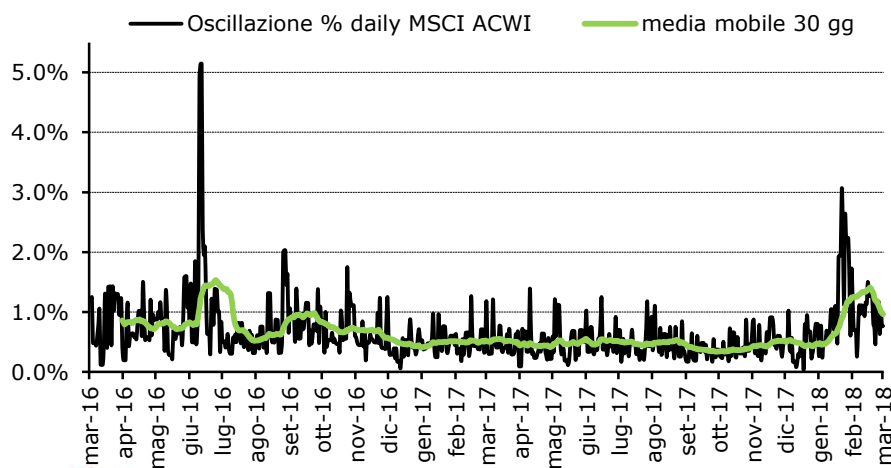
❖ Fixed income valuations has improved from yield lows, but remain expensive (bottom left)

Asset Allocation: volatility is growing but the equity trend remains positive

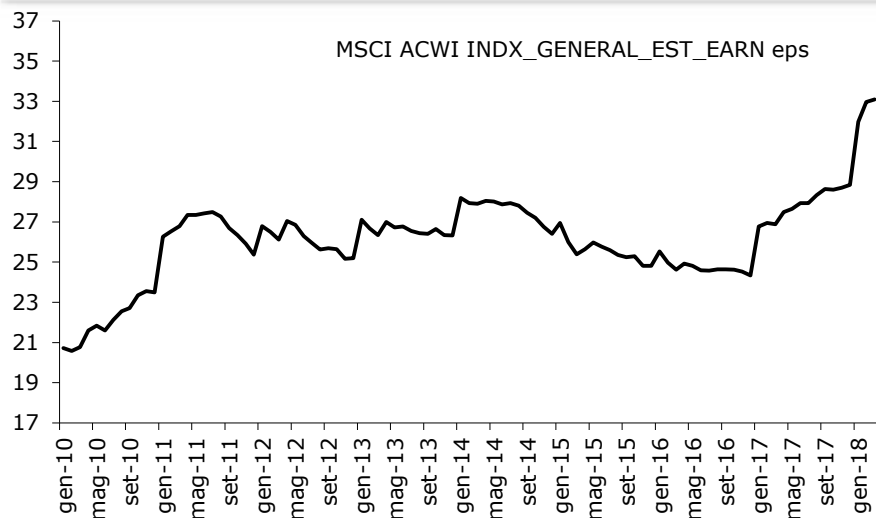


❖ The advanced phase of the economic cycle normally brings about an increase in realised volatility (top left) with higher intra-day swings (bottom left): timing is key.

❖ The trend is intact, despite the retracement (below)

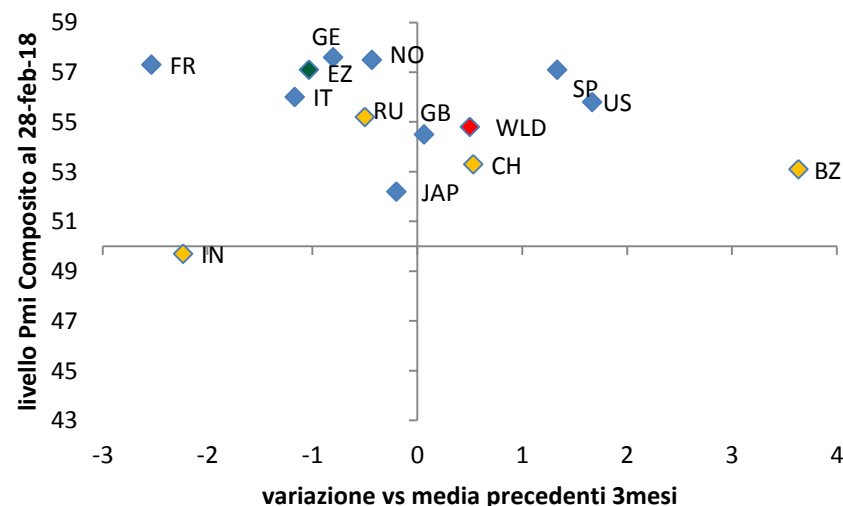
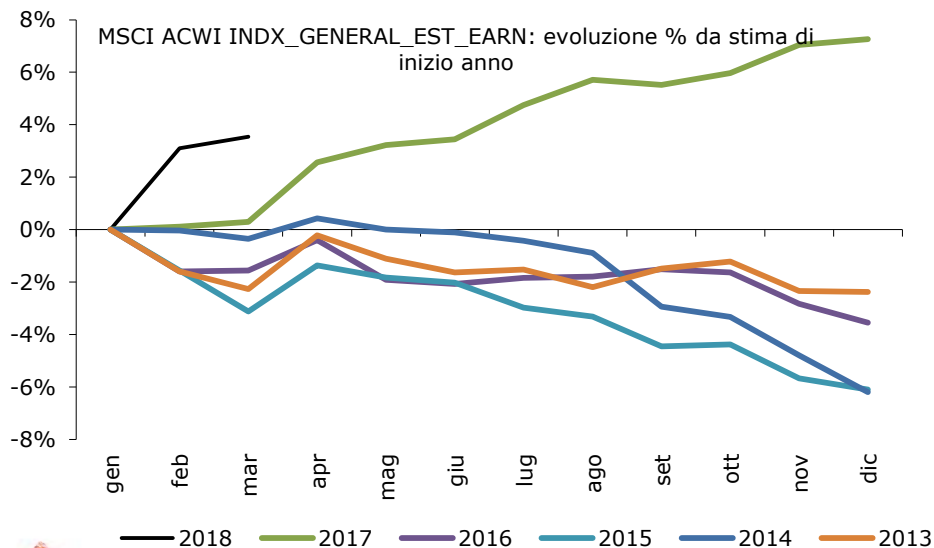


Asset Allocation: cautious but constructive on equities

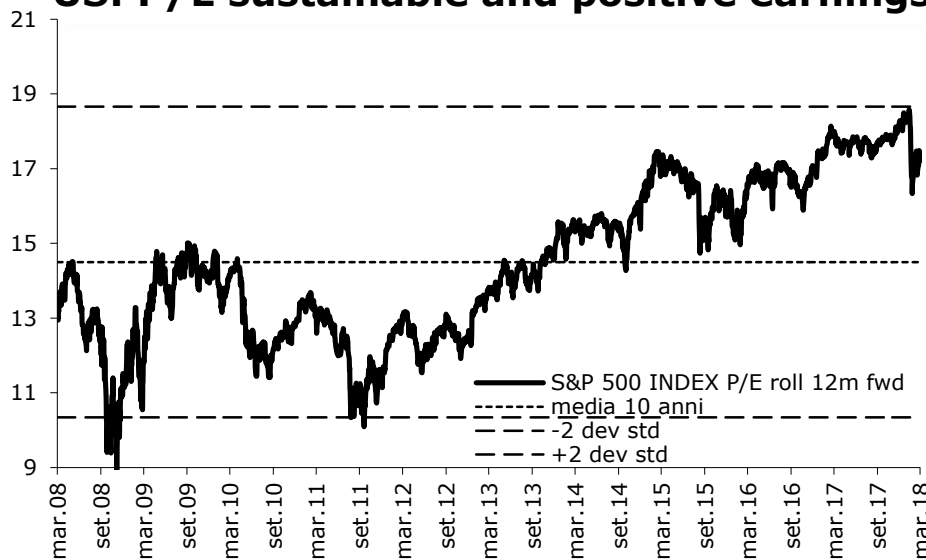


❖ Against valuations on average expensive, support is given by profit growth, driven by the US fiscal reform (top left).

❖ Estimates are improving, however the top has been reached, at least in the Eurozone.



US: P/E sustainable and positive earnings growth expectations

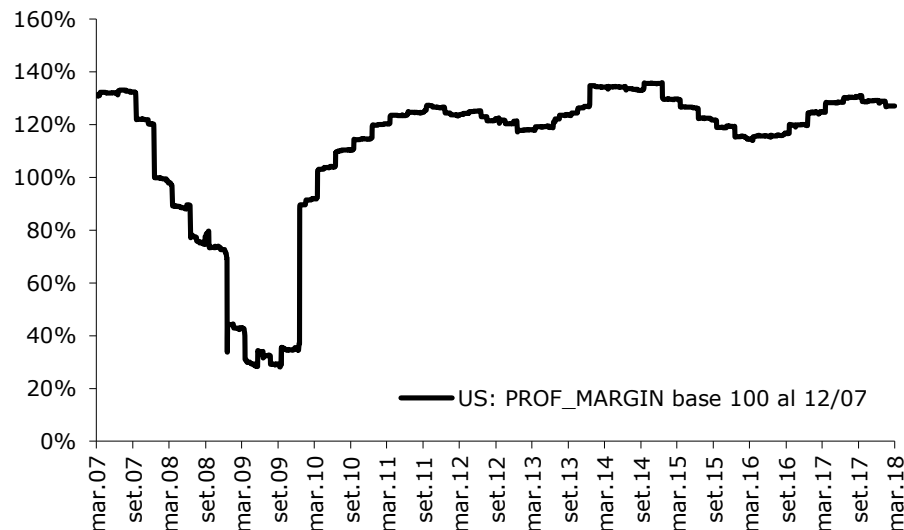
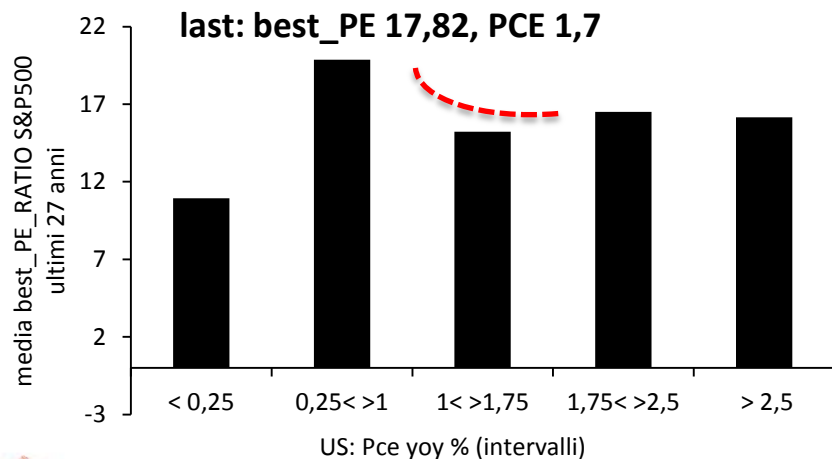


❖ In the US, multiples are off their highs (top left)

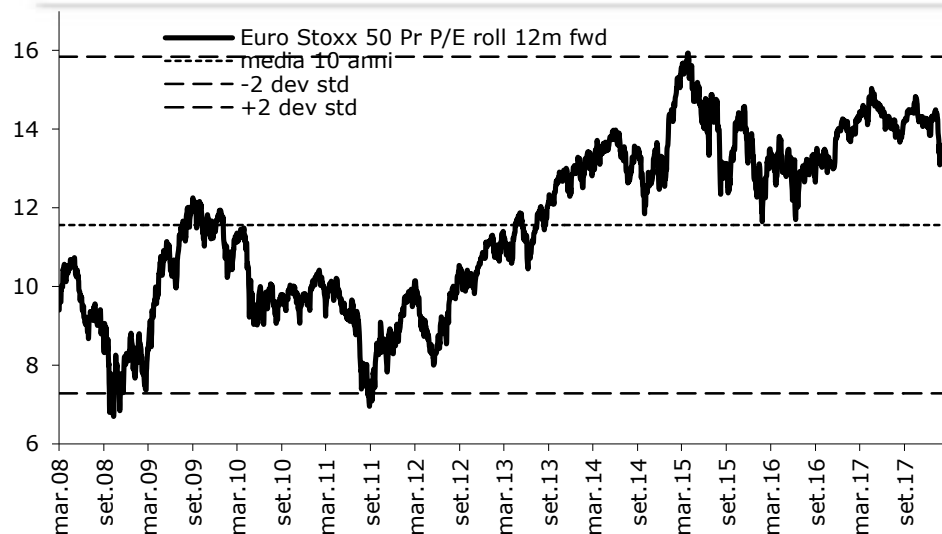
❖ Furthermore, the P/E level is broadly consistent with the current foreseeable scenario for prices

❖ High margins, which have returned to their pre-crisis levels and are bound to improve due to the fiscal reform (bottom right), allow corporations to benefit from economic growth; further support will come from infrastructure spending and a weak currency.

❖ US equities are thus moderately interesting.



EZ: P/E sustainable but earnings prospects somewhat uncertain

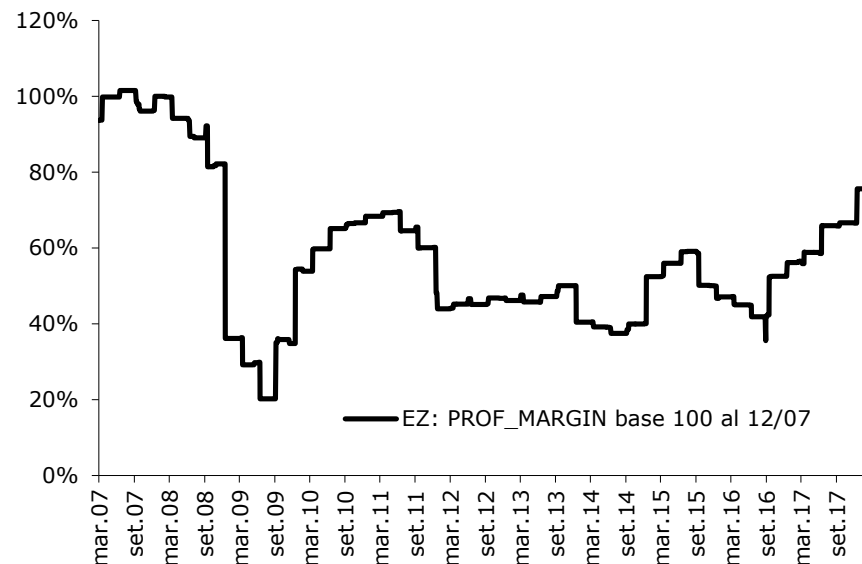
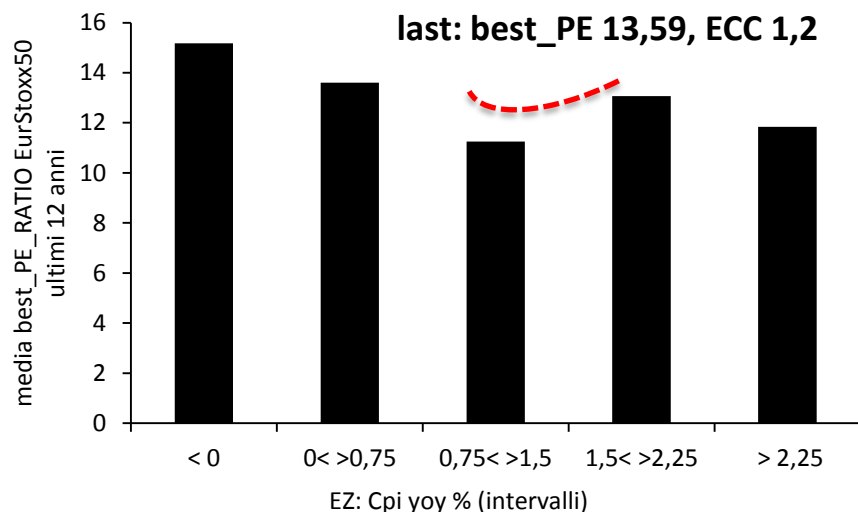


❖ Multiples are off their highs (top left)

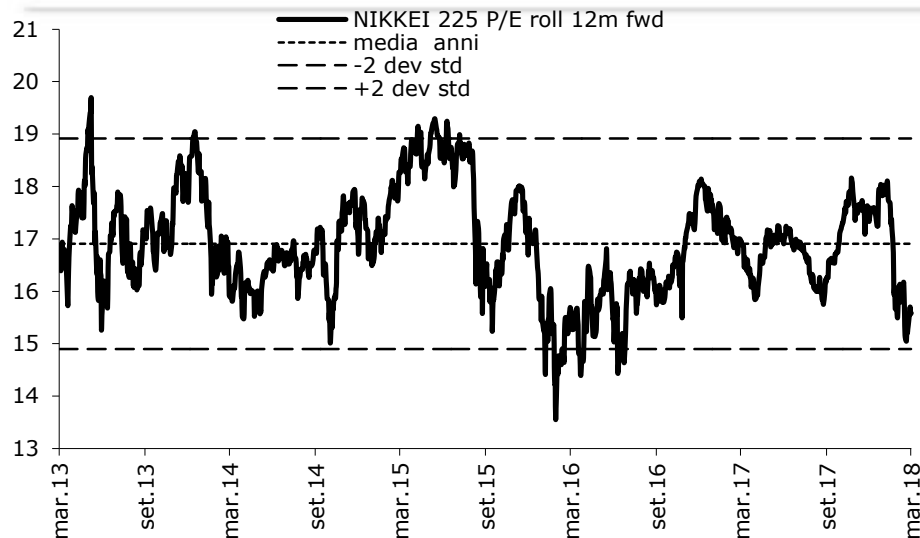
❖ The P/E level is also consistent with the current foreseeable scenario for prices. Furthermore, the level of the P/E is basically consistent with the current scenario of price developments (bottom left).

❖ Margins are high, but have yet to return the pre-crisis levels, so there is room for improvement (bottom right).

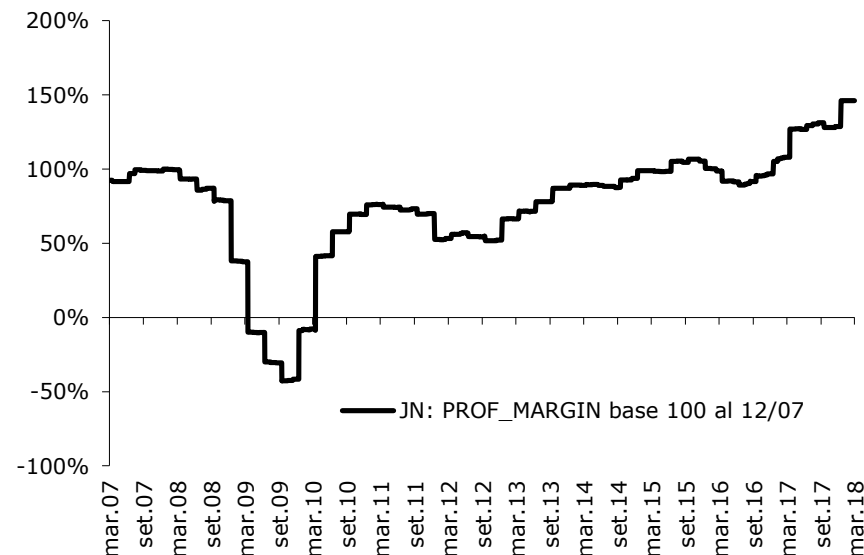
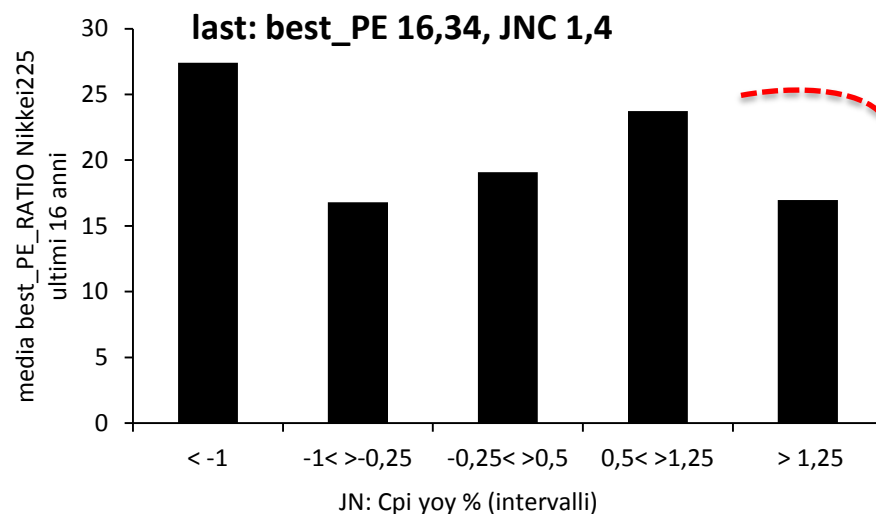
❖ EZ equities are moderately interesting but must confront the future normalization of the ECB, with the increasing American protectionism and with the impact of a stronger euro that could slow profit growth.



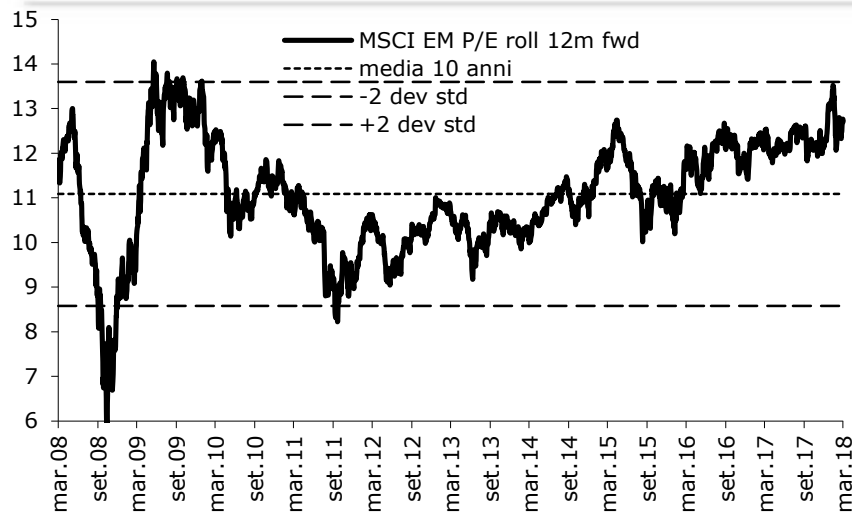
JP: low P/E but possible effects from political scandals



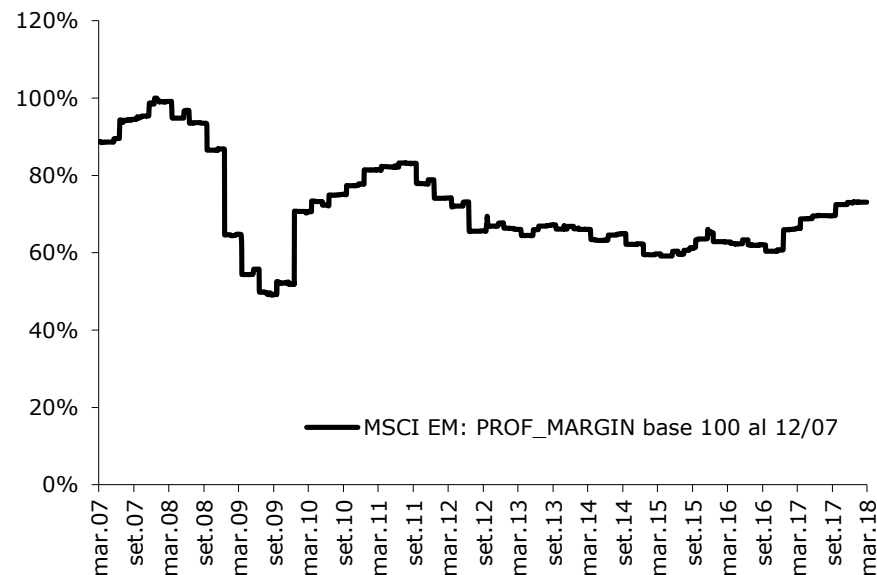
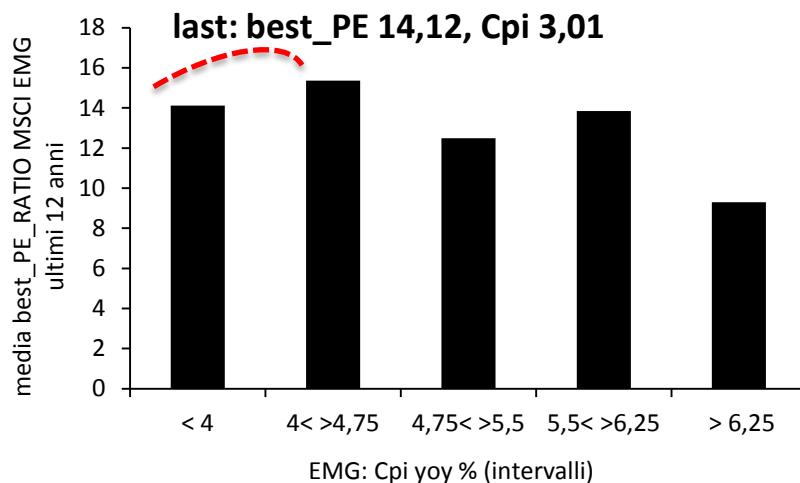
- ❖ The P/E JN is down almost two standard deviations from the average (top left).
- ❖ Furthermore, the level of the P/E is basically consistent with the current and foreseeable scenario for prices (bottom left).
- ❖ Profit margins are above their pre-crisis levels (bottom right) and allow companies to benefit from economic growth.
- ❖ Japanese equities are interesting but could be penalized by the political scandal that is engulfing Abe and Aso around the sale of land where Abe's wife was involved.



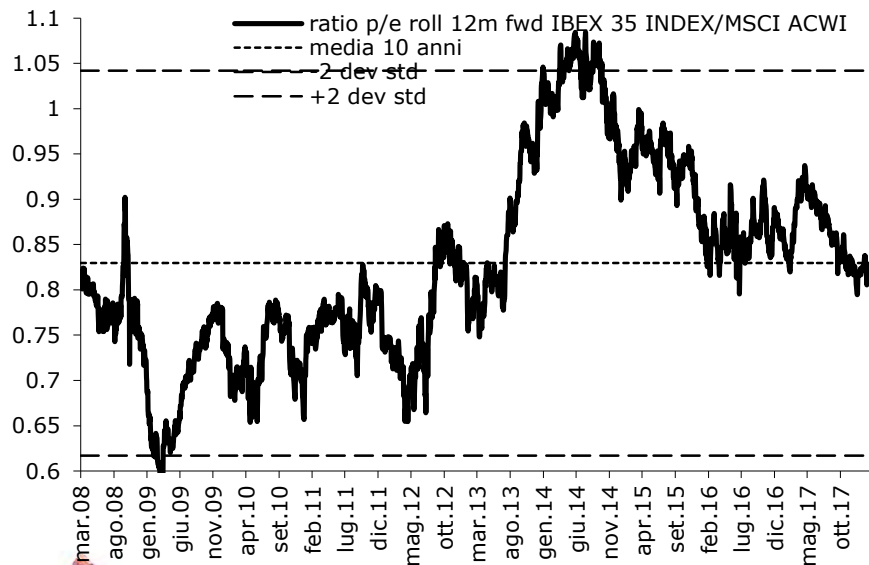
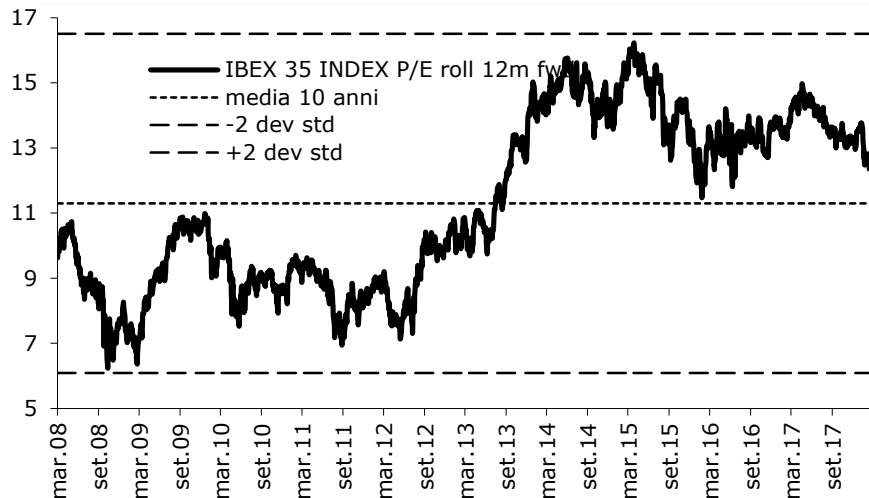
EMM: P/E high and margins depressed, but favourable macro



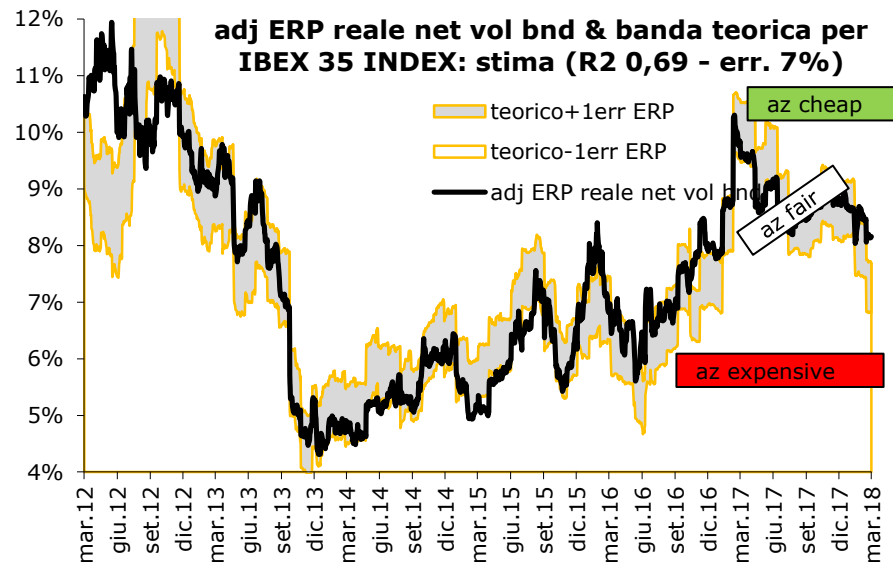
- ❖ Multiples are little below the top (top left) and is broadly consistent with the current price dynamics (bottom left).
- ❖ Margins are not elevated so economic growth benefits companies only marginally.
- ❖ EM equities are thus interesting but with a risk profile less favourable than other markets.



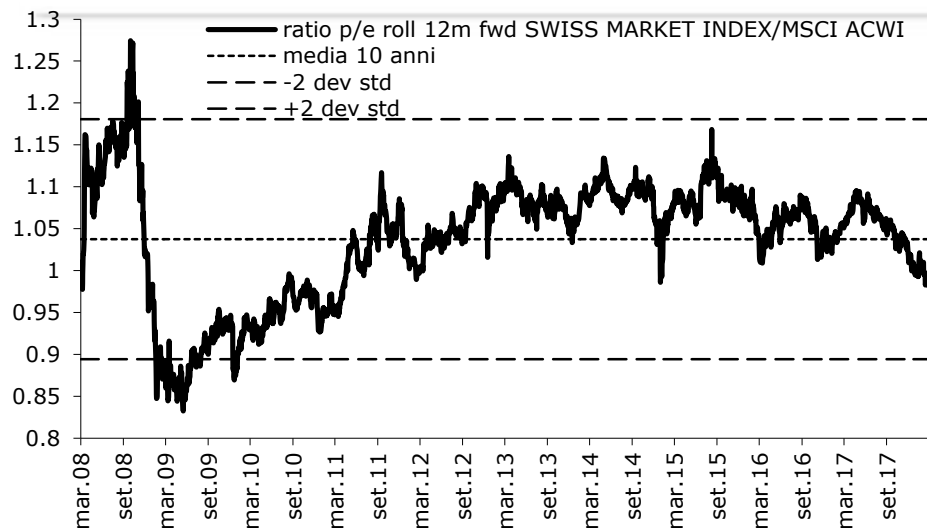
Spain: absolute P/E not expensive, relative below average, adjusted ERP cheap



- ❖ The Spanish P/E is off its highs (top left)
- ❖ Valuations relative to the MSCI are marginally below average (bottom left)
- ❖ The real ERP adjusted for realised 90-day volatility is cheap relative to our model (bottom right).
- ❖ The internal macro environment is supportive and the sector tilt towards financial can benefit from an increase in rates.
- ❖ The Spanish bourse can thus be an interesting albeit marginal diversification within the overall equity investment.



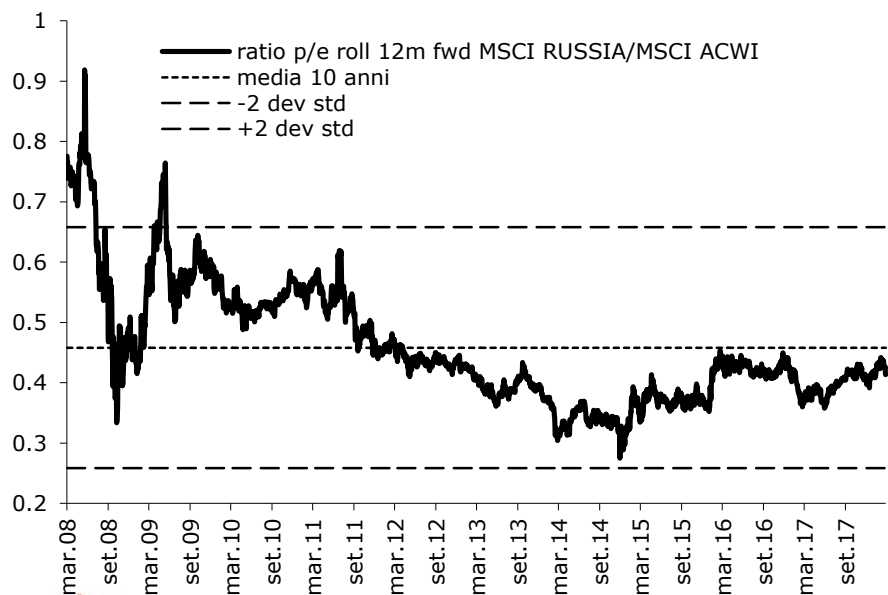
Further opportunities: maintain Switzerland and Russia, reduce Germany



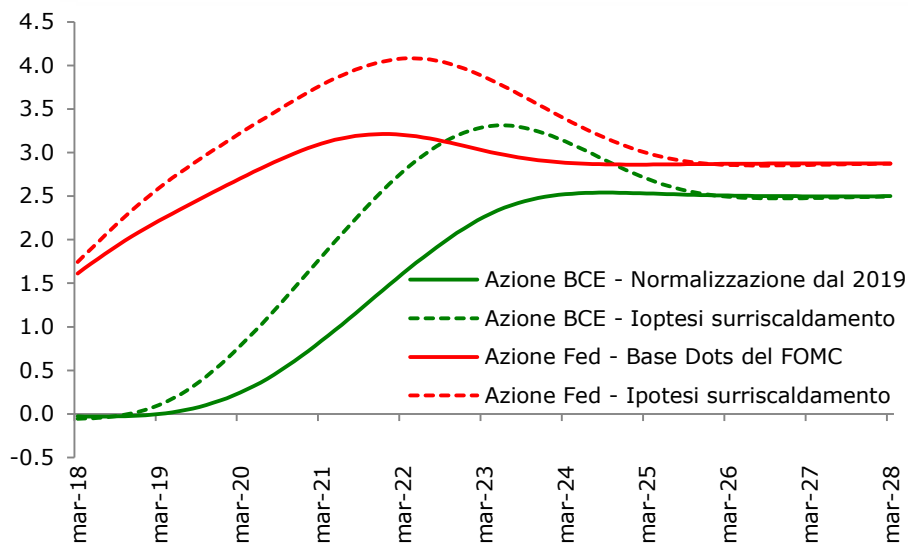
❖ Switzerland and Russia still constitute valid diversification equity opportunities on valuation and growth dynamics (US sanctions and UK spy-story permitting).

❖ Germany shows some valuation upside, Euro strength notwithstanding, thanks to export growth. The importance of export on GDP (bottom right) however is cause of some concern and positions should be reduced.

❖ Switzerland remains more defensive.

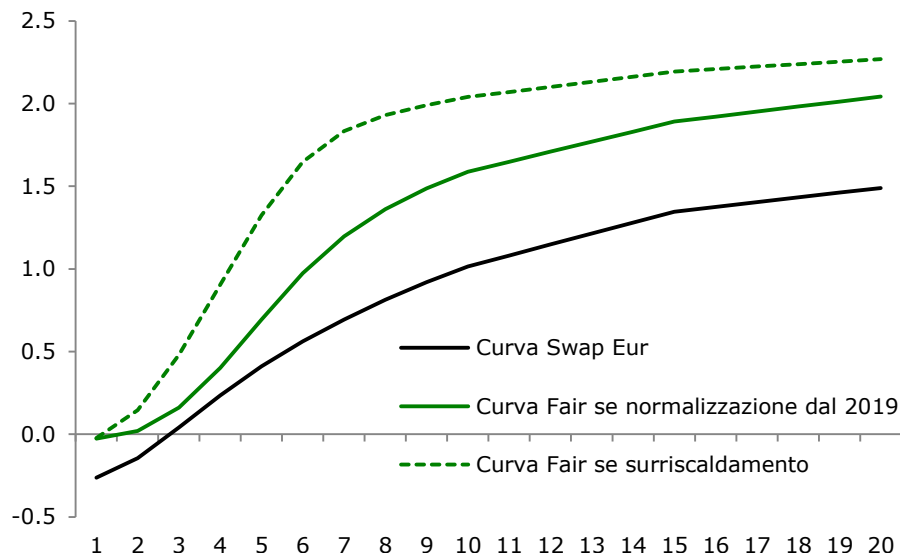
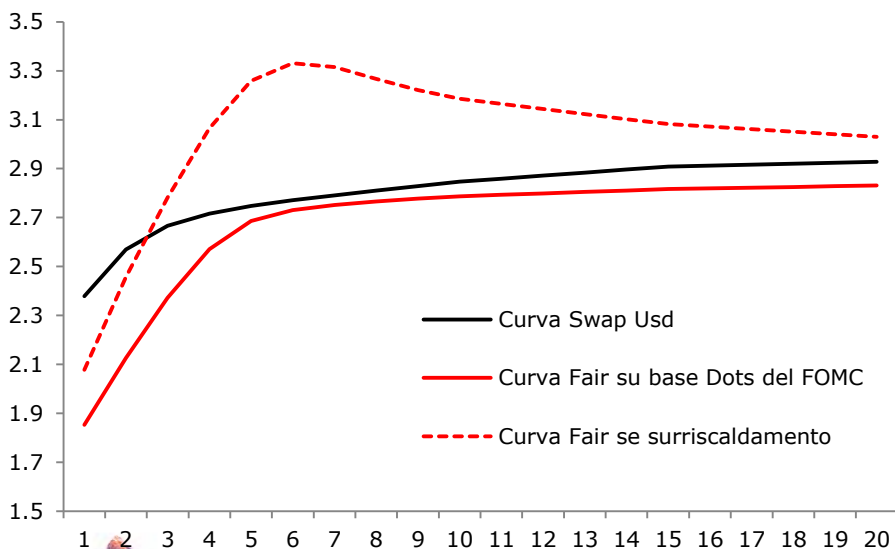


Govies: EUR curve vulnerable to normalisation, USD to overheating

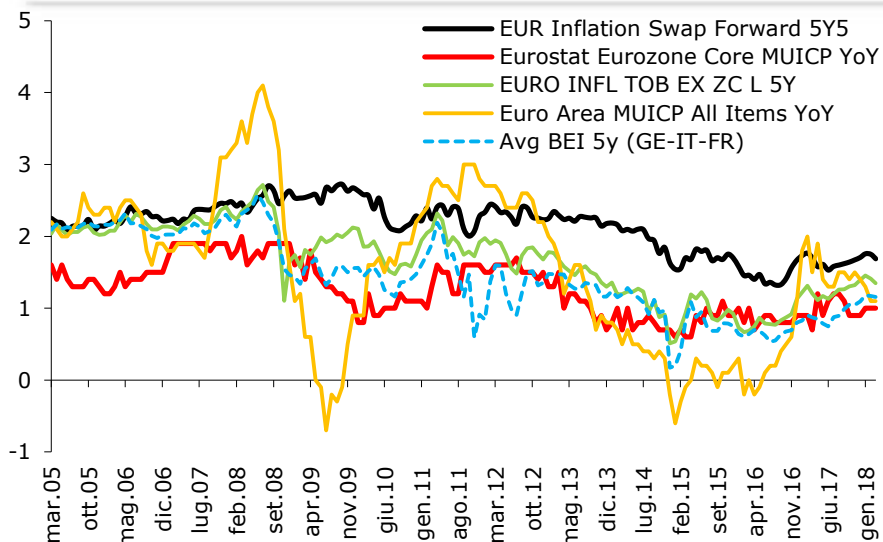


The likely paths towards a neutral rate (top left) by the Fed (with reference to the FOMC's dots) and the ECB a three-year horizon from Q4 2019) help in the evaluation of the USD and EUR curves.

The US curve has discounted the normalisation by the Fed suggested by the «dots» (bottom left). The remains some upside potential in case of overheating. The EUR curve is still depressed by the BCE's purchases and is particularly vulnerable to both tapering and the ECB's policy normalisation (bottom).



Inflation linked govies: better than nominals, but already discounting rising CPI

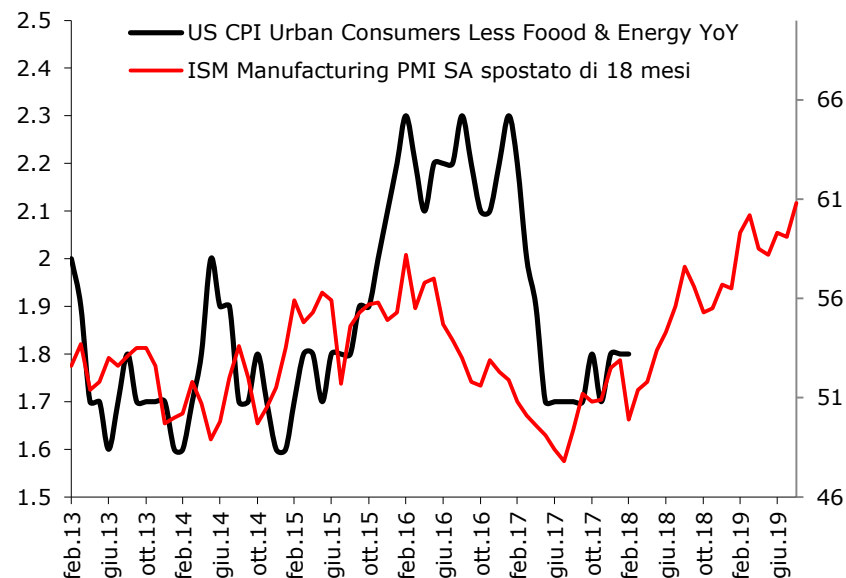
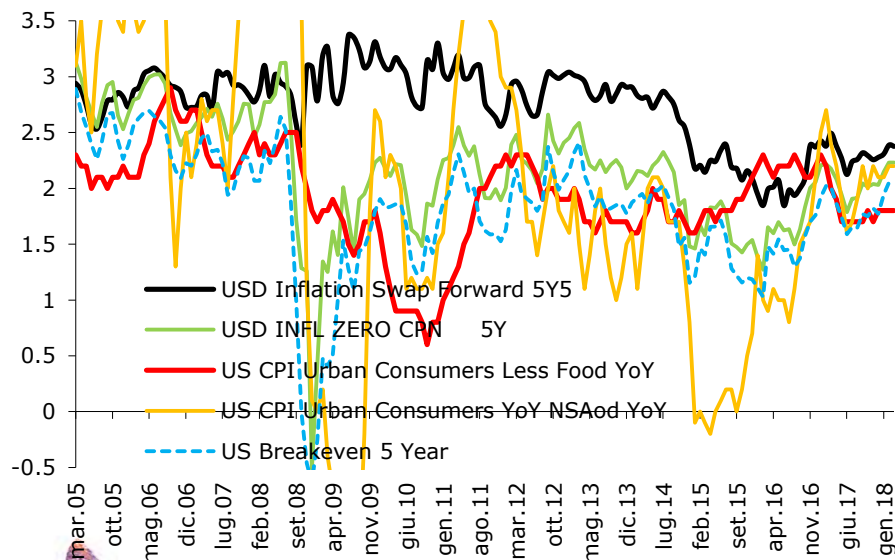


Inflation is bound to rise following developments in real activity (blow). This makes inflation linked bonds appropriate but selectivity is needed give how much prices increases already discounted.

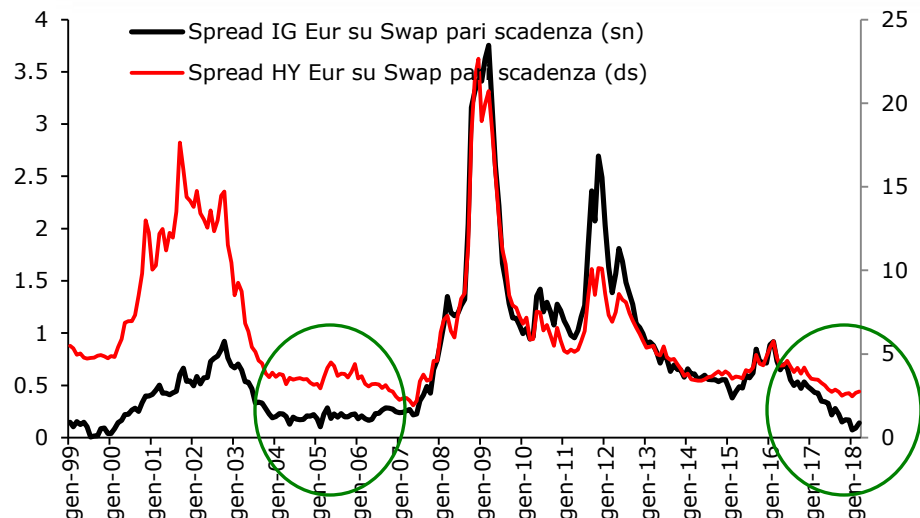
The charts on the left (EZ top, US bottom) show current inflation levels, core (less volatile) and headline (more realistic) against breakevens.

Breakeven rates already discount a rise in CPI.

The charts show some residual but limited upside when measured by swaps.



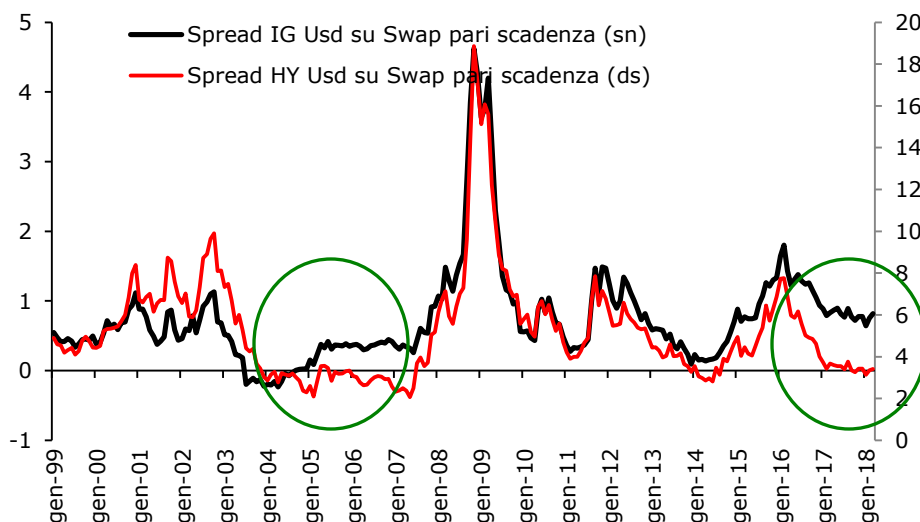
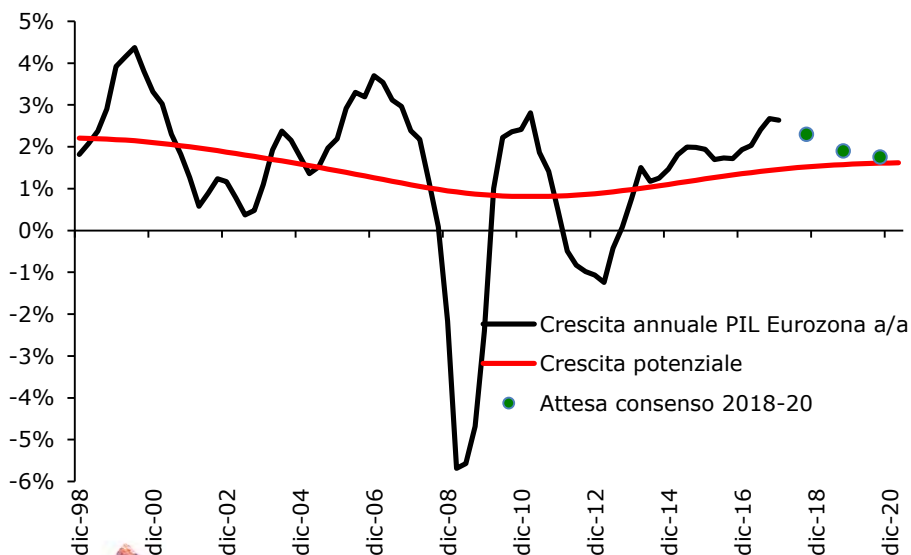
Corporates: EUR at risk due to curve and ECB tapering, still some value in USD



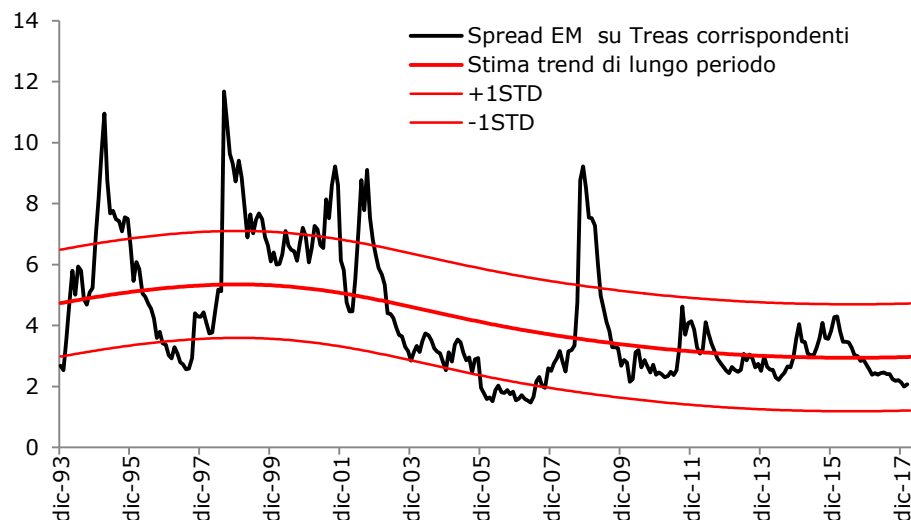
In 2017, spreads on Euro corporates have reached the lows of the 2004-7 period (top left), characterised by strong growth (bottom left).

Owing to a favourable macro environment, spreads should remain low. However, low Euro swaps and the forthcoming tapering are risk factors.

The situation is more favourable in the US, as the swaps curve has limited upside; furthermore, both IG and HY indices remain above the 2004-7 lows (bottom).

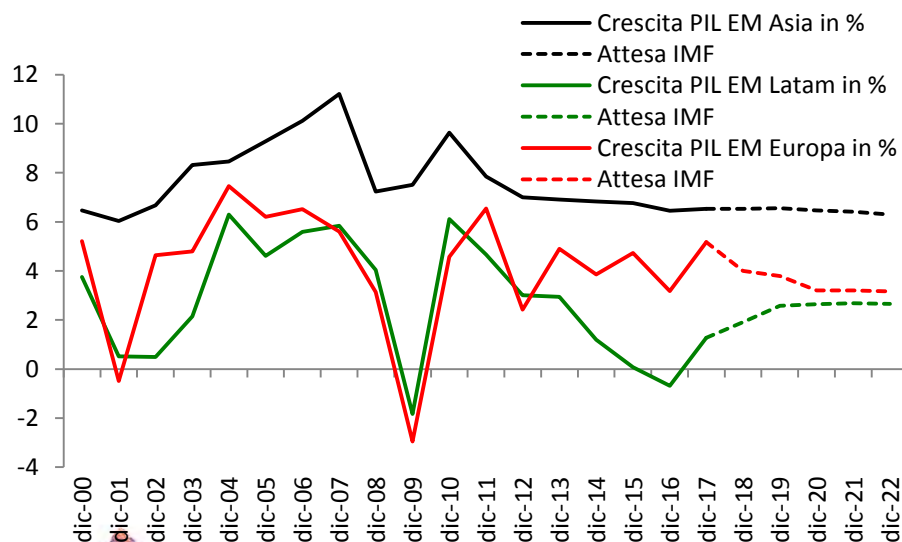


Emerging debt: «carry» and some room for spread tightening

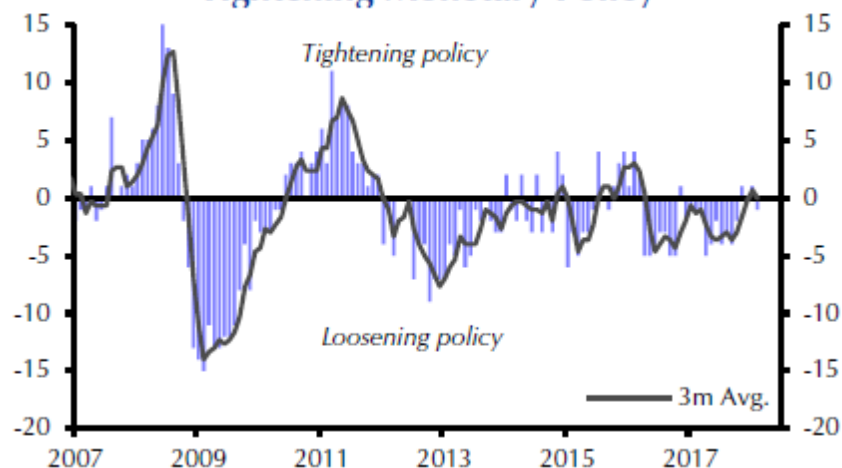


Spreads of emerging bonds in hard currency versus Treasuries have significantly tightened in the last two years. They are however above the 2006-7 lows (top left). In the next years, growth in the emerging economies (bottom left) is expected to remain high (Asia) or accelerate (Latam), albeit without price pressure. Central banks, after having relaxed their monetary policies for two years (bottom, source: Capital Economics) will be forced to reverse course.

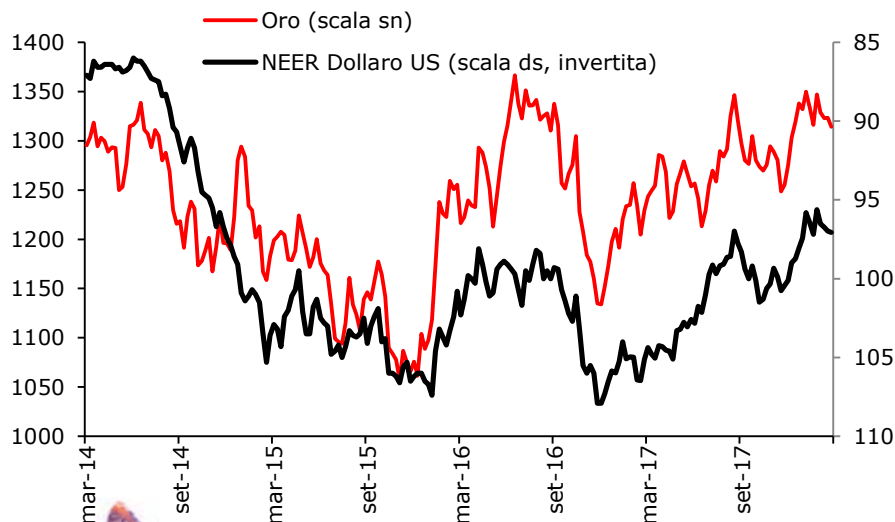
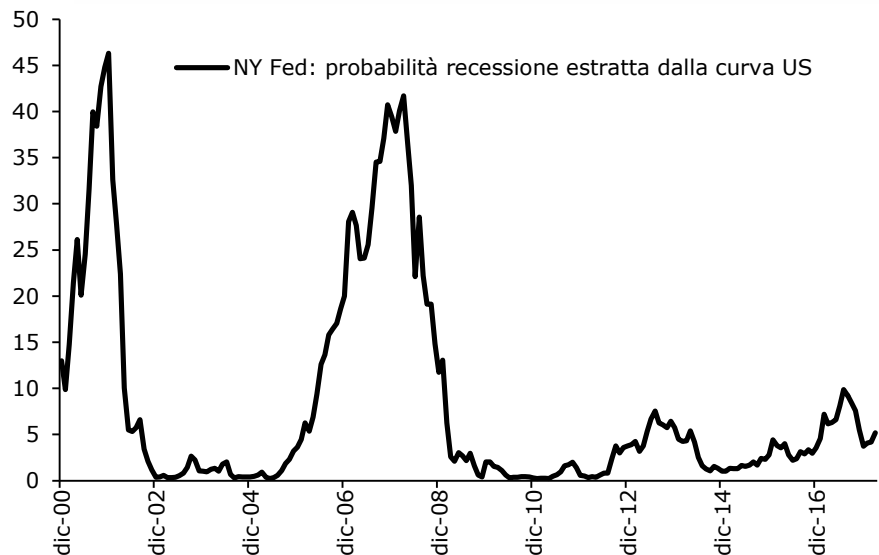
Emerging debt still offers «carry» and some more space on yields.



1. Net Number of EM Central Banks Loosening or Tightening Monetary Policy

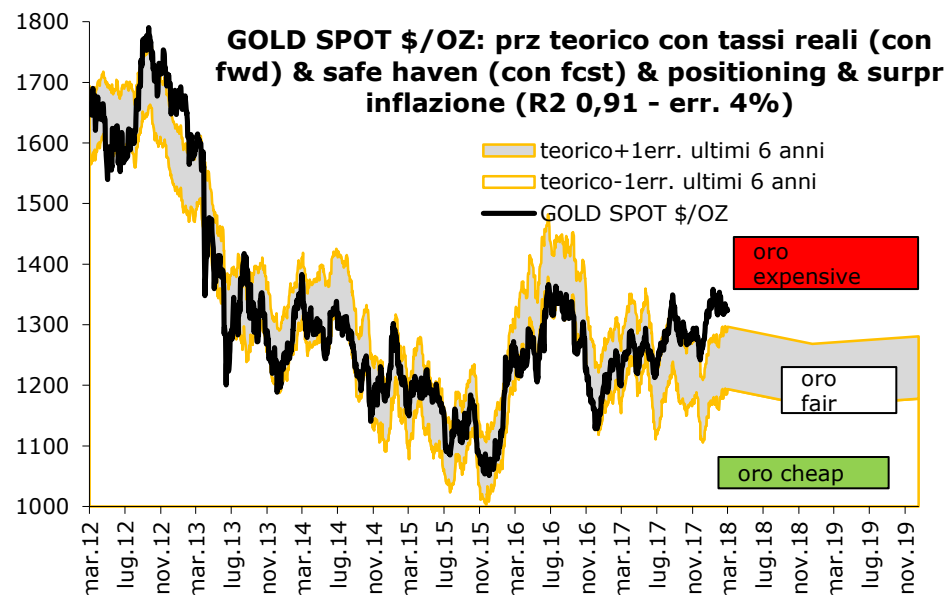


Gold: a safe heaven with little use currently



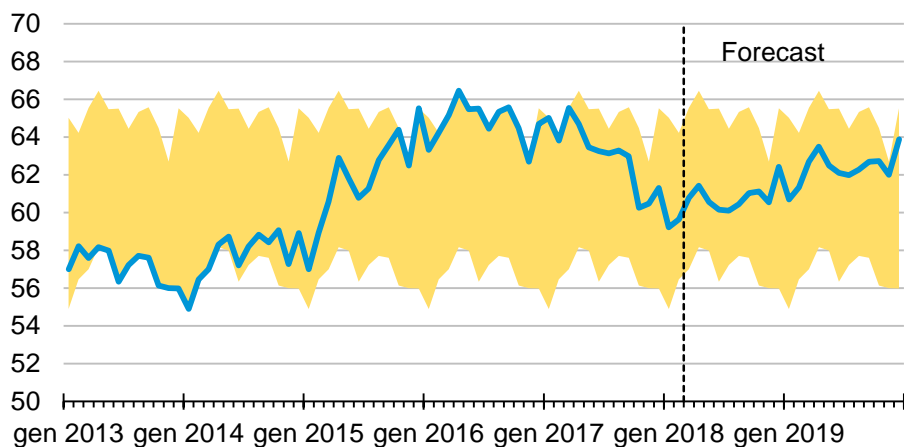
Monetary policy normalisation in the next few years (see p. 11) is consistent with a continuing synchronised growth. Even in the US, the economy most ahead in the economic cycle, the chance of recession is slim (top left). It is therefore hard to see gold shine as a safe heaven. A usual, the metal will fluctuate following the Dollar's vagaries, however this does not warrant purchasing.

Financial, technical and behavioural models point to overvaluation (below).



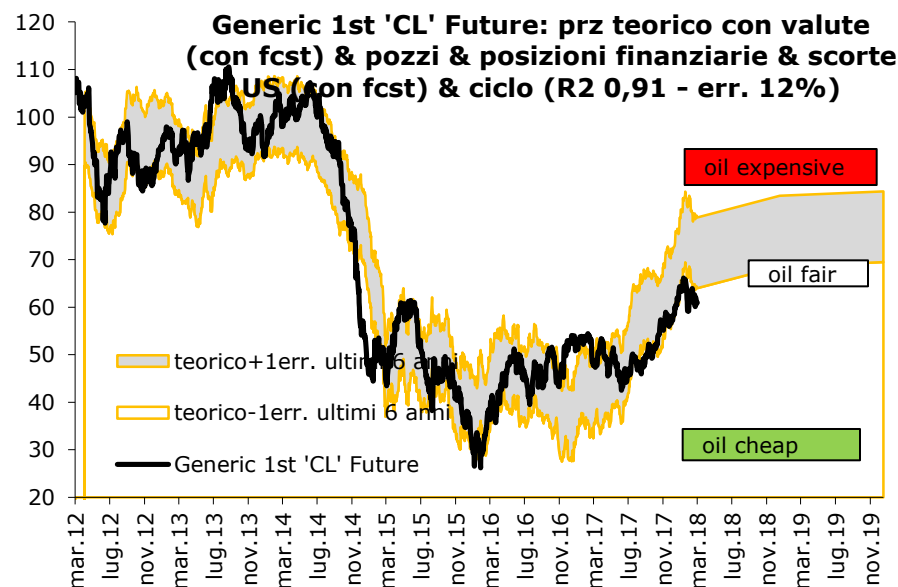
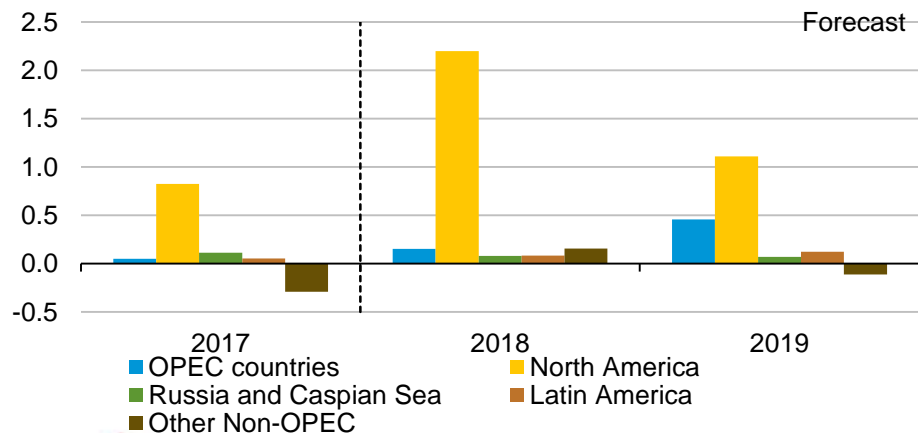
Oil: still undervalued with some marginal upside

OECD commercial stocks of crude oil
days of supply



In the context of growing demand, driven by the global expansion, Opec has managed to bring inventories back to the five-year average (top left, source: EIA). North American supply, however, will grow more than elsewhere (Open countries included, bottom left, source: EIA), hence inventories will rise again in the next couple of years. Opec has thus a strong incentive to extend the quotas. Our model is still projecting a significant rise (bottom).

World crude oil and liquid fuels production growth
million barrels per day



EUR/USD now fair, some upside from Central Banks and dual deficit; GBP at risk

Valutazione di lungo periodo delle principali valute in termini reali

	usd	eur	chf	gbp	jpy	aud	nzd	cad	nok	sek
REER	-7.7%	-0.5%	+3.9%	+3.5%	+6.9%	+6.1%	+4.6%	+9.4%	+7.3%	+5.0%
	/ usd	/ eur	/ chf	/ gbp	/ jpy	/ aud	/ nzd	/ cad	/ nok	/ sek
usd		0.8%	-2.5%	-3.5%	-3.7%	-7.5%	-5.7%	-8.8%	-7.6%	-9.5%
eur	-0.8%		-3.8%	-5.5%	-3.9%	-7.9%	-5.3%	-13.2%	-8.5%	-8.7%
chf	2.5%	3.8%		-1.9%	-3.5%	-7.8%	-5.6%	-7.7%	-5.9%	-6.0%
gbp	3.5%	5.5%	1.9%		2.0%	-2.9%	-0.1%	-1.6%	-4.3%	-3.8%
jpy	3.7%	3.9%	3.5%	-2.0%		-4.6%	-2.7%	-7.2%	-5.4%	-5.8%

Distanza in % al trend di lungo periodo (PPP stimata)

The overall view thorough the REER shows USD overvalued, EUR at fair value and a generalized undervaluation of the other currencies (top left).

The EUR is now fair against the Dollar but is expensive especially against NOK and SEK as well as AUD and CAD.

The entry point on CAD is approaching, but we are not there yet.

Valutazione di lungo periodo delle principali valute EM

	REER	/ usd	/ eur		REER	/ usd	/ eur
cny	-1.8%	-1.7%	-2.2%	zar	+5.4%	+3.0%	+3.0%
krw	-4.8%	-3.6%	-4.3%				
inr	-5.4%	+0.2%	+0.7%	try	+22.3%	+28.5%	+30.1%
idr	+1.4%	+10.6%	+10.0%	rub	+7.6%	+13.5%	+15.0%
php	+3.5%	+10.7%	+9.2%	czk	-0.8%	-4.3%	-2.2%
thb	-2.4%	-3.2%	-3.9%	pln	+2.0%	+2.6%	+1.9%
twd	-5.5%	-3.8%	-5.4%	huf	+4.9%	+5.2%	+3.1%
brl	+6.4%	+15.3%	+16.4%	Media	+3.6%	+5.8%	+5.5%
clp	+2.1%	+2.4%	+2.1%				
mxn	+9.4%	+8.0%	+8.2%				
pen	+2.1%	+6.3%	+6.7%				

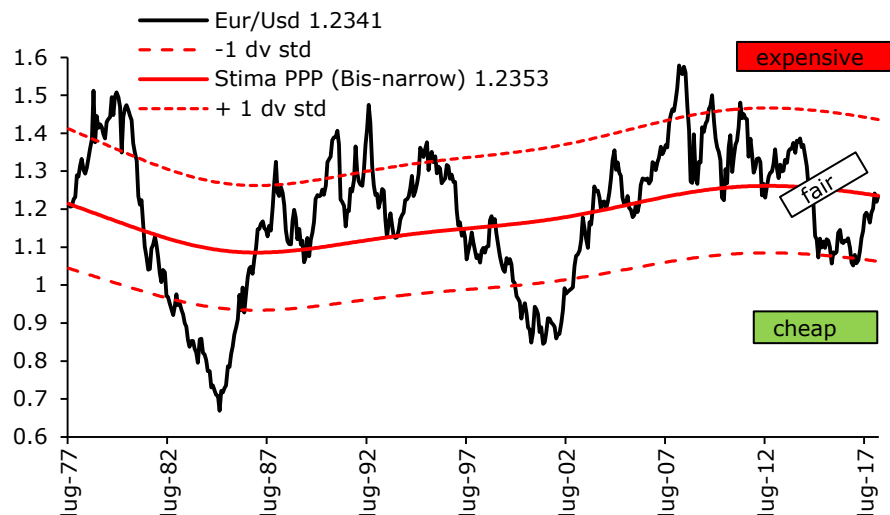
Distanza in % al trend di lungo periodo (PPP stimata)

The fair value of EUR/USD has almost paired the valuations of emerging currencies against EUR and USD (bottom left).

Amongst the most undervalued currencies against EUR, we remain focused on the Ruble. With political hurdles out of the way, the Real and Peso could be considered in the months. The Turkish Lira remain a special case, to be handled by policy experts.

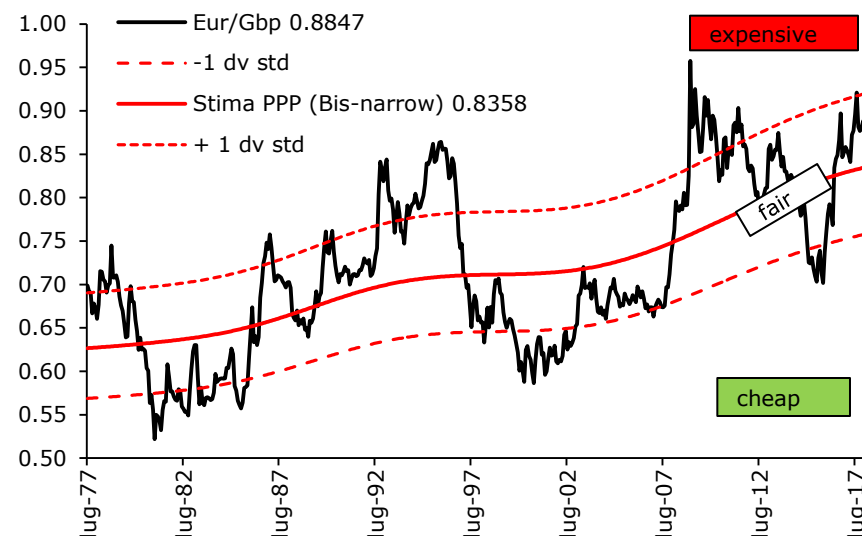
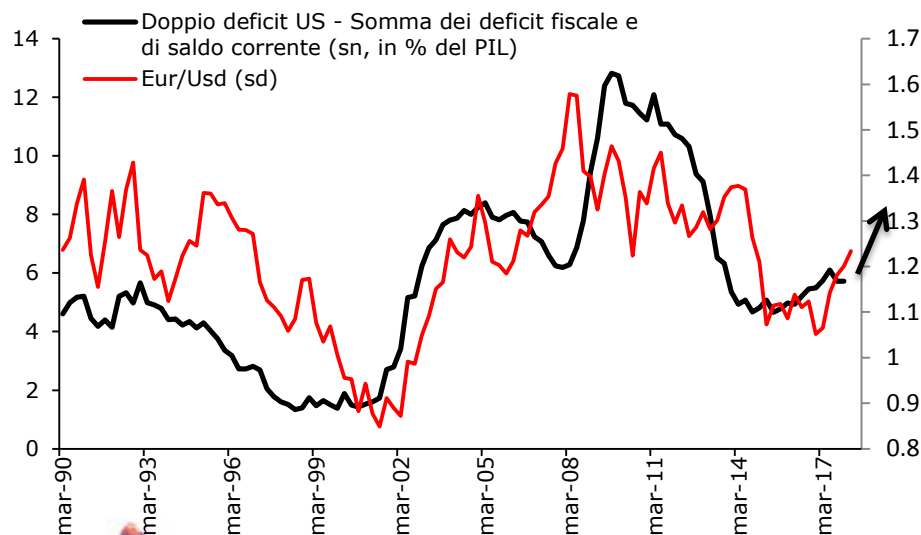


EUR/USD now fair, some upside from Central Banks and dual deficit; GBP at risk

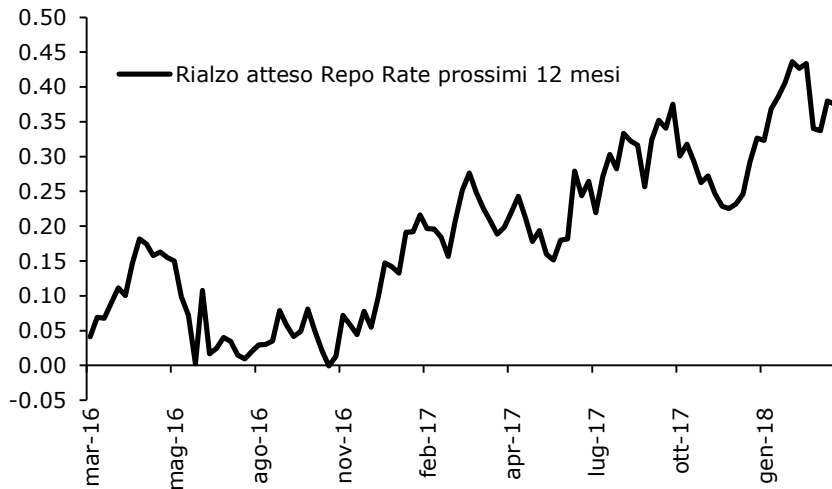


In fair value territory and without the undervaluation support (top left) Eurodollar will benefit in the medium term from higher Euro rate hikes; furthermore, the US fiscal reform (see p. 6) will increase the dual deficit, with its traditionally negative albeit delayed impact on the currency (bottom left).

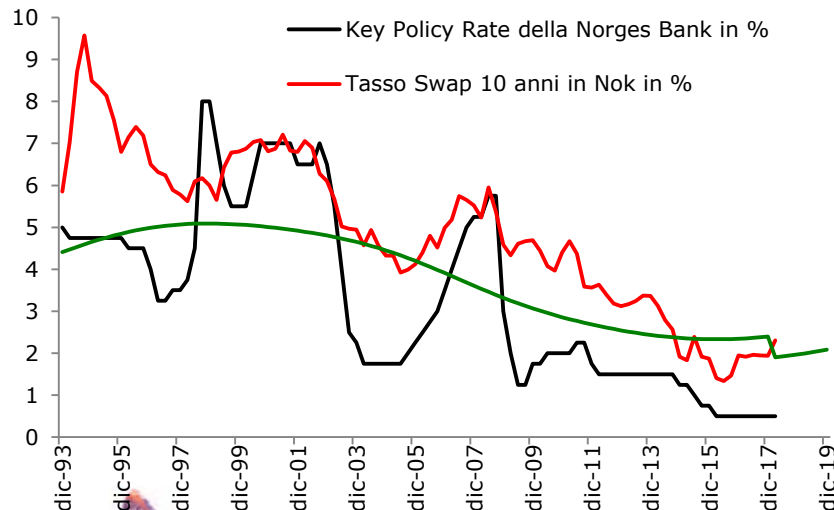
The risk of an unfavourable outcome of the Brexit negotiations for the UK economy is significant. Thus, even if Sterling is already undervalued, a lower entry point can be expected (bottom right).



Hold on to SEK, let NOK run

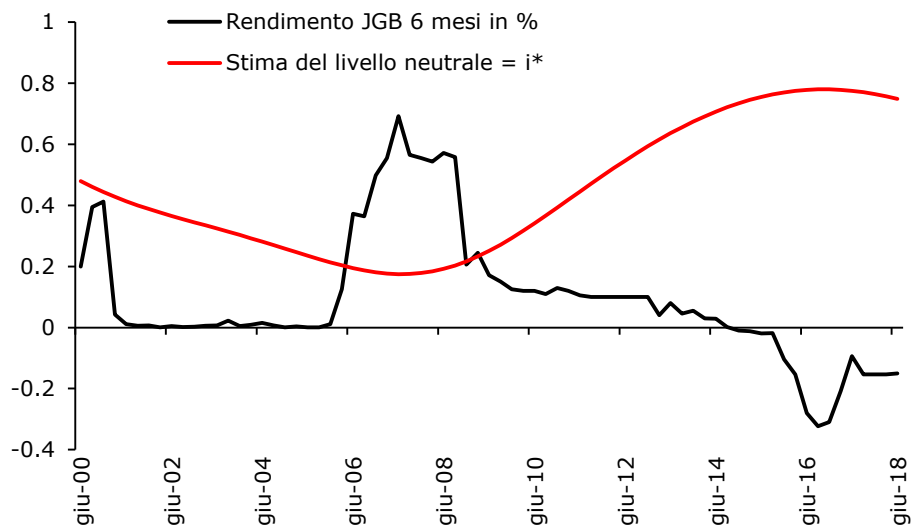


The Riksbank tribulations have penalized the SEK despite begin clearly undervalued (see p. 27). On the one hand in order to rein in private debt and cool the real estate market, the Riksbank should progressively act on rates without waiting for inflation to show up. The Kroner would strengthen at the expense of inflation. On the other hand, to postpone normalization after the ECB would damage the Kroner but would stoke inflation and would force a stronger response later with risks to debt and real estate. The Riksbank has reacted to January's mild inflation with Kroner-bearish statements. February's price stabilization and strong payroll data have improved the mood. Market's expectations however have not changed much (top left).

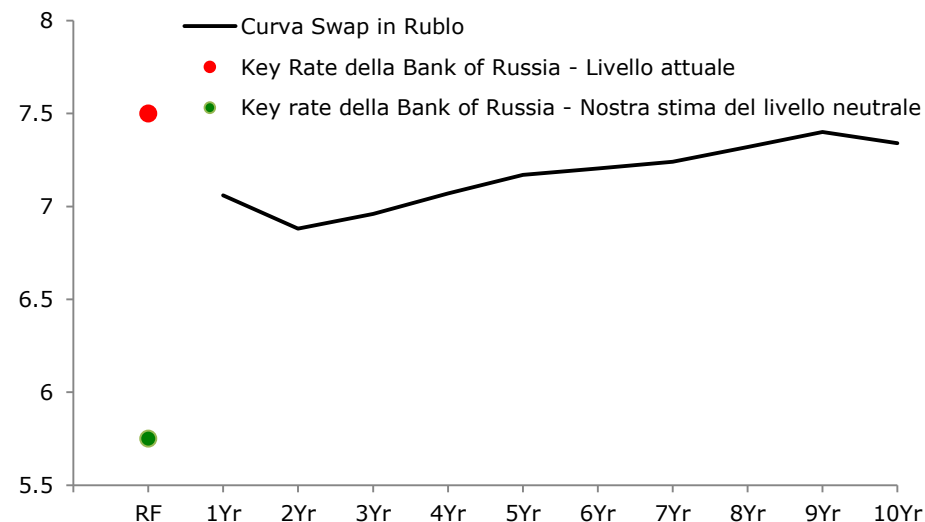


The Norwegian government has modified Norges Bank's mandate. The inflation target is now 2% FROM 2.5% previously. Monetary policy will also have to contribute to maintain employment levels and prevent financial imbalances. The lowering of the target should have a positive effect on the undervalued Kroner: it brings normalization forward as confirmed by the Bank in its march 15th meeting, but at the same time reduces the potential upside in the Key Policy rate. Risks are particularly low in mid and long maturities (bottom left).

Maintain the hedge on Japanese stocks; Ruble curve still interesting



The Yen is mildly undervalued against the Dollar and the Euro (see p. 27). The BOJ's policy will maintain the Yen curve close to zero for a long time (see p. 8). Even after normalization the Yen curve will remain below those of developed currencies. The population decline in Japan is indeed consistent with a very low neutral level of the reference rate (top left). The return of "risk on" will push the Yen down again.



The Rouble is undervalued (p. 27). Inflation in Russia has fallen well below the Central Bank's target (2.2% in February against 4.0%), but monetary policy remains moderately restrictive. The BOR said it will continue to reduce its key interest rate in 2018 in order to make its stance neutral. The reference rate will decline from the current 7.5% to 5.75%, our estimate of the neutral level. The short-term rate differential against the Euro will remain sharply in favour of Ruble, while the medium and long parts of the curve should move down (bottom left), favouring Ruble fixed income investments.

Asset Management & Products

Disclaimer

The information and opinions contained in this report have been obtained from public sources believed to be reliable. No representation or warranty is made or implied that is accurate or complete. Any opinions expressed in this report are subject to change without notice. This report has been prepared solely for information purposes and if so decided, for private circulation and does not constitute any solicitation to buy or sell any instrument, or to engage in any trading strategy.

Sources: PKB / Cassa Lombarda calculations on Bloomberg data, unless otherwise stated

